

1983

ANNUAL REPORT

BANK OF NORTH DAKOTA

Table of Contents

Industrial Commission	8
Advisory Board	9
President's Message	10-11
Correspondent Banking	12
Commercial Loans	13
Farm and Ranch Ownership Program	14
Home and Residential Loan Division	15
Student Loans	16
Guaranteed Student Loan Program ..	17
Special Loans Division	18
Mid-Winter Break	19
Investment & Trust Department	20
Money Market Center	21
Bond and Coupon Paying Division ..	22
Legal Department	23
Cashiers Division	24
Operations Division	25
Audit Department	26
Personnel Department	27
Comptroller's Report	28-29
Graphs	29
Official Staff	30
Balance Sheets	31
Statements of Income and Capital Funds	32
Statements of Change in Financial Position	33
Footnotes	34-35

THE BANK OF NORTH DAKOTA PHILOSOPHY

1. *To encourage and promote agriculture, commerce and industry in North Dakota.*
2. *To provide the most efficient and economical financial service to the State, its agencies, and instrumentalities.*
3. *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.

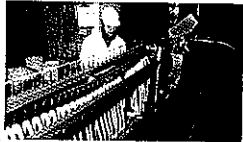
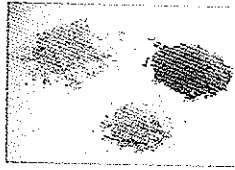
FINANCIAL HIGHLIGHTS

AT YEAR END:	1983	1982	
Resources	1,029,670,329	861,966,174	19%
Deposits	475,846,876	528,644,853	-10%
Real Estate Loans	181,679,909	191,510,464	-5%
All Other Loans	105,617,337	138,146,917	-24%
FOR THE YEAR:			
Total Income	85,970,073	85,760,843	.24%
Interest Paid	67,691,713	69,680,178	-3%
Expenses Paid	4,096,454	3,670,848	12%
NET INCOME:			
Dividend Paid to State Treasury	2,500,000	2,500,000	0%
Number of Checks Processed	44,928,664	42,336,926	6%
Total Federal Funds Purchased	43,943,687,000	40,270,896,000	9%
Total Federal Funds Sold	79,192,369,000	60,771,431,000	30%

BANK OF NORTH DAKOTA'S INVOLVEMENT IN INDUSTRIAL DEVELOPMENT

BALTIMORE SPICE COMPANY

From its beginning in 1970, the Baltimore Spice Company now commands a substantial portion of the mustard flour market. The product is used as a meat protein additive and as an emulsifier in processed meat such as frankfurters.



CLOVERDALE COMPANY

Cloverdale Foods of Mandan, North Dakota, manufactures one of America's largest selections of quality sausages and luncheon meats.

CONCRETE, INCORPORATED

Concrete, Inc. produces precast and prestressed concrete building walls, roofs, floors, balconies and stairways.

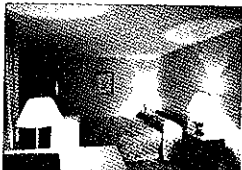


MINN-DAK FARMERS COOPERATIVE

The Minn-Dak Farmers Cooperative represents more than twenty years of effort on the part of local sugar beet interests to bring a processing plant to the Wahpeton-Breckenridge area.

NATIONAL SUN INDUSTRIES

National Sun Industries is responding to the demands of the growing sunflower industry in North Dakota with a daily production potential of 600 tons of crude sunflower oil.



SHERATON BISMARCK GALLERIA HOTEL

Bismarck's newly constructed Sheraton Bismarck Galleria Hotel opened for business on December 15, 1983 and features banquet and convention room facilities and accommodations for 223 guest rooms.

TMI SYSTEMS DESIGN CORPORATION

TMI Systems Design Corporation, located at Dickinson, North Dakota, designs and manufactures custom laminated casework products for institutional and industrial applications.

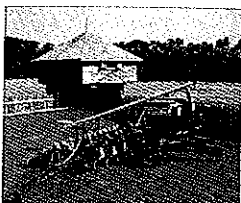


TRI W-G, INCORPORATED

Tri W-G, Inc. is associated with medical care and rehabilitation facilities with its manufacturing of various specialized treatment devices and furnishings.

WAHPETON CANVAS COMPANY

Edward Shorma started his Wahpeton Canvas Company in 1956 on a line of credit and the determination of "a working fool."



WIL-RICH FARM EQUIPMENT DIVISION

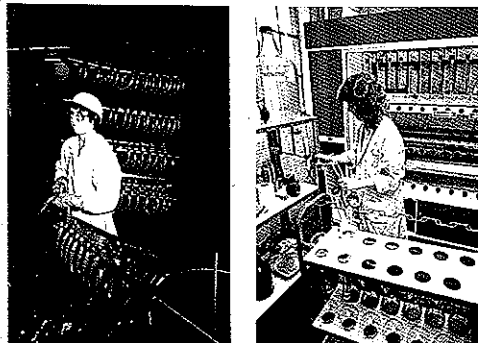
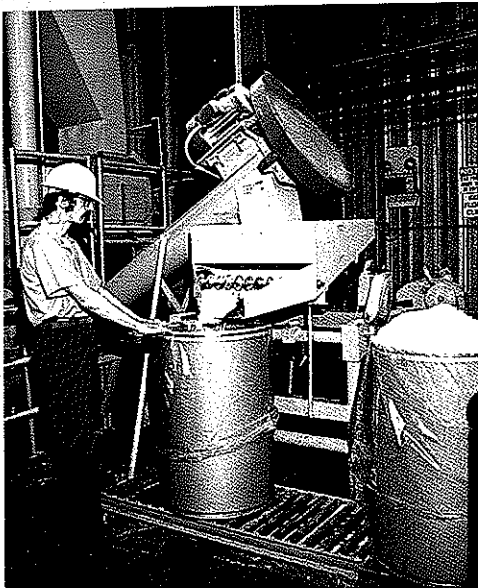
Lear-Siegler, Inc.

The Wil-Rich Farm Equipment Division of the Lear-Siegler, Inc. designs and manufactures 15 different lines of farm tillage products.

THE BALTIMORE SPICE COMPANY

Grand Forks, North Dakota

The Baltimore Spice Company had its beginning in 1970 with six employees working in leased storage space. Today, it has grown to be one of the nation's largest processors of mustard flour. From its 50,000 square feet facility, the company currently ships more than 16-million pounds of finished product each year. Baltimore Spice Company management selected Grand Forks to be close to its raw product requirements. North Dakota is the nation's leading producer of mustard. The company now employs about 30 people.



CLOVERDALE COMPANY

Mandan, North Dakota

The Cloverdale Company began its operation in 1914 as a creamery, a produce firm and turkey processing operation. In 1938 it expanded its operation to include production of sausage and meat. Today, the company produces 10-million pounds of sausage and meat each year. The company also distributes a wholesale line of products to food services establishments.

CONCRETE, INCORPORATED

Grand Forks, North Dakota

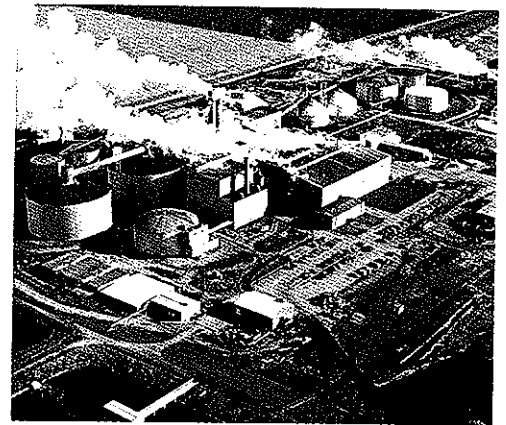
Concrete, Inc. is one of only 230 prestressed/precast concrete plants currently operating in the United States. It is one of only 80 plants certified by the Prestressed Concrete Institute. Concrete, Inc. had its beginnings as an ice firm in 1891. After expanding to coal and fuel oil, it diversified to include concrete products in 1950. In 1965 the company expanded to manufacture and erect precast and prestressed concrete structures. It has been involved in the construction of nearly 700 buildings since that time.



MINN-DAK FARMERS COOPERATIVE

Wahpeton, North Dakota

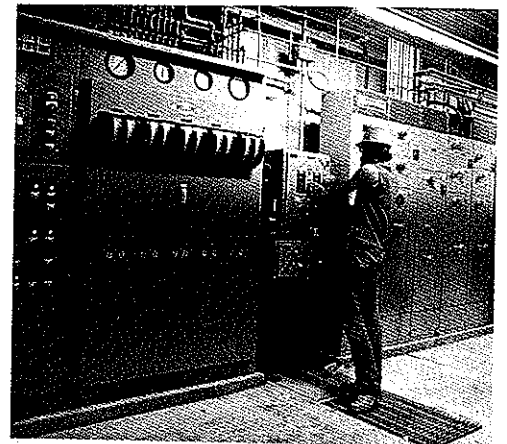
More than twenty years of effort on the parts of local producers and the Red River Valley Sugar Beet Growers Association finally resulted in the 1973 construction of a sugar beet processing plant to serve growers in the Wahpeton-Breckenridge area. The plant contracts with over 300 growers in the area who are planting an average of 52,000 acres of sugar beets annually. Minn-Dak Farmers Cooperative serves a seven-county two state area and has nearly 300 area stockholders.



NATIONAL SUN INDUSTRIES, INC.

Enderlin, North Dakota

The primary production of the plant is sunflower oil; however, the plant also uses sunflower by-products, including hulls as a fuel source for heating and electrical generation and sunflower meal as a high-protein animal feed supplement. The plant utilizes the latest crushing technology and equipment and is currently one of the largest and most modern sunflower oil production facilities in the world.





SHERATON BISMARCK GALLERIA HOTEL

Bismarck, North Dakota

The Sheraton Hotel has provided another significant addition to Bismarck's regional convention and meeting center concept. The facility was also constructed on the site of a downtown urban renewal property, and features restaurants and shops. A second phase of the project is planned to include condominiums and office suites. The Sheraton Hotel complex currently employs about 150 people.



TMI SYSTEMS DESIGN CORPORATION

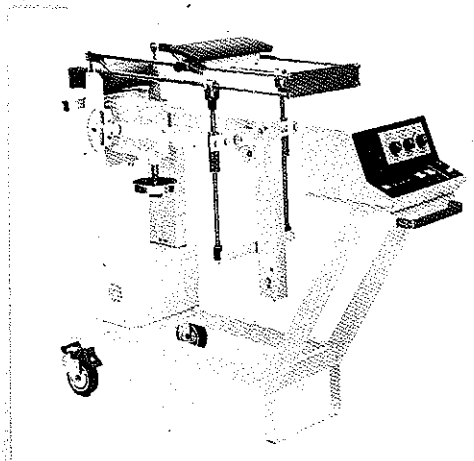
Dickinson, North Dakota

TMI Systems Design Corporation manufactures architectural designed laminated cabinets that are integrated into functional work and storage areas in medical, educational, commercial, industrial and institutional environments. TMI, which began in 1969, sells products throughout North America and has total annual sales averaging about \$5 million. The company employs 80 people at its plant in Dickinson.

TRI W-G, INCORPORATED

Valley City, North Dakota

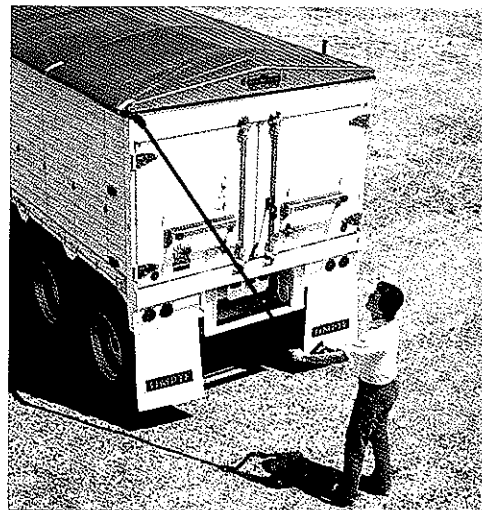
Tri W-G, Inc., was organized in 1967 to design and manufacture specialized medical treatment furnishings and equipment. Since that time, the firm has provided high quality products including treatment tables, traction units and diagnostic tables for physical and chiropractic therapy. Tri W-G's management continues to also maintain its original commitment to research and development so as to assure its health-care industry clientele the products purchased from the firm are state-of-the-art in design and manufacture.



WAHPETON CANVAS COMPANY

Wahpeton, North Dakota

The Wahpeton Canvas Company manufactures tarps for farm trucks, agricultural replacement belting, and wood trim products. In 1956 Ed Shorma started his Wahpeton Canvas Company with a \$3,000 loan from his banker and a lot of his own determination to make the business succeed. Today the company employs 300 people and has gross sales of \$15 million a year. In 1982, Mr. Shorma was named the national Small Business Person of the Year.



WIL-RICH FARM EQUIPMENT DIVISION

Lear-Siegler, Inc.
Wahpeton, North Dakota

Wil-Rich Farm Equipment Division is another Wahpeton success story that began as most small manufacturing companies. Today, the company manufactures and designs 15 different farm tillage products, including an air seeder, field cultivator, chisel plows, Danish tine cultivators, row crop cultivators and disk harrows. For the past several years, the company's sales have averaged about \$20 million. Wil-Rich Farm Equipment Division, which is this year celebrating its 20th anniversary, employs about 300 people, including those at the firm's hydraulic cylinder plant at McVille, North Dakota.



REPORT OF THE INDUSTRIAL COMMISSION



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

To the Citizens of North Dakota:

With the improved economic climate of North Dakota in 1983, the Bank of North Dakota reached new highs in service and set new records in assets. The total resources exceeded \$1 billion at year end, and net earnings for the year set an all-time record of \$11,182,816.

With increased state revenues, the Industrial Commission directed the Bank to reinstate, with some changes, the Beginning Farmer Loan Program, even though loan demand, in 1983, was less than previous years. The Bank also started a second Beginning Farmer Loan Program in cooperation with the Federal Land Bank of St. Paul.

The Bank also provided continuing supportive services to the Industrial Commission's Housing Finance Agency in issuing letters of credit. As economic conditions continue to improve and there remains a demand, the Industrial Commission will probably be issuing other bond issues in 1984 for real estate, housing, and student loans.

The Industrial Commission held 24 meetings on Bank business in 1983, approved 5 loans totaling \$9,739,640 with Bank of North Dakota's participation of \$7,784,640, approved 8 letters of credit totaling \$7,146,258, and established 23 new or revised policies to guide the operation of the Bank. The Commission acknowledges and thanks the Advisory Board for their advice and counsel during the year.

This year's Bank of North Dakota Annual Report is dedicated to the industrial growth of our state. The Report pictures various business and economic development projects the Bank of North Dakota had a part in financing as the Bank continues in the tradition of its enabling act to "aid and encourage agriculture, commerce, and industry in North Dakota..." in the years ahead.

ADVISORY BOARD

To the North Dakota Industrial Commission:

The Advisory Board of the Bank of North Dakota met 12 times during 1983 and reviewed 29 loan applications (all in excess of \$400,000, according to Bank policy), totaling \$34,860,096.96, with Bank of North Dakota's share totaling \$21,147,165.48. The Board recommended 23 policies to the Industrial Commission, all of which have been adopted.

The Advisory Board met 11 times with the Bank's Audit Department, once with the Department of Banking and Financial Institutions and once with Charles Bailly and Company, the Bank's independent outside auditors. Several internal procedures and controls were put in place as a result of these meetings.

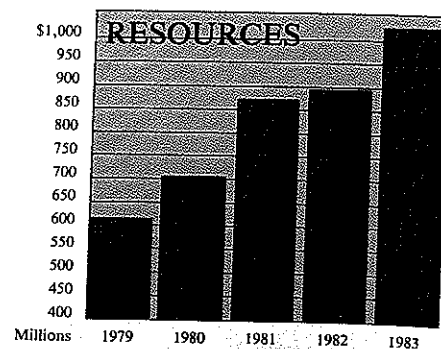
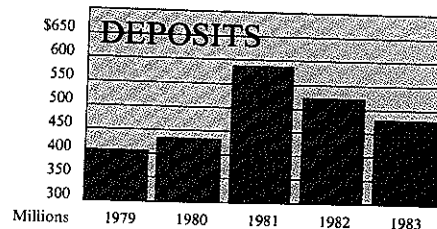
The Advisory Board held one meeting out of Bismarck during the year, in June, at Grafton. Adhering to the Governor's efforts to bring Industrial Commission matters "closer to the people," several meetings are planned for various locations across the state in 1984. The out-of-town meetings allow Bank officials and the Industrial Commission to gain input and suggestions from other financial institutions and taxpayers regarding possible ways for the Bank to better serve the citizens of North Dakota.

As you will notice in this year's Annual Report, the Bank continues to be a vital force in industrial development in North Dakota. The Board has studied and approved financial participation in the businesses pictured in this Report.

The year 1983 proved to be a great success for the Bank of North Dakota; and with an economy that continues a healthy growth and stabilization, the Advisory Board is cautiously optimistic for the Bank's continued success in 1984.



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



PRESIDENT'S MESSAGE



H. L. Thorndal, President and Manager.

To the North Dakota Industrial Commission:

Lower interest rates on purchased funds that enabled the Bank to widen its "spread" (difference between interest received and interest paid), coupled with record bond trading profit, provided for the Bank to set an all-time record for net earnings of \$11,182,816 in 1983. This is an increase of 42.9% over 1982's \$7,824,137. The Bank reached **\$1 billion** in total resources during this year, which had a year-end total of \$1,029,670,329, another record.

The Bank charged off \$3,204,020 in loan losses and recovered \$204,930 from previous losses for a net charge off of \$2,999,090 in 1983. We expect substantial recovery on these charge offs in 1984. Most of our loan losses were from agriculture production participation loans.

An uncertain economy and historically high interest rates resulted in a weak loan demand during all of 1983. As the economic recovery reaches North Dakota, we expect loan demands to increase somewhat in 1984. The Bank's base rate remained at 11.5% throughout the year, which will probably remain basically unchanged as interest rates are anticipated to be relatively stable throughout 1984.

Improvement in state revenues and decreasing loan demands resulted in the Bank's ability to reinstate, with a few changes, its original Beginning Farmer Loan Program, and other real estate loan programs. We also established another revised Beginning Farmer Loan Program in cooperation with the Federal Land Bank of St. Paul. These programs can be expected to expand in 1984.

Even though the United States Department of Education did not approve a proposed tax-exempt student loan bond issue, the present student loan trust and the Bank's improved liquidity will enable us to continue all of our present student loan programs through the 1984-85 school year. We will continue to pursue other sources of funds for these very successful programs. North Dakota's student loan default rate continues to be one of the lowest in the nation.

The North Dakota Municipal Bond Bank, which is managed by the Bank of North Dakota, sold an \$11,600,000 bond issue in 1983 with an effective interest rate of 8.55% which saved 42 political subdivisions thousands of dollars of interest. As anticipated, the bond underwriting activity was down in 1983; however, bond underwriting is expected to increase again in 1984.

Based on need and demand, a farm real estate bond issue is being developed for 1984. Such an issue will enable the Bank to continue a farm real estate loan program. We may have a taxable bond issue collateralized by some of our home mortgages, if rates are favorable in 1984; and we will refund our 1982 student loan bonds.

The Industrial Commission authorized the Bank to increase its Capital Account \$2 million in 1983, which increased the Bank's lending limit to \$9 million. No loan exceeded \$6 million at year-end 1983.

As the Bank of North Dakota's chief executive officer, I continue to believe our

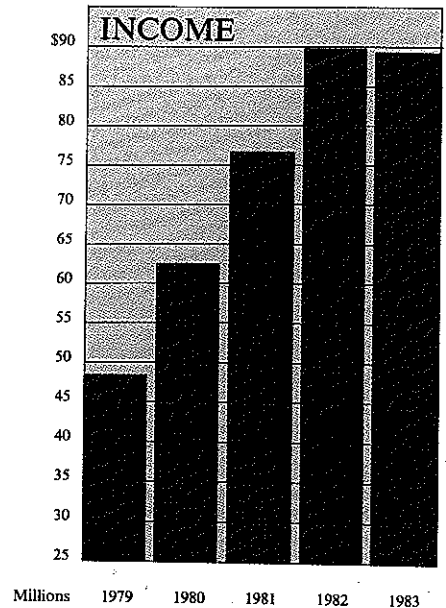
strongest asset is the Bank's dedicated staff. This belief is echoed by the Industrial Commission's approval of personnel promotions in 1983 that included the appointments of Shirley Homuth, Martin Stenehjelm, and Ernest Pederson to Senior Vice Presidents; Cecilia Wanner to Assistant Vice President, James McLeod to Assistant Auditor, Kim Kaul to Commercial Loan Officer, and Sue Hartmann to Loan Review Officer.

The 1983 Financial Statements are, again, certified by the independent auditing firm of Charles Bailly and Company. For more detailed information and comparison percentages, please refer to the Comptroller's Section of this Report.

On behalf of the Officers of the Bank of North Dakota, I take this opportunity to express our gratitude to the Advisory Board for their advice, counsel, and support, and to the Industrial Commission for its supportive role in the development and approval of the Bank's programs and policies.



H. L. Thorndal
President



CORRESPONDENT BANKING DEPARTMENT



R. E. "Bob" Caudel, Sr. Vice President, Correspondent Banking.

Coping with change and meeting specific deadlines has always been a challenge in the banking industry. Large institutions, small community banks, urban and rural, commercial and consumer, all faced unprecedented varieties of problems and concerns in 1983. As the central bank for North Dakota, the Bank of North Dakota established a leadership role in adapting to the changes and uncertainties of deregulation. The decisions have not been easy and the course was laced with detours and delays. These circumstances were to be expected considering this totally new environment for the financial industry.

Loan demand, especially in the latter half of 1983, was very restrained and is reflected in a drop of \$21,083,200 in Participation Loans, which is nearly 20% below 1982 levels. As a result, our activity in providing a market for the excess liquidity in Federal Funds took on added importance. We purchased an average of 121 million dollars per day from North Dakota banks.

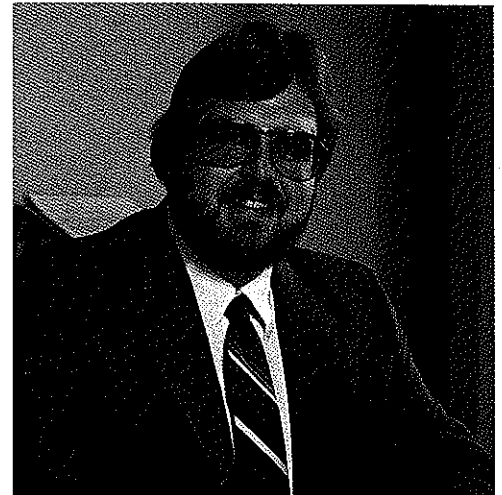
Even with all of the changes that have taken place in 1983, it is clear that Correspondent Banking — the products and services, the delivery, the expertise and the convenience is more important than ever before. At the Bank of North Dakota, our efforts are more concentrated with special emphasis on quality and specialization. However, the "personal touch" in our relationship with North Dakota banks remains unchanged.

COMMERCIAL LENDING

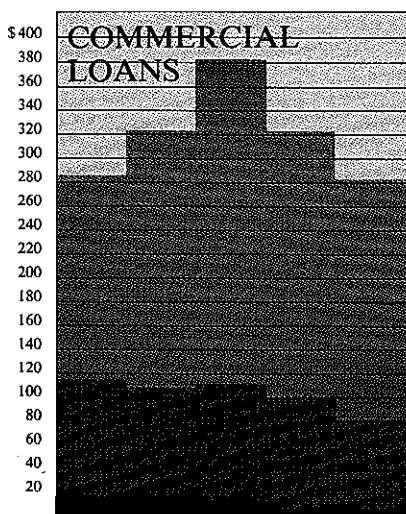
While there was a much improved economic climate over the previous year, 1983 continued to be another difficult year for the commercial lender. As any banker will note, commercial lending has become a more complex and challenging endeavor in recent years. In particular, for the Bank of North Dakota, it requires constant educational updating and experience to contend with the challenges that arise from "investing" the state's dollars in North Dakota enterprises; and meanwhile, maintaining prudent protection of those same dollars, from the standpoint of risk.

Our lending decisions, many times, must be judgmental; and unfortunately, are not always totally precise. This is evidenced by 1983 net charge offs totaling \$2,999,090, even though we are expecting substantial recovery from some of those loans. Consequently, we are constantly looking for ways to improve our credit decision-making process through utilization of the most up-to-date tools available in our profession. We intend to continue to provide a viable and improved economic service to North Dakotans through the existing network of financial institutions in the state.

Although some uncertainty remains, we feel the national economic turbulence that we experienced in the recent past will not occur again — at least not in the near future. We believe the federal economy is improving, and continue to look forward to better things for North Dakota in 1984 and beyond.

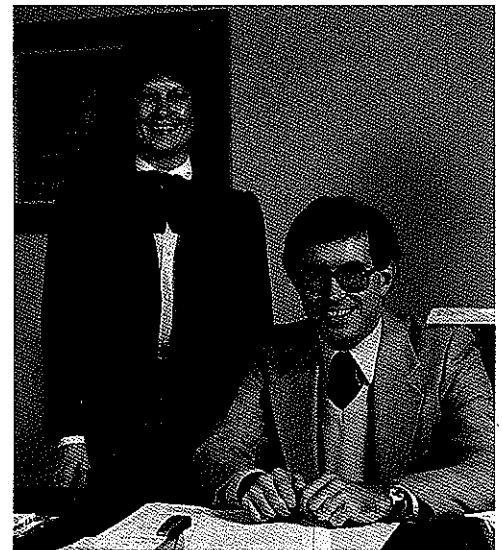


Lewis Wilson, Vice President, Commercial Loan Department.



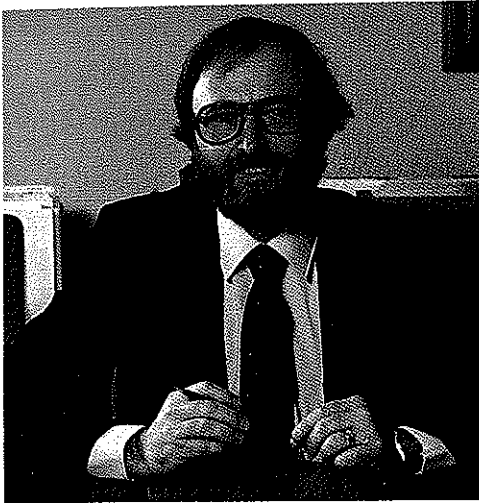
Millions 1979 1980 1981 1982 1983

Total Loans
 Bank Participation Loans
 SBA Loans



Betty Zeeb, Assistant Vice President, Kim Kaul Commercial Loan Officer, Commercial Loan Department.

FARM & RANCH OWNERSHIP



Rod Anheluk, Assistant Vice President, Farm and Ranch Ownership Loans.

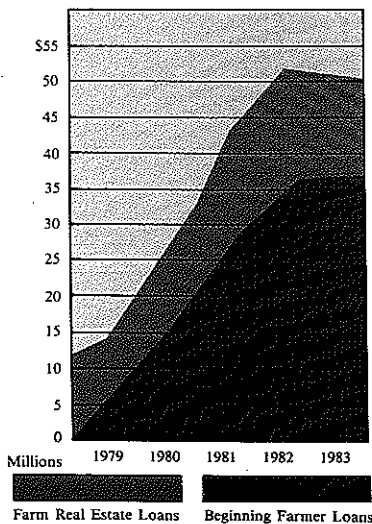
In 1983 Bank of North Dakota resumed the Farm Ownership Program, which was suspended because of a shortfall in state revenues in 1982.

This program allows the Bank of North Dakota to make loans up to 50% of the appraised value of farm real estate, secured by a first real estate mortgage. This program is in cooperation with Farmers Home Administration (FmHA), as that agency is allowed to make real estate loans secured by second mortgages. Through this combined effort, the Bank of North Dakota and the Farmers Home Administration can lend up to 100% of the appraised value to qualified farmers.

The Bank of North Dakota's portion of the loan allows a beginning farmer to receive a fixed rate 2½% below the average Bank of North Dakota base rate of the previous quarter for the first three payments.

At the end of 1983, the Bank of North Dakota's Farm Ownership Loan Program contained 968 loans totaling \$50 million, with more than 500 of these loans to beginning farmers.

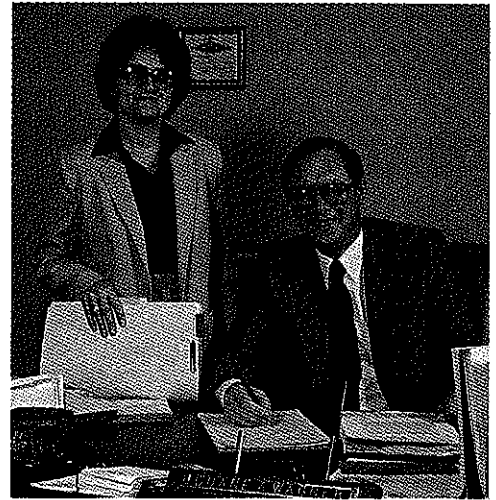
FARM AND RANCH OWNERSHIP LOANS



HOME AND RESIDENTIAL LOAN DIVISION

Since creation of the North Dakota Housing Finance Agency, first time home buyers have taken advantage of owning their own home with affordable monthly mortgage payments. The lower rate loans have made the difference between these first time home buyers renting or owning their own home. Since the agency is providing funds for first time home owners, the Bank has been able to focus more attention to agricultural lending; and as a result, is moving out of direct home loan lending.

At the end of 1983, the Bank of North Dakota had an inventory of 5117 home loans totaling \$163,686,459 throughout the state of North Dakota. Difficulties arising out of the economic conditions existing in 1983 were the causes for 66 home loans to be returned to the Bank through foreclosure or deed in lieu of foreclosure. Obviously, we are hoping 1984 will be a year of recovery. However, the Bank expects recovery on all of these loan losses through payments which have been, or will be made, by FHA or VA.



*Cecilia Wanner, Assistant Vice President (standing),
Duane Wagner, Assistant Vice President, Loan
Servicing.*

STUDENT LOAN DEPARTMENT



Arlene Olson, Assistant Vice President; I. Jeannine Christy, Vice President, Student Loan Department.

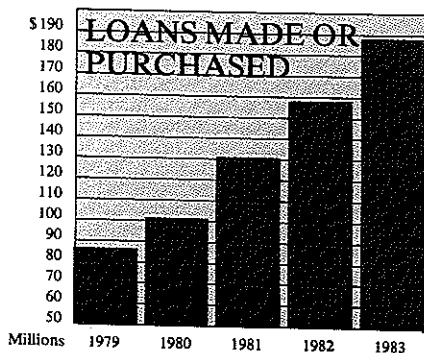
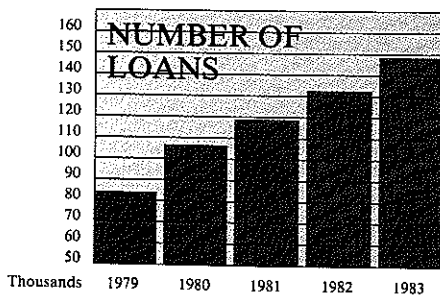
Educated people are a basic necessity to any successful industrial development. In order to gain that necessary education, however, people will generally need monetary aid to supplement their personal resources.

The Bank of North Dakota's Student Loan Department directly assisted 11,769 students with education loans totaling \$24,045,381 during 1983. In addition to direct loans, we purchased 4,481 loans for \$7,858,730 from other private North Dakota lenders. Loans serviced for the complete outstanding student loan portfolio in the Student Loan Trust at the end of 1983 totaled \$124,591,296 in loans for 108,137 students. There are 20,723 repayment accounts. Principal payments totaling \$9,697,857 were received during 1983. Our default rate remains stable at less than 3%.

With a new computer system, new loan processing improved during 1983. Loan funds were disbursed within six to eight weeks after the date the application was received even during the busiest time. This processing time has improved to a four to six week turn-around at present. We increased our individual loan amount to the full \$2,500 allowed under the federal rules and regulations of this program.

The updated computer system was utilized for the first time in June. The automatic generation of status letters, pre-claims assistance, and demand letters makes for a faster and better system of due diligence.

As the rules and regulations change, so do we. The one constant is our dedication to the students of North Dakota in assisting them to reach their desired level of post-secondary education.



NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM

North Dakota's industrial development requires the combined efforts and the positive accomplishments of all segments of our state's resources.

New technologies create a demand for highly-skilled and well-educated workers. The North Dakota Guaranteed Student Loan Program (NDGSLP) has been working with parents, students, and school officials to provide the financial backing for any qualified North Dakota student to obtain access to the necessary education and special skills training that is required for an active participation in the industrial development process.

NDGSLP began operation in July, 1982, with the processing of its first application on July 20 of that year. Since then, NDGSLP has processed 28,696 applications in the amount of \$57,153,784. As the program matures and the number of loans in the repayment status increases, the servicing and assistance that is available to the 90 participating lenders will increase many fold.

The internal processing time for applications this past year was maintained at a turn-around time of only 6 days. The assistance offered to lenders has met with wide-spread approval.

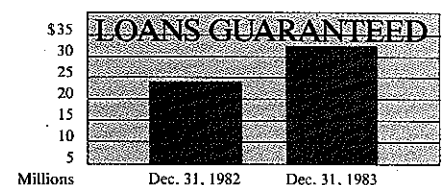
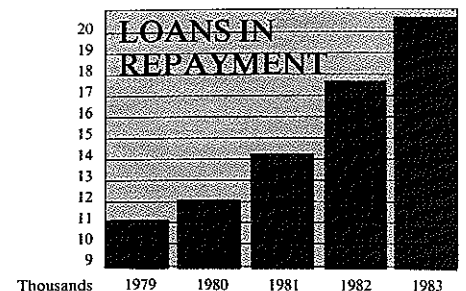
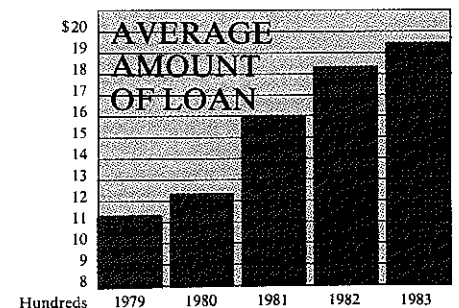
A break down of the loans guaranteed from July, 1982 to December 31, 1983, discloses that 80% of the loans were processed for North Dakota students attending schools within the state. Of the 20% attending out-of-state institutions, our neighboring state of Minnesota accounted for one-half or 10% of the total. These institutions were, for the most part, situated in the adjoining area to our state.

The participation of the North Dakota schools was;

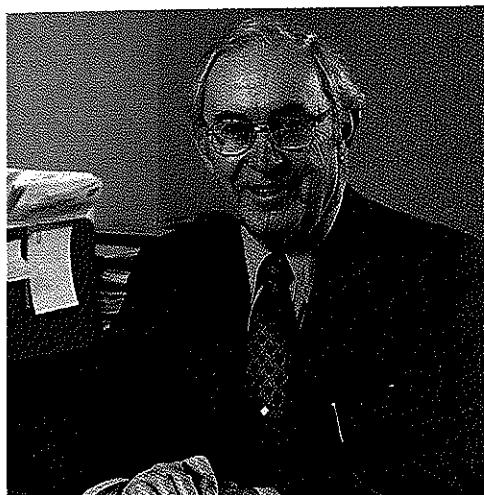
SCHOOL	July 1982 to December 31, 1983	
	NUMBER OF STUDENTS	DOLLAR AMOUNT
UND	6867	\$12,975,532
UND Medical School	276	1,306,814
UND Williston Branch	218	405,517
UND Totals	7361	14,687,863
NDSU	5078	9,862,833
NDSU Bottineau Branch	204	333,766
NDSU Totals	5282	10,196,599
NDSSS Wahpeton	2469	4,851,771
DNU Minot State	1452	2,589,919
BJC	1351	2,414,895
Mary College	1094	1,979,655
Dickinson State	648	1,091,266
Valley City State	639	1,076,003
Jamestown College	529	932,365
Interstate Business	409	932,966
Mayville State	523	786,487
Lake Region Jr. College	261	465,869
Aakers Business	158	331,152
Health professions	415	927,032
Hairdressers academies	336	780,844
Total North Dakota	22,927	\$44,044,686
Others—Out-Of-State	5,769	13,109,098
Grand Total	28,696	\$57,153,784



Martin Stenehjem, Sr. Vice President (standing), Delores James, Assistant Vice President, Guaranteed Student Loan Program.



SPECIAL LOANS DIVISION



Ernest Pederson, Sr. Vice President, Special Loans Division.

North Dakota's basic industry is farming and four of the funds under the management of the Special Loan Division are for the benefit of agricultural interests. The other four deal with the aged and the disabled which enters the realm of another large North Dakota industry — that of health care. The 1983 activities in the special accounts are as follows:

The State Land Department Loan Pool. This pool of \$50 million had 51 loans paid in full, made 24 new loans, earned over \$4.1 million for the State Land Department and paid more than \$167,000 in fees to the Bank of North Dakota.

The Nursing and Home for the Aged Fund. This fund has 14 loans with a year-end balance of \$406,000. 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 1983 in an amount of \$198,000. At year-end there was \$4.7 million in the fund with over \$2.7 million outstanding in loans.

The Developmentally Disabled Facility Loan Fund #2. The 1983 Legislature created this fund by borrowing \$5 million from the permanent funds of the Board of University and School Lands to be repaid by the Land and Mineral Trust Fund. From the fund, all proceeds, both principal and interest, after deducting Bank fees, will be given to the Land and Mineral Trust Fund. There were 6 loans made from this fund in 1983 totaling \$1.3 million.

This loan arrangement was authorized due to a state revenue shortfall coinciding with a Federal Court Order directing the State to de-institutionalize residents of the Grafton and San Haven institutions for the developmentally disabled.

The North Dakota Rural Rehabilitation Corporation (NDRRC) Loan Fund. Through this fund, the Special Loans Division implemented 70 Farmers Home Administration subordinated farm operating loans totaling \$1.3 million. The NDRRC Board of Directors increased the amount in the fund to \$1.5 million for the 1984 season. These loans are made only on subordinations and only when other credit is not available.

The Community Water Facility Revolving Loan Fund. No loans were made from this fund in 1983. All of these loans were supplemental to loans made by the Farmers Home Administration. The value of the fund at year-end was \$10.8 million with over \$6.5 million out in loans. This fund received the final \$2.5 million appropriation from the Bank's undivided profits.

The Judge A.M. Christianson Project. At year-end, there were 9 Contracts for Deed on project units in Burlington, North Dakota (near Minot) with an outstanding balance of \$165,000. Two Contracts were paid in full in 1983.

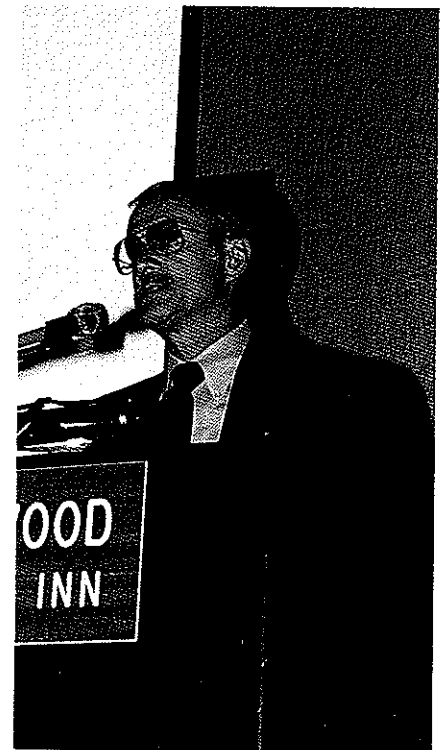
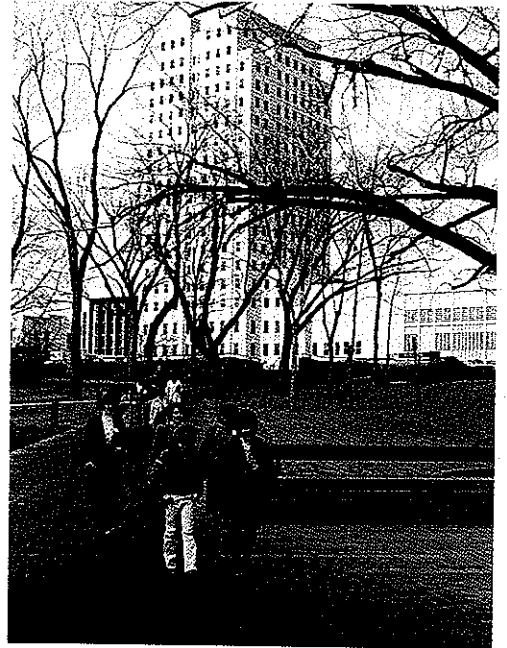
The Beginning Farmer Loan Guarantee Program. The Beginning Farmer Loan Guarantee Program fund had a value of \$2.4 million at year-end. In 1983, only one application was received, but was subsequently withdrawn for a lack of qualifications. Three partially completed applications have since been filed and are waiting for completion. The 1983 Legislature also made some changes in this program.

"MID-WINTER BREAK"

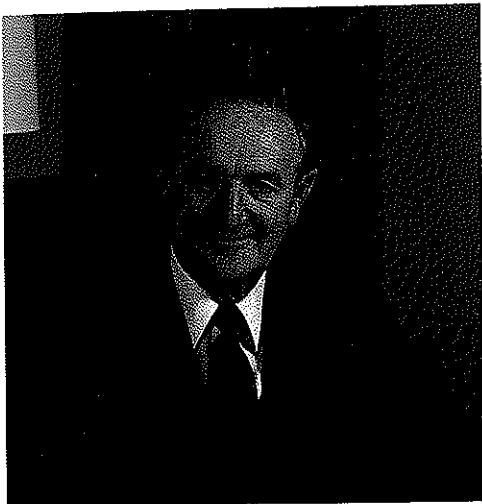
The third week of February marks an extremely important date for the financial managers throughout the Peace Garden State, and the entire staff of Bank of North Dakota. The Bank's annual "Mid-Winter Break" offers educational formats, superb dining and fine entertainment for both husbands and wives at a time when the winter doldrums are at a peak. Through the years, this comprehensive conference has become the most anticipated banking seminar in North Dakota.

With the sweeping changes brought about by deregulation and the problems caused by a sluggish economy in our agricultural industry, the "Break" keeps pace with technical, legal, and practical concepts of the financial network. With the other timely conferences, sponsored by the North Dakota Bankers Association (NDBA) and the Independent Community Banks of North Dakota (ICBND) throughout the year, the financial managers can be informed and guided by experts in their particular field. The "Break" has become the primary conference where the programs and activities can help influence the economy of North Dakota.

In keeping with the original concept of our state-owned bank, which dates back to 1919, the Bank of North Dakota is a "Partner in Progress" with the financial institutions of North Dakota. The "Mid-Winter Break" helps prepare the local banker to meet the needs of the people.



INVESTMENT & TRUST DEPARTMENT



John W. Fay, Sr. Vice President, Investment & Trust Department.

The year brought many crises to the business world of North Dakota; yet, these crises were perhaps fostered in the previous years of wide margins, strong demand, and particularly higher leverage. When the economy is strong, temptation leads us to expand, maybe loosen supervision, lose a little productivity and discipline and generally relax.

But, along comes a reversal and all past practices reflect directly on current performance for better AND for worse. Regrettably, some during the past periods of growth have, "Bet the farm" when they couldn't afford to lose the farm, thus, "Once burned, twice smart".

Economists and the media report the forecasts and effects of the price of oil, inflation, deflation, balance of payments, federal reserve policy, monetary policy, strength of the dollar, the international debt crises, forthcoming union-management contracts, and the economic recovery or the lack thereof. These are important and will undoubtedly impact on all of us in some way — positive or negative.

In a more or less eloquent fashion, these were the factors that influenced the 1983 bond market. Most of the year was spent on a roller coaster; but as the year drew to a close, most bond rates had stabilized to the extent there seemed to be a fairly good market.

The Bank of North Dakota's reputation in working within the parameters of the market has been quite good. In the year just past, the Investment and Trust Department installed market information computers that have afforded the Bank an opportunity to know, virtually instantly, what bond issues and potential bond issues are doing on any particular day. The computer information system has proven to be an excellent decision-making tool.

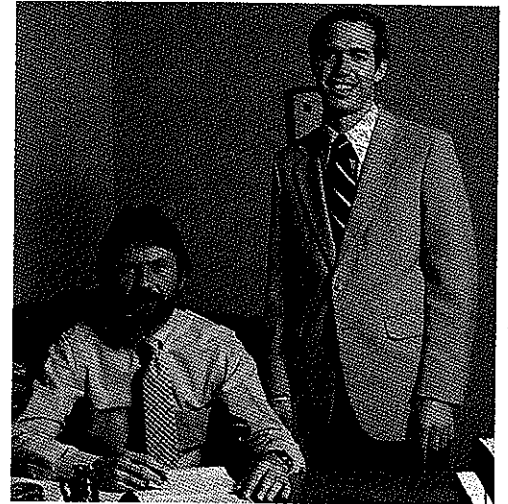
As we look to 1984, we anticipate interest rates could increase — at least until the General Election this fall. Traditionally, bond action that takes place during the height of a political campaign are, generally, taken at a workable rate for the seller.

MONEY CENTER

The financial markets for 1983 were less volatile than we had seen in the previous two years. We anticipate 1984 to be much the same as 1983, with a large federal deficit and an election year combining to create some volatility.

Trading in Federal Funds continued strong throughout 1983. Daily Federal Funds trading volume was \$335 million, resulting in an annual total amounting to more than \$123 billion traded in Federal Funds. Federal Funds traded in a narrow range from a low average of 8.50% in the first quarter to a high average of 9.40% in the last quarter.

The Bank of North Dakota's investment portfolio totaled \$196,346,000 as of December 31, 1983, a decrease of 15% from the previous year. This was primarily due to a decrease in the state deposits.



Edward B. Sather, Vice President (seated), Tim Glass, Assistant Vice President, Money Center.

BOND & COUPON PAYING & RECEIVING DIVISION



Nancy Glass, Assistant Vice President, Shirley Homuth, Sr. Vice President, Bond and Coupon Paying Division.

In 1959, the Bank of North Dakota furnished the city of Williston with interim financing for the first Industrial Development Project in the State. These funds were to cover the cost of construction of the Dakota Salt and Chemical Company's plant in that city. In 1960 these interim certificates were paid off with the proceeds of definitive industrial development revenue bonds in the amount of \$1,750,000 purchased by the Bank of North Dakota in 1961. The entire issue was paid in full in 1970.

Since that time the Bank of North Dakota has been active in underwriting many bond issues for industrial development projects throughout the state. Of the various outstanding issues at the end of 1983, there are 30 that remain with unpaid principal balances totaling \$23,281,000. These issues are presently serviced by the Bank of North Dakota as paying agent and/or trustee. The issues include facilities for co-location of social service agencies, hospitals, and nursing homes.

Not only does the Bank of North Dakota pay the bonds and coupons as presented, but in its capacity as trustee, the Bank assures that the funds are on deposit and available for payment. Lessees of industrial development projects remit monthly lease rentals to the Bank of North Dakota based on ensuing twelve-month bond requirements. Also, all required reserves are deposited in specific accounts and kept invested as a protection to the bondholders.

This Division also services and pays the North Dakota Bond Bank for issues it holds in its portfolio; namely Series of 1977 - \$8,612,550; Series of 1979 - \$12,558,000; Series of 1983 - \$8,363,000; and approximately \$279,000,000 of additional issues owned by the Bank of North Dakota, individual customers and other banks.

LEGAL DEPARTMENT

The Legal Department serves as in-house counsel to the Bank of North Dakota and the North Dakota Municipal Bond Bank. The staff of the Legal Department is comprised of the General Counsel (who is also an Assistant Attorney General for the State of North Dakota), an Assistant Attorney General, and a Legal Assistant.

The 48th Legislative Assembly of the State of North Dakota was in session during 1983 from January 4 until April 20. During this 3½-month period, the Legal Department devoted a considerable amount of time to drafting bills and attending Legislative Committee hearings.

The Legal Department also assisted with the issuance of several state bond issues throughout 1983. The first of these was the \$18 million Industrial Commission of North Dakota, Agricultural Revenue Bonds, Series 1983 A. This was the first series of bonds issued pursuant to the State Agricultural Development Act of 1981.

In addition to the agricultural bonds, in April the North Dakota Municipal Bond Bank issued its 1983 Series A Bonds in the amount of \$11,600,000; and in the months of June, September, and December, the North Dakota Housing Finance Agency issued its Single Family Mortgage Program Bond (1983 Series A - \$29,945,000, Series B - \$58,375,000, and 1983 Series C - \$31,670,000).

Although legislative matters and bond issues were of great concern to this Department in 1983, the primary responsibility of the Legal Department is to provide prompt and reliable counsel to all Bank employees. With few exceptions, the staff of the Legal Department meet and discuss legal questions on a daily basis with employees representing virtually every Bank department.



(Seated) Gary Bauer, Attorney, Tom B. Tudor, Vice President and General Counsel. (Standing) Claudette Warren, Legal Assistant.

CASHIERS DIVISION



Ila Eckroth, Vice President & Cashier, Cashiers Division.

Effective October 1, 1983, the Depository Institutions Deregulation Committee abolished interest rate ceilings on most time accounts, resulting in the only accounts with an interest rate ceiling to be Time Deposits of 7- to 31-days, Money Market Deposit Accounts, NOW Accounts with deposits of less than \$2,500, and Savings Accounts.

There is a new early withdrawal penalty in all deposit categories for Certificates of Deposit issued or renewed after October 1, 1983. If the deposit matures in more than one year, the minimum penalty will be three months loss of interest. If the deposit matures in 32-days to 1-year, the minimum penalty will be one month's loss of interest. As of January 1984, Passbook Savings Accounts and 7- to 31-day Time Deposits of less than \$2,500 will have a ceiling rate of 5½%.

In a recent mailing of the W-9 federal income tax forms, we have asked our customers to certify that the Social Security numbers we have on file are correct. Under the present federal income tax law, individuals who have not provided their financial institutions with their correct Social Security number could be subject to both a \$50 penalty and 20% withholding on interest and dividends starting on January 16, 1984.



Cashiers Division; (Left to Right) Assistant Cashier Donna Frey, Assistant Cashier Audre Goll, Teller Cindy Lund, Teller LaDonna Leingang, Teller Betty Becker, Teller Ann Brennise, Teller Mary Jo Haire, Teller Ann Jordan and Teller Dorena Wangler.

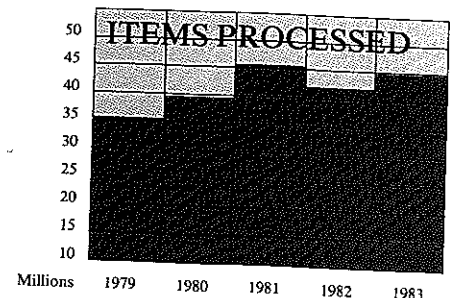
OPERATIONS DIVISION

The volume of checks being processed by the Operations Division of the Bank of North Dakota has again, in 1983, increased over the previous year. We have processed 44,928,664 items in 1983, compared to 42,336,926 items in 1982. This was an increase of 2,591,738 items. We have 107 North Dakota banks sending deposits each day. This is an increase of two banks over 1982. The volume of checks the Division is sending out on a daily basis caused us to review the profitability of processing checks. As a result of that review, we have changed some of our sending points to step up the availability of funds in collecting checks through the banking system.

The Bank of North Dakota is presently working on a complete new computer software system for demand deposit accounts and savings accounts. This will enable us to monitor each account on a daily basis when necessary. The new system is anticipated to be operational in 1984.



Operations Division; (left to right) Vice President Carl Arndt, Assistant Cashier Darlene Felchle, Assistant Vice President Alyce Starck, Vice President Evelyn Zelmer and Assistant Cashier Debby Barth.



INTERNAL AUDIT DEPARTMENT



Audit Department; (standing) Assistant Auditor Jim McLeod, Assistant Auditor Betty Renz, (seated) Auditor Korrine Lang.

Today, industrial development and technological change happens so rapidly that yesterday's dream is today's reality and tomorrow's necessity. An important aspect of industrial development is information and the communication of information. As organizations become increasingly dependent on computers to process and maintain information, the auditor's role is expanding to assure proper evaluation on the accuracy, efficiency and security of information processing systems and the people operating these systems.

The Internal Audit Department of the Bank of North Dakota is meeting this challenge by evolving to an integrated audit approach whereby the highly technical aspects of an audit will be performed by an Electronic Data Processing (EDP) audit function and the internal audit function will be responsible for all other aspects of the audit.

To function effectively under this approach, all staff auditors are required to understand concepts, capabilities, and basic functions of EDP equipment and systems. This required EDP proficiency is being accomplished through a training program that includes attendance at EDP seminars, individual study, college courses; and most important of all, on-the-job experience.

This training has to be incorporated with each auditor's professional goals, since this type of training is only one portion of career development for auditors.

In addition to EDP knowledge, proficiency in other state-of-the-art audit techniques is necessary to maintain a high degree of audit competence within the Bank of North Dakota. Techniques that have been or will be instituted include analytical review techniques, risk analysis, statistical sampling, flowcharting, and peer group review.

PERSONNEL DEPARTMENT

As industrial development is a valuable asset to North Dakota's economy, the human resources of the Bank of North Dakota are vital to its success. Staff skill and dedication are among the Bank's greatest assets.

The employee-to-asset ratio for the Bank, during 1983, was .14 employees per million dollars of assets, compared to a national average of .98 employees for banks in the \$500-999 million range*. All banks in the asset classes ranging from \$25 million to \$1 billion (plus) averaged 1.02 employees per million dollars of assets*.

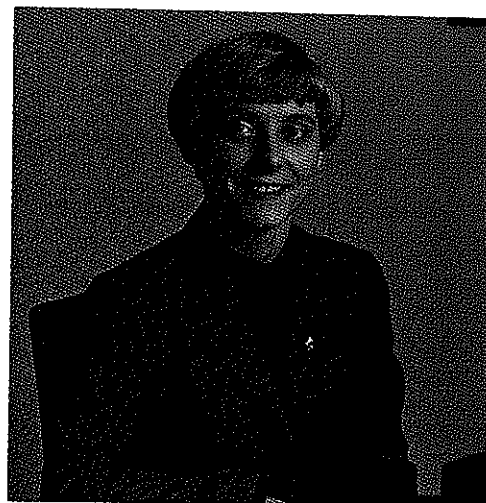
Throughout the year, the permanent staff averaged 128, with 118 full-time and 10 part-time positions. Temporary employees were utilized during peak work loads and for special projects.

The Industrial Commission approved three employees to be promoted to Bank officer status, including Sue Hartmann to a Loan Review Officer; Kim Kaul to a Commercial Loan Officer; and Jim McLeod to Assistant Auditor. Five additional officers received promotions. Shirley Homuth, Martin Stenehjem and Ernest Pederson were appointed Senior Vice Presidents, Korrine Lang was appointed Auditor and Cecilia Wanner was appointed Assistant Vice President.

Employees continue to be trained effectively and properly placed consistent with their own career plans. Seventeen employees were promoted to higher classifications, two positions were reclassified and four lateral transfers were made during 1983.

Affirmative action goals continue to be an integral component of the Bank's human resource program. The Bank remains firm in its commitment to provide equal employment opportunities without regard to color, race, religion, sex, age, national origin, physical disabilities, political affiliations or any non-merit factor.

*BAI "Eleventh Biennial Survey. . ." July, 1982-83



Personnel; Sharon Wehner, Assistant Vice President.

COMPTROLLER'S REPORT



A. R. Nosbusch, Vice President and Comptroller.

This analysis of Bank of North Dakota operations for the year 1983 should be read in conjunction with, not rather than, financial statements and notes thereto contained elsewhere in this Report.

Bank of North Dakota's securities portfolio decreased 15.1% to \$196.3 million by December 31, 1983. Average portfolio holdings during the year, however, were 15.8% greater than in 1982. Total investment income increased 8.6% to \$51.5 million, resulting from a combination of lower average yields on investments, which declined from 11.2% to 10.5%, offset by a larger investment base.

The Bank's loan portfolio decreased 12.97% to \$284.3 million due primarily to repayments and reduced loan demand, particularly in holdings of participation loans and home loans. By year-end, the Bank's loan to deposit percentage — percent "loaned up" — had declined from 61.8% to 59.8%. (During 1983, the Bank of North Dakota was "loaned up" 59.5% on average.) Average yield on the loan portfolio during the year was 10.4% as compared with 11.1% in 1982.

During 1983 the Bank experienced considerable expansion of its involvement in Federal Fund and Repurchase Agreement markets. Investment of such funds reflected an 85.4% increase on the asset side of the balance sheet and yielded 8.99%. Acquisition of these funds grew by 101.5% with an average cost of 8.88%.

Total assets exceeded the billion dollar mark for the first time in Bank of North Dakota's history on May 25, 1983, on the way to a peak of \$1,065,574,538 on June 1, 1983. Assets totaled \$1,029,670,329 at December 31, 1983, having grown 19.5% from one year earlier.

Total deposits continued to decline in 1983 with a net 10% decrease totaling \$52.8 million. This reduction was comprised primarily of political subdivision monies with the largest impact being use of approximately \$34 million of Student Loan Trust monies to originate guaranteed student loans. The deposit mix of demand and time monies reflects less change due to continuing deregulation of the banking industry than was expected at this time last year. Time and savings deposits, at year-end, represented 81% of total deposits. Time and savings deposits represented 80% of total deposits of Bank of North Dakota at December 31, 1982. By year-end 1983 total deposits represented 48.4% of total liabilities while in 1982 deposits totaled 64.7% of liabilities.

Bank of North Dakota 9¼% Collateralized Bonds outstanding were reduced by only \$50,000 during 1983 as the substantial retirements of 1982, with the resulting extraordinary income segregation noted in the financial statements, satisfied Indenture requirements into 1984.

During 1983 the North Dakota Industrial Commission authorized transfer of \$2 million from Bank of North Dakota Undivided Profits to its Capital Account. The Bank's total equity position grew by only 2.6% during the year as compared with growth of 9.9% in 1982. Total equity dropped from 5.2% to 4.5% of total assets during 1983 due primarily to growth of assets and legislative appropriation

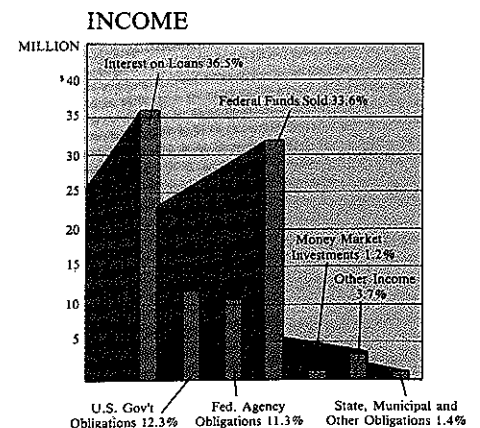
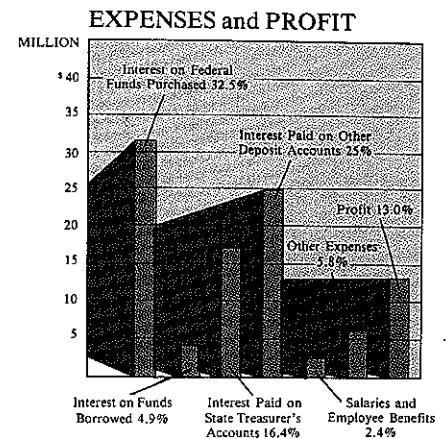
of \$5 million of Bank earnings for the North Dakota General Fund and of \$5 million for creation of the Beginning Farmer Loan Program. Retention of a portion of the Bank's earnings within its equity accounts contributes to the strength of Bank of North Dakota and ultimately its ability to help meet the banking needs of the state of North Dakota and its citizens. It will be especially important in coming years that the Industrial Commission and Legislature recognize the importance of equity retention to the future of Bank of North Dakota.

Total interest income rose 1.3% during 1983 while interest expense dropped by 2.85% continuing the growth in net interest income margins from 10.3% to 14.8% to 18.3% in the span of 1981 through 1983. At the same time, the cost of interest-bearing deposits was sliding from 12.4% to 10.79% to 8.54%. Such trends reflect a continuing easing of the interest rate squeeze experienced earlier in the 1980's.

Operating expenses increased 11.6% during 1983 with the greatest increases being for postage, professional fees and data processing. Largest expenditure items included an operational review of the Bank by profitability consultants and purchase of new data processing systems for demand deposits, savings and certificates of deposit. These new on-line systems will incorporate desired operational changes and satisfy the backup interest withholding requirements imposed by federal legislation. Net loan loss provisions decreased 34.6% to \$2,999,090. This reduction was actually the result of loan charge offs 16.4% lower than in 1982 and the inclusion of a \$1 million injection in loan loss reserves during 1982. Loan loss provisions represent .324% and .566% of average total assets for 1983 and 1982, respectively. Salary and benefits expenditures for 1983 rose by only 3.76% and represented .229% of total assets as compared with .252% in 1982 and .285% in 1981. (As a singular measure of comparison, North Dakota banks in 1982 averaged salary and wage expenses of 1.49% of total assets.)

1983 was also a record year for earnings with net income of \$11,182,816 having increased \$3,358,679 (42.9%) from 1982. Return on average equity grew from 15.48% in 1982 to 22.42% and return on average assets grew from .84% to 1.21%.

Overall, 1983 saw further reduction of the interest margin squeeze experienced in the early '80's. Depository rates continued to fall with the maturity of longer term certificates while loan and investment rates showed more stability. Better interest margins along with growth of assets to record levels and lower charge offs resulted in improved profitability for the Bank of North Dakota.



A.R. Nosbusch
Vice President & Comptroller

OFFICIAL STAFF

H. L. Thorndal
President 1-2-3

Administrative and Retail Banking

R. E. Sailer
Sr. Vice President 1-2-3

Operations Division

Carl C. Arndt
Vice President 3
Evelyn Zelmer
Vice President
Alyce Starck
Assistant Vice President
Debby Barth
Assistant Cashier
Darlene Felchle
Assistant Cashier

Cashiers Division

Ila Eckroth
Vice President & Cashier 3
Donna Frey
Assistant Cashier
Audre Goll
Assistant Cashier

Comptrollers Division

A. R. Nosbusch
Vice President & Comptroller 3
Dale Eberle
Vice President
Joyce Welder
Assistant Vice President &
Assistant Comptroller
Esther Focke
Assistant Comptroller
Janette Melby
Assistant Comptroller

Legal Department

Tom Tudor
Vice President & General Counsel 2
Claudette Warren
Assistant Cashier
Gary Bauer
Attorney

Commercial and Correspondent Banking

R. E. "Bob" Caudel
Sr. Vice President 1-2
E. W. Pederson
Sr. Vice President 3
Lewis Wilson
Vice President 2-3
Rod Anheluk
Assistant Vice President
Duane Wagner
Assistant Vice President
Cecilia Wanner
Assistant Vice President
Betty Zeeb
Assistant Vice President
Kim Kaul
Commercial Loan Officer
Sue Hartmann
Loan Review Officer

North Dakota Guaranteed Student Loan Program

M. E. Stenehjelm
Sr. Vice President
Delores James
Assistant Vice President

Student Loan Department

I. Jeannine Christy
Vice President 3
Arlene Olson
Assistant Vice President
Julie Kubisiak
Assistant Cashier
Kathy Knudson
Assistant Cashier

Personnel Department

Sharon Wehner
Assistant Vice President 3

Audit Department

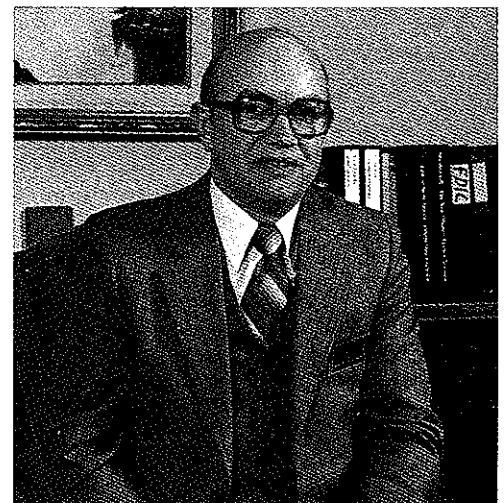
Korrine Lang
Auditor 3
Betty Renz
Assistant Auditor
James McLeod
Assistant Auditor

Investment and Trust Department

John W. Fay
Sr. Vice President 1-2
Shirley Homuth
Sr. Vice President 3
Edward B. Sather
Vice President 1-2
Nancy Glass
Assistant Vice President
Tim Glass
Assistant Vice President

KEY

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



R. E. Sailer, Sr. Vice President, Administrative and Retail Banking.

Balance Sheets

December 31, 1983 and 1982

ASSETS	1983	1982
CASH AND DUE FROM BANKS	\$ 65,135,815	\$ 52,246,696
INVESTMENT SECURITIES (Note 2):		
U.S. Treasury securities	86,643,387	97,898,079
Obligations of other U.S. government agencies	98,329,365	79,587,948
Obligations of state and political subdivisions	8,094,949	18,397,011
Other securities	3,278,103	35,482,397
Total investment securities	196,345,804	231,365,435
FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS	464,380,000	232,515,600
LOANS:		
FHA and VA home loans (Note 3)	163,686,459	173,375,469
Bank participation loans	86,685,344	107,768,562
Farm real estate loans	17,993,450	18,134,995
SBA participation loans	10,407,725	12,460,939
Bank stock loans	6,316,957	9,379,338
Guaranteed student loans	127,960	2,005,570
Other	2,079,351	6,532,508
Total loans	287,297,246	329,657,381
Less allowance for loan losses (Note 4)	3,000,000	3,000,000
	284,297,246	326,657,381
OFFICE BUILDING AND EQUIPMENT	1,447,450	1,404,108
ACCRUED INTEREST RECEIVABLE	10,773,203	10,857,845
OTHER ASSETS (Note 7)	7,290,811	6,919,109
Total assets	<u>\$1,029,670,329</u>	<u>\$861,966,174</u>
LIABILITIES AND CAPITAL FUNDS		
DEMAND DEPOSITS:		
Political subdivisions	\$ 41,994,655	\$ 47,944,435
Banks	37,973,646	33,192,473
State treasurer	3,925,551	13,085,006
Individuals, partnerships, corporations and other	6,500,258	11,398,129
Total demand deposits	90,394,110	105,620,043
TIME, NOW AND SAVINGS DEPOSITS:		
State treasurer	223,712,403	192,978,091
Political subdivisions	113,757,790	194,912,957
Individuals, partnerships and corporations	47,982,573	35,133,762
Total time and savings deposits	385,452,766	423,024,810
Total deposits	475,846,876	528,644,853
FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (Note 2)	453,886,337	238,060,910
COLLATERALIZED LONG-TERM BONDS (Note 3)	35,108,000	35,158,000
ACCRUED INTEREST PAYABLE	5,464,454	6,066,725
OTHER LIABILITIES (Note 7)	5,023,176	5,043,056
APPROPRIATION DUE THE BEGINNING FARMER LOAN PROGRAM (Note 5)	4,166,040	—
APPROPRIATION DUE THE STATE OF NORTH DAKOTA GENERAL FUND (Note 5)	3,750,000	1,250,000
APPROPRIATION DUE THE COMMUNITY WATER FACILITY LOAN FUND (Note 5)	—	2,500,000
Total liabilities	983,244,883	816,723,544
CAPITAL FUNDS:		
Capital	18,000,000	16,000,000
Surplus	18,000,000	18,000,000
Undivided profits	6,925,446	7,742,630
Reserve for contingencies	3,500,000	3,500,000
Total capital funds	46,425,446	45,242,630
COMMITMENTS AND CONTINGENCIES (Note 7)		
Total liabilities and capital funds	<u>\$1,029,670,329</u>	<u>\$861,966,174</u>

See notes to financial statements.

Statements of Income

For the years ended December 31, 1983 and 1982

	1983	1982
INTEREST INCOME:		
Interest and fees on loans	\$31,358,398	\$39,751,557
Interest on investment securities-		
U.S. Treasury securities	10,556,187	8,500,466
Obligations of other U.S. government agencies	9,696,206	8,779,171
Obligations of state and political subdivisions	1,203,889	1,383,505
Other securities	1,024,736	2,404,845
Interest on federal funds sold and securities purchased under reverse repurchase agreements	29,015,349	20,952,234
Total interest income	<u>82,854,765</u>	<u>81,771,778</u>
INTEREST EXPENSE:		
Interest on deposits	35,556,127	47,611,169
Interest on federal funds purchased and securities sold under repurchase agreements	27,923,206	18,161,777
Interest on long-term bonds	4,212,380	3,907,232
Total interest expense	<u>67,691,713</u>	<u>69,680,178</u>
Net interest income	15,163,052	12,091,600
PROVISION FOR LOAN LOSSES (Note 4)	2,999,090	4,585,680
Net interest income after provision for loan losses	<u>12,163,962</u>	<u>7,505,920</u>
OTHER INCOME:		
Service fees and other	2,055,782	2,350,909
Security gains	1,059,526	624,449
Total other income	<u>3,115,308</u>	<u>2,975,358</u>
OTHER EXPENSES:		
Salaries and benefits (Note 9)	2,123,151	2,046,012
Fees and services	912,777	748,586
Data processing	777,924	625,982
Supplies and materials	156,996	135,564
Depreciation	125,606	114,704
Total other expenses	<u>4,096,454</u>	<u>3,670,848</u>
Income before extraordinary gain	11,182,816	6,810,430
EXTRAORDINARY GAIN (Note 3)	—	1,013,707
Net income for the year	<u>\$11,182,816</u>	<u>\$ 7,824,137</u>

See notes to financial statements.

Statements of Capital Funds

For the years ended December 31, 1983 and 1982

	Capital	Surplus	Undivided Profits	Reserve for Contingencies	Total
BALANCE, DECEMBER 31, 1981	\$16,000,000	\$16,000,000	\$7,668,493	\$1,500,000	\$41,168,493
Net income for the year	—	—	7,824,137	—	7,824,137
Transfer to-					
Surplus	—	2,000,000	(2,000,000)	—	—
Appropriation due 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)
Reserve for contingencies (Note 6)	—	—	(2,000,000)	2,000,000	—
BALANCE, DECEMBER 31, 1982	16,000,000	18,000,000	7,742,630	3,500,000	45,242,630
Net income for the year	—	—	11,182,816	—	11,182,816
Transfer to-					
Capital	2,000,000	—	(2,000,000)	—	—
Appropriation due the State of North Dakota General Fund (Note 5)	—	—	(5,000,000)	—	(5,000,000)
Appropriation due the Beginning Farmer Loan Program (Note 5)	—	—	(5,000,000)	—	(5,000,000)
BALANCE, DECEMBER 31, 1983	\$18,000,000	\$18,000,000	\$6,925,446	\$3,500,000	\$46,425,446

See notes to financial statements.

Statements of Changes in Financial Position

For the years ended December 31, 1983 and 1982

	<u>1983</u>	<u>1982</u>
FUNDS PROVIDED FROM:		
Operations-		
Net income for the year	\$ 11,182,816	\$ 7,824,137
Add- Items not requiring expenditure of funds-		
Provision for loan losses	2,999,090	4,585,680
Depreciation and amortization	203,621	234,188
Total from operations	<u>14,385,527</u>	<u>12,644,005</u>
Increase in liabilities other than deposits (net)	219,319,316	66,647,724
Decrease in-		
Cash and due from banks	—	8,565,522
Investment securities	35,019,631	—
Loans, net	39,361,045	53,206,134
	<u>\$308,085,519</u>	<u>\$141,063,385</u>
FUNDS USED TO:		
Purchase building improvements and equipment	\$ 168,948	\$ 61,008
Transfer to-		
Appropriation due the State of North Dakota General Fund	5,000,000	—
Appropriation due the Beginning Farmer Loan Program	5,000,000	—
Community Water Facility Loan Fund	—	1,250,000
Appropriation due the Community Water Facility Loan Fund	—	2,500,000
Increase in-		
Cash and due from banks	12,889,119	—
Investment securities	—	51,640,748
Federal funds sold and securities purchased under reverse repurchase agreements	231,864,400	16,890,600
Accrued interest receivable and other assets	365,075	6,573,998
Decrease in deposits	<u>52,797,977</u>	<u>62,147,031</u>
	<u>\$308,085,519</u>	<u>\$141,063,385</u>

See notes to financial statements.

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Nature of organization -

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

b. Investment securities -

Investment securities are stated at cost adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income. Gains or losses on disposition are based on the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method.

c. Allowances for loan losses -

The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful.

d. Office building and equipment -

Office building and equipment are stated at cost, less accumulated depreciation of \$899,723 and \$774,117 at December 31, 1983 and 1982, 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 maturity ranges of portfolio investments at December 31, 1983, are as follows:

	One Year or Less	Over One but within Five Years	Over Five but within Ten Years	Over Ten Years	Total Book Value
U.S. Treasury securities	\$41,040,452	\$42,604,631	\$2,998,304	-	\$ 86,643,387
Obligations of other U.S. government agencies	41,813,648	53,080,568	1,500,000	1,935,149	98,329,365
Obligations of state and political subdivisions	38,991	733,850	1,450,652	5,871,456	8,094,949
Other Securities	275,000	-	501,135	2,501,968	3,278,103
	<u>\$83,168,091</u>	<u>\$96,419,049</u>	<u>\$6,450,091</u>	<u>\$10,308,573</u>	<u>\$196,345,804</u>

As of December 31, 1983, the overall market value is not significantly different than book value.

Provision is customarily not made for unrealized declines in the value of the investment portfolio, since it is generally the policy to hold the investments to maturity and thereby redeem them at face value.

The Bank has pledged investment securities and securities purchased under reverse repurchase agreements to the following:

	Amounts Pledged at Par	
	1983	1982
Securities sold under agreements to repurchase	\$365,601,337	\$117,368,000
Payment of principal and interest of the 1977 Series A Bond issued by the North Dakota Municipal Bond Bank	11,000,000	11,000,000
1982 Real Estate Series A Bonds issued by the State of North Dakota	5,130,000	7,660,000
Collateralized long-term bonds (Note 3)	7,000,000	7,000,000
1981 and 1979 Student Loan Revenue Bonds Series A issued by the State of North Dakota	10,740,000	6,460,000
Deposits in the treasury tax and loan account	3,000,000	2,000,000
	<u>\$402,471,337</u>	<u>\$151,488,000</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 \$75,173,234 outstanding as of December 31, 1983. 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, 1983.

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 ordinary gain of \$605,640 included in service fees and other income and an extraordinary gain on extinguishment of debt which amounted to \$1,013,707 after deducting related bond issue costs. During 1983, the Bank purchased \$50,000 of their outstanding collateralized bonds on the open market resulting in an ordinary gain of \$6,678 included in service fees and other income.

4. ALLOWANCE FOR LOAN LOSSES:

Transactions in the allowance for loan losses are as follows:

	1983	1982
Balance, January 1	\$3,000,000	\$2,000,000
Add (deduct)-		
Recoveries	204,930	33,278
Loans charged off	(3,204,020)	(3,618,958)
Provision charged to operating expenses	2,999,090	4,585,680
Balance, December 31	<u>\$3,000,000</u>	<u>\$3,000,000</u>

Loans on which the accrual of interest has been discontinued totaled approximately \$1,153,000 at December 31, 1983.

5. APPROPRIATIONS DUE:

The North Dakota State Legislature appropriated \$5,000,000 for the State General Fund from undivided profits of the Bank. Such monies shall be transferred during the biennium beginning July 1, 1983. The remaining amount due at December 31, 1983, is \$3,750,000.

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, 1983, \$10,000,000 has been appropriated and paid.

The 1982 North Dakota State Legislature created a Beginning Farmer Loan Program to be administered by the Bank of North Dakota. The revolving loan fund was established by the appropriation of \$5,000,000 from undivided profits of the Bank of North Dakota. The remaining amount due at December 31, 1983, is \$4,166,040.

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 future 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. As of December 31, 1983, the Bank holds \$1,793,894 of these coupons which are included in other assets.

2) Establish a reserve fund for the payment of principal and interest. The Bank must pay 13½% interest per annum on the reserve fund which has a balance of \$3,761,309 at December 31, 1983. 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 of 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 \$1,401,975 representing the liability incurred to December 31, 1983, which is included in other liabilities.

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. At December 31, 1983, commitments under standby letters of credit are approximately \$12,600,000. 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 1983 and 1982 were the following:

	1983	1982
Salaries	\$1,803,615	\$1,759,869
Social security taxes	106,898	112,750
Hospitalization	104,877	80,781
Retirement plan	99,507	83,710
Unemployment and workmen's compensation	8,254	8,902
	<u>\$2,123,151</u>	<u>\$2,046,012</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%, the employee 2.00% and the state 2.00% 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.

Charles Bailly & Company

Certified Public Accountants

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

We have examined the balance sheets of THE BANK OF NORTH DAKOTA as of December 31, 1983 and 1982, 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, 1983 and 1982, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Bismarck, North Dakota
January 20, 1984

Charles Bailly & Company