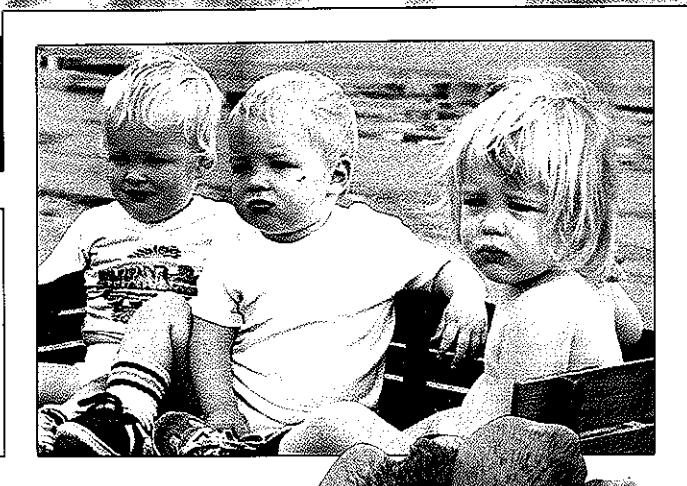
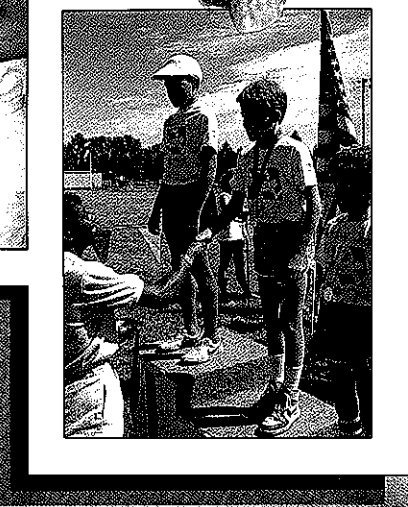


# *year of the child*



*Our  
most precious  
resource,  
our hope for  
the future.*



**ABOUT THE  
1987 ANNUAL REPORT COVER**

*This year the Bank started an annual employee competition for the design of our Annual Report cover. This year's winner was Diane Ingerson. She used the Year of the Child and the Prairie Rose Games as her theme.*

*The Prairie Rose Games is a sports festival held to encourage amateur athletes of all ages. To celebrate these games, Diane selected four photos featuring the state's youth and two North Dakota champions. The photos appearing on the cover are (right to left) (1) three children enjoying the warm summer days during the games, (2) world saddle bronc champion, Brad Gjermundson, with a friend, (3) three "champions" being honored during the games, and (4) boxing champion, Virgil Hill, posing with one of our "hope for the future" children during the bowling portion of the games.*

*We wish to thank everyone participating in this year's contest. In particular we want to recognize Mike Bruner — Graphic Traffic Art Studio, Sheldon Green — Greater North Dakota Association, the North Dakota Parks and Recreation Department, and the North Dakota Tourism Promotion Division.*



**Bank of North Dakota Advisory Board**

*l-r: Roger Berglund, Dan O'Day, Les Nesvig, J.J. "Joe" Vihstadt, Myron Just, Jim Duncan, Al. Wahl*



**North Dakota Industrial Commission**

*l-r: Attorney General Nicholas J. Spaeth, Governor George A. Sinner, Commissioner of Agriculture Kent Jones*

# Annual Report

In 1987, the Bank of North Dakota made significant progress towards the accomplishment of its financial and strategic objectives. Our reorganization efforts have neared completion. We have started the development and implementation of plans, policies, and procedures for the long-term operation of the Bank. We have installed several accounting and financial computer systems to provide the management tools needed for improved operations. Overall, we have gained considerable momentum in our drive for excellence and our determination to fulfill our mission in 1988.

Our primary goal is to serve the agricultural and industrial needs of North Dakota. We have met that charge by providing supplemental sources of credit and services to the local financial institutions and their communities. Through our participation with these institutions, we have been able to broaden the local lending base and provide a source of experienced and knowledgeable financial assistance.

In 1987 we developed lending programs and support services that were geared specifically to the state's emphasis on economic development. The Bank implemented the legislatively created Small Business Concern program, targeted to promote small business development. We developed the Risk Loan Pool to provide local lenders with additional incentives to encourage business in their own community, businesses that would be too risky to fund without our support.

We continue to view agriculture as an important and vital industry in the state. We are aggressively developing and promoting programs to assist farmers and ranchers. In 1987 we offered special real estate loan programs to both established and beginning farmers. We provided farm operating loans and debt restructuring loans to help the family farmer adapt to current economic conditions.

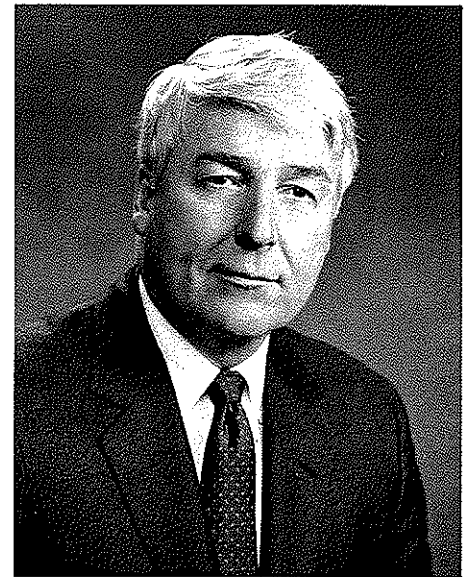
We believe that the state's agricultural economy is beginning to show signs of stabilizing. The higher prices for livestock and certain grains are positive signals. It is our goal to promote and encourage those steps necessary to move toward economic health in agriculture.

The very nature of the Bank's existence involves a higher degree of risk than that taken by traditional banking institutions. However, it is paramount that we properly prepare for this risk through a complete program of analysis and evaluation. As such, we are pleased to report that credit quality has substantially improved and we are continuing to refine all of our credit processes.

In 1987 we installed four major new computer systems: A general ledger and financial reporting system to expand the Bank's processing capabilities and provide a broader range of analysis; a commercial loan system to give more accurate accounting of our loan activity; an investment system to improve the Bank's ability to regulate its own portfolio and the portfolios of its customers; and when completed, a new system to monitor and account for the safekeeping of customer and Bank owned securities.

At the heart of all the Bank's changes and improvements is the quality of our people. Over the years we have been fortunate to attract outstanding individuals who have met the challenge of change and growth with eagerness and creativity. We are proud of the way our staff has responded to these challenges and we thank them for their hard work, dedication, and loyalty.

We at the Bank of North Dakota are confident that our efforts over this past year will prove effective in the achievement of our strategic and financial goals. We look forward to the future, to a strong working relationship between the Bank and the state's financial community, and the economic growth of North Dakota.



*Joseph S. Lamb, President*

## 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, 1987 and 1986, and the related statements of income, changes in 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, 1987 and 1986, 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.

*Eide Helmeke & Co.*

January 25, 1988  
Bismarck, North Dakota

# Balance Sheets

## December 31, 1987 and 1986

ASSETS	<u>1987</u>	<u>1986</u>
CASH AND DUE FROM BANKS	\$ 60,006,904	\$ 83,961,683
INVESTMENT SECURITIES (Note 3):		
U.S. Treasury securities	270,217,621	267,828,175
Obligations of other U.S. Government agencies	129,657,725	67,638,312
Obligations of states and political subdivisions	14,450,355	6,986,369
Other securities	1,434,420	2,577,061
	<u>415,760,121</u>	<u>345,029,917</u>
Less allowance for investment losses (Note 3)	1,249,764	1,500,000
	<u>414,510,357</u>	<u>343,529,917</u>
FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS	<u>198,715,000</u>	<u>301,575,000</u>
LOANS:		
FHA and VA home loans (Note 6)	117,561,817	128,626,990
Bank participation loans	33,589,417	38,337,453
Guaranteed student loans	21,203,919	23,744,940
Bank stock loans	7,093,327	5,670,616
SBA participation loans	2,505,464	3,766,178
Farm real estate loans	6,932,373	5,772,902
Farm survival and agribusiness operating loans	3,485,908	3,913,839
Farm debt restructuring loans	7,507,555	977,736
Other	7,267,591	2,864,161
	<u>207,147,371</u>	<u>213,674,815</u>
Less allowance for loan losses (Note 4)	12,928,714	11,988,141
	<u>194,218,657</u>	<u>201,686,674</u>
BANK PREMISES, EQUIPMENT AND SOFTWARE, NET (Note 5)	<u>2,280,971</u>	<u>1,598,521</u>
ACCRUED INTEREST RECEIVABLE	<u>9,669,433</u>	<u>10,392,018</u>
OTHER ASSETS	<u>1,591,992</u>	<u>1,633,370</u>
	<u><b>\$880,993,314</b></u>	<u><b>\$944,377,183</b></u>
LIABILITIES AND CAPITAL FUNDS		
DEPOSITS:		
Demand	\$ 71,262,926	\$ 82,727,209
NOW accounts	60,618,792	42,389,083
Savings	302,865,634	232,594,294
Time	125,147,720	213,834,625
	<u>559,895,072</u>	<u>571,545,211</u>
FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (Note 3)	162,500,000	217,876,924
LONG-TERM DEBT (Note 6)	77,165,625	77,128,125
ACCRUED INTEREST PAYABLE	1,906,081	4,820,870
OTHER LIABILITIES	2,723,369	2,049,988
APPROPRIATION DUE THE HOME-QUARTER PURCHASE FUND (Note 7)		500,000
APPROPRIATION DUE THE STATE OF NORTH DAKOTA GENERAL FUND (Note 7)	<u>6,000,000</u>	<u>1,750,000</u>
Total liabilities	<u>810,190,147</u>	<u>875,671,118</u>
COMMITMENTS AND CONTINGENT LIABILITIES (Note 12)		
CAPITAL FUNDS (Note 8):		
Capital	22,000,000	22,000,000
Surplus	22,000,000	22,000,000
Contributed capital	1,394,420	-
Undivided profits	25,408,747	24,706,065
Total capital funds	<u>70,803,167</u>	<u>68,706,065</u>
	<u><b>\$880,993,314</b></u>	<u><b>\$944,377,183</b></u>

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

# Statements of Income

## For the years ended December 31, 1987 and 1986

	1987	1986
<b>INTEREST INCOME:</b>		
Interest and fees on loans	\$18,505,689	\$22,365,645
Interest on investment securities:		
U.S. Treasury securities	23,650,470	25,657,654
Obligations of other U.S. Government agencies	8,652,941	6,495,309
Obligations of states and political subdivisions	556,101	1,031,009
Other securities	1,158,436	497,971
Interest on federal funds sold and securities purchased under reverse repurchase agreements	16,115,251	19,900,488
	68,638,888	75,948,076
<b>INTEREST EXPENSE:</b>		
Interest on deposits	26,849,469	33,557,045
Interest on federal funds purchased and securities sold under repurchase agreements	14,607,642	16,160,933
Interest on long-term debt (Note 6)	6,764,094	2,961,924
	48,221,205	52,679,902
Net interest income	20,417,683	23,268,174
<b>PROVISION FOR LOAN LOSSES (Note 4)</b>	2,000,000	10,152,804
Net interest income after provision for loan losses	18,417,683	13,115,370
<b>OTHER INCOME:</b>		
Service fees and other	2,815,173	2,449,199
Security gains	656,620	1,458,275
	3,471,793	3,907,474
<b>OTHER EXPENSE:</b>		
Salaries	2,527,340	2,244,113
Pensions and other employee benefits (Note 9)	586,704	523,507
Data processing	828,987	635,596
Other operating expenses	1,618,868	1,393,023
N.D. Real Estate Bond Expense (Note 12)	3,347,688	773,419
Depreciation and amortization (Note 5)	277,207	171,134
Provision for investment losses (Note 3)	-	1,500,000
	9,186,794	7,240,792
<b>NET INCOME</b>	<b>\$12,702,682</b>	<b>\$ 9,782,052</b>

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

# Statements of Changes in Capital Funds

## For the years ended December 31, 1987 and 1986

	Capital	Surplus	Contributed Capital	Undivided Profits	Reserve for Contingencies	Total
<b>BALANCES, DECEMBER 31, 1985</b>	<b>\$20,000,000</b>	<b>\$20,000,000</b>	-	<b>\$15,424,013</b>	<b>\$ 3,500,000</b>	<b>\$58,924,013</b>
Net income	-	-	-	9,782,052	-	9,782,052
Transfer from reserve for contingencies to:						
Capital (Note 8)	1,750,000	-	-	-	(1,750,000)	-
Surplus (Note 8)	-	1,750,000	-	-	(1,750,000)	-
Transfer from undivided profits to:						
Capital (Note 8)	250,000	-	-	( 250,000)	-	-
Surplus (Note 8)	-	250,000	-	( 250,000)	-	-
<b>BALANCES, DECEMBER 31, 1986</b>	<b>22,000,000</b>	<b>22,000,000</b>	-	<b>24,706,065</b>	-	<b>68,706,065</b>
Net income	-	-	-	12,702,682	-	12,702,682
Transfer from undivided profits to:						
Appropriation due the State of North Dakota General Fund (Note 7)	-	-	-	(12,000,000)	-	(12,000,000)
Receipt of donated assets from Industrial Development Revenue Bond Fund (Note 8)	-	-	1,394,420	-	-	1,394,420
<b>BALANCES, DECEMBER 31, 1987</b>	<b>\$22,000,000</b>	<b>\$22,000,000</b>	<b>\$1,394,420</b>	<b>\$25,408,747</b>	<b>\$ -</b>	<b>\$70,803,167</b>

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, 1987 and 1986

	<u>1987</u>	<u>1986</u>
<b>RESOURCES PROVIDED:</b>		
Operations:		
Net income	\$ 12,702,682	\$ 9,782,052
Items not requiring expenditure of funds:		
Provision for loan and investment losses	2,000,000	11,652,804
Depreciation and amortization	<u>385,448</u>	<u>216,737</u>
Total resources provided from operations	15,088,130	21,651,593
Issuance of long-term debt	-	50,000,000
Receipt of donated assets from		
Industrial Development Revenue		
Bond Fund	1,394,420	-
Increase in:		
Other liabilities	673,381	-
Appropriations due	3,750,000	-
Decrease in:		
Cash and due from banks	23,954,779	-
Investment securities	-	45,884,552
Federal fund sold and securities purchased under		
reverse repurchase agreements	102,860,000	-
Loans, net	5,468,017	25,028,409
Accrued interest receivable	722,585	-
Other assets	<u>134,465</u>	<u>550,216</u>
	<u>\$154,045,777</u>	<u>\$143,114,770</u>
<b>RESOURCES APPLIED:</b>		
Purchase of bank premises, equipment and software	\$ 959,657	\$ 272,347
Payment of long-term debt	-	2,508,000
Payment of issuance costs of long-term debt	163,828	715,960
Transfer to Appropriation due the State of		
North Dakota General Fund (Note 7)	12,000,000	-
Increase in:		
Cash and due from banks	-	356,073
Investment securities, net	70,980,440	-
Federal funds sold and securities purchased under		
reverse repurchase agreements	-	46,045,000
Accrued interest receivable	-	343,933
Decrease in:		
Deposits	11,650,139	57,326,003
Federal funds purchased and securities sold under		
repurchase agreements	55,376,924	28,708,076
Accrued interest payable	2,914,789	376,841
Other liabilities	-	1,113,855
Appropriations due	<u>-</u>	<u>5,348,682</u>
	<u>\$154,045,777</u>	<u>\$143,114,770</u>

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 and allowance for investment losses** — Securities, including nonmarketable stock, are stated at cost reduced by an allowance for investment losses, and 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. The allowance for investment losses is established through a provision for investment losses charged to expenses and is attributable to specific adverse conditions for particular securities.

**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, equipment and software** — Bank premises, equipment and software 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 properties are retired or sold, the cost and related accumulated depreciation or amortization are eliminated from the accounts and the resultant gain or loss is reflected in income.

Depreciation and amortization 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 or amortization is 25 years for the bank premises, 5 to 10 years for equipment and 5 years for software.

**Long-term debt issue costs** — Long-term debt issue costs are being amortized over the term of the related long-term debt using the outstanding debt method.

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

## NOTE 2 — NATURE OF ORGANIZATION AND RELATED PARTY TRANSACTIONS

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. In the course of business the Bank, because of its unique relationship with the State of North Dakota, is a party in many business transactions with other entities of state government. These transactions are a normal part of bank business and, accordingly, are included in the Bank's financial statements.

## NOTE 3 — INVESTMENT SECURITIES

Carrying amounts and approximate market value of investment securities as of December 31, 1987 and 1986 are summarized as follows:

	1987		1986	
	Carrying Amount	Approximate Market Value	Carrying Amount	Approximate Market Value
U. S. Treasury securities	\$270,217,621	\$271,979,000	\$267,828,175	\$279,904,000
Obligations of other U.S. Government agencies	129,657,725	128,308,000	67,638,312	69,906,000
Obligations of states and political subdivisions	14,450,355	-	6,986,369	-
Other securities	1,434,420	-	2,577,061	2,358,000
	<u>\$415,760,121</u>		<u>\$345,029,917</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.

At December 31, 1987, other securities includes nonmarketable stock of the Myron G. Nelson Fund, Inc. at a cost of \$1,394,420. The Myron G. Nelson Fund, Inc. is an investment capital fund incorporated under the North Dakota Century Code. The Bank accounts for this investment under the cost method because the criteria for use of the equity method are not satisfied. By the terms of the legislation creating the Myron G. Nelson Fund, Inc., the Bank was obligated to purchase the stock with funds received from liquidation of the Industrial Development Revenue Bond Fund.

Changes in the allowance for investment losses were as follows:

	Amounts at Par	
	1987	1986
Balance, beginning of year	\$ 1,500,000	\$ -
Provision charged to operations		1,500,000
Investments charged off	( 256,769)	-
Recoveries	6,533	-
Balance, end of year	<u>\$ 1,249,764</u>	<u>\$ 1,500,000</u>

The Bank has pledged investment securities and sold securities under agreements to repurchase as follows:

	Amounts at Par	
	1987	1986
Investment securities pledged	\$26,900,000	\$ 68,375,000
Securities sold under agreements to repurchase	<u>\$69,577,000</u>	<u>\$104,845,000</u>



#### NOTE 4 — LOANS

Loans on which the accrual of interest has been discontinued amounted to approximately \$4,439,000 and \$4,007,000 as of December 31, 1987 and 1986, respectively. If interest on those loans had been accrued, such income would have approximated \$420,000 and \$396,000 for 1987 and 1986, respectively.

Changes in the allowance for loan losses were as follows:

	Year Ended December 31,	
	1987	1986
Balance, beginning of year	\$ 11,988,141	\$ 6,365,219
Provision charged to operations	2,000,000	10,152,804
Loans charged off	(1,880,397)	(4,877,078)
Recoveries	820,970	347,196
Balance, end of year	\$ 12,928,714	\$ 11,988,141

#### NOTE 5 — BANK PREMISES, EQUIPMENT AND SOFTWARE

Accumulated depreciation and amortization on bank premises, equipment and software was \$1,585,139 and \$1,307,932 as of December 31, 1987 and 1986, respectively.

Depreciation and amortization expense amounted to \$277,207 and \$171,134 in 1987 and 1986, respectively.

#### NOTE 6 — LONG-TERM DEBT

Long-term debt consists of:

	1987	1986
Collateralized long-term bonds, 9.25%, issued December 1978, due December 1993	\$27,500,000	\$27,500,000
Long-term notes, 7.875%, (effective interest rate 7.94%) issued December 1986, due December 1996, net of unamortized discount (1987-\$334,375; 1986 - \$371,875)	49,665,625	49,628,125
	<u>\$77,165,625</u>	<u>\$77,128,125</u>

**Collateralized long-term bonds** — An annual sinking fund payment of \$2,500,000 is due on December 1, 1988 and \$5,000,000 is due each December 1 beginning December 1, 1989 through December 1, 1993 when the bonds mature. At its option, the Bank may redeem on the due date of any mandatory sinking fund redemption, at 100% of the principal amount thereof plus interest accrued thereon to such date, an additional principal amount of bonds up to the principal amount of bonds up to the principal amount of bonds required to be redeemed on such date. 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 principal balances of approximately \$43,854,000 outstanding as of December 31, 1987. In addition, the Bank pledged \$5,200,000 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 debt to all capital funds no greater than 20 to 1. The Bank is in compliance with all provisions of the indenture agreement as of December 31, 1987.

During 1986 the Bank exercised its option to redeem \$2,500,000 of bonds at 100% of the principal amount in addition to the remaining mandatory sinking fund redemption of \$8,000. The Bank did not redeem any bonds during 1987; but rather applied the \$2,500,000 optional retirement in 1986 to satisfy 1987 sinking fund requirements.

**Long-term notes** — These notes may not be redeemed prior to maturity. Interest is payable semiannually on June 15 and December 15 of each year. The Bank of North Dakota entered into a letter of credit agreement dated December 1, 1986 with the Fuji Bank, Ltd. whereby the Fuji Bank has agreed to provide funds sufficient to pay the principal amount of the notes and up to 198 days' interest on the notes. Simultaneously with the letter of credit agreement, the Bank of North Dakota entered into a security agreement in which the Bank of North Dakota agreed to pledge eligible collateral. The notes are collateralized by FHA and VA guaranteed loans with principal balances of approximately \$50,252,000 outstanding as of December 31, 1987. In addition, the Bank pledged \$10,000,000 in U.S. Government securities as additional collateral. The Bank is required to maintain an amount of eligible collateral such that the applicable value of the collateral is not less than 102.5% of the stated amount of the Fuji Bank letter of credit. The indenture of trust contains restrictive covenants, all of which the Bank of North Dakota is in compliance with as of December 31, 1987.

#### NOTE 7 — APPROPRIATIONS DUE

The North Dakota State Legislature appropriated \$12,000,000 for the State General Fund from undivided profits of the Bank. Such monies shall be transferred during the biennium beginning July 1, 1987. The remaining amount due at December 31, 1987 is \$6,000,000.

The North Dakota State Legislature created the Home-Quarter Purchase Fund to be administered by the Bank of North Dakota. The revolving loan fund was established by the appropriation of \$2,000,000 from undivided profits of the Bank of North Dakota. At December 31, 1987 the entire appropriation has been transferred.

#### NOTE 8 — CAPITAL FUNDS TRANSACTIONS

During 1987, the Bank received \$1,394,420 from the Industrial Development Revenue Bond Fund pursuant to Section 10-30.2-04 of the North Dakota Century Code, recorded as contributed capital of the Bank. By the terms of the legislation creating the Myron G. Nelson Fund, Inc., the Bank was

obligated to purchase shares of the Myron G. Nelson Fund, Inc. with the donated funds.

During 1986 the Bank, by order of the Industrial Commission, transferred \$3,500,000 from the reserve for contingencies and \$500,000 from undivided profits to increase its capital and surplus accounts by \$2,000,000 each.

#### **NOTE 9 — DEFINED BENEFIT PENSION PLAN**

All permanent Bank of North Dakota employees participate in the North Dakota Public Employees Retirement System ("System"), a multiple-employer public employee retirement system (PERS). The payroll for employees covered by the System for the years ended December 31, 1987, and 1986, was approximately \$2,442,000 and \$2,224,000, respectively; the Bank's total payroll was approximately \$2,527,000 and \$2,244,000, respectively.

All permanent Bank employees are required to participate in the System. Employees who retire at or after age 65 are entitled to a retirement benefit, payable monthly for life, equal to 1.5 percent of their final-average salary for each year of credit service. Final-average salary is the employee's average for the highest consecutive 60 months of salary over the past 120 months of employment. Benefits vest fully on reaching 8 years of service. Vested employees may retire at or after age 55 and receive reduced retirement benefits. This reduction does not apply if the sum of the participant's age plus years of service equals 90. The system also provides death and disability benefits.

The Bank is required by state statute to contribute 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 contribution requirement for the years ended December 31, 1987, and 1986, was approximately \$226,000 and \$195,000, respectively.

The amendments adopted by the legislature and effective during fiscal year 1986-87 which had an impact on the actuarial cost of the System included:

1. An increase in the benefit multiplier for each year of service from 1.30% to 1.50% of the final average salary for all participants (including retirees).
2. A reduction in the number of years of service required for vesting and for an early pension from 10 years to 8.
3. An elimination of the minimum age 60 requirement for the "rule of 90" pension.
4. The doubling of monthly benefits for participants receiving payments under the Special Prior Service pension provisions of the System.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS and employers. The system does not make separate measurements of assets and pension benefit obligations for individual employers. The pension benefit obligation for the System, excluding judges, at June 30, 1987 determined through an actuarial valuation performed as of that date, was approximately \$239,600,000. The System's net assets available for benefits, excluding judges, on that date (valued at cost) were approximately \$251,100,000. The Bank's 1987 contribution represented 3.8 percent of total contributions required of all participating entities, excluding judges.

Ten-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is not available.

#### **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 — INSURANCE COVERAGE**

Effective October 21, 1987, the Bank of North Dakota cancelled its director's and officer's liability insurance coverage. The Bank is searching for alternative coverage with overall limits of coverage that are likely to be materially reduced and deductibles that are likely to be substantially increased from the coverage that was previously in effect. These reductions in insurance coverage available to the Bank generally reflect trends in the liability insurance area and are not unique to the Bank.

#### **NOTE 12 — COMMITMENTS AND CONTINGENT LIABILITIES**

In 1984 and 1986 the State of North Dakota issued long-term bonds of which part of the proceeds were used to purchase farm loans from the Bank of North Dakota. In connection with these bond issues, the Bank of North Dakota is obligated to purchase bonds when there are insufficient monies in any of the pledged funds for payment of the bonds as they become due. It is probable that the Bank of North Dakota will incur a liability on these bond issues. An estimate of this liability cannot be made until such time as Bank management can estimate cash flows for the collateral loans and the bonds. The Bank funded cash flow shortages totaling \$3,347,688 in 1987 and \$215,000 in 1986 which are included in other expenses. In addition, during 1986 the Bank charged off a receivable for administration fees from the Real Estate Bond Fund amounting to \$558,419 which is included in other expenses.

In 1985 the North Dakota Student Loan Trust issued long-term bonds totaling \$125,200,000 to purchase \$110,700,000 in student loans, fund the related Reserve Fund, and pay the cost of issuance. The State of North Dakota entered into a letter of credit and letter of credit agreement dated November 1, 1985 with the Fuji Bank, Ltd. whereby the Fuji Bank has agreed to provide funds sufficient to pay the principal amount of all bonds outstanding plus interest thereon of the 1985 Series A Bond issue. Simultaneously with the letter of credit agreement, the Bank of North Dakota entered into a commitment arrangement with the State of North Dakota, whereby the Bank of North Dakota has the irrevocable obligation to purchase student loans in an amount necessary to reimburse Fuji Bank under the letter of credit agreement. As of December 31, 1987, the Bank's commitment aggregated approximately \$37,270,000. All of the student loans are guaranteed by the U.S. government and the North Dakota Guaranteed Student Loan Program. The likelihood that the Bank of North Dakota will incur a liability on this bond issue is remote.

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, 1987 standby letters of credit aggregated approximately \$29,415,000 and commitments to extend credit aggregated approximately \$16,486,000. The Bank has included any anticipated losses as a result of the commitments in the allowance for loan losses.

# Five Year Summary

	1987	1986	1985	1984	1983
<b>OPERATING RESULTS (000 omitted)</b>					
Total Income	\$ 72,111	\$ 79,856	\$ 79,650	\$ 82,532	\$ 85,970
Interest Expenses	48,221	52,680	55,765	60,296	67,692
Other Oper. Expenses	9,187	7,241	4,657	4,128	4,096
NET EARNINGS (profit)	12,703	9,782	12,335	9,318	11,183
Paid to St. Treas. (dividend)	7,750	3,500	3,000	2,500	2,500
<b>BALANCE AT YEAR END (000 omitted)</b>					
Total Resources	880,993	944,377	980,348	829,623	1,029,670
Total Deposits	559,895	571,545	628,871	590,800	475,847
Demand Deposits	131,882	125,116	122,728	104,288	98,959
Time Deposits	428,013	446,429	506,143	486,512	376,888
Federal Funds Purchased and Securities Sold Under Repurchase Agreements	162,500	217,877	246,585	140,840	453,886
Federal Funds Sold and Securities Purchased Under Reverse Repurchase Agreements	198,715	301,575	255,530	262,355	464,380
TOTAL INVESTMENT SECURITIES (000 omitted)	414,510	343,530	390,914	235,629	196,346
U.S. Government	270,218	267,828	300,934	160,028	86,643
Federal Agencies	129,658	67,638	66,400	63,551	98,329
Other Money Market Instruments	1,434	2,577	3,228	3,192	3,278
ND Political Sub. Bds.	14,450	6,987	20,352	8,898	8,095
TOTAL LOANS (000 omitted)	194,219	201,687	236,868	264,804	284,297
Guaranteed Student Loans	21,204	23,745	21,336	27,676	128
Farm Real Estate Loans	6,932	5,773	4,941	2,186	17,993
FHA Home Loans	84,175	92,060	103,888	111,267	118,760
GI Home Loans	33,387	36,567	40,456	42,771	44,926
Small Business Adm. Loans	2,505	3,766	5,569	7,878	10,408
Bank Participation Loans	33,589	38,337	53,439	71,146	86,685
Other Loans	25,355	13,426	13,604	7,627	8,396
CAPITAL AND RESERVES (000 omitted)	70,803	68,706	58,924	55,589	46,425
Capital	22,000	22,000	20,000	18,000	18,000
Surplus	22,000	22,000	20,000	20,000	18,000
Contributed Capital	1,394	-	-	-	-
Undivided Profits	25,409	24,706	15,424	14,089	6,925
Reserve for Contingencies	-	-	3,500	3,500	3,500
<b>OTHER DATA (Numbers)</b>					
Financial Inst. with BND Accts.	204	211	209	205	210
Individual Checking Accounts	2,469	2,876	3,000	3,264	3,838
Individual Savings Accounts	2,616	2,935	3,178	4,825	6,764
Guaranteed Student Loans (made or purchased)	27,456	26,668	20,997	15,772	16,250
SBA & BI Loans On Hand	38	52	69	91	112
Bank Participation Loans On Hand	233	273	534	471	708
Number of Employees	146	147	144	130	142