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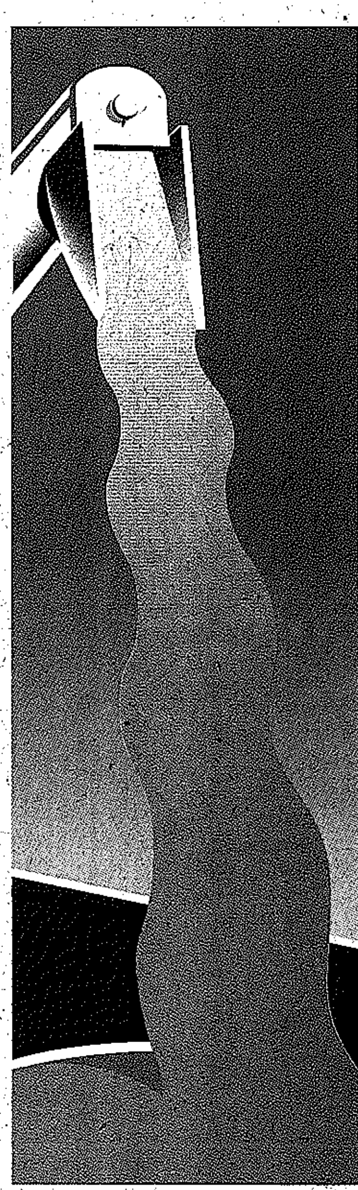


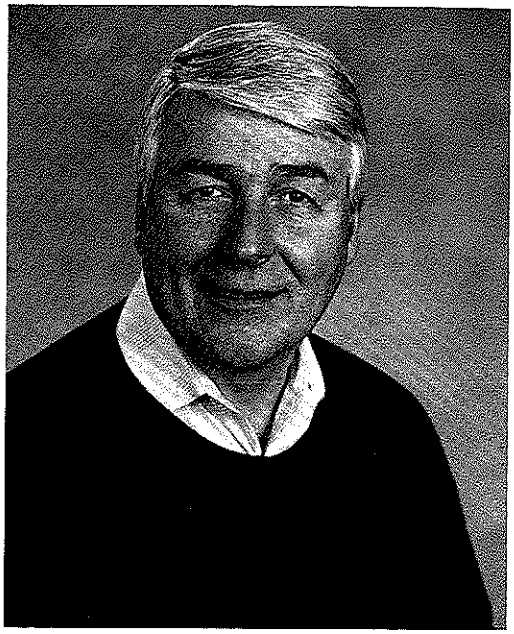
BANK
OF
NORTH
DAKOTA
ANNUAL
REPORT
1991

NINETEEN-HUNDRED-NINETY-ONE WAS AN EXCEPTIONAL YEAR FOR THE BANK OF NORTH DAKOTA. NET INCOME WAS $16.4 MILLION, THE HIGHEST EVER REPORTED BY THE BANK AND A 31 PERCENT INCREASE OVER LAST YEAR. SINCE 1987, THE BANK'S EARNINGS HAVE BEEN THE HIGHEST IN ITS HISTORY, AVERAGING $14.4 MILLION A YEAR AND ACCOUNTING FOR 27 PERCENT OF THE TOTAL EARNINGS SINCE 1919.

TOTAL ASSETS AT THE END OF 1991 WERE $957 MILLION, THE THIRD HIGHEST EVER REPORTED. THE BANK WAS ALSO ABLE TO MAINTAIN TOTAL CAPITAL AT ABOUT 10 PERCENT, MAINTAINING A LONG TERM GOAL FOR STABILITY. THIS CAPITAL STRUCTURE IS ESPECIALLY IMPORTANT SINCE THE BANK IS PROVIDING $23.3 MILLION FOR THE GROWING NORTH DAKOTA LEGISLATION AND OTHER GENERAL FUND EXPENDITURES. THE GENERAL FUND APPROPRIATION IS THE HIGHEST LEVEL EVER REQUIRED OF THE BANK.

IN 1991, THE BANK CONTINUED TO DEMONSTRATE STRONG PERFORMANCE RATIOS. THE RETURN ON AVERAGE ASSETS, THE MEASURE OF OUR ABILITY TO UTILIZE AND MANAGE OUR ASSETS IN GENERATING EARNINGS, WAS 1.86 PERCENT. THESE RECORD HIGH EARNINGS PLACE THE BANK OF NORTH DAKOTA AMONG THE TOP 10 PERCENT OF ALL BANKS NATIONALLY.

DURING THE YEAR, THE BANK ALSO EXPERIENCED A SUBSTANTIAL INCREASE IN OUR LOAN ACTIVITY. THE TOTAL PORTFOLIO GREW BY OVER



JOSEPH S. LAMB, PRESIDENT

NORTH DAKOTA INDUSTRIAL COMMISSION

L-R: Commissioner of Agriculture Sarah Vogel; Governor George A. Sinner; Attorney General Nicholas Spaeth

17 PERCENT, WITH THE LARGEST GROWTH IN THE STUDENT LOAN AREA. AT YEAR END, THERE WAS $206 MILLION OF STAFFORD LOANS (FORMERLY GUARANTEED STUDENT LOANS) OUTSTANDING, WHICH INCLUDED THE $34.8 MILLION OF NEW LOAN ORIGINATIONS IN 1991. THIS IS AN INCREASE OF NEARLY $6 MILLION OVER 1990. IN ADDITION, STUDENT LOANS OF NORTH DAKOTA GUARANTOR HAS GUARANTEED OVER $355 MILLION IN LOANS.

THE COMMERCIAL LOAN AREA ALSO SAW A SUBSTANTIAL INCREASE IN ACTIVITY. COMMERCIAL LOAN REQUESTS WERE UP BY 50 PERCENT OVER LAST YEAR, WHILE APPROVED AND FUNDED COMMERCIAL LOANS WERE UP BY 49 AND 40 PERCENT, RESPECTIVELY. EVEN WITH THIS DRAMATIC INCREASE IN THE TOTAL NUMBER OF COMMERCIAL LOANS, THE BANK WAS ABLE TO MAINTAIN ITS REJECTION RATE AT SLIGHTLY BELOW 10 PERCENT. THIS INCREASED ACTIVITY IN COMMERCIAL LOANS CONTINUES THE THREE YEAR BUILD UP OF THIS PORTFOLIO AND UNDERSCORES THE BANK'S COMMITMENT TO THE STATE'S ECONOMIC DEVELOPMENT EFFORTS.

THE TOTAL NUMBER OF AGRICULTURAL LOAN REQUESTS STAYED RELATIVELY STEADY OVER THE PAST THREE YEARS, WHILE THE NUMBER OF APPROVED LOANS WAS DOWN SLIGHTLY. BOTH OF THESE TRENDS ARE A DIRECT REFLECTION OF THE WEAKENED AG ECONOMY. EVEN WITH THIS WEAKENED ECONOMY, THE BANK'S FARM LOAN PORTFOLIO HAS SHOWN A CONSTANT GROWTH TREND TO THE 1991 HIGH OF $46.5 MILLION, A 75 PERCENT INCREASE SINCE 1989.

THE ACTIVITY IN BOTH THE COMMERCIAL AND AGRICULTURAL LOAN PORTFOLIOS UNDERSCORES ONE OF THE MAJOR MISSIONS OF THE BANK, TO PROMOTE AGRICULTURE, COMMERCE, AND INDUSTRY. IN 1991, THIS MISSION WAS ESPECIALLY IMPORTANT BECAUSE OF THE ECONOMIC DEVELOPMENT INITIATIVE, GROWING NORTH DAKOTA. WHILE THE BANK'S PROFITS WERE THE MAJOR FUNDING SOURCE FOR THIS LEGISLATION, IT IS THE BANK'S ROLE AS THE DOMINANT SOURCE OF FINANCING THAT HAS PLACED IT AT THE CENTER OF THIS INITIATIVE. THROUGH THE NINE SPECIALIZED COMMERCIAL LOAN PROGRAMS AND THE SEVEN AGRICULTURAL PROGRAMS, THE BANK HAS STRUCTURED A VARIETY OF FINANCIAL PACKAGES TARGETED TO MEET THE SPECIALIZED NEEDS OF NORTH DAKOTA.

THE BANK IS VERY SATISFIED WITH ITS OPERATIONS AND ACCOMPLISHMENTS FOR 1991. THROUGH THE CAREFUL MANAGEMENT OF COSTS, INVESTMENT CRITERIA AND LOAN POLICIES, THE BANK HAS BEEN ABLE TO SERVE THE DIVERSE NEEDS OF NORTH DAKOTA. THE BANK'S CONTRIBUTION TO THE STATE'S REVENUE, THROUGH BOTH ITS GENERAL FUND CONTRIBUTION AND THE INTEREST PAID ON STATE DEPOSITS, HAS PROVIDED NORTH DAKOTA WITH ONE OF THE HIGHEST RATES OF RETURN IN THE COUNTRY. THROUGH ITS LOAN PROGRAMS AND OPERATING SERVICE, THE BANK OF NORTH DAKOTA HAS PROVEN TO BE A MAJOR CONTRIBUTOR TO THE STATE'S ECONOMIC GROWTH AND DIVERSIFICATION.

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 *(On December 1, 1991, Dan O'Day and Les Nesvig retired from the Advisory Board. Their positions were filled by Sandra Ludwig and Maren Daley.)*
(The bank exhibit is courtesy of The State Historical Society of North Dakota at The North Dakota Heritage Center in Bismarck.)

INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the accompanying consolidated balance sheets of The Bank of North Dakota as of December 31, 1991 and 1990, 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, 1991 and 1990, 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 17, 1992
Minot, North Dakota

THE BANK OF NORTH DAKOTA
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1991 AND 1990

ASSETS

	1991	1990
CASH AND DUE FROM BANKS	$ 75,093,933	$ 76,043,136
FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS	110,305,000	140,200,000
CASH AND CASH EQUIVALENTS	$185,398,933	$216,243,136
TERM FEDERAL FUNDS SOLD	$ -	$ 30,000,000
INVESTMENT SECURITIES:		
U.S. Treasury securities	$349,028,402	$230,117,126
Obligations of other U.S. Government agencies	55,351,519	40,483,572
Mortgage - backed securities	72,924,884	75,574,489
Obligations of states and political subdivisions	7,942,463	7,380,632
Negotiable certificates of deposit	5,000,000	50,002,169
Other securities	6,542,402	8,106,342
	$496,789,670	$411,664,330
Less allowance for investment losses	(1,258,450)	(1,256,450)
	$495,531,220	$410,407,880
LOANS:		
FHA and VA home loans	$ 75,951,076	$ 85,963,589
Guaranteed student loans	86,487,304	46,885,735
Bank Participation -		
Commercial	48,143,872	39,609,731
Agriculture	16,229,389	14,600,031
Farm real estate loans	15,945,030	12,448,921
Family farm loan program	13,215,597	9,915,703
State institutions	3,167,024	8,440,526
Bank stock	2,698,288	3,892,452
Small business concerns	3,630,519	3,708,532
Farm operating loan program	1,082,750	1,431,901
Other	303,168	1,087,313
	$266,854,017	$227,984,434
Less allowance for loan losses	(12,162,004)	(12,181,538)
	$254,692,013	$215,802,896
BANK PREMISES, EQUIPMENT AND SOFTWARE	4,395,008	4,770,334
ACCRUED INTEREST RECEIVABLE	14,028,050	14,211,985
OTHER ASSETS	2,713,324	2,535,618
	$956,758,548	$893,971,849

LIABILITIES AND CAPITAL FUNDS

	1991	1990
DEPOSITS:		
Non-interest bearing	$ 80,789,393	$ 60,794,528
Interest bearing	461,045,708	448,638,845
	$541,835,101	$509,433,373
FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	247,664,000	227,955,250
LONG-TERM DEBT	49,815,921	49,778,127
ACCRUED INTEREST PAYABLE	2,495,487	2,223,493
OTHER LIABILITIES	3,434,269	4,762,270
APPROPRIATIONS PAYABLE	18,596,050	3,201,654
TOTAL LIABILITIES	$863,840,828	$797,354,167
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	47,523,300	51,223,262
Total capital funds	$ 92,917,720	$ 96,617,682
	$956,758,548	$893,971,849

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, 1991 AND 1990

	1991	1990
INTEREST INCOME:		
Interest and fees on loans	$ 21,035,748	$ 18,622,751
Interest on investment securities:		
U.S. Treasury securities	21,857,719	14,031,219
Obligations of other U.S. Government agencies	2,354,596	2,322,408
Mortgage-backed Securities	6,734,100	4,866,840
Obligations of states and political subdivisions	571,520	382,752
Banker's acceptances	36,750	629,726
Negotiable certificates of deposit and other	4,609,724	6,652,214
Interest on federal funds sold and securities purchased under reverse repurchase agreements	7,010,819	22,275,347
	$ 64,210,976	$ 69,783,257
INTEREST EXPENSE:		
Interest on deposits	$ 25,722,445	$ 29,338,304
Interest on federal funds purchased and securities sold under repurchase agreements	11,458,403	18,320,117
Interest on long-term debt	4,210,068	5,069,146
	$ 41,390,916	$ 52,727,567
Net interest income	$ 22,820,060	$ 17,055,690
PROVISION FOR LOAN LOSSES	698,000	-
Net interest income after provision for loan losses	$ 22,122,060	$ 17,055,690
OTHER INCOME:		
Service fees and other	$ 4,522,818	$ 4,549,879
Securities gains and losses	560,264	81,443
	$ 5,083,082	$ 4,631,322
OTHER EXPENSE:		
Salaries	$ 3,918,672	$ 3,781,253
Pensions and other employee benefits	1,103,776	1,045,300
Data processing	1,293,387	1,438,877
Other operating expenses	2,226,601	2,279,377
Depreciation and amortization	716,235	595,196
	$ 9,258,671	$ 9,140,003
INCOME BEFORE EXTRAORDINARY ITEM	$ 17,946,471	$ 12,547,009
Extraordinary item - Relief of indebtedness granted to North Dakota Real Estate Trust	1,532,688	-
NET INCOME	$ 16,413,783	$ 12,547,009

THE BANK OF NORTH DAKOTA

CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL FUNDS

DECEMBER 31, 1991 AND 1990

	Capital	Surplus	Contributed Capital	Undivided Profits	Total
BALANCES, JANUARY 1, 1990	$ 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	$ 22,000,000	$ 22,000,000	$ 1,394,420	$ 51,223,262	$ 96,617,682
Net income	-	- -	16,413,783	16,413,783	
Appropriations	-	-	-	(23,292,050)	(23,292,050)
Repayment of past appropriation	-	-	-	86,400	86,400
Reversal of previous appropriations	-	-	-	3,091,905	3,091,905
BALANCES, DECEMBER 31, 1991	$ 22,000,000	$ 22,000,000	$ 1,394,420	$ 47,523,300	$ 92,917,720

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, 1991 AND 1990

	1991	1990
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 16,413,783	$ 12,547,009
Adjustments to reconcile net income to net cash provided by operating activities:		
Relief of indebtedness granted to North Dakota Real Estate Trust	1,532,688	-
Depreciation and amortization	804,387	715,041
Amortization of premiums and accretion of discounts on investment securities	(1,126,947)	(701,597)
Securities gains, net	(560,264)	(81,443)
(Gain) loss on sale of equipment	(4,615)	7,242
Changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable	183,935	(4,647,603)
Increase in other assets	(58,051)	(369,044)
Increase (decrease) in accrued interest payable	271,994	(1,253,921)
Increase (decrease) in other liabilities	(1,328,001)	2,002,568
Net cash provided by operating activities	$ 16,128,909	$ 8,218,252
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investment securities	$ 573,200,567	$ 282,756,766
Purchase of investment securities	(658,169,384)	(373,904,770)
(Increase) decrease in term federal funds sold	30,000,000	(30,000,000)
Increase in loans	(39,059,878)	(25,044,133)
Purchases of equipment and software	(340,161)	(1,642,557)
Proceeds from sale of equipment	4,615	958
Net cash used by investing activities	$ (94,364,241)	$ (147,833,736)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in non-interest bearing deposits	$ 19,994,865	$ 11,662,062
Net increase (decrease) in interest bearing deposits	12,406,863	(48,096,193)
Net increase (decrease) in federal funds purchased and securities sold under repurchase agreements	19,708,750	(27,996,878)
Principal payments on long-term debt	-	(9,609,000)
Payment of appropriations due	(4,805,749)	(17,241,505)
Repayment of previous appropriation	86,400	54,198
Net cash provided (used) in financing activities	$ 47,391,129	$ (91,227,316)
DECREASE IN CASH AND CASH EQUIVALENTS	$ (30,844,203)	$ (230,842,800)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	216,243,136	447,085,936
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 185,398,933	$ 216,243,136
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash payments for:		
Interest paid to customers	$ 25,568,578	$ 30,528,474
Interest paid on federal funds purchased and securities sold under repurchase agreements	11,388,771	18,309,829
Interest paid on long-term debt	3,937,500	4,824,235
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Other real estate acquired in settlement of loans	$ 170,761	$ 93,437
Transfer from Undivided Profits to appropriation payable to various state agencies	23,292,050	-
Reverse appropriation payable	3,091,905	-

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, 1991 AND 1990

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.

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 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.

Other real estate - Other real estate (ORE), which is included in other assets, represents properties acquired through foreclosure or other proceedings. ORE is recorded at the lower of the amount of the loan or fair market value of the properties. Any writedown to fair market value at the time of transfer to ORE is charged to the allowance for credit losses. Property is evaluated regularly to ensure that the recorded amount is supported by the current fair market value.

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			
	1991		1990	
	Carrying Amount	Approximate Market Value	Carrying Amount	Approximate Market Value
U.S. TREASURY SECURITIES				
Due within 1 year	$178,726,808	$181,509,467	$ 59,797,954	$ 60,289,063
After 1 year,within 5 years	170,301,594	176,598,938	170,319,172	172,564,062
Total	$349,028,402	$358,108,405	$230,117,126	$232,853,125
OBLIGATIONS OF OTHER U.S. GOVERNMENT AGENCIES				
Due within 1 year	$ 35,074,983	$ 35,232,313	$ 20,022,092	$ 20,031,250
After 1 year, within 5 years	20,276,536	20,981,250	15,420,878	15,393,750
After 5 years, within 10 years	-	-	5,040,602	5,106,250
Total	$ 55,351,519	$ 56,213,563	$ 40,483,572	$ 40,531,250
MORTGAGE - BACKED SECURITIES	$ 72,924,884	$ 76,742,407	$ 75,574,489	$ 75,675,449
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS				
Due within 1 year	$ 103,023	$ 103,014	$ 72,996	$ 57,523
After 1 year, within 5 years	1,064,193	1,064,115	930,093	536,074
After 5 years, within 10 years	2,749,261	2,748,591	3,392,878	2,696,642
After 10 years	4,025,986	4,024,933	2,984,665	2,829,292
Total	$ 7,942,463	$ 7,940,653	$ 7,380,632	$ 6,119,531

NOTE 2 - INVESTMENT SECURITIES (CONTINUED)

	December 31			
	1991		1990	
	Carrying Amount	Approximate Market Value	Carrying Amount	Approximate Market Value
INVESTMENT IN DEBT SECURITIES	$485,247,268	$499,005,028	$353,555,819	$355,179,355
NEGOTIABLE CERTIFICATES OF DEPOSIT				
Due within 1 year	$ 5,000,000	$ 5,000,000	$ 45,002,169	$ 45,013,156
After 1 year, within 5 years	-	-	5,000,000	5,000,000
	$ 5,000,000	$ 5,000,000	$ 50,002,169	$ 50,013,156
OTHER SECURITIES After 10 years	$ 6,542,402	$ 6,542,402	$ 8,106,342	$ 8,106,342
TOTAL INVESTMENT SECURITIES	$496,789,670	$510,547,430	$411,664,330	$413,298,853

The carrying amount, gross unrealized gains and losses and market values of investments in debt securities are as follows:

	Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
	December 31, 1991			
U.S. TREASURY SECURITIES	$349,028,402	$ 9,080,003	$ -	$358,108,405
OBLIGATION OF OTHER U.S. GOVERNMENT AGENCIES	55,351,519	862,044	-	56,213,563
MORTGAGE - BACKED SECURITIES	72,924,884	3,817,523	-	76,742,407
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS	7,942,463	12	1,822	7,940,653
	$485,247,268	$ 13,759,582	$ 1,822	$499,005,028
	December 31, 1990			
U.S. TREASURY SECURITIES	$230,117,126	$ 2,864,553	$ (128,554)	$232,853,125
OBLIGATION 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

Proceeds from sales of investments in debt securities for the years December 31, 1991 and 1990 were $318,165,011 and $113,150,701, respectively. Gross gains of $577,265 and $48,596 and gross losses of $17,001 and $195,356 were realized on those sales in 1991 and 1990, respectively.

Securities carried at $70,950,714 at December 31, 1991 and $67,302,999 at December 31, 1990 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, 1991 and 1990 was $74,317,201 and $67,555,573, respectively.

The detail of changes in the allowance for investment losses for the years ended December 31, 1991, and 1990 is as follows:

	1991	1990
Balance, beginning of year	$ 1,256,450	$ 1,296,450
Provision for investment losses	2,000	-
Investments charged off	-	(40,000)
Balance, end of year	$ 1,258,450	$ 1,256,450

NOTE 3 - LOANS

Nonaccrual and restructured loans amounted to $1,776,000 and $5,510,000, respectively at December 31, 1991 and $2,673,000 and $5,870,000 respectively at December 31, 1990. Additional interest income that would have been earned under original terms of the nonaccrual loans amounted to approximately $154,000 and $254,000 for 1991 and 1990, respectively. Interest collected on nonaccrual loans was $45,022 and $16,107 during 1991 and 1990, respectively.

The detail of changes in the allowance for loan losses for years ended December 31, 1991 and 1990 is as follows:

	1991	1990
Balance, beginning of year	$ 12,181,538	$ 12,463,066
Provision charged to operations	698,000	-
Loans charged off	(1,046,795)	(427,097)
Recoveries	329,261	145,569
Balance, end of year	$ 12,162,004	$ 12,181,538

NOTE 4 - BANK PREMISES, EQUIPMENT AND SOFTWARE

The following is a summary of changes in bank premises, equipment, furniture and software at December 31, 1991 and 1990:

	Balance December 31, 1990	Additions	Retirements	Balance December 31, 1991
Land	$ 287,331	$ -	$ -	$ 287,331
Building	3,329,336	52,349	-	3,381,685
Equipment	1,657,766	106,674	-	1,764,440
Furniture	544,357	7,523	-	551,880
Software	1,299,430	173,615	-	1,473,045
	$ 7,118,220	$ 340,161	$ -	$ 7,458,381
Less accumulated depreciation	2,347,886	715,487	-	3,063,373
	$ 4,770,334	$ (375,326)	$ -	$ 4,395,008

	Balance December 31, 1989	Additions	Retirements	Balance December 31, 1990
Land	$ 287,331	$ -	$ -	$ 287,331
Building	2,162,495	1,166,841	49,811	3,329,336
Equipment	1,616,277	91,300	-	1,657,766
Furniture	398,801	145,556	-	544,357
Software	1,060,568	238,862	-	1,299,430
	$ 5,525,472	$ 1,642,559	$ 49,811	$ 7,118,220
Less accumulated depreciation	1,794,299	595,196	41,609	2,347,886
	$ 3,731,173	$ 1,047,363	$ 8,202	$ 4,770,334

Depreciation and amortization expense on the above assets amounted to $715,487 and $595,196 in 1991 and 1990, respectively.

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of:	1991	1990
Long-term notes, 7.875%, (effective interest rate 7.94%) issued December 1986, due December 1996,	$ 50,000,000	$ 50,000,000
Less unamortized discount	(184,079)	(221,873)
	$ 49,815,921	$ 49,778,127

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

	Principal	Interest	Total
1992	$ -	$ 3,937,500	$ 3,937,500
1993	-	3,937,500	3,937,500
1994	-	3,937,500	3,937,500
1995	-	3,937,500	3,937,500
1996	50,000,000	3,937,500	53,937,500
Total	$ 50,000,000	$ 19,687,500	$ 69,687,500

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 $63,193,000 and $71,456,000 as of December 31, 1991 and 1990, 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, 1991 and 1990, respectively.

NOTE 6 - APPROPRIATIONS PAYABLE

Appropriations have been transferred out of undivided profits to appropriations payable.
The Bank has the following appropriations payable at December 31, 1991 and 1990:

	1991	1990
State General Fund To be transferred during the biennium beginning July 1, 1991, and ending June 30, 1993, with one-half of the transfer to be made no later than June 30, 1992. As of December 31, 1991 funds totaling $4,696,000 have been transferred.	$18,521,457	$ -
Industrial Commission To be transferred during the biennium beginning July 1, 1991 and ending June 30, 1993. As of December 31, 1991 no funds have been transferred.	74,593	27,410
Beginning Farmer Loan Fund	-	3,000,000
North Dakota Municipal Bond Bank	-	174,244
	$18,596,050	$ 3,201,654

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 statewide, cost-sharing multiple-employer public employee retirement system. The payroll for Bank employees covered by the System for the years ended December 31, 1991 and 1990 was approximately $3,783,000 and $3,647,000, respectively. The Bank's total payroll was approximately $3,919,000 and $3,781,000, 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 unreduced pension benefits beginning when the sum of age and years of credited service equal or exceed 90, or at normal retirement age (65), equal to 1.65% of their final average annual salary for each year of service. Benefits fully vest at age 65 or on reaching five years of service. The System permits early retirement at ages 55-64, with five or more years of service. The System also provides death and disability benefits. Benefits are established by State statute.

State statute requires that 4% of each participating employees' gross wage 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 4.12% of the employees wages. Administrative expenses and prior service costs are funded through the employer contributions. The contribution requirement for the years ended December 31, 1991 and 1990 was approximately $306,000 and $295,000, respectively.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure 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 public employee retirement systems and employers. The System does not make separate measurements of assets and pension benefit obligations for individual employers. The pension benefit obligation at June 30, 1991 and 1990, for the System as a whole, was $333.5 million and $303.7 million, respectively. The System's net assets available for benefits (valued at market) on June 30, 1991 were $400.6 million and on June 30, 1990 were $382.6 million, leaving an overfunded pension benefit obligation of $67.0 million and $78.9 million, respectively. The Bank's contribution represents approximately 1% of total contributions required of all participating entities.

Historical trend information showing the System's progress in accumulating sufficient assets to pay benefits when due, current measurements of the pension benefit obligation, and net assets available for benefits are presented in the System's June 30, 1991 and 1990 audited financial statements.

NOTE 8 - POST-RETIREMENT BENEFITS

In addition to providing pension benefits, the state allows all Public Employees Retirement System ("PERS") retirees to participate in the State Group Health Plan after retirement. With the passage of a state law in 1989, PERS is allowed to pay a portion of the monthly health insurance premiums for retirees, surviving spouses and disability receivers. The amount of credit is based on $3 times the years of service of the retiring, deceased or disabled member. During the years December 31, 1991 and 1990, the Bank paid approximately $38,000 and $36,000, respectively.

NOTE 9 - COMMITMENTS AND CONTINGENT LIABILITIES

State of North Dakota Long-Term Bonds- The State of North Dakota, through the North Dakota Real Estate Trust ("Trust"), issued long-term bonds in 1982, 1984, and 1986, of which the proceeds were used to provide funds to 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 is insufficient cash flow in the Trust 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 bonds and uncertificated obligations. An estimate of the amount cannot be made because of the inability to predict cash flows in the Trust. The Bank purchased bonds and uncertificated obligations of $60,000 in 1990 which are included as other securities on the balance sheet. The Bank of North Dakota has purchased $7,827,688 in bonds and uncertificated obligations through December 31, 1991. During 1991, The Bank of North Dakota relinquished its rights to collect $1,532,688 in bonds and uncertificated obligations from the North Dakota Real Estate Trust.

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 ("Fund") 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 Fund 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 Fund at a price of $10 per share. The subscription for and purchase of shares of common stock of the Fund 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, 1991 is $375,000.

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 Fund stating that the Fund 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 - 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)	
	1991	1990
Financial standby letters of credit	$ 20,368	$ 38,206
Commitments to extend credit	39,472	28,764
Put and call agreements	890	890
Guarantee agreement	3,700	-
	$ 64,430	$ 67,860

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 agreement 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.

The guaranty agreement unconditionally guarantees that the Bank of North Dakota will make payments due for principal and interest owing on revenue bonds issued by a state agency.

NOTE 12 - 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, 1991 and 1990.

NOTE 13 - EXTRAORDINARY ITEM

The State of North Dakota, through the North Dakota Real Estate Trust, issued long-term bonds in 1982, 1984, and 1986, of which the proceeds were used to provide funds to 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 the Trust has insufficient cash flow to pay the bonds and interest as they become due. During 1991, The Bank of North Dakota relinquished its rights to collect on $1,532,688 of bonds and uncertificated obligations.

FIVE YEAR SUMMARY

	1991	1990	1989	1988	1987
OPERATING RESULTS (in thousands)					
Interest income	$ 64,211	$ 69,783	$ 74,899	$ 68,884	$ 68,639
Interest expense	41,391	52,727	55,990	49,489	48,221
Net interest income	22,820	17,056	18,909	19,395	20,418
Provision for loan losses	698	-	-	750	2,000
Net interest income after provision for loan losses	22,122	17,056	18,909	18,645	18,418
Other income	5,083	4,631	4,485	3,684	3,484
Other expenses	10,791	9,140	8,217	7,089	5,985
Net income	16,414	12,547	15,176	15,240	15,917
Paid to State Treasurer (Appropriation)	4,696	14,000	-	6,000	7,750
BALANCE SHEET - YEAR END (in thousands)					
TOTAL ASSETS	956,759	893,972	971,866	900,113	884,569
FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS	110,305	170,200	388,172	278,875	198,715
INVESTMENT SECURITIES	496,790	411,664	319,773	368,499	419,323
U.S. Treasury securities	349,029	230,117	86,228	252,057	270,218
Obligations of other U.S. Government agencies	128,276	116,058	83,065	48,430	129,658
Other money market instruments	5,000	50,002	136,250	56,978	-
Obligations of states and political subdivisions	7,943	7,381	5,927	4,971	14,450
Other securities	6,542	8,106	8,303	6,063	4,997
LOANS	266,854	227,984	203,315	209,194	207,147
FHA and VA home loans	75,951	85,964	95,744	105,745	117,562
Bank participation loans	64,373	54,210	41,640	39,955	47,609
Guaranteed student loans	86,487	46,886	32,744	29,376	21,204
Farm real estate loans	15,945	12,449	10,004	7,745	6,932
Other loans	24,098	28,475	23,183	26,373	13,840
DEPOSITS	541,835	509,433	545,868	457,485	559,895
Non-interest bearing	80,789	60,794	49,133	48,947	68,563
Interest bearing	461,046	448,639	496,735	408,538	491,332
FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	247,664	227,955	255,952	274,434	162,500
CAPITAL FUNDS	92,918	96,618	84,016	89,472	74,232
Capital	22,000	22,000	22,000	22,000	22,000
Surplus	22,000	22,000	22,000	22,000	22,000
Contributed capital	1,394	1,394	1,394	1,394	1,394
Undivided profits	47,524	51,224	38,622	44,078	28,838