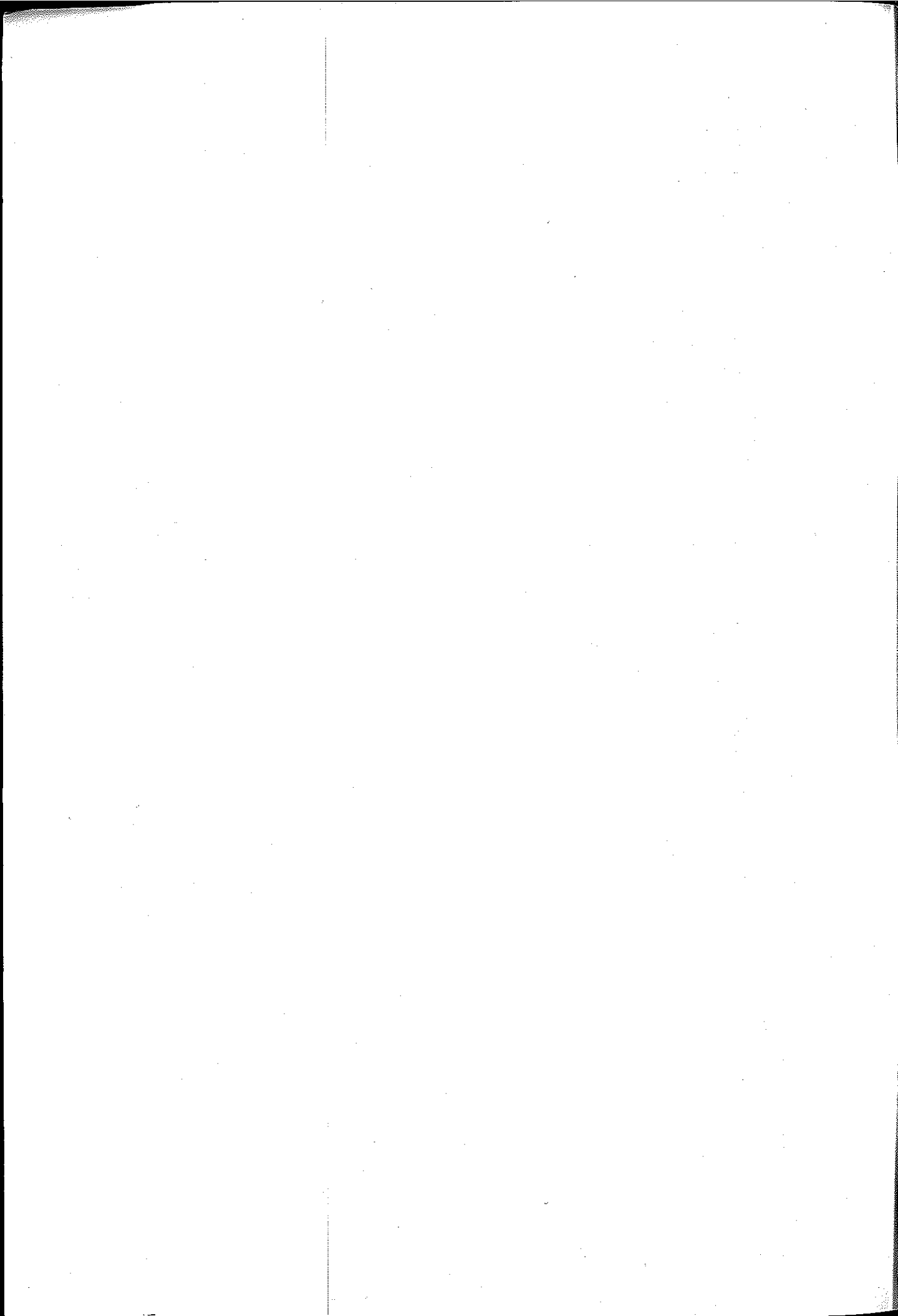


BND

BANK OF NORTH DAKOTA
1990 ANNUAL REPORT



With the beginning of North Dakota's second century, 1990 proved to be one of the most successful years in the history of the Bank of North Dakota.

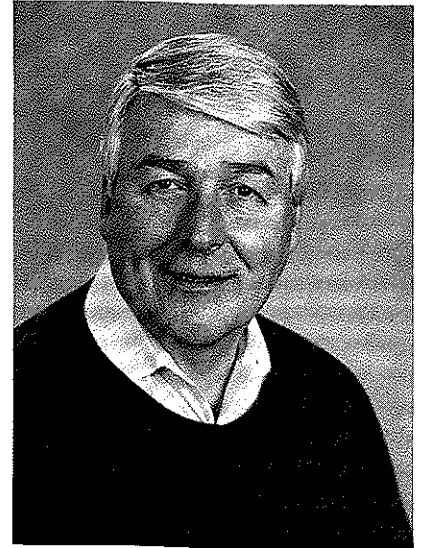
During 1990, BND passed a milestone in its student loan activities, bought down interest rates for special economic development loans, increased its check processing activities, and experienced a substantial growth in loan volume. These accomplishments represent only a small segment of BND's achievements during 1990.

Nearly twenty-five years ago, the Bank of North Dakota became the first lender in the nation to issue a federally insured student loan. Since that time, the Bank has helped over 180,000 students to

continue or complete their educations. During 1990, the Bank continued its commitment to the future of North Dakota by issuing its four hundred millionth dollar in student loans.

During 1990, BND also announced a new student loan program to be implemented in July, 1991 entitled, Non-Subsidized Stafford Loan. This program, designed to assist students who do not qualify for federally subsidized loans, is a direct result of the Industrial Commission's continuing commitment to aid in financial assistance for educational needs.

The Bank introduced the PACE (Partnership in Assisting Community Expansion) Fund in April, 1990. This special interest rate buy down program combines



Joseph S. Lamb, President



North Dakota Industrial Commission
l - r: Commissioner of Agriculture Sarah Vogel; Gov. George A. Sinner; Attorney Gen. Nicholas J. Spaeth

the efforts of BND, the local lender, the community, and the business in supporting local economic development. The working partnership, under PACE, has produced a program considered to be one of the finest in the country. During 1990, BND committed over five million dollars of funding in new loans under PACE. These loans ranged from \$35,000 for a small manufacturing company to \$1.2 million for a major health care servicing center. Most importantly, the PACE program helped to create nearly 350 new jobs for North Dakota.

Other commercial lending programs offered substantial interest rate savings to BND borrowers. For example:

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 long-term loans, at some of the lowest interest rates in the nation, to highly rated companies.

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 which is passed on to the borrower.

Over the past year, BND performed a major expansion to its check processing service. This service, which is offered to the state's financial institutions, has

increased by nearly 35 percent since 1989. By year's end, BND was processing over two million items monthly and is showing a steady growth pattern for next year. Through this check processing service, BND helps the state's financial institutions improve their service to North Dakotans while reducing their costs.

During 1990, BND's commercial and agricultural loan programs showed a significant increase in usage. The total commercial loan portfolio had a net growth of nearly 27 percent, and the amount of loans funded in 1990 was up by 75 percent over the same period last year. Perhaps the most significant loan statistic during 1990 is that BND rejected only 8 percent of all commercial loan

requests. This is further evidence of BND's expanded role in the state's economic development efforts.

The agricultural loan portfolio also increased by nearly 34 percent during 1990. While the total number of loan requests was relatively constant, BND increased the number of loans funded by 35 percent.

The Bank of North Dakota prides itself with the many services it offers to the state, its municipalities, and its citizens. The Bank is deeply committed to the future of North Dakota and will continue to expand its efforts in economic development while maintaining its commitment to promoting agriculture, commerce, and industry.



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.)

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, 1990 and 1989, and the related consolidated statements of income, changes in capital funds and cash flows for the years 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Bank of North Dakota as of December 31, 1990 and 1989, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Brady, Martz and Associates, P.C.

BRADY, MARTZ & ASSOCIATES, P.C.

January 18, 1991
Minot, North Dakota

THE BANK OF NORTH DAKOTA
CONSOLIDATED BALANCE SHEETS
 DECEMBER 31, 1990 AND 1989

<u>ASSETS</u>	<u>1990</u>	<u>1989</u>
CASH AND DUE FROM BANKS	\$ 76,043,136	\$ 58,914,436
FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS	140,200,000	388,171,500
CASH AND CASH EQUIVALENTS	\$ 216,243,136	\$ 447,085,936
TERM FEDERAL FUNDS SOLD	\$ 30,000,000	\$ -
INVESTMENT SECURITIES:		
U.S. Treasury securities	\$ 230,117,126	\$ 86,227,963
Obligations of other U.S. Government agencies	40,483,572	30,519,244
Mortgage-backed securities	75,574,489	52,545,509
Obligations of states and political subdivisions	7,380,632	5,927,410
Banker's acceptances	-	31,245,274
Negotiable certificates of deposit	50,002,169	105,004,783
Other securities	8,106,342	8,303,103
	<u>\$ 411,664,330</u>	<u>\$ 319,773,286</u>
Less allowance for investment losses	(1,256,450)	(1,296,450)
	<u>\$ 410,407,880</u>	<u>\$ 318,476,836</u>
LOANS:		
FHA and VA home loans	\$ 85,963,589	\$ 95,743,757
Guaranteed student loans	46,885,735	32,743,958
Bank Participation -		
Commercial	39,609,731	31,355,951
Agriculture	14,600,031	10,284,001
Farm real estate loans	12,448,921	10,004,495
Family farm loan program	9,915,703	4,436,017
State institutions	8,440,526	8,589,703
Bank stock	3,892,452	4,397,597
Small business concerns	3,708,532	3,355,954
Farm operating loan program	1,431,901	1,773,014
Other	1,087,313	630,819
	<u>\$ 227,984,434</u>	<u>\$ 203,315,266</u>
Less allowance for loan losses	(12,181,538)	(12,463,066)
	<u>\$ 215,802,896</u>	<u>\$ 190,852,200</u>
BANK PREMISES, EQUIPMENT AND SOFTWARE	4,770,334	3,731,173
ACCRUED INTEREST RECEIVABLE	14,211,985	9,564,382
OTHER ASSETS	2,535,618	2,155,481
	<u>\$ 893,971,849</u>	<u>\$ 971,866,008</u>
 <u>LIABILITIES AND CAPITAL FUNDS</u>		
DEPOSITS:		
Non-interest bearing	\$ 60,794,528	\$ 49,132,466
Interest bearing	448,638,845	496,735,038
	<u>\$ 509,433,373</u>	<u>\$ 545,867,504</u>
FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	227,955,250	255,952,128
LONG-TERM DEBT	49,778,127	59,349,626
ACCRUED INTEREST PAYABLE	2,223,493	3,477,414
OTHER LIABILITIES	4,762,270	2,759,702
APPROPRIATIONS PAYABLE	3,201,654	20,443,159
TOTAL LIABILITIES	<u>\$ 797,354,167</u>	<u>\$ 887,849,533</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	51,223,262	38,622,055
Total capital funds	<u>\$ 96,617,682</u>	<u>\$ 84,016,475</u>
	<u>\$ 893,971,849</u>	<u>\$ 971,866,008</u>

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

THE BANK OF NORTH DAKOTA
CONSOLIDATED STATEMENTS OF INCOME
 FOR THE YEARS ENDED DECEMBER 31, 1990 AND 1989

	<u>1990</u>	<u>1989</u>
INTEREST INCOME:		
Interest and fees on loans	\$ 18,622,751	\$ 20,006,341
Interest on investment securities:		
U.S. Treasury securities	14,031,219	13,331,338
Obligations of other U.S. Government agencies	7,189,248	4,413,658
Obligations of states and political subdivisions	382,752	411,782
Banker's acceptances	629,726	1,290,336
Negotiable certificates of deposit and other	6,652,214	8,035,415
Interest on federal funds sold and securities sold under reverse repurchase agreements	22,275,347	27,409,923
	<u>\$ 69,783,257</u>	<u>\$ 74,898,793</u>
INTEREST EXPENSE:		
Interest on deposits	\$ 29,338,304	\$ 31,088,572
Interest on federal funds purchased and securities sold under repurchase agreements	18,320,117	18,819,072
Interest on long-term debt	5,069,146	6,082,520
	<u>\$ 52,727,567</u>	<u>\$ 55,990,164</u>
Net interest income	\$ 17,055,690	\$ 18,908,629
PROVISION FOR LOAN LOSSES		
Net interest income after provision for loan losses	<u>\$ 17,055,690</u>	<u>\$ 18,908,629</u>
OTHER INCOME:		
Service fees and other	\$ 4,549,879	\$ 3,494,378
Securities gains and losses	81,443	990,168
	<u>\$ 4,631,322</u>	<u>\$ 4,484,546</u>
OTHER EXPENSE:		
Salaries	\$ 3,781,253	\$ 3,357,980
Pensions and other employee benefits	1,045,300	924,111
Data processing	1,438,877	1,199,478
Other operating expenses	2,279,377	2,273,841
Depreciation and amortization	595,196	461,913
	<u>\$ 9,140,003</u>	<u>\$ 8,217,323</u>
NET INCOME	<u>\$ 12,547,009</u>	<u>\$ 15,175,852</u>

THE BANK OF NORTH DAKOTA
CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL FUNDS
 FOR THE YEARS ENDED DECEMBER 31, 1990 AND 1989

	<u>Capital</u>	<u>Surplus</u>	<u>Contributed Capital</u>	<u>Undivided Profits</u>	<u>Total</u>
BALANCES, JANUARY 1, 1989	\$ 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	\$ 22,000,000	\$ 22,000,000	\$ 1,394,420	\$ 38,622,055	\$ 84,016,475
Net income	-	-	-	12,547,009	12,547,009
Repayment of past appropriation	-	-	-	54,198	54,198
BALANCES, DECEMBER 31, 1990	<u>\$ 22,000,000</u>	<u>\$ 22,000,000</u>	<u>\$ 1,394,420</u>	<u>\$ 51,223,262</u>	<u>\$ 96,617,682</u>

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

THE BANK OF NORTH DAKOTA
CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 1990 AND 1989

	<u>1990</u>	<u>1989</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 12,547,009	\$ 15,175,852
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	715,041	611,684
Amortization of premiums and accretion of discounts on investment securities	(701,597)	(1,833,138)
Securities gains, net	(81,443)	(990,168)
Losses on sale of equipment	7,242	76,290
Changes in assets and liabilities:		
Increase in accrued interest receivable	(4,647,603)	(130,837)
Increase in other assets	(369,044)	(477,446)
Decrease in accrued interest payable	(1,253,921)	(1,300,392)
Increase in other liabilities	2,002,568	1,018,912
	<u>\$ 8,218,252</u>	<u>\$ 12,150,757</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investment securities	\$ 282,756,766	\$ 233,863,000
Purchase of investment securities	(373,904,770)	(182,319,818)
Increase in term federal funds sold	(30,000,000)	-
(Increase) decrease in loans	(25,044,133)	5,420,330
Purchases of equipment and software	(1,642,557)	(2,226,093)
Proceeds from sale of equipment	958	50,702
	<u>\$(147,833,736)</u>	<u>\$ 54,788,121</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in non-interest bearing deposits	\$ 11,662,062	\$ 185,309
Net increase (decrease) in interest bearing deposits	(48,096,193)	88,197,211
Decrease in federal funds purchased and securities sold under repurchase agreements	(27,996,878)	(18,481,622)
Principal payments on long-term debt	(9,609,000)	(12,891,000)
Payment of appropriations due	(17,241,505)	(188,541)
Repayment of previous appropriation	54,198	-
	<u>\$ (91,227,316)</u>	<u>\$ 56,821,357</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (230,842,800)	\$ 123,760,235
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>447,085,936</u>	<u>323,325,701</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 216,243,136</u>	<u>\$ 447,085,936</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash payments for:		
Interest paid to customers	\$ 30,528,474	\$ 32,457,043
Interest paid on federal funds purchased and securities sold under repurchase agreements	18,309,829	18,762,733
Interest paid on long-term debt	4,824,235	5,848,338
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Other real estate acquired in settlement of loans	\$ 93,437	\$ 16,500
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.

THE BANK OF NORTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1990 AND 1989

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.

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 intercompany 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 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 - 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 management's 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 70 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 year's 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 are 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.

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

NOTE 2 - INVESTMENT SECURITIES

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

	December 31			
	1990			1989
	Carrying Amount	Approximate Market Value	Carrying Amount	Approximate Market Value
U.S. TREASURY SECURITIES				
Due within 1 year	\$ 59,797,954	\$ 60,289,063	\$ 38,712,179	\$ 38,604,625
After 1 year, within 5 years	170,319,172	172,564,062	42,424,728	41,886,875
After 5 years, within 10 years	-	-	5,091,056	5,554,688
Total	\$ 230,117,126	\$ 232,853,125	\$ 86,227,963	\$ 86,046,188
OBLIGATIONS OF OTHER U.S. GOVERNMENT AGENCIES				
Due within 1 year	\$ 20,022,092	\$ 20,031,250	\$ 5,003,534	\$ 4,998,438
After 1 year, within 5 years	15,420,878	15,393,750	25,515,710	25,214,062
After 5 years, within 10 years	5,040,602	5,106,250	-	-
After 10 years	-	-	-	-
Total	\$ 40,483,572	\$ 40,531,250	\$ 30,519,244	\$ 30,212,500
MORTGAGE-BACKED SECURITIES				
	\$ 75,574,489	\$ 75,675,449	\$ 52,545,509	\$ 52,471,413
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS				
Due within 1 year	\$ 72,996	\$ 57,523	\$ 38,000	\$ 38,000
After 1 year, within 5 years	930,093	536,074	850,413	670,002
After 5 years, within 10 years	3,392,878	2,696,642	1,963,070	1,546,614
After 10 years	2,984,665	2,829,292	3,075,927	2,423,384
Total	\$ 7,380,632	\$ 6,119,531	\$ 5,927,410	\$ 4,678,000
INVESTMENT IN DEBT SECURITIES				
	\$ 353,555,819	\$ 355,179,355	\$ 175,220,126	\$ 173,408,101
BANKER'S ACCEPTANCES				
Due within 1 year	-	-	\$ 31,245,274	\$ 31,223,307

NEGOTIABLE CERTIFICATES OF DEPOSIT

Due within 1 year	\$ 45,002,169	\$ 45,013,156	\$ 105,004,783	\$ 105,266,829
After 1 year, within 5 years	5,000,000	5,000,000	-	-
	\$ 50,002,169	\$ 50,013,156	\$ 105,004,783	\$ 105,266,829

OTHER SECURITIES

After 10 years	\$ 8,106,342	\$ 8,106,342	\$ 8,303,103	\$ 8,263,103
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TOTAL INVESTMENT SECURITIES

	\$ 411,664,330	\$ 413,298,853	\$ 319,773,286	\$ 318,161,340
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The carrying amount, gross unrealized gains and losses and market values of investments in debt securities are as follows:

December 31, 1990				
Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	
U.S. TREASURY SECURITIES				
\$ 230,117,126	\$ 2,864,553	\$ (128,554)	\$ 232,853,125	
OBLIGATIONS OF OTHER U.S. GOVERNMENT AGENCIES				
40,483,572	97,127	(49,449)	40,531,250	
MORTGAGE-BACKED SECURITIES				
75,574,489	269,201	(168,241)	75,675,449	
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS				
7,380,632	308	(1,261,409)	6,119,531	
\$ 353,555,819	\$ 3,231,189	\$ (1,607,653)	\$ 355,179,355	

December 31, 1989				
Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Market Value	
U.S. TREASURY SECURITIES				
\$ 86,227,963	\$ 486,882	\$ (668,657)	\$ 86,046,188	
OBLIGATIONS OF OTHER U.S. GOVERNMENT AGENCIES				
30,519,244	-	(306,744)	30,212,500	
MORTGAGE-BACKED SECURITIES				
52,545,509	108,993	(183,089)	52,471,413	
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS				
5,927,410	10,590	(1,260,000)	4,678,000	
\$ 175,220,126	\$ 606,465	\$ (2,418,490)	\$ 173,408,101	

Proceeds from sales of investments in debt securities for the years December 31, 1990 and 1989 were \$113,150,701 and \$229,977,462, respectively. Gross gains of \$48,596 and \$2,042,457 and gross losses of \$195,356 and \$1,066,826 were realized on those sales in 1990 and 1989, respectively.

Securities carried at \$67,302,999 at December 31, 1990 and \$148,851,040 at December 31, 1989 were pledged for securities sold under agreements to repurchase and for other required purposes. The approximate market value on the pledged securities at December 31, 1990 and 1989 was \$67,555,573 and \$148,367,390, respectively.

The detail of changes in the allowance for investment losses for the years ended December 31, 1990, and 1989 is as follows:

	1990	1989
Balance, beginning of year	\$ 1,296,450	\$ 1,302,417
Investments charged off	(40,000)	(5,967)
Recoveries	-	-
Balance, end of year	\$ 1,246,450	\$ 1,296,450

NOTE 3 - LOANS

Nonaccrual and restructured loans amounted to \$2,673,000 and \$5,870,000, respectively, at December 31, 1990 and \$2,711,000 and \$3,586,000, respectively, at December 31, 1989. Additional interest income that would have been earned under original terms of the nonaccrual loans amounted to approximately \$254,000 and \$274,000 for 1990 and 1989, respectively.

The detail of changes in the allowance for loan losses for years ended December 31, 1990 and 1989, is as follows:

	1990	1989
Balance, beginning of year	\$ 12,463,066	\$ 12,904,838
Provision charged to operations	-	-
Loans charged off	(427,097)	(930,041)
Recoveries	145,569	488,269
Balance, end of year	\$ 12,181,538	\$ 12,463,066

NOTE 4 - BANK PREMISES, EQUIPMENT AND SOFTWARE

Major classifications of fixed assets as of December 31, 1990 and 1989, are summarized as follows:

	Cost	Accumulated Depreciation	Cost Less Accumulated Depreciation
1990			
Land	\$ 287,331	-	\$ 287,331
Building	3,329,336	847,767	2,481,569
Equipment	1,657,766	757,322	900,444
Furniture	544,357	228,051	316,306
Software	1,299,430	514,746	784,684
	\$ 7,118,220	\$ 2,347,886	\$ 4,770,334
1989			
Land	\$ 287,331	\$ -	\$ 287,331
Building	2,162,495	753,563	1,408,932
Equipment	1,616,277	510,313	1,105,964
Furniture	398,801	186,536	212,265
Software	1,060,568	343,887	716,681
	\$ 5,525,472	\$ 1,794,299	\$ 3,731,173

Depreciation and amortization expense on the above assets amounted to \$595,196 and \$461,913 in 1990 and 1989, respectively.

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of:

	1990	1989
Collateralized long-term bonds, 9.25% issued December 1978, due December 1993	\$ -	\$ 9,609,000
Long-term notes, 7.875%, (effective interest rate 7.94%) issued December 1986, due December 1996.	50,000,000	50,000,000
Total due	\$ 50,000,000	\$ 59,609,000
Less unamortized discount	(221,873)	(259,374)
	\$ 49,778,127	\$ 59,349,626

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

1991	\$ 3,937,500
1992	3,937,500
1993	3,937,500
1994	3,937,500
1995	3,937,500
Later years	53,937,500
Total	\$ 73,625,000
Less amount representing interest	23,625,000
	<u>\$ 50,000,000</u>

COLLATERALIZED LONG-TERM BONDS

An annual sinking fund payment of \$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 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. In December of 1990, the Bank redeemed 100% of the bonds outstanding plus accrued interest.

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 \$1,800,000 in U.S. Government securities as of December 31, 1989.

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.

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 \$71,456,000 and \$54,280,000 as of December 31, 1990 and 1989, respectively. In addition, \$10,500,000 in U.S. Government securities were held as collateral at December 31, 1989. 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, 1990 and 1989, respectively.

NOTE 6 - APPROPRIATIONS PAYABLE

The Bank has the following appropriations payable at December 31, 1990 and 1989:

	1990	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. As of December 31, 1990, funds totaling \$14,000,000 have been transferred.		
Industrial Commission	27,410	54,819
To be transferred during the biennium beginning July 1, 1989 and ending June 30, 1991. As of December 31, 1990, funds totaling \$27,409 have been transferred.		
Beginning Farmer Revolving Loan Fund	3,000,000	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, 1990, funds totaling \$3,000,000 have been transferred.		
North Dakota Municipal Bond Bank	174,244	388,340
To be transferred during the biennium beginning July 1, 1989 and ending June 30, 1991. As of December 31, 1990, funds totaling \$262,040 have been transferred.		
	<u>\$ 3,201,654</u>	<u>\$ 20,443,159</u>

NOTE 7 - DEFINED BENEFIT PLAN

All eligible employees of the Bank of North Dakota participate in the North Dakota Public Employees Retirement System ("System"), a multiple-employer public employee retirement system. The payroll for Bank employees covered by the System for the years ended December 31, 1990 and 1989, was approximately \$3,647,000 and \$3,206,000, respectively. The Bank's total payroll was approximately \$3,781,000 and \$3,358,000, 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 employee's 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 employee's salary. The contribution requirement for the years ended December 31, 1990 and 1989, was approximately \$331,000 and \$291,000, 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, 1990 and 1989, for the System as a whole, was \$303.7 million and \$273.3 million, respectively. The System's net assets available for benefits (valued at market) on June 30, 1990 were \$382.6 million and on June 30, 1989 were \$309.7 million, leaving an overfunded pension benefit obligation of \$78.9 million and \$36.4 million, respectively. 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, 1990 and 1989 annual financial reports.

NOTE 8 - COMMITMENTS AND CONTINGENT LIABILITIES

Investment commitments

The Bank had no commitments in the investment area at December 31, 1990. 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.

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 \$60,000 in 1990 and \$1,805,054 in 1989, 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 amount paid as of December 31, 1990 was \$250,000.

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 9 - 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 10 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business. These financial instruments include commitments to extend credit, financial standby letters of credit, and put and call agreements. Those instruments involve varying degrees of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of off-balance-sheet financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and financial standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. For the put and call agreements, the actual risk of loss is less than the contract amount.

	Contract Amount (in thousands)	
	1990	1989
Financial standby letters of credit	\$ 38,206	\$ 40,033
Commitments to extend credit	28,764	33,161
Put and call agreements	890	3,890
	<u>\$ 67,860</u>	<u>\$ 77,084</u>

Commitments to extend credit are agreements to lend as long as there is not violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained by the Bank upon extension of credit is based on management's credit evaluation of the customer. Collateral held may include accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

Financial standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The put and call agreements are contracts which allow the purchaser to exercise an option to sell the securities at a specified price back to the Bank upon specific circumstances and the Bank has a call option to purchase the securities from the customer at a specified future date at a specified price. Risk arises from the possible movements in the value of the securities.

NOTE 11 - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

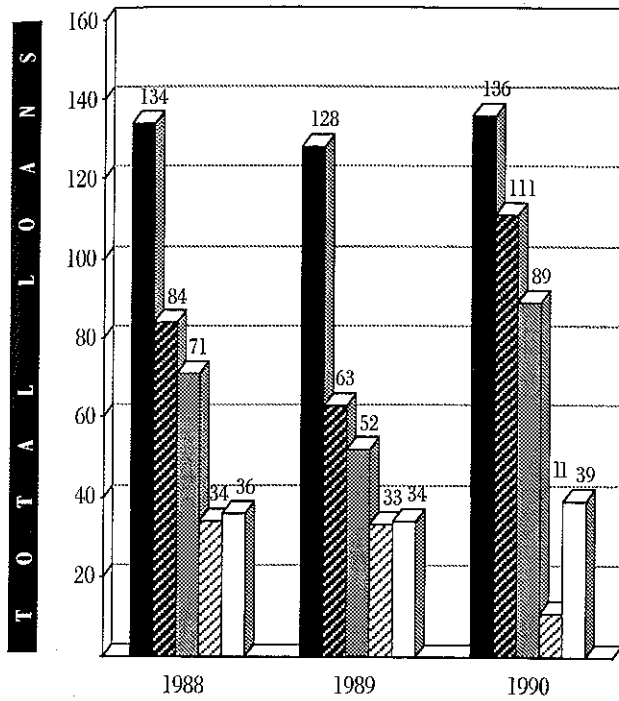
Most of the Bank's business is with customers within the State of North Dakota. Concentrations of credit are present in the agricultural industry. The dollar composition, by type, of the loan portfolio is disclosed on the face of the balance sheet. Due to the pervasive nature of agriculture in the economy of the state, all loans, regardless of type, are impacted by agriculture. Direct loans for agricultural purposes comprised approximately 9% of the total loans at December 31, 1990 and 1989.

Five Year Summary

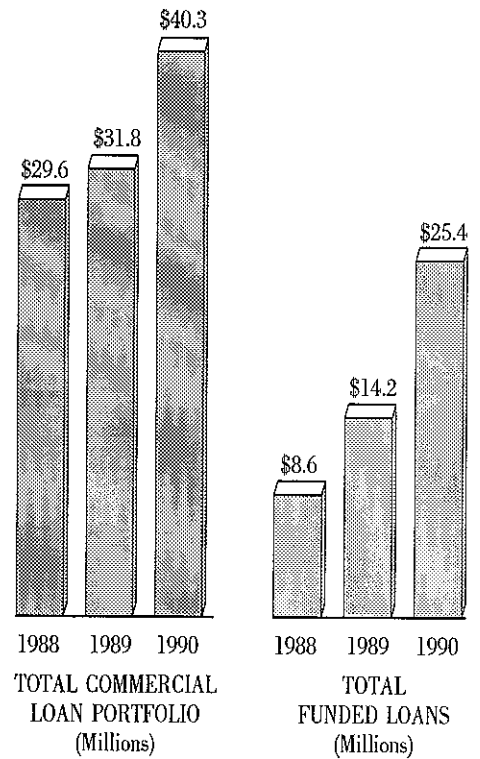
	1990	1989	1988	1987	1986
OPERATING RESULTS (in thousands)					
Interest income	\$ 69,783	\$ 74,899	\$ 68,884	\$ 68,639	\$ 75,948
Interest expense	52,727	55,990	49,489	48,221	52,680
Net interest income	17,056	18,909	19,395	20,418	23,268
Provision for loan losses	-	-	750	2,000	10,153
Net interest income after provision for loan losses	17,056	18,909	18,645	18,418	13,115
Other income	4,631	4,485	3,684	3,484	3,908
Other expenses	9,140	8,217	7,089	5,985	7,026
Net income	12,547	15,176	15,240	15,917	9,997
Paid to State Treasurer (Appropriation)	14,000	-	6,000	7,750	3,500
BALANCE SHEET - YEAR END (in thousands)					
TOTAL ASSETS	893,972	971,866	900,113	884,569	944,592
FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS					
	170,200	388,172	278,875	198,715	301,575
INVESTMENT SECURITIES					
U.S. Treasury securities	411,664	319,773	368,499	419,323	345,245
Obligations of other U.S. Government agencies	230,117	86,228	252,057	270,218	267,828
Other money market instruments	116,058	83,065	48,430	129,658	67,638
Obligations of states and political subdivisions	50,002	136,250	56,978	-	2,577
Other securities	7,381	5,927	4,971	14,450	6,987
	8,106	8,303	6,063	4,997	215
LOANS					
FHA and VA home loans	227,984	203,315	209,194	207,147	213,674
Bank participation loans	85,964	95,744	105,745	117,562	128,627
Guaranteed student loans	54,210	41,640	39,955	47,609	47,753
Farm real estate loans	46,886	32,744	29,376	21,204	23,745
Other loans	12,449	10,004	7,745	6,932	5,773
	28,475	23,183	26,373	13,840	7,776
DEPOSITS -					
Non-interest bearing	509,433	545,868	457,485	559,895	571,545
Interest bearing	60,794	49,133	48,947	68,563	82,885
	448,639	496,735	408,538	491,332	488,660
FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS					
	227,955	255,952	274,434	162,500	217,877
CAPITAL FUNDS					
Capital	96,618	84,016	89,472	74,232	68,921
Surplus	22,000	22,000	22,000	22,000	22,000
Contributed capital	22,000	22,000	22,000	22,000	22,000
Undivided profits	1,394	1,394	1,394	1,394	-
	51,224	38,622	44,078	28,838	24,921

Reclassifications: Certain amounts have been reclassified in prior years to conform to the 1990 presentation.

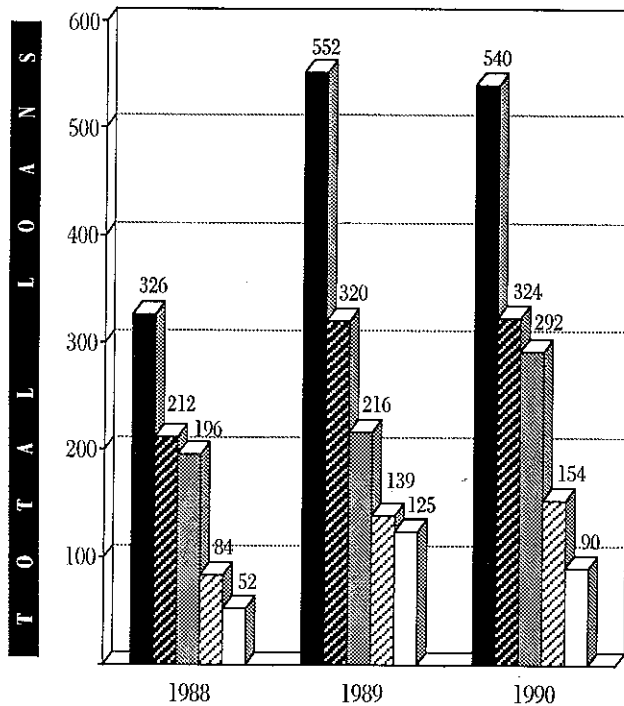
COMMERCIAL LOANS — 1988-1990



■ REQUESTS
 ▨ APPROVED
 ▩ FUNDED
 ▤ REJECTED
 □ WITHDRAWN



AGRICULTURAL LOANS — 1988-1990



■ REQUESTS
 ▨ APPROVED
 ▩ FUNDED
 ▤ REJECTED
 □ WITHDRAWN

