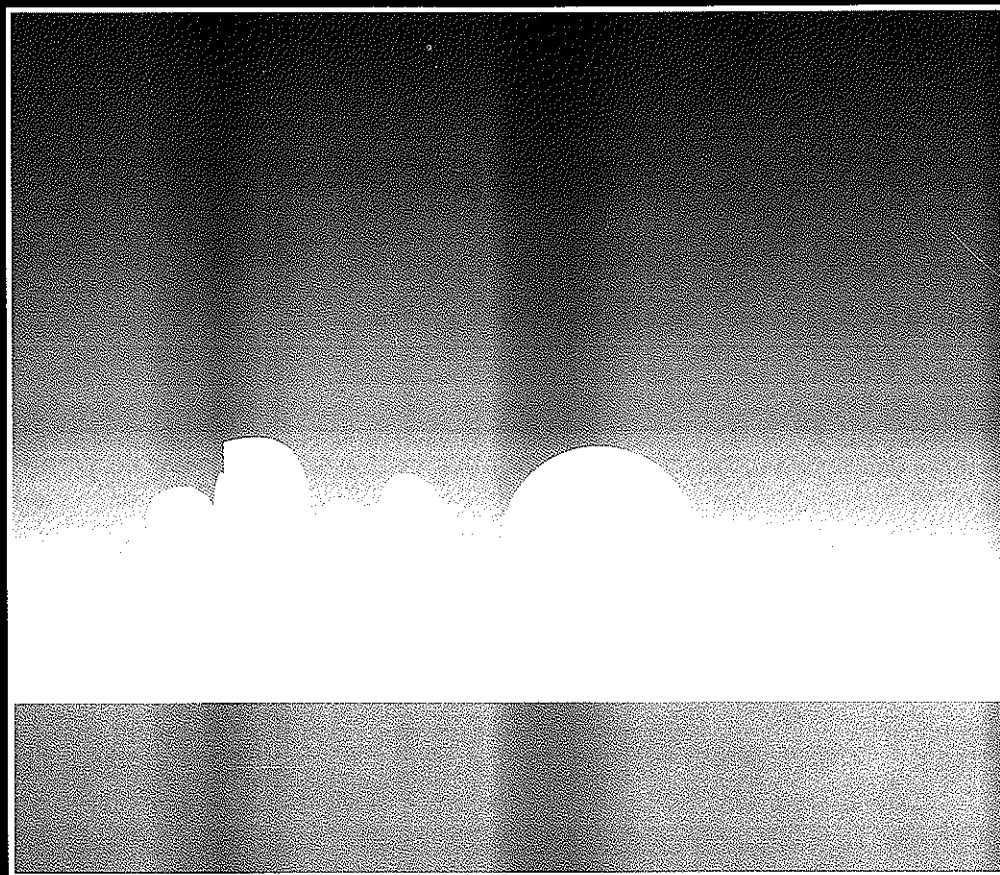


BANK OF NORTH DAKOTA



1 9 8 9
ANNUAL REPORT

THE BANK OF NORTH DAKOTA

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



Bank of North Dakota Advisory Board

*back row - Dan O'Day, Myron Just
front row - Les Nesvig, Roger Berglund, Al Wahl, Don Porter, Jim Duncan*

(The Bank exhibit is courtesy of the State Historical Society of North Dakota at the North Dakota Heritage Center in Bismarck.)



North Dakota Industrial Commission

*l-r: Sec. to the Industrial Commission, Karlene Fine;
Gov. George A. Sinner; Commissioner of Agriculture Sarah Vogel; Attorney Gen. Nicholas J. Spaeth*

Seventy years after its original charter, the Bank has proven to be a unique success story, both financially and politically, for the state of North Dakota. The Bank has established itself as a major lender, a correspondent bank for the state's private financial institutions, and a depository for the state's funds. It has grown to one of the largest banks in the state and a national leader in agricultural lending. Yet the Bank's mission remains today as it was originally conceived, a bank for the citizens of North Dakota.

Throughout 1989, the Bank sustained its position as a strong and vigorous financial institution. Our capital structure, asset base and net income were on target with our long-range goals and objectives.

The Bank has continued to provide superior earnings and returns for the State of North Dakota. In 1989, when the Bank's interest payments to other state agencies are coupled with its contribution to the General Fund, the state earned between 1% and 1.5% higher return than was normally obtained in the market. At the same time, the Bank also supported a variety of subsidized interest rate programs for commercial lending, agricultural lending and student loans. It also assisted in the financing of a variety of state programs and other economic development programs.

The Bank of North Dakota's original mission of serving commerce, industry and agriculture will be expanded in the years ahead. Through a variety of financial programs, both in lending and support services, the Bank will play a pivotal role in enhancing the state's economic expansion. However, while responding to the economic development needs of the state, the Bank will adhere to its credit standards to maintain its integrity as a financial institution.

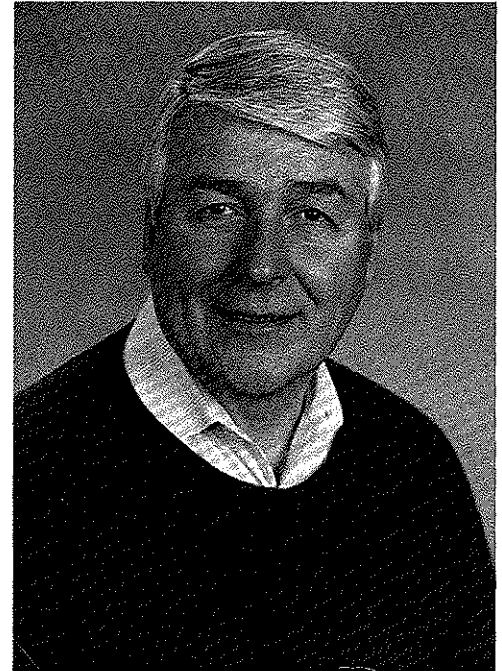
Three new commercial lending programs were introduced by the Bank to provide substantial interest rate savings to its borrowers.

1. The MATCH program provides loans at interest rates equivalent to those of the U.S. government. Through the deposit support of the State Investment Board and private industry, the Bank is able to offer highly rated companies long-term loans at some of the lowest interest rates in the nation.
2. The PACE Fund couples the efforts of the Bank and the local community in buying down the interest rate on business loans. The Bank, the community and the community's lenders all work together to offer a financial package that has been called the finest of any state.
3. The SBA Loan Purchase program supports new and existing businesses through the purchase of the SBA guarantee portion of the loan. The purchase price is approximately 1 percent below the national prime interest rate and that rate is passed along to the borrower.

The Bank has also developed new and expanded services for the state's financial community. A prime example of this is the expansion of the check processing service to expedite check processing throughout the state.

As the region moves into its third year of drought, the Bank anticipates an increased demand for farm operating loans with terms and conditions that will adjust to the difficult agricultural times. In addition, we foresee an increase in loan restructuring requests from both the agricultural sector and the various businesses which are tied to agriculture.

The 1990s will be expansion years for the Bank. Our services and our support for the State and its financial community will be enhanced to meet the demanding economic conditions not only of the region but those nationally. The Bank will also play a much broader role in pursuing new and expanded economic roles for North Dakota. Through the continued support of our Advisory Board and the Industrial Commission, the Bank of North Dakota will build on its unique success story.



Joseph S. Lamb, President

BRADY, MARTZ & ASSOCIATES, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the accompanying consolidated balance sheet of The Bank of North Dakota as of December 31, 1989, and the related consolidated statements of income, changes in capital funds and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of The Bank of North Dakota as of December 31, 1988, were audited by other auditors whose report dated January 27, 1989 expressed an unqualified opinion on those statements. As discussed in Note 11, the Bank has restated its 1988 financial statements during the current year to properly reflect the purchase of 1984 Real Estate Series A Bonds of North Dakota and uncertificated obligations, accrue vacation benefits payable and consolidate the Myron G. Nelson Fund, Incorporated subsidiary.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 1989 financial statements referred to above present fairly, in all material respects, the financial position of The Bank of North Dakota as of December 31, 1989, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

We also reviewed the adjustments described in Note 11 that were applied to restate the 1988 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

Brady, Martz and Associates, P.C.

BRADY, MARTZ & ASSOCIATES, P.C.

January 25, 1990
Minot, North Dakota

BANK OF NORTH DAKOTA
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1989, AND 1988

ASSETS	<u>1989</u>	<u>1988</u>
CASH AND DUE FROM BANKS	\$ 58,914,436	\$ 44,450,701
FEDERAL FUNDS SOLD AND SECURITIES SOLD UNDER REVERSE REPURCHASE AGREEMENTS	<u>388,171,500</u>	<u>278,875,000</u>
CASH AND CASH EQUIVALENTS	<u>\$ 447,085,936</u>	<u>\$ 323,325,701</u>
INVESTMENT SECURITIES:		
U.S. Treasury securities	\$ 86,227,963	\$ 252,056,840
Obligations of other U.S. Government agencies	83,064,753	48,429,624
Obligations of states and political subdivisions	5,927,410	4,971,255
Banker's acceptances	31,245,274	56,978,721
Negotiable certificates of deposit	105,004,783	-
Other securities	8,303,103	6,062,689
	<u>\$ 319,773,286</u>	<u>\$ 368,499,129</u>
Less allowance for investment losses	<u>(1,296,450)</u>	<u>(1,302,417)</u>
	<u>\$ 318,476,836</u>	<u>\$ 367,196,712</u>
LOANS:		
FHA and VA home loans	\$ 95,743,757	\$ 105,744,361
Bank participation loans	35,185,140	32,394,003
Guaranteed student loans	32,743,958	29,375,984
State institutions	8,589,703	13,855,786
Bank stock loans	4,397,597	5,974,924
SBA participation loans	1,299,900	1,541,331
Farm real estate loans	10,004,495	7,745,074
Small business concerns	3,355,954	2,599,789
Farm and agribusiness operating loans	1,773,014	1,741,774
Farm debt restructuring loans	7,526,540	7,487,105
Other	2,695,208	733,737
	<u>\$ 203,315,266</u>	<u>\$ 209,193,868</u>
Less allowance for loan losses	<u>(12,463,066)</u>	<u>(12,904,838)</u>
	<u>\$ 190,852,200</u>	<u>\$ 196,289,030</u>
BANK PREMISES, EQUIPMENT AND SOFTWARE	<u>\$ 3,731,173</u>	<u>\$ 2,093,985</u>
ACCRUED INTEREST RECEIVABLE	<u>\$ 9,564,382</u>	<u>\$ 9,433,545</u>
OTHER ASSETS	<u>\$ 2,155,481</u>	<u>\$ 1,773,805</u>
	<u>\$ 971,866,008</u>	<u>\$ 900,112,778</u>
LIABILITIES AND CAPITAL FUNDS	<u>1989</u>	<u>1988</u>
DEPOSITS:		
Non-interest bearing	\$ 49,132,466	\$ 48,947,157
Interest bearing	496,735,038	408,537,827
	<u>\$ 545,867,504</u>	<u>\$ 457,484,984</u>
FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	255,952,128	274,433,750
LONG-TERM DEBT	59,349,626	72,203,125
ACCRUED INTEREST PAYABLE	3,477,414	4,777,806
OTHER LIABILITIES	2,759,702	1,740,790
APPROPRIATIONS PAYABLE	20,443,159	-
TOTAL LIABILITIES	<u>\$ 887,849,533</u>	<u>\$ 810,640,455</u>
CAPITAL FUNDS:		
Capital	\$ 22,000,000	\$ 22,000,000
Surplus	22,000,000	22,000,000
Contributed capital	1,394,420	1,394,420
Undivided profits	38,622,055	44,077,903
Total capital funds	<u>\$ 84,016,475</u>	<u>\$ 89,472,323</u>
	<u>\$ 971,866,008</u>	<u>\$ 900,112,778</u>

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

BANK OF NORTH DAKOTA
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1989, AND 1988

	<u>1989</u>	<u>1988</u>
INTEREST INCOME:		
Interest and fees on loans	\$ 20,006,341	\$ 18,035,085
Interest on investment securities:		
U.S. Treasury securities	13,331,338	22,159,727
Obligations of other U.S. Government agencies	4,413,658	5,157,737
Obligations of states and political subdivisions	411,782	527,302
Banker's acceptances	1,290,336	1,152,118
Negotiable certificates of deposit and other	8,035,415	287,049
Interest on federal funds sold and securities sold under reverse repurchase agreements	27,409,923	21,565,359
	<u>\$ 74,898,793</u>	<u>\$ 68,884,377</u>
INTEREST EXPENSE:		
Interest on deposits	\$ 31,088,572	\$ 27,987,242
Interest on federal funds purchased and securities sold under repurchase agreements	18,819,072	14,735,027
Interest on long-term debt	6,082,520	6,767,207
	<u>\$ 55,990,164</u>	<u>\$ 49,489,476</u>
Net interest income	\$ 18,908,629	\$ 19,394,901
PROVISION FOR LOAN LOSSES		(750,000)
Net interest income after provision for loan losses	<u>\$ 18,908,629</u>	<u>\$ 18,644,901</u>
OTHER INCOME:		
Service fees and other	\$ 3,494,378	\$ 3,668,281
Securities gains and losses	990,168	15,711
	<u>\$ 4,484,546</u>	<u>\$ 3,683,992</u>
OTHER EXPENSE:		
Salaries	\$ 3,357,980	\$ 2,732,429
Pensions and other employee benefits	924,111	774,914
Data processing	1,199,478	1,062,828
Other operating expenses	2,273,841	2,114,430
Depreciation and amortization	461,913	404,568
	<u>\$ 8,217,323</u>	<u>\$ 7,089,169</u>
NET INCOME	<u>\$ 15,175,852</u>	<u>\$ 15,239,724</u>

BANK OF NORTH DAKOTA
CONSOLIDATED STATEMENTS OF CHANGES IN
CAPITAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 1989, AND 1988

	Capital	Surplus	Contributed Capital	Undivided Profits	Total
BALANCES, JANUARY 1, 1988					
AS PREVIOUSLY REPORTED	\$ 22,000,000	\$ 22,000,000	\$ 1,394,420	\$ 25,408,747	\$ 70,803,167
Prior period adjustment	-	-	-	3,429,432	3,429,432
BALANCES, JANUARY 1, 1988					
AS RESTATED	\$ 22,000,000	\$ 22,000,000	\$ 1,394,420	\$ 28,838,179	\$ 74,232,599
Net income	-	-	-	15,239,724	15,239,724
BALANCES, DECEMBER 31, 1988					
	\$ 22,000,000	\$ 22,000,000	\$ 1,394,420	\$ 44,077,903	\$ 89,472,323
Net income	-	-	-	15,175,852	15,175,852
Appropriations	-	-	-	(20,631,700)	(20,631,700)
BALANCES, DECEMBER 31, 1989					
	<u>\$ 22,000,000</u>	<u>\$ 22,000,000</u>	<u>\$ 1,394,420</u>	<u>\$ 38,622,055</u>	<u>\$ 84,016,475</u>

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

BANK OF NORTH DAKOTA
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1989, AND 1988

	<u>1989</u>	<u>1988</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 15,175,852	\$ 15,239,724
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	611,684	536,921
Provision for loan losses	-	750,000
Amortization of premiums and accretion of discounts on investment securities	(1,833,138)	(1,701,017)
Securities gains, net	(990,168)	(15,711)
Losses on sale of equipment	76,290	-
Changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable	(130,837)	235,888
(Increase) decrease in other assets	(477,446)	42,636
Increase (decrease) in accrued interest payable	(1,300,392)	2,871,725
Increase (decrease) in other liabilities	1,018,912	(1,134,630)
Net cash provided by operating activities	<u>\$ 12,150,757</u>	<u>\$ 16,825,536</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investment securities	\$ 233,863,000	\$ 235,418,032
Purchase of investment securities	(182,319,818)	(184,219,390)
Increase (decrease) in loans	5,420,330	(3,139,675)
Purchases of equipment and software	(2,226,093)	(217,582)
Proceeds from sale of equipment	50,702	-
Net cash provided by investing activities	<u>\$ 54,788,121</u>	<u>\$ 47,841,385</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in non-interest bearing deposits	\$ 185,309	\$ (19,615,493)
Net increase (decrease) in interest bearing deposits	88,197,211	(81,387,436)
Increase (decrease) in federal funds purchased and securities sold under repurchase agreements	(18,481,622)	111,933,750
Principal payments on long-term debt	(12,891,000)	(5,000,000)
Payment of appropriations due	(188,541)	(6,000,000)
Net cash provided (used) in financing activities	<u>\$ 56,821,357</u>	<u>\$ (69,179)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	<u>\$ 123,760,235</u>	<u>\$ 64,597,742</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>323,325,701</u>	<u>258,727,959</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 447,085,936</u></u>	<u><u>\$ 323,325,701</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash payments for:		
Interest paid to customers	\$ 32,457,043	\$ 25,287,923
Interest paid on federal funds purchased and securities sold under repurchase agreements	18,762,733	14,602,109
Interest paid on long-term debt	5,848,338	6,481,250
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Other real estate acquired in settlement of loans	\$ 16,500	\$ 319,302
Transfer from undivided profits to appropriation payable to various state agencies	20,631,700	

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

BANK OF NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1989, AND 1988

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Reporting entity - In accordance with National Council of Governmental Accounting Statement No. 3, Defining the Governmental Reporting Entity, for financial reporting purposes, a reporting entity's financial statements should include all component units over which that component unit (oversight unit) exercises oversight responsibility. Oversight responsibility includes such aspects as appointment of governing body members, designation of management, the ability to significantly influence operations and accountability for fiscal matters.

Based on the criteria of Statement No. 3, the Myron G. Nelson Fund, Incorporated is included within the Bank of North Dakota as a reporting entity. The Bank of North Dakota is includable as a component unit with the State of North Dakota as a reporting entity.

Basis of presentation - The consolidated financial statements include the accounts of The Bank of North Dakota and its majority owned subsidiary, Myron G. Nelson Fund, Incorporated. All significant inter-company accounts and transactions have been eliminated in the statements.

Cash and cash equivalents - For purposes of the statement of cash flows, the Bank considers currency on hand, demand deposits in other financial institutions, cash items expected to be converted to cash and federal funds sold and securities purchased under reverse repurchase agreements with original maturities of three months or less as cash and cash equivalents.

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 - are stated at the principal balance outstanding less an allowance for loan losses. Interest income on loans is accrued at the specific rate on the outstanding principal balance.

Interest accruals on loans are discontinued when in managements opinion the collection of the interest is doubtful. When a loan is placed on non-accrual status, accrued but uncollected interest is reversed. Interest accrued during the current year is reversed against current income, and interest accrued from prior years is charged against the allowance for loan loss.

Assets acquired through loan foreclosures and other situations in satisfaction of indebtedness are recorded at the lower of seventy percent of fair value or the recorded loan amount. Any write-down to fair value required

at the time of acquisition is charged to the allowance for loan losses. Any subsequent write-downs of these assets are included in other expenses.

Allowance for loan losses - The Bank uses the allowance method in providing for loan losses. Accordingly, the reserve is increased by the current years provision for loan losses charged to operations and reduced by net charge-offs.

The adequacy of the allowance for loan losses and the provisions for loan losses charged to operations are based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. Loans are charged to the allowance when management believes the collection of the principal is doubtful.

Bank premises, equipment and software - Bank premises, equipment and software are stated at cost less accumulated depreciation. Depreciation and amortization is provided over the estimated useful lives of the individual assets using the straight-line method. The estimated useful lives used in the computation of depreciation or amortization are 25 years for bank premises, 5 years for equipment and software and 10 years for furniture.

Long-term debt issue costs - Long-term debt issue costs are being amortized over the term of the related long-term debt using the straight-line method.

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

Reclassification - Certain amounts have been reclassified in prior years to conform to the 1989 presentation.

NOTE 2 - STATEMENT OF CASH FLOWS

Effective for years ending after June 15, 1990 Statement of Financial Accounting Standards (SFAS) No. 104 amended SFAS No. 95 to allow banks to net certain cash receipts and cash payments for deposits placed with other financial institutions, time deposits and loans to customers in the statement of cash flows. The Bank elected to apply the provisions of SFAS No. 104 for the year ended December 31, 1989 as permitted by the statement. Certain items in the Statement of Cash Flows for the year ended December 31, 1988 which were previously reported on a gross basis have been restated and reported on a net basis to conform to the 1989 reporting.

NOTE 3 - INVESTMENT SECURITIES

The detail of the carrying amount and approximate market value of investment securities at December 31, is as follows:

December 31

1989 1988

Carrying Approximate Carrying Approximate
Amount Market Value Amount Market Value

U.S. TREASURY SECURITIES

Due				
within 1 yr	\$ 38,712,179	\$ 38,604,625	\$ 60,012,395	\$ 59,632,813
After 1 year,				
within 5 yrs	42,424,728	41,886,875	147,507,822	144,885,686
After 5 years,				
within 10 yrs	5,091,056	5,554,688	44,536,623	43,267,501
Total	<u>\$ 86,227,963</u>	<u>\$ 86,046,188</u>	<u>\$252,056,840</u>	<u>\$247,786,000</u>

OBLIGATIONS OF OTHER U.S. GOVERNMENT AGENCIES

Due				
within 1 yr	\$ 5,003,534	\$ 4,998,438	\$ 4,994,092	\$ 5,035,313
After 1 year,				
within 5 yrs	25,515,710	25,214,062	37,783,737	36,465,938
After 5 years,				
within 10 yrs	-	-	5,121,596	4,632,812
After 10 years	52,545,509	52,471,413	530,199	375,937
Total	<u>\$ 83,064,753</u>	<u>\$ 82,683,913</u>	<u>\$ 48,429,624</u>	<u>\$ 46,510,000</u>

OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS

Due				
within 1 yr	\$ 38,000	\$ 38,000	\$ 79,000	\$ 79,000
After 1 year,				
within 5 yrs	850,413	670,002	706,300	526,088
After 5 years,				
within 10 yrs	1,963,070	1,546,614	1,753,033	1,305,748
After 10 years	3,075,927	2,423,384	2,432,922	1,812,164
Total	<u>\$ 5,927,410</u>	<u>\$ 4,678,000</u>	<u>\$ 4,971,255</u>	<u>\$ 3,723,000</u>

BANKER'S ACCEPTANCES

Due				
within 1 yr	<u>\$ 31,245,274</u>	<u>\$ 31,223,307</u>	<u>\$ 56,978,721</u>	<u>\$ 56,950,000</u>

NEGOTIABLE CERTIFICATES OF DEPOSIT

Due				
within 1 yr	<u>\$105,004,783</u>	<u>\$105,266,829</u>	<u>\$ -</u>	<u>\$ -</u>

OTHER SECURITIES

After 10 years	<u>\$ 8,303,103</u>	<u>\$ 8,263,103</u>	<u>\$ 6,062,689</u>	<u>\$ 6,022,689</u>
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TOTAL INVESTMENT SECURITIES

	<u>\$319,773,286</u>	<u>\$318,161,340</u>	<u>\$368,499,129</u>	<u>\$360,991,689</u>
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Securities carried at \$148,851,040 at December 31, 1989 and \$222,453,000 at December 31, 1988 were pledged to secure public deposits and for other purposes as required by law. The approximate market value on the pledged securities at December 31, 1989 and 1988 was \$148,367,390 and \$222,150,382, respectively.

The detail of changes in the allowance for investment losses for the years ended December 31, 1989, and 1988 is as follows:

	1989	1988
Balance, beginning of year	\$ 1,302,417	\$ 1,249,764
Investments charged off	(5,967)	-
Recoveries	-	52,653
Balance, end of year	<u>\$ 1,296,450</u>	<u>\$ 1,302,417</u>

NOTE 4 - LOANS

Nonaccrual and restructured loans amounted to \$2,711,000 and \$3,586,000 respectively at December 31, 1989. Nonaccrual loans amounted to approximately \$3,599,000 at December 31, 1988. Additional interest income that would have been earned under original terms of the loans amounted to approximately \$274,000 and \$338,000 for 1989 and 1988, respectively.

The detail of changes in the allowance for loan losses for years ended December 31, 1989 and 1988 is as follows:

	1989	1988
Balance, beginning of year	\$ 12,904,838	\$ 12,928,714
Provision charged to operations	-	750,000
Loans charged off	(930,041)	(1,344,042)
Recoveries	488,269	570,166
Balance, end of year	<u>\$ 12,463,066</u>	<u>\$ 12,904,838</u>

NOTE 5 - BANK PREMISES, EQUIPMENT AND SOFTWARE

Major classifications of fixed assets as of December 31, 1989, and 1988 are summarized as follows:

	Cost	Accumulated Depreciation	Cost Less Accumulated Depreciation
1989			
Land	\$ 287,331	\$ -	\$ 287,331
Building	2,162,495	753,563	1,408,932
Equipment	1,606,254	500,290	1,105,964
Furniture	398,801	186,536	212,265
Software	1,060,568	343,887	716,681
	<u>\$ 5,515,449</u>	<u>\$ 1,784,276</u>	<u>\$ 3,731,173</u>
1988			
Land	\$ 287,331	\$ -	\$ 287,331
Building	1,316,128	700,918	615,210
Equipment	979,492	524,456	455,036
Furniture	419,070	179,173	239,897
Software	692,442	195,931	496,511
	<u>\$ 3,694,463</u>	<u>\$ 1,600,478</u>	<u>\$ 2,093,985</u>

Depreciation and amortization expense on the above assets amounted to \$461,913 and \$404,568 in 1989 and 1988, respectively.

NOTE 6 - LONG-TERM DEBT

Long-term debt consists of:

	1989	1988
Collateralized long-term bonds, 9.25% issued December 1978, due December 1993	\$ 9,609,000	\$ 22,500,000
Long-term notes, 7.875%, (effective interest rate 7.94%) issued December 1986, due December 1996,	50,000,000	50,000,000
Total Due	<u>\$ 59,609,000</u>	<u>\$ 72,500,000</u>
Less unamortized discount	(259,374)	(296,875)
	<u>\$ 59,349,626</u>	<u>\$ 72,203,125</u>

A summary, by years, of future minimum payments required to amortize the outstanding debt is as follows:

1990	\$ 10,263,832
1991	9,410,333
1992	4,375,000
1993	4,375,000
1994	4,375,000
Later years	58,750,000
Total	\$ 91,549,165
Less amount representing interest	31,940,165
	<u>\$ 59,609,000</u>

Collateralized Long-Term Bonds

An annual sinking fund payment of \$2,500,000 was due 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 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 required to be redeemed on such date. During 1988 the Bank exercised its option to redeem \$2,500,000 of bonds at 100% of the principal amount in addition to the mandatory sinking fund redemption of \$2,500,000. During 1989, the Bank exercised its option to redeem \$5,000,000 of bonds at 100% of the principal amount in addition to the mandatory sinking fund redemption of \$5,000,000.

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. During 1989, the Bank redeemed \$2,891,000 of bonds through open market purchases.

The bonds are collateralized by FHA and VA guaranteed loans with principal balances of approximately \$31,368,000 and \$37,429,000 and \$1,800,000 and \$7,700,000 in U.S. Government securities as of December 31, 1989 and 1988, respectively.

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 aggregated 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, 1989 and 1988, respectively.

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 \$54,280,000 and \$50,126,000 and \$10,500,000 and \$10,000,000 in U.S. Government securities as of Decem-

ber 31, 1989 and 1988, respectively. 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 certain restrictive covenants, all of which the Bank is in compliance with as of December 31, 1989 and 1988, respectively.

NOTE 7 - APPROPRIATIONS PAYABLE

The Bank has the following appropriations payable at December 31, 1989:

State General Fund	\$14,000,000
To be transferred during the biennium beginning July 1, 1989, and ending June 30, 1991, with one-half of the transfer to be made no later than June 30, 1990. No funds have been transferred as of December 31, 1989.	
Industrial Commission	54,819
To be transferred during the biennium beginning July 1, 1989 and ending June 30, 1991. No funds have been transferred as of December 31, 1989.	
Beginning Farmer Loan Fund	6,000,000
To be transferred one and one-half million dollars on July 1, 1989 and on July 1 of each year thereafter through July 1, 1992. As of December 31, 1989 the Beginning Farmer Loan Fund had not requested any funds and none had been advanced.	
North Dakota Municipal Bond Bank	388,340
To be transferred during the biennium beginning July 1, 1989 and ending June 30, 1991. As of December 31, 1989 funds totaling \$47,944 have been advanced.	
	<u>\$20,443,159</u>

There were no appropriations payable at December 31, 1988.

NOTE 8 - DEFINED BENEFIT PLAN

All eligible employees of The Bank of North Dakota participate in the North Dakota Employees Retirement System ("System"), a multiple-employer public employee retirement system. The payroll for employees covered by the System for the years ended December 31, 1989 and 1988 was approximately \$3,206,000 and \$2,714,000, respectively. The Bank's total payroll was approximately \$3,358,000 and \$2,799,000, respectively.

All employees of the Bank are eligible to participate in the System if they meet the following requirements: (1) Be at least 18 years old; (2) Position must be full-time, that is at least 20 hours per week for at least five months per year; and (3) Position must be permanent, that is regularly funded and not of limited duration. Employees are entitled to annual pension benefits beginning at normal retirement age (65) equal to 1.65% of their final average annual salary for each year of service. The System permits early retirement at ages 55-64, with eight or more years of service. Employees may elect to receive the pension benefits in the form of a normal retirement, joint and survivor, social security adjustment or guaranteed payment annuity. The System also provides death and disability benefits. Benefits are established by State statute.

State statute requires that 4% of the employees' salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The same statute requires the Bank to contribute 5.12% of the employees salary. The contribution requirement for the years ended December 31, 1989 and 1988 was approximately \$291,000 and \$212,000, respectively.

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 and assess progress comparisons among PERS and employers. The System does not make separate measurements of assets and pension benefit obligation for individual employers. The pension benefit obligation at June 30, 1989 and 1988, for the System as a whole, was \$273.3 million and \$218.6 million, respectively. The System's net assets available for benefits on the date (valued at market) were \$309.7 million and \$270.8 million, leaving an over funded pension benefit obligation of \$36.4 million and \$52.2 million. The Bank's contribution represents approximately 1% of total contributions required of all participating entities.

Four-year historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's June 30, 1989 and 1988 annual financial reports.

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES

Loan commitments

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, 1989 and 1988 standby letters of credit aggregated approximately \$40,033,369 and \$39,594,000 and commitments to extend credit aggregated approximately \$33,160,945 and \$11,440,000, respectively. The Bank has included any anticipated losses as a result of the commitments in the allowance for loan losses.

Investment commitments

The Bank also makes various commitments in the investment area. At December 31, 1989 the Bank had commitments to purchase \$25,000,000 of investment securities and to sell \$10,000,000 of federal funds. There were no investment commitments at December 31, 1988.

State of North Dakota long-term bonds

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 and uncertificated obligations when there are insufficient monies in the pledged funds for payment of the bonds and interest as they become due. It is probable that The Bank of North Dakota will be required to make further purchases of these bond issues. An estimate of the amount cannot be made because of inability to predict cash flows in the pledged funds. The Bank purchased bonds and uncertificated obligations totaling \$1,805,054 in 1989 and \$2,460,000 in 1988 which are included as other securities.

Myron G. Nelson Fund, Incorporated

On December 12, 1988, The Industrial Commission authorized and directed the Bank of North Dakota to subscribe to and purchase shares of stock of the Myron G. Nelson Fund, Incorporated in the amount of

\$5,000,000. In determining the amount of the annual investment to be made by the Bank, the Industrial Commission is directed by the North Dakota Century Code to consider the level of private investments in the Corporation and match the private investments on a dollar-for-dollar basis. On January 4, 1989, the Bank committed to subscribe for and purchase 500,000 shares of common stock of the Corporation at a price of \$10 per share. The subscription for and purchase of shares of common stock of the Corporation will be in 10 increments of fifty thousand shares each. The payment for the first increment will be made in equal installments of \$125,000, with the first installment paid upon execution of the subscription agreement and an installment due in each of the three succeeding anniversary dates of the agreement. The first payment of \$125,000 was made on January 4, 1989.

The payment for each of the 9 additional increments of the subscription will be due in four equal installments of \$125,000 upon receipt by the Bank of a certification from the Corporation stating that the Corporation has entered into subscription agreements for the purchase of limited partnership units in the aggregate of \$500,000 of which at least \$125,000 has been collected.

NOTE 10 - RELATED PARTY TRANSACTIONS

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. All state funds, and funds of all state penal, education, and industrial institutions must be deposited in the Bank under state law. These transactions are a normal part of bank business and, accordingly, are included in the Bank's financial statements.

NOTE 11 - PRIOR PERIOD ADJUSTMENTS

As described in Note 9, payments made to purchase 1984 Real Estate Series A Bonds of North Dakota and uncertificated obligations from 1986 through 1988 were previously charged to expense. In 1989, the Bank received an attorney general's opinion stating that the bonds and uncertificated obligations are general obligations of the State of North Dakota. Upon receiving this opinion, management has determined that these payments should have been properly recorded as an asset of the Bank. The 1988 financial statements have been restated to reflect this change. As a result of the restatement, undivided profits for periods prior to January 1, 1988 have increased \$3,562,688 and 1988 net income increased \$2,460,000.

Prior to 1989, the Bank had not recorded a liability for vacation benefits payable. The 1988 financial statements have been restated to reflect this liability. As a result of the restatement, undivided profits for periods prior to January 1, 1988 have decreased \$145,996 and 1988 net income has decreased \$9,139.

Prior to 1989, the Bank had not consolidated its financial statements with those of its majority owned subsidiary, Myron G. Nelson Fund, Incorporated. The 1988 financial statements have been restated to reflect this consolidation. As a result of the restatement, undivided profits for periods prior to January 1, 1988 have increased by \$12,740 and 1988 net income has increased by \$48,314.

Five Year Summary

	1989	1988	1987	1986	1985
OPERATING RESULTS (in thousands)					
Interest Income	\$ 74,899	\$ 68,884	\$ 68,639	\$ 75,948	\$ 75,946
Interest Expense	55,990	49,489	48,221	52,680	55,765
Net Interest Income	18,909	19,395	20,418	23,268	20,181
Provision for Loan Losses	-	750	2,000	10,153	6,893
Net Interest Income After Provision for Loan Losses	18,909	18,645	18,418	13,115	13,288
Other Income	4,485	3,684	3,484	3,908	3,704
Other Expenses	8,217	7,089	5,985	7,026	4,657
Net Income	15,176	15,240	15,917	9,997	12,335
Paid to State Treasurer (Appropriation)	-	6,000	7,750	3,500	3,000
BALANCE SHEET - YEAR END (in thousands)					
TOTAL ASSETS	971,866	900,113	884,569	944,592	980,348
FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS					
	388,172	278,875	198,715	301,575	255,530
INVESTMENT SECURITIES					
U.S. Government	319,773	368,499	419,323	345,245	390,914
Federal Agencies	86,228	252,057	270,218	267,828	300,934
Other Money Market Instruments	83,065	48,430	129,658	67,638	66,400
ND Political Sub. Bds	136,250	56,978	-	2,577	3,228
Other Securities	5,927	4,971	14,450	6,987	20,352
	8,303	6,063	4,997	215	-
LOANS					
Guaranteed Student Loans	203,315	209,194	207,147	213,674	243,233
Farm Real Estate Loans	32,744	29,376	21,204	23,745	21,336
FHA and GI Home Loans	10,004	7,745	6,932	5,773	4,941
Small Business Adm. Loans	95,744	105,745	117,562	128,627	144,344
Bank Participation Loans	1,300	1,541	2,505	3,766	5,569
Other Loans	35,185	32,394	33,589	38,337	53,439
	28,338	32,393	25,355	13,426	13,604
DEPOSITS -					
Demand	545,868	457,485	559,895	571,545	628,871
Time	129,767	120,035	131,882	125,116	122,728
	416,101	337,450	428,013	446,429	506,143
FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS					
	255,952	274,434	162,500	217,877	246,585
CAPITAL FUNDS					
Capital	84,016	89,472	74,232	68,921	58,924
Surplus	22,000	22,000	22,000	22,000	21,750
Contributed Capital	22,000	22,000	22,000	22,000	21,750
Undivided Profits	1,394	1,394	1,394	-	-
	38,622	44,078	28,838	24,921	15,424

NOTE: The Bank has restated the Five Year Summary information for comparative purposes for the changes made to the financial statements of the Bank during 1989. See NOTE 11 — PRIOR-PERIOD ADJUSTMENTS for the detailed explanation.