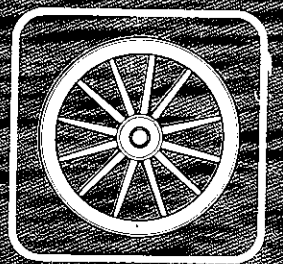




1984 Bank of North Dakota Annual Report



Bumper crops are produced year after year in the Red River Valley, irrigated with water drawn from deep underground aquifers to supplement the winter snow and the summer rain.

“WATER”

As agriculture goes in North Dakota, so goes the quality of life for North Dakotans. And agriculture succeeds or fails depending on the availability of good water at the proper time.

Therefore, The Bank of North Dakota dedicates its 1984 Annual Report to this great resource—water. In doing so, we honor this lifeblood of our state and our people, and we make a statement about the need to protect our Present and assure our Future: a Future with WATER.

HIGHLIGHTS

AT YEAR END:	1984	1983	
Resources	\$ 829,622,628	\$ 1,029,670,329	-19.4%
Deposits	590,800,073	475,846,876	24.2%
Real Estate Loans	156,163,388	181,679,909	-14.0%
All Other Loans	108,640,919	102,617,337	5.9%
FOR THE YEAR:			
Total Income	82,532,073	85,970,073	-4.0%
Interest Paid	60,295,836	67,691,713	-10.9%
Expenses Paid	4,128,168	4,096,454	.8%
NET INCOME:			
Dividend Paid to State Treasury ..	2,500,000	2,500,000	0%
Number of Checks Processed ...	43,959,308	44,928,664	-2.2%
Total Federal Funds Purchased ..	29,909,523,000	43,943,687,000	-31.9%
Total Federal Funds Sold	77,142,405,000	79,192,369,000	-2.6%

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Cover photo: Canadian geese floating on a farm pond remind us of the good life we enjoy here due to an abundance of fresh water.



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.



Report of Industrial Commission

To the Citizens of North Dakota

This year's annual report is dedicated to the discussion of water, its uses and its importance to our future. In keeping with the Bank's philosophy to encourage and promote agriculture, commerce and industry, we look at our water resources as our hope for future growth and development.

In common with other banks in the agriculturally oriented Midwest, 1984 was a rather difficult year for the Bank of North Dakota. The Bank's assets declined about \$200 million due to the cash-flow needs of depositors. Despite this, the Bank continued its record of service to the citizens of the state and ended the year financially sound and with a stable deposit base.

The Bank supervised a \$128,005,000 Student Loan Bond issue for the Industrial Commission in 1984 to provide funds for student loans through the 1985-86 school year. Contributing to the education of our youth continued as the Bank's number one priority.

The Bank committed over \$5 million to Beginning Farmer Loans in 1984. This program will be continued in 1985.

The Bank's net earnings totaled \$9,318,272. Most loan losses hit the agri-business sector. There were about \$6,104,204 in net loan losses, and about \$2.6 million was transferred from earnings to a loan loss reserve. The loan loss reserve total at the end of the year was \$5,685,593 - an adequate amount to absorb any future losses.

The Industrial Commission met 24 times on Bank business in 1984 and approved nine loans totaling \$20.9 million with the Bank of North Dakota's participation at \$15,853,524. The Commission approved no letters of credit and established 12 new or revised policies to upgrade the operation of the Bank. The Industrial Commission acknowledges and thanks the Advisory Board for their advice and counsel during the year.



*Attorney General Nicholas I. Spaeth
Governor George A. Sinner
Commissioner of Agriculture Kent Jones*

Two new members were elected to the Industrial Commission in 1984 to take office in 1985. We will continue to direct the Bank to pursue its mission to encourage and promote agriculture, commerce and industry in the great state of North Dakota.



l-r: Kent Jones, Commissioner of Agriculture; Robert O. Wefald, Attorney General, Allen I. Olson, Governor

Not many years ago, municipal water systems in our state consisted of town wells and lagoons. Now, in our urban areas, sophisticated treatment plants maintain the supply of clean water for drinking, cooking and bathing.



Advisory Board

To the North Dakota Industrial Commission:

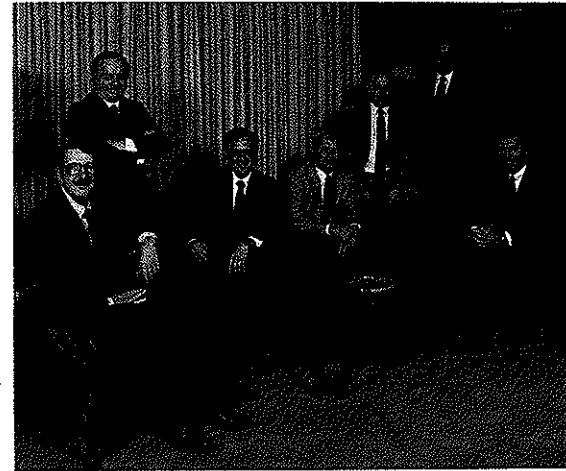
Because of continuing problems in agriculture, the Advisory Board cautioned the Bank to take a more conservative approach to lending in 1984. The Board set up a documentation reporting procedure and reviewed loans in more detail. The Board urged the Bank to address problem loans earlier. Interest accrual was halted on loans more than 90 days past due. Those loans were charged off while recovery efforts were continued. This resulted in a record number of loans being charged off for the year and results in a stronger position for the Bank.

The Advisory Board met 12 times during 1984 and approved 26 loan applications totaling \$48,407,000 with the Bank of North Dakota's participation share totaling \$31,913,000.

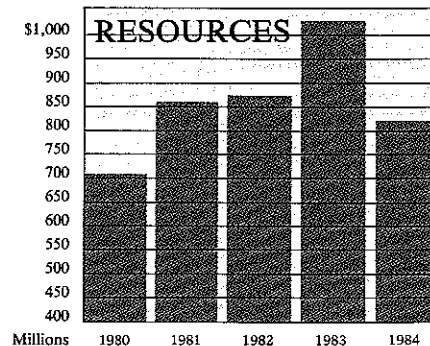
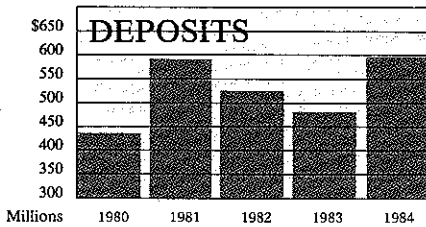
The Advisory Board met 9 times with the Bank's Audit Department, once with the State Banking Financial Institution examiners and once with the Bank's independent outside auditors. The Board took action on several audit recommendations.

The Board met 6 times throughout the state during the year to confer with local bank officials on how the Bank could better serve North Dakota.

The Advisory Board believes the Bank of North Dakota - with its strong capital posture - will continue to be a vital force in North Dakota.



l-r: William Clairmont, member; John McGinley, Vice Chairman; Robert Gregoire, member; Leslie Nesvig, Secretary; William Baldwin, Jr., member; John Rouzie, member; Dan O'Day, chairman



When heat turns water to steam, tremendous power is generated at the Basin Electric Power Cooperative's plant at Stanton—power for our homes and businesses.

President's Message



H.L. Thorndal, President and Manager

To the North Dakota Industrial Commission:

In common with most agricultural area banks, the Bank of North Dakota had a challenging year in 1984. Net earnings were \$9,318,272 for the year, down 17% from 1983's all-time record of \$11,182,816. Total resources were \$829,622,628 at year end down 19% from previous year end of \$1,029,670,329. The decline was mostly due to a decline in repurchase agreements (deposits of less than 7 days). We feel the Bank's 1984 year end size is in line with our previous year's projection. The Bank charged off over \$7,200,000 in loan losses, added another \$2,700,000 to loan loss reserve, and recovered \$1,141,000 from previous losses. We expect some recoveries from these charge offs, but not as much as we have from other year's losses. The largest loan losses were from loans to the sunflower processing industry. We will continue to add to our loan loss reserve in 1985, and charge off any loans when we deem them to be "unbankable." At year end, the Bank had \$5,625,000 in loans on a nonaccrual basis (nonincome producing); which, if these loans do not improve, will have to be charged off.

Loan demand was very light during 1984; and due to the weakness of the agricultural sector, we do not anticipate loan demand to increase during 1985. Agricultural loans will continue to decline in quality as farmers face the most serious economic conditions since the 1930's.

Interest rates stabilized somewhat during 1984. The Bank's base rate started the year at 11.5%, moved to a high of 12.5% during the year, and ended the year at 11.5%. We expect interest rates to decline a little, at least during the first half of 1985.

The Bank committed over \$5,000,000 to Beginning Farmer Loans from its portfolio in 1984 and loaned approximately \$3,250,000 in 1984 from the special fund appropriated by the 1983 Legislature. We will continue to make Beginning Farmer Loans in cooperation with the Farmers Home Administration in 1985.

The Industrial Commission issued a \$128,005,000 student loan revenue bond issue in December, which purchased our student loan portfolio, and provided the Bank with funds to continue the program into the 1985-86 school year. Because of other low loan demands, the Bank will be able to increase the student loan portfolio for the next few years. We will probably not need to seek outside funding before 1987. Student loans continue to be the Bank's number one priority.

The State of North Dakota issued a \$62,335,000 real estate bond issue in March, which refunded the \$35,000,000 1982 real estate bond and provided funds to purchase the Bank's farm real estate loans, which improved the Bank's liquidity and helped enable us to continue the Beginning Farmer Loan Program. The Bank issued several letters of credit backing the North Dakota Housing Finance Agency's bonds in 1984. Political subdivision bond underwriting did not increase in 1984, and we do not expect an increase in 1985.

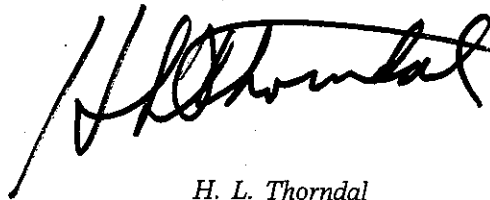
The Bank increased its surplus account by \$2,000,000 in 1984, which increased the Bank's lending limit to \$9,500,000 to any one borrower. No loan exceeded \$5,000,000 at year end 1984.

The Industrial Commission promoted 7 staff members during the year. Personnel promotions in 1984 included Gary Bauer from Attorney II to Assistant Counsel, Mary Weigel Davison from Secretary to Legal Assistant, Betty Becker from Teller III to Assistant Cashier, Karen Eisenbeis from Clerk

III to Assistant Operations Officer, Kathy Knudson from Assistant Cashier to Loan Officer-Student Loans, Julie Kubisiak from Assistant Cashier to Loan Officer-Student Loans, Tanya Moszer from Account Technician to Loan Officer-Student Loans. Wherever possible, the Bank continues to promote from within. We also urge the staff to participate in ongoing educational programs through local colleges, the American Institute of Banking, Bank Administration Institute, the American Bankers Association, and the North Dakota Bankers Association. The Bank is proud of its dedicated professional staff.

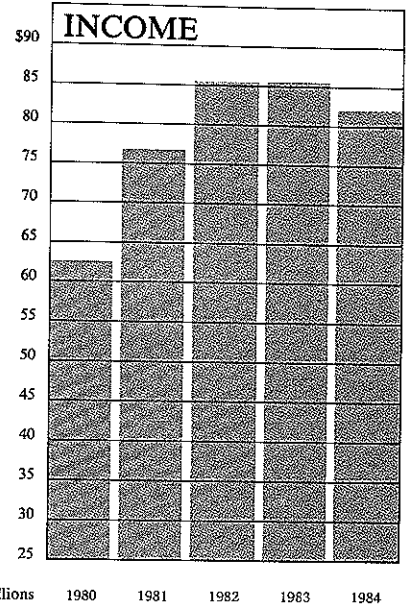
The 1984 financial statements were prepared by and are certified by the independent auditing firm of Eide Helmeke and Company. For a more detailed sketch of these reports, please refer to the Comptroller's Section of this Report.

We thank the Advisory Board for their advice, counsel, and support of the Bank's programs and policies. We look forward to working with the new members of the Industrial Commission in developing programs that continue to "encourage and promote agriculture, commerce and industry."*

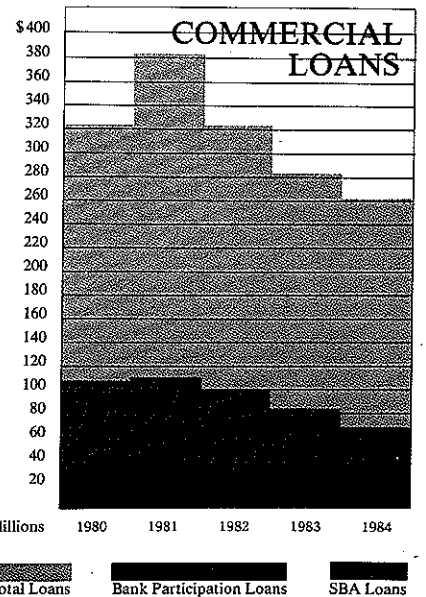


H. L. Thorndal
President

*Enabling Act 1919



Millions 1980 1981 1982 1983 1984



Millions 1980 1981 1982 1983 1984

Total Loans
 Bank Participation Loans
 SBA Loans



Rivers and streams in our state provide irrigation water to produce the abundant harvests for which North Dakota is famous.

Special Loans Division

This year's Report is dedicated to the use and management of water. Such a salute is well deserved. Of all the substances of life, water is perhaps the most crucial. Without a dependable supply of quality water, life itself comes under stress.

The Special Loans Division administers **The Community Water Facility Revolving Loan Fund**. This fund participates with the Farmers Home Administration in financing water facilities in small towns and distribution systems for rural areas. No loans were made from this fund in 1984. However, commitments were made for loans to two towns and three rural communities for a total of \$3,350,000. This fund had 11 loans with an outstanding principal balance of \$6,484,180 at the end of 1984.

Other funds administered by this Division include:

The State Land Department Loan Pool — This pool of \$50 million had 59 loans paid in full, made 19 new loans, earned over \$4.3 million for the State Land Department and paid more than \$163,437 in fees to the Bank of North Dakota.

The Nursing and Home for the Aged Fund — This fund has 14 outstanding loans with a year-end balance of \$323,827. Principal and interest payments made on these loans are credited to the Developmentally Disabled Facility Revolving Loan Fund.

The Developmentally Disabled Facility Revolving Loan Fund — This fund of \$4.5 million now has 14 loans with a year-end principal balance of over \$2.7 million.

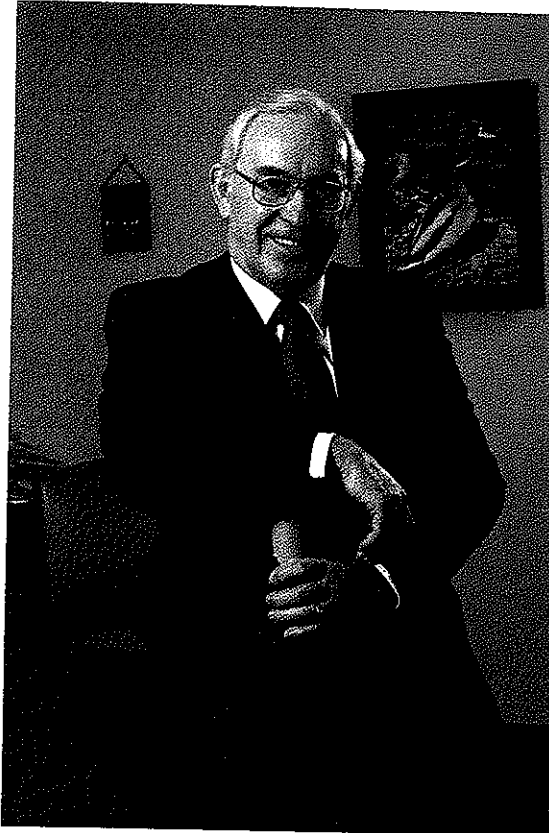
The Developmentally Disabled Facility Loan Fund #2 — The 1983 Legislature established this fund with \$5 million borrowed from the permanent funds of the Board of University and School Lands. This fund now has 13 loans with a year-end principal balance of over \$3.9 million.

The North Dakota Rural Rehabilitation Corporation Loan Fund — Under an agreement made with the Board of Directors of NDRRC, the Special Loan Division made 61 Farmers Home Administration subordinated farm operating loans in 1984. The NDRRC Board committed \$1.5 million for 1985 operating loans.

The Judge A.M. Christianson Project — At the end of 1984, there were 6 contracts for deed on project units near Burlington, North Dakota, with an outstanding balance of \$164,000. This project was established in the depression years of the 1930s for the purpose of rehabilitating coal miners working at the Burlington coal mine that was being depleted of coal.

The Beginning Farmer Loan Guarantee Program — This program was established to encourage land owners to sell land to beginning farmers. Better options are offered under beginning farmer loan programs and therefore, no guarantees have been made. This fund contained \$2,642,241 at the end of 1984.

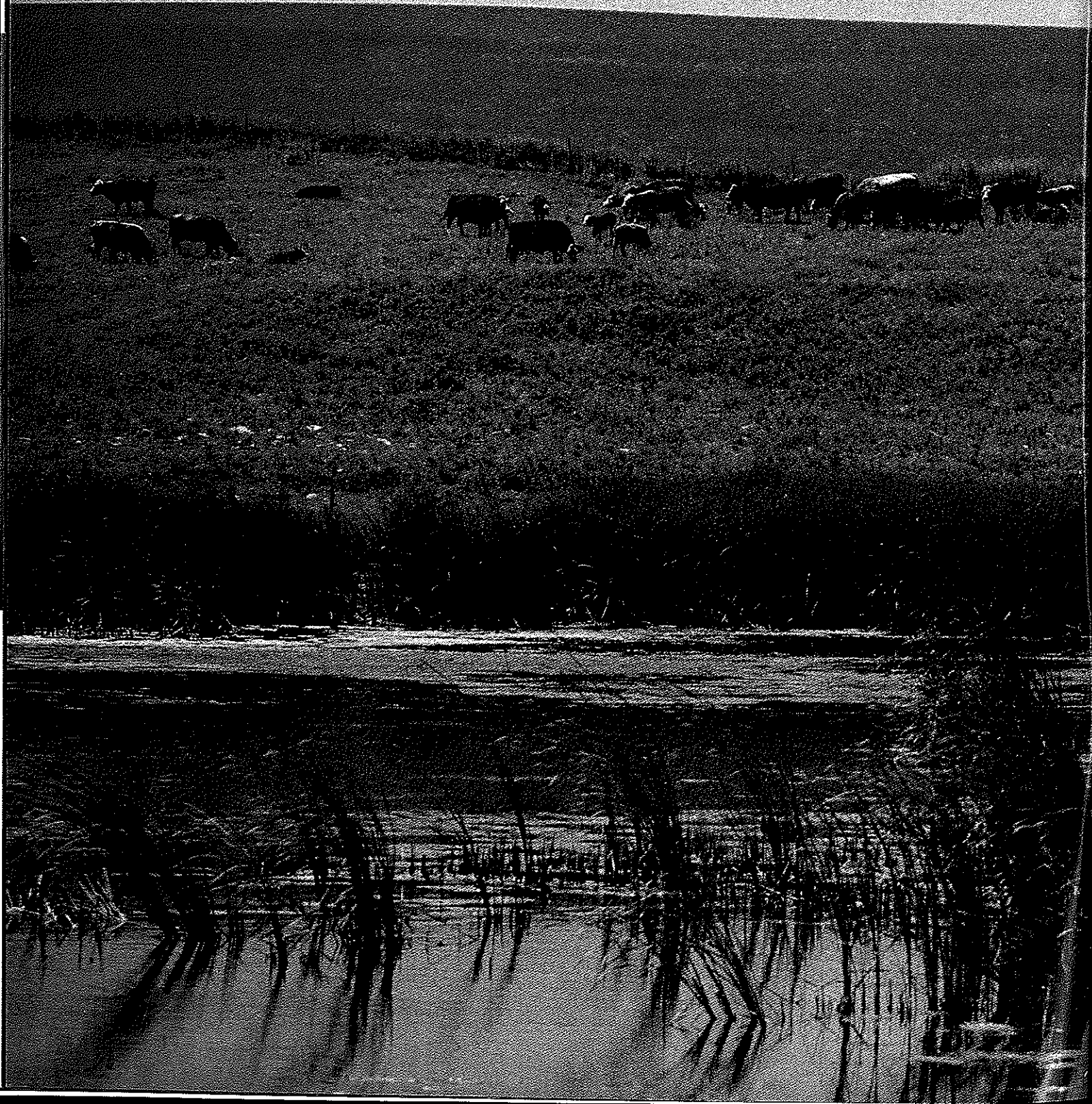
The Beginning Farmers Revolving Loan Program — This program was approved by the 1983 Legislature. It allows the Bank of North Dakota to hold a second real estate mortgage of up to 35 percent of the appraised value as security for a loan to a beginning farmer purchasing North Dakota farm land. The loans are made in cooperation with other qualified lenders. The Bank's portion is charged at a reduced interest rate for the first five years. At the end of 1984, \$3.8 million has been loaned to 118 beginning farmers from the \$5 million fund. The fund has increased to \$5.2 million with payments received and interest earned.



Ernest Pederson, Sr. Vice President



Modern trenchers and plastic pipes have made rural water systems a viable alternative to private wells.



Farm and Ranch Ownership

The Bank of North Dakota recognizes the importance of agriculture in the North Dakota economy. Currently, 986 farmers have loans with the farm and ranch ownership program. Of the \$51.4 million total, about 538 of the loans are beginning farmers for a total of \$35.4 million.

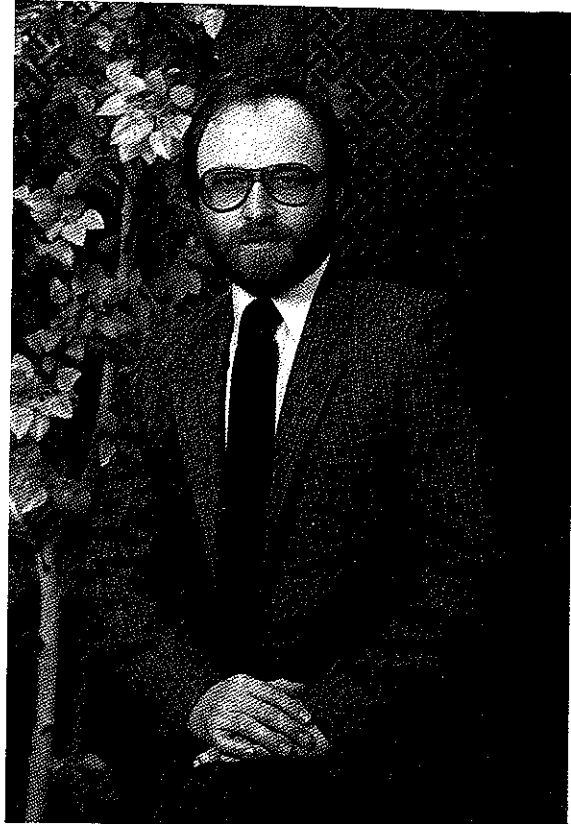
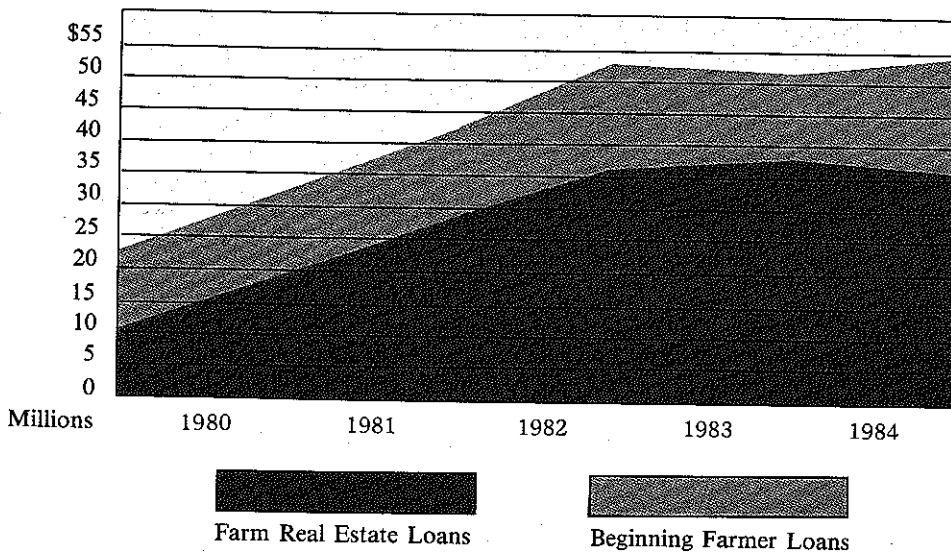
In 1984, the Governor, State Treasurer and the Industrial Commission developed a \$62 million bond issue to purchase farm real estate loans from the Bank. This procedure allows the Bank to replace funds used to finance long-term farm real estate mortgages and enables the continuation of the farm ownership program.

In cooperation with the Farmers Home Administration (FmHA), the Bank and FmHA can loan up to 100 percent of the appraised land value to qualified farmers. The Bank's portion allows a beginning farmer to receive a reduced fixed rate of interest for the first three payments of the loan.

The Bank of North Dakota allocated \$7 million for the farm real estate program in 1984 with \$5 million specifically earmarked for beginning farmers.

Of the 114 loan commitments made in 1984, about one-third were funded. The rest are to be funded in 1985 as FmHA's portion of the loan funds become available. In addition, the Bank has allocated \$5 million for 1985 in anticipation of the farm and ranch real estate financing needs of North Dakota farmers and ranchers.

FARM AND RANCH OWNERSHIP LOANS



Rod Anheluk, Assistant Vice President



The formidable country elevator, the gathering point for our state's bountiful crops, would crumble into dust if we lost the water to grow those crops.

Serving a dual purpose: stock dams and ponds provide drinking water for our livestock and habitat for our precious wildlife.

Student Loan Department



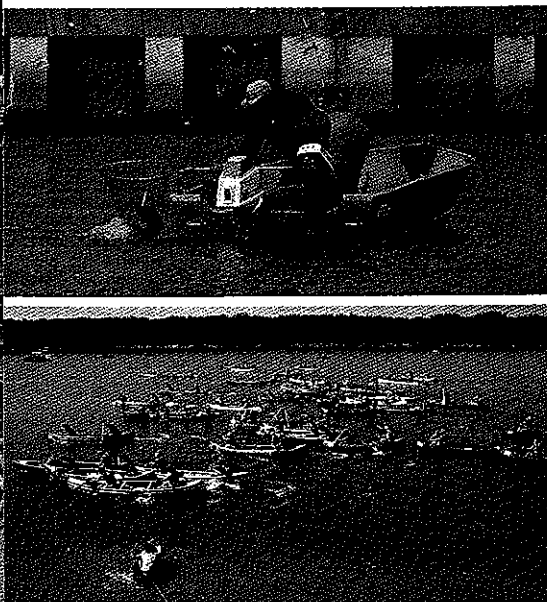
Jeannine Christy, Vice President

Young people are North Dakota's greatest resource. North Dakotans are greatly motivated to improve themselves. With educational costs escalating beyond the ability of students to pay, help from lending institutions becomes more important.

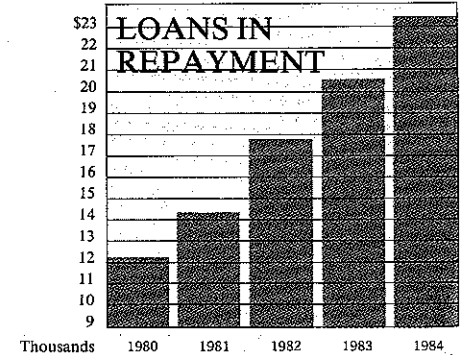
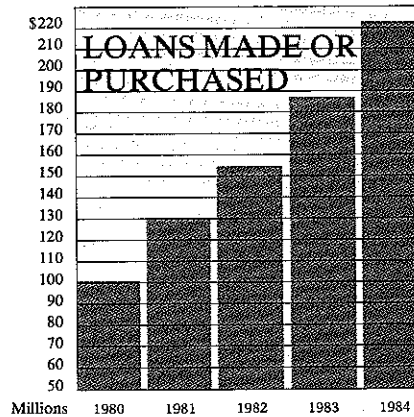
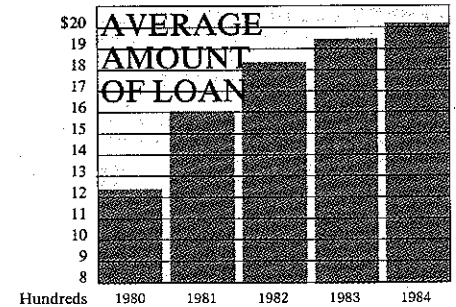
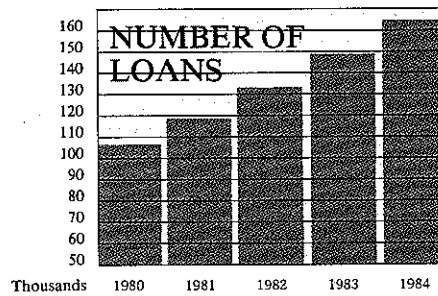
The Bank of North Dakota's Student Loan Department directly assisted 12,360 students with education loans totaling \$25,345,825 in 1984. In addition to direct loans, the Bank purchased 3,362 loans for \$6,463,609 from other private North Dakota lenders. The total outstanding balance at the end of 1984 was \$144,270,664 for 115,968 students. There are 23,654 repayment accounts. Principal payments totaling \$11,577,986 were received during 1984. The Bank's default rate remains stable at 3 percent.

Improved methods of application processing made disbursement of funds within four weeks possible for most of 1984. Phone collections will be implemented early in 1985.

The many anticipated program changes will not affect our primary concern and desire to continue in assisting young North Dakotans toward their desired level of education.



Water isn't all work. There's sport for fishermen, like these at the Garrison Dam, and pleasure for canoeists and boaters on the rivers and lakes.



North Dakota Guaranteed Student Loan Program

The Bank of North Dakota has always and will always maintain a strong commitment to higher education. As enrollment in all areas of higher education continues to increase and vocational and specialized training programs are becoming more important - North Dakota's percentage of high school graduates seeking further schooling has jumped to the highest in the nation.

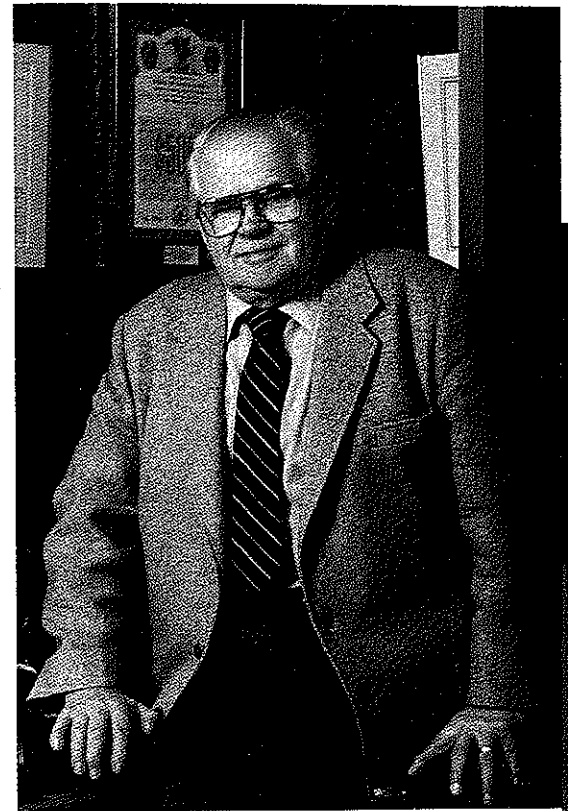
The cost of attending schools of higher education has escalated to a level that seriously challenges the ability of students or their parents to pay for it. During the 1984-85 academic year, the cost of attending a state public institution ranged from \$3,800 to \$4,300. The cost of private colleges is typically about \$8,000 to \$10,000.

For many students the cost can only be met with the assistance of loans. The Bank is doing its part to help the growing number of students to achieve their goals.

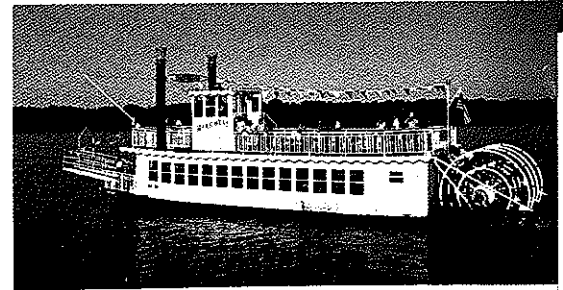
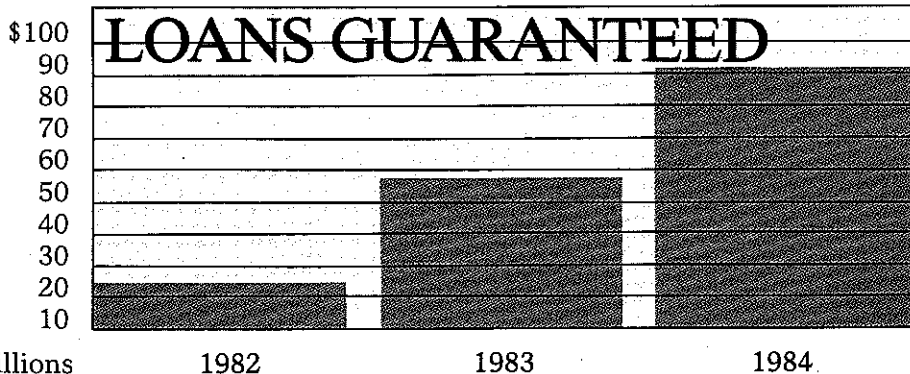
During the three years of its existence, NDGSLP has expanded to become the single largest source of financial assistance for students and their families.

About 58% of North Dakota students obtained financial assistance through the NDGSLP during the 1984 academic year. Since the program began in 1982, NDGSLP has guaranteed loans totaling \$91,600,000 for 45,560 students.

The NDGSLP and the lending institutions that make loans available to students play a vital role in maintaining the high level of educational achievements of North Dakota students.



Martin Stenehem, Sr. Vice President



Whether cruising on the Farwest in Bismarck or skiing at Anchorage Marina on Lake Sakakawea—boating on North Dakota waterways means fun for the people and tourist dollars for the state.

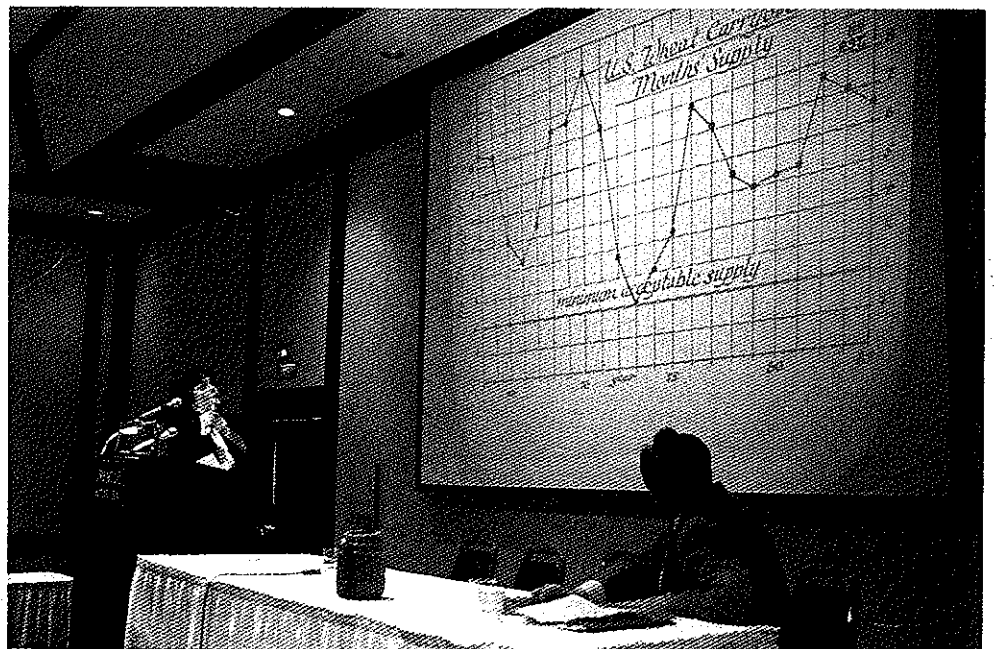


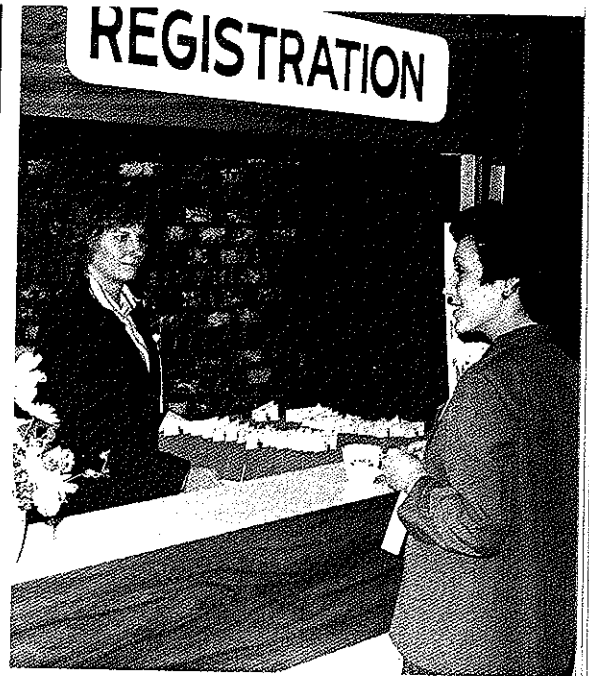
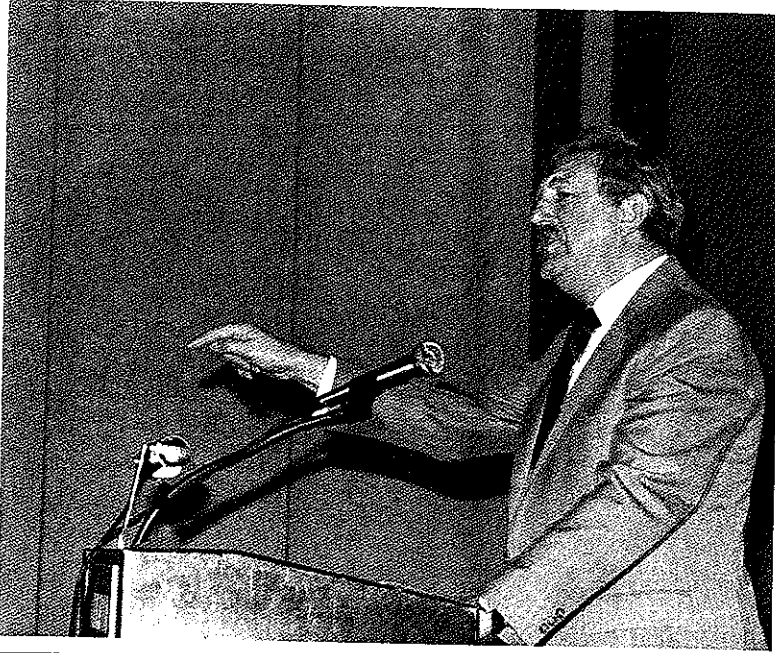
"Mid-Winter Break"

North Dakotans make a special effort in winter to avoid the winter "cabin-fever" syndrome. For those in the banking community, a good antidote is the Bank of North Dakota's "Mid-Winter Break."

This conference is an important part of the correspondent banking activity of the Bank. The Bank searches the entire United States for authoritative speakers on technical, legal and practical matters of concern to the banking community. In addition to the educational aspects, the "Break" offers superb dining, entertainment and fellowship.

As the only state-owned and operated Bank in the nation, the Bank of North Dakota makes a supreme effort to provide resources to the state's banking community. With its active correspondent banking endeavors, the Bank of North Dakota is indeed a silent partner with all of the financial institutions in North Dakota.

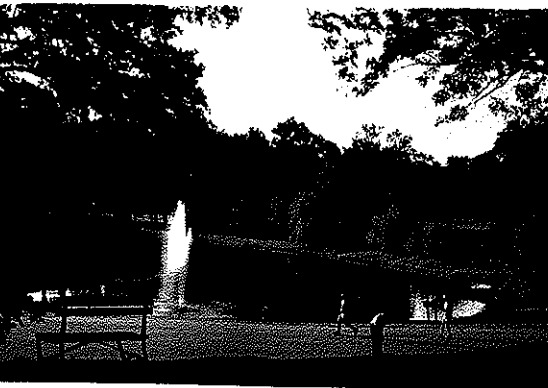




Comptroller's Report



A.R. Nosbusch, Vice President and Comptroller



There is infinite beauty in our water—in its power, in its wildlife, in its ability to bring forth life from the earth—but it is, for many, most beautiful in the stillness at the end of a day.

This analysis of Bank of North Dakota operations for the year 1984 should be read in conjunction with, not rather than, financial statements and notes thereto contained elsewhere in this Report. You will note from reference to the accountant's opinion letter covering those financial statements that there has been a change in auditing firms during the year. This action reflects no dissatisfaction or disagreement with the previous auditing firm but rather the desire of the Industrial Commission to renew the competitive proposal process. This action was based on the philosophy that public entities periodically warrant a new look.

Bank of North Dakota's investment portfolio increased 20% to \$235.6 million by December 31, 1984. Average portfolio holdings during the year, however, were 13.2% less than in 1983. Total investment income decreased 9% to \$21.4 million resulting from a combination of higher average yields on investments, which increased from 10.49% to 10.99%, offset by a smaller average investment base.

The Bank's loan portfolio decreased 6.9% to \$264.8 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 59.7% to 44.8% (during 1984, Bank of North Dakota was "loaned up" 52.6% on average). Average yield on the loan portfolio during the year increased slightly from 10.4% to 10.5%.

The Bank remained active in the short-term money (i.e. federal funds and repurchase agreement) markets. Transaction volumes decreased by approximately one-third but average yield on investment of these monies increased from 8.99% in 1983 to 10.25% in 1984. Average costs of this money increased from 8.88% to 10.01% during the same period.

Average total assets in 1984 declined 12% to \$813.6 million with the primary shrinkage again coming from the reduction of funds obtained in the short-term money markets. By year end, total assets reflected a 19.4% decrease to \$829.6 million again as a result of the reduced level of federal fund and repurchase agreement transactions from a year earlier but offset in part by increased deposits.

Average total deposits of \$501.3 million for 1984 remained at approximately the same levels as during 1983 with a net reduction of less than 1%. Total deposits did show a substantial increase at year end 1984; however, with part of the growth being from proceeds of a sale of Student Loan Trust Bonds late in December, which funds will be used to fund the Student Loan Program in the future. The deposit mix of demand and time monies again showed little change as time deposits now comprised 82% of the total deposits as compared to 81% in 1983 and 80% in 1982. Deposits represented 71% of the source of funds for Bank of North Dakota at year end and averaged 61% throughout the year. During 1983 the corresponding statistics were 46.2% and 54.7% respectively, again pointing out the impact of reduced short-term borrowings during 1984.

The Industrial Commission increased Bank of North Dakota's surplus account by a \$2 million transfer from undivided profits during the year. The Bank's total equity position at year end reflected an increase of 19.7% from one year earlier and represented 6.7% of total assets as compared to 4.5% at the end of 1983. Bank of North Dakota's equity position generally shows some fluctuation, with increases in even numbered years and decreases in odd numbered years, reflecting legislative appropriation of Bank earnings.

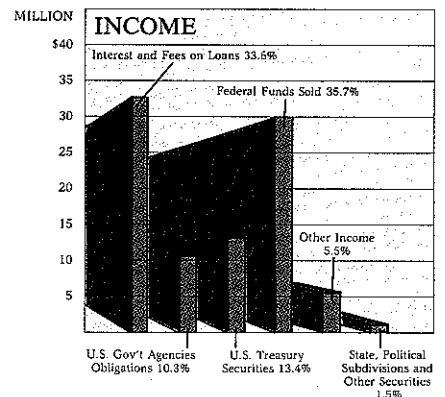
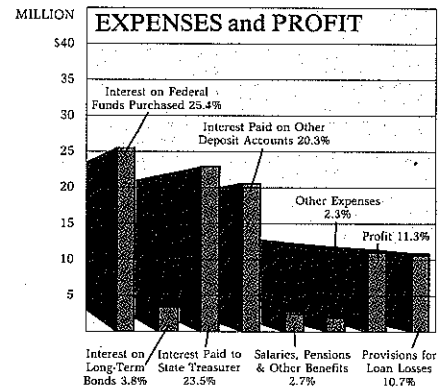
Since retention of some of those earnings within the Bank's equity accounts contributes to the strength of the Bank and its ability to meet its mission, such actions must be carefully controlled. In other action, the Industrial Commission transferred \$155,000 of the Bank's undivided profits to the Farm Credit Counseling Program of the North Dakota Department of Agriculture.

Total interest income declined by 5.9% as a result of smaller loan and investment portfolios but with higher yields earned on those assets. Total interest expense dropped by 10.9% while average costs of funds for interest-bearing liabilities climbed to 9.33% after three years of declines (to a point of 8.54% at year end 1983). The reduced volume of federal fund purchase and repurchase agreement transactions more than offset the increased yields. Net interest income margins continued steady growth having risen from 10.3% to 14.8% to 18.3% and finally 22.7% in the time span from 1981 through 1984.

Overall operating expenses increased by only .8% from 1983. We must point out, however, that 1983 expenditure levels were inflated by larger than normal purchases of professional services and data processing software. Loan loss provisions for 1984 totalled \$8.8 million including net charge offs of \$6.1 million and increases to the reserve for loan losses of an additional \$2.7 million. It is management's intention to increase the loan loss reserve further during 1985. Salary and benefit expenditures grew by 5.4% during the year and represented .275% of average total assets. (During 1983, North Dakota banks averaged salary and benefit expenditures of 1.4% of total assets.)

Retirement of \$5 million of the Bank's 9¼% Collateralized Bonds satisfied Indenture redemption requirements through most of 1986. As a result of this transaction, net profits of \$734,398 were realized. That portion of those profits (\$718,535) corresponding to retirements in excess of the current year's requirement has been segregated as an extraordinary item in the financial statements.

Under the terms of the Bonds of North Dakota 1982 Real Estate Series A and a subsequent agreement with the State Treasurer, Bank of North Dakota was required to pay bond issue costs, establish certain reserve funds, etc. By March 1984, the Bank had recognized a reserve fund liability of \$1,595,298 and had remaining unamortized bond issue costs of \$644,693. In March 1984, these bonds were refunded with a portion of the proceeds of a subsequent issue - Bonds of North Dakota 1984 Real Estate Series A. Bank of North Dakota's obligation under the terms of the 1982 documents expired with this transaction and the Bank, thus, realized an extraordinary gain totaling \$950,605 which again has been segregated for statement purposes.



R. N. Nostrom

Eide Helmeke & Co.
CERTIFIED PUBLIC ACCOUNTANTS

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, 1984, and the related statements of operations, capital funds and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of The Bank of North Dakota for the year ended December 31, 1983, were examined by other auditors whose report, dated January 20, 1984, expressed an unqualified opinion on those statements.

In our opinion, the financial statements referred to above present fairly the financial position of The Bank of North Dakota as of December 31, 1984, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

January 18, 1985
Bismarck, North Dakota

Eide Helmeke + Co.

Balance Sheets

December 31, 1984, and 1983

	1984	1983
ASSETS		
CASH AND DUE FROM BANKS	\$ 55,948,814	\$ 65,135,815
INVESTMENT SECURITIES (Note 3):		
U.S. Treasury securities	160,028,034	86,643,387
Obligations of other U.S. Government agencies	63,511,310	98,329,365
Obligations of states and political subdivisions	8,897,718	8,094,949
Other securities	3,192,004	3,278,103
	235,629,066	196,345,804
FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS	262,355,000	464,380,000
LOANS:		
FHA and VA home loans (Note 6)	153,977,694	163,686,459
Bank participation loans	71,145,691	86,685,344
Guaranteed student loans	27,676,356	127,960
SBA participation loans	7,877,658	10,407,725
Bank stock loans	5,268,634	6,316,957
Farm real estate loans	2,185,694	17,993,450
Other	2,358,173	2,079,351
	270,489,900	287,297,246
Less allowance for loan losses (Note 4)	5,685,593	3,000,000
	264,804,307	284,297,246
BANK PREMISES AND EQUIPMENT, NET (Note 5)	1,360,950	1,447,450
ACCRUED INTEREST RECEIVABLE	8,062,489	10,773,203
OTHER ASSETS	1,462,002	7,290,811
	\$829,622,628	\$1,029,670,329
LIABILITIES		
DEPOSITS:		
Demand	\$ 90,482,978	\$ 90,394,110
NOW accounts	13,805,248	8,565,416
Savings	344,831,660	42,863,325
Time	141,680,187	334,024,025
	590,800,073	475,846,876
FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (Note 3)	140,840,000	453,886,337
COLLATERALIZED LONG-TERM BONDS (Note 6)	30,108,000	35,108,000
ACCRUED INTEREST PAYABLE	5,783,060	5,464,454
OTHER LIABILITIES	4,319,568	5,023,176
APPROPRIATION DUE THE BEGINNING FARMER LOAN PROGRAM (Note 7)	933,209	4,166,040
APPROPRIATION DUE THE STATE OF NORTH DAKOTA GENERAL FUND (Note 7)	1,250,000	3,750,000
Total liabilities	774,033,910	983,244,883
COMMITMENTS AND CONTINGENT LIABILITIES (Note 11)		
CAPITAL FUNDS:		
Capital	18,000,000	18,000,000
Surplus (Note 8)	20,000,000	18,000,000
Undivided profits (Note 8)	14,088,718	6,925,446
Reserve for contingencies	3,500,000	3,500,000
Total capital funds	55,588,718	46,425,446
	\$829,622,628	\$1,029,670,329

The accompanying notes to financial statements are an integral part of these statements.

Statements of Operations

For the years ended December 31, 1984, and 1983

	1984	1983
INTEREST INCOME:		
Interest and fees on loans	\$ 27,697,637	\$ 31,358,398
Interest on investment securities:		
U.S. Treasury securities	11,073,883	10,556,187
Obligations of other U.S. Government agencies	8,506,359	9,696,206
Obligations of states and political subdivisions	819,552	1,203,889
Other securities	429,710	1,024,736
Interest on federal funds sold and securities purchased under reverse repurchase agreements	29,446,474	29,015,349
	77,973,615	82,854,765
INTEREST EXPENSE:		
Interest on deposits	36,124,186	35,556,127
Interest on federal funds purchased and securities sold under repurchase agreements	21,023,332	27,923,206
Interest on long-term bonds (Note 6)	3,148,318	4,212,380
	60,295,836	67,691,713
Net interest income	17,677,779	15,163,052
PROVISION FOR LOAN LOSSES (Note 4)	8,789,797	2,999,090
Net interest income after provision for loan losses	8,887,982	12,163,962
OTHER INCOME:		
Service fees and other	2,302,451	2,055,782
Security gains	586,867	1,059,526
	2,889,318	3,115,308
OTHER EXPENSE:		
Salaries	1,828,626	1,803,615
Pensions and other employee benefits (Note 9)	409,185	319,536
Data processing	780,237	777,924
Other operating expenses	983,883	1,069,773
Depreciation (Note 5)	126,237	125,606
	4,128,168	4,096,454
INCOME BEFORE EXTRAORDINARY ITEM	7,649,132	11,182,816
EXTRAORDINARY ITEMS (Note 12)	1,669,140	-
NET INCOME	\$ 9,318,272	\$ 11,182,816

The accompanying notes to financial statements are an integral part of these statements.

Statements of Capital Funds

For the years ended December 31, 1984, and 1983

	Capital	Surplus	Undivided Profits	Reserve for Contingencies	Total
BALANCES, JANUARY 1, 1983	\$16,000,000	\$18,000,000	\$ 7,742,630	\$ 3,500,000	\$45,242,630
Net Income	-	-	11,182,816	-	11,182,816
Transfer from undivided profits to:					
Capital	2,000,000	-	(2,000,000)	-	-
Appropriation due the State of North Dakota General Fund (Note 7)	-	-	(5,000,000)	-	(5,000,000)
Appropriation due the Beginning Farmer Loan Program (Note 7)	-	-	(5,000,000)	-	(5,000,000)
BALANCES, DECEMBER 31, 1983	18,000,000	18,000,000	6,925,446	3,500,000	46,425,446
Net Income	-	-	9,318,272	-	9,318,272
Transfer from undivided profits to:					
Surplus (Note 8)	-	2,000,000	(2,000,000)	-	-
The Farm Credit Counseling Program (Note 8)	-	-	(155,000)	-	(155,000)
BALANCES, DECEMBER 31, 1984	\$18,000,000	\$20,000,000	\$14,088,718	\$ 3,500,000	\$55,588,718

The accompanying notes to financial statements are an integral part of these statements.

Statements of Changes in Financial Position

For the years ended December 31, 1984, and 1983

	1984	1983
RESOURCES PROVIDED:		
Operations:		
Income before extraordinary item	\$ 7,649,132	\$ 11,182,816
Items not requiring expenditure of funds:		
Provision for loan losses	8,789,797	2,999,090
Depreciation and amortization	162,458	203,621
Resources provided from operations, exclusive of extraordinary item	16,601,387	14,385,527
Extraordinary items (Note 12)	1,669,140	—
Total from operations	18,270,527	14,385,527
Increase in:		
Deposits	114,953,197	—
Federal funds purchased and securities sold under repurchase agreements	—	215,825,427
Accrued interest payable	318,606	—
Appropriations due	—	4,166,040
Decrease in:		
Cash and due from banks	9,187,001	—
Investment securities	—	35,019,631
Federal funds sold and securities purchased under reverse repurchase agreements	202,025,000	—
Loans, net	10,703,142	39,361,045
Accrued interest receivable	2,710,714	—
Other assets	5,792,588	6,627
	\$363,960,775	\$308,764,297
RESOURCES APPLIED:		
Purchase of bank premises and equipment	\$ 39,737	\$ 168,948
Payment of long-term bonds (Note 6, Note 12)	5,000,000	50,000
Transfer to:		
The Farm Credit Counseling Program	155,000	—
Appropriation due the State of North Dakota General Fund (Note 7)	—	5,000,000
Appropriation due the Beginning Farmer Loan Program (Note 7)	—	5,000,000
Increase in:		
Cash and due from banks	—	12,889,119
Investment securities	39,283,262	—
Federal funds sold and securities purchased under reverse repurchase agreements	—	231,864,400
Other assets	—	371,702
Decrease in:		
Deposits	—	52,797,977
Federal funds purchased and securities sold under repurchase agreements	313,046,337	—
Accrued interest payable	—	602,271
Other liabilities	703,608	19,880
Appropriations due (Note 7)	5,732,831	—
	\$363,960,775	\$308,764,297

The accompanying notes to financial statements are an integral part of these statements.

Notes to Financial Statements

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment securities — 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.

Loans and allowance for loan losses — Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses. Interest on loans is calculated by using the simple interest method on the principal amount outstanding. 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 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.

Bank premises and equipment — Bank premises and equipment are stated at cost. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense currently. When depreciable properties are retired or sold, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is reflected in income.

Depreciation is provided over the estimated useful lives of the individual assets using the straight-line method. The range of the estimated useful lives used in the computation of depreciation is 25 years for the bank premises and 5 to 10 years for equipment and furniture.

Bond issue costs — Bond issue costs are being amortized using the straight-line method over the term of the bonds.

Pension plan — The Bank funds amounts equal to pension costs accrued.

NOTE 2 — 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.

NOTE 3 — INVESTMENT SECURITIES

Carrying amounts and approximate market value of investment securities at December 31, 1984, are summarized as follows:

	1984	
	Carrying Amount	Approximate Market Value
U.S. Treasury securities	\$160,028,034	\$160,718,000
Obligations of other U.S. Government agencies	63,511,310	62,238,000
Obligations of states and political subdivisions	8,897,718	—
Other securities	3,192,004	2,180,000
	<u>\$235,629,066</u>	

Obligations of states and political subdivisions held by the Bank are primarily city and county obligations. Due to the nature of these securities, a market value is not readily available.

Since the Bank intends to hold securities until maturity, no loss is anticipated and a reserve has not been provided.

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

	Amounts Pledged at Par	
	1984	1983
Securities sold under agreements to repurchase	\$ 39,330,000	\$365,601,337
Payment of principal and interest of the 1977 Series A		
Bonds issued by the North Dakota Municipal Bond Bank	9,200,000	11,000,000
1982 Real Estate Series A Bonds issued by the		
State of North Dakota	—	5,130,000
Collateralized long-term bonds	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
Deposits in the treasury tax and loan account	2,500,000	3,000,000
	<u>\$ 58,030,000</u>	<u>\$402,471,337</u>

NOTE 4 — LOANS

Loans on which the accrual of interest has been discontinued amounted to approximately \$5,625,000 and \$1,153,000 at December 31, 1984, and 1983, respectively. If interest on those loans had been accrued, such income would have approximated \$835,000 and \$107,000 for 1984, and 1983, respectively.

Changes in the allowance for loan losses were as follows:

	Year Ended December 31,	
	1984	1983
Balance, beginning of year	\$ 3,000,000	\$ 3,000,000
Provision charged to operations	8,789,797	2,999,090
Loans charged off	(7,244,927)	(3,204,020)
Recoveries	1,140,723	204,930
Balance, end of year	<u>\$ 5,685,593</u>	<u>\$ 3,000,000</u>

NOTE 5 — BANK PREMISES AND EQUIPMENT

Accumulated depreciation on bank premises and equipment was \$1,025,960 and \$899,723 as of December 31, 1984, and 1983, respectively.

Depreciation expense amounted to \$126,237 and \$125,606 in 1984, and 1983, respectively.

NOTE 6 — COLLATERALIZED LONG-TERM BONDS

The Bank issued 9.25% collateralized long-term bonds in December, 1978, totaling \$50,000,000 of which \$30,108,000 and \$35,108,000 were outstanding as of December 31, 1984, and 1983, respectively. 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 after December, 1990. The bonds are collateralized by FHA and VA guaranteed loans with a principal balance of approximately \$72,367,000 outstanding as of December 31, 1984. In addition, the Bank pledged \$7,000,000 in U.S. Government securities as additional collateral. The Bank is required to maintain an amount of eligible collateral such that the sum of (a) the discounted value of eligible mortgage notes divided by 150%, (b) the fair market value of government securities and eligible money market instruments divided by 125% and (c) the fair market value of cash is not less than 100% of the initial series of bonds outstanding. However, the sum of (x) the discounted value of eligible mortgage notes, (y) the fair market value of government securities and eligible money market instruments and (z) the fair market value of cash shall in no event be less than 115% of the aggregate principal amount of the bonds outstanding. 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 agreements as of December 31, 1984.

During 1984, the Bank purchased on the open market \$5,000,000 of their outstanding collateralized bonds. This purchase exceeded annual sinking fund requirements remaining for 1984 by \$4,892,000. After deducting related bond issue costs, this transaction resulted in an extraordinary gain on extinguishment of debt of \$718,535 and an ordinary gain of \$15,863 which is included in service fees and other income on the Statement of Operations. During 1983, the Bank purchased \$50,000 of their outstanding collateralized bonds on the open market resulting in an ordinary gain of \$6,678 which is included in service fees and other income.

NOTE 7 — 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, 1984 is \$1,250,000.

The North Dakota State Legislature created the 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, 1984 is \$933,209.

NOTE 8 — TRANSFERS FROM UNDIVIDED PROFITS

During 1984, the Bank, by order of the Industrial Commission, transferred \$2,000,000 from undivided profits to surplus and \$155,000 from undivided profits to the Farm Credit Counseling Program.

NOTE 9 — PENSION PLAN

The Bank's pension expense amounted to \$139,561 and \$99,507 in 1984, and 1983, respectively. 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 permanent employees of the Bank. Under the provisions of the plan, the Bank contributes 5.12% of the qualifying salary of each individual employee to the pension fund and 4.00% of the qualifying salary of each individual employee to the employee's pension account. The Bank contributed annually to the plan amounts equal to the accrual of pension expense. Vested benefits currently exceed the fund assets. The Bank has not been assessed for any amount by which vested benefits exceed fund assets.

NOTE 10 — 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 balance sheets since such items are not assets of the Bank.

NOTE 11 — COMMITMENTS AND CONTINGENT LIABILITIES

In 1984, the State of North Dakota issued long-term bonds totaling \$62,335,000 which was used to purchase approximately \$17,750,000 in farm loans from the Bank of North Dakota, refund the 1982 North Dakota Real Estate Bonds, provide for payment of interest due on the bonds on September 1, 1984, and pay the costs of issuance. In connection with this bond issue, the Bank of North Dakota is obligated to purchase 1984 bonds when there are insufficient monies in any of the pledged funds for payment of the bonds as they become due. Based on the differential of interest rates on the bonds and purchased loans, it is a reasonable possibility that the Bank of North Dakota will incur a liability on this bond issue. However, an estimate of this liability cannot be made at the present time.

In the normal course of business, the Bank makes various commitments and incurs contingent liabilities that are not presented in the accompanying financial statements. The commitments and contingent liabilities include various guarantees, commitments to extend credit and standby letters of credit. At December 31, 1984, commitments to extend credit aggregated approximately \$22,100,000. The Bank has included any anticipated losses as a result of the commitments in the allowance for loan losses.

NOTE 12 — EXTRAORDINARY GAINS

As discussed in Note 6, during 1984 the Bank purchased on the open market \$5,000,000 of their outstanding collateralized bonds. This transaction resulted in an extraordinary gain on extinguishment of debt of —

\$ 718,535

As discussed in Note 11, during 1984 the State of North Dakota issued long-term bonds totaling \$62,335,000 which were used, in part, to refund the 1982 North Dakota Real Estate Bonds. In connection with the 1982 bond issue, the Bank of North Dakota was required to purchase any coupons or bonds that matured when insufficient funds were held by the 1982 Farm Real Estate Bond Fund. As of the date of issuance of the 1984 bonds, the Bank had accrued a liability of \$1,595,298. The obligation to purchase 1982 coupons or bonds expired by its own terms when the 1984 bonds were issued. Therefore, the expiration of the obligation resulted in an extraordinary gain on restructuring of a liability of \$1,595,298, less the related unamortized bond issue costs of \$644,693 - for a net gain of —

950,605

\$1,669,140

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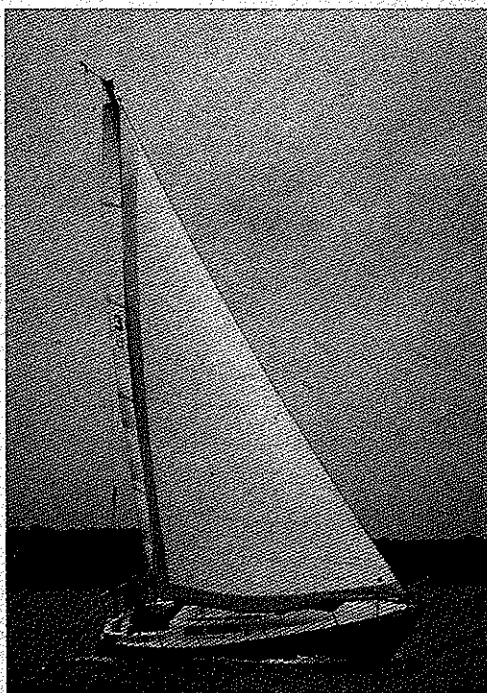
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KEY

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



Few things can top the exhilarating freedom of skimming over the open water. The North Dakota wind is a boon to sailing enthusiasts.

Five Year Summary

	1984	1983	1982	1981	1980
OPERATING RESULTS (000 omitted)					
Total Income	\$ 82,532	\$ 85,970	\$ 85,761	\$ 77,356	\$ 62,505
Interest Expenses	60,296	67,692	69,680	67,541	49,916
Other Oper. Expenses	4,128	4,096	3,671	3,730	2,873
NET EARNINGS (profit)	9,318	11,183	7,824	6,085	9,716
Paid to St. Treas. (dividend)	2,500	2,500	2,500	2,750	5,000
BALANCE AT YEAR END (000 omitted)					
Total Resources	829,623	1,029,670	861,966	853,391	704,967
Total Deposits	590,800	475,847	528,645	590,792	435,523
Demand Deposits	104,288	98,959	105,620	100,094	105,304
Time Deposits	486,512	376,888	432,025	490,698	330,219
Federal Funds Purchased and Securities Sold Under Repurchase Agreements	140,840	453,886	238,061	165,743	171,657
Federal Funds Sold and Securities Purchased Under Reverse Repurchase Agreements	262,355	464,380	232,516	215,625	135,000
TOTAL INVESTMENT SECURITIES (000 omitted)					
U.S. Government	235,629	196,346	231,365	179,724	187,716
Federal Agencies	160,028	86,643	97,898	75,401	73,113
Other Money Market Instruments	63,511	98,329	79,588	84,334	64,475
ND Political Sub. Bds.	3,192	3,278	35,482	3,838	36,011
	8,898	8,095	18,397	16,151	14,117
TOTAL LOANS (000 omitted)					
Guaranteed Student Loans	27,676	128	2,005	31,051	5,394
Farm Real Estate Loans	2,186	17,993	18,135	42,715	30,777
FHA Home Loans	111,267	118,760	126,369	123,141	108,338
GI Home Loans	42,711	44,926	47,006	47,592	48,674
Small Business Adm. Loans	7,878	10,408	12,461	15,088	17,203
Bank Participation Loans	71,146	86,685	107,769	112,606	109,503
Other Loans	7,627	8,396	15,912	12,257	7,417
CAPITAL AND RESERVES (000 omitted)					
Capital	55,589	46,425	45,243	41,168	41,334
Surplus	18,000	18,000	16,000	16,000	16,000
Undivided Profits	20,000	18,000	18,000	16,000	12,000
Reserve for Contingencies	14,089	6,925	7,743	7,668	11,833
	3,500	3,500	3,500	1,500	1,501
OTHER DATA (Numbers)					
Financial Inst. with BND Accts.	205	210	227	221	210
Individual Checking Accounts	3,264	3,838	3,836	3,869	4,747
Individual Savings Accounts	4,825	6,764	5,163	3,572	3,629
Guaranteed Student Loans (made or purchased)	15,722	16,250	13,637	18,697	16,368
FHA House Loans (made or purchased)	0	0	171	451	717
GI House Loans (made or purchased)	0	0	16	17	187
SEA & BI Loans On Hand	91	112	151	156	30
Bank Participation Loans On Hand	471	708	1,511	1,767	1,656
Number of Employees	130	142	140	147	128

