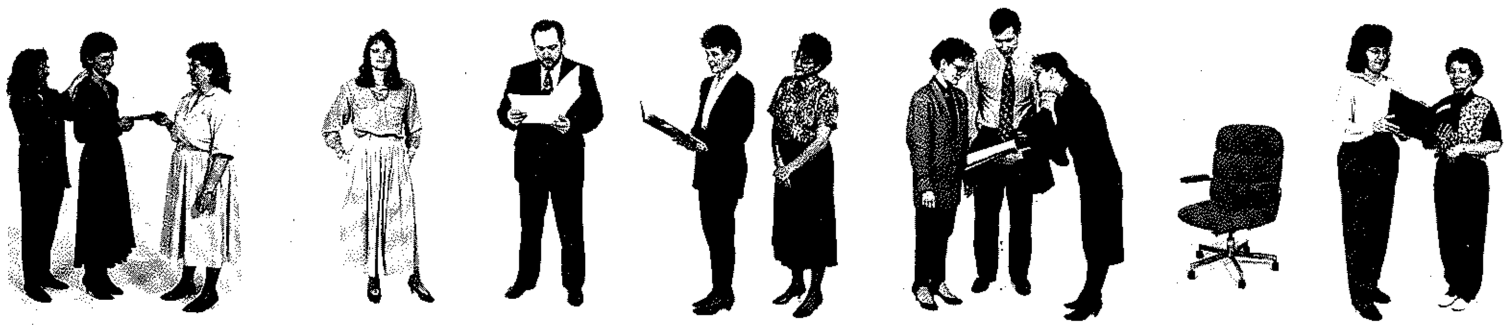
B A N K O F N O R T H D A K O T A 1 9 9 2 A N N U A L R E P O R T

1992 WAS AN EXCEPTIONALLY PROFITABLE YEAR FOR THE BANK OF NORTH DAKOTA. BND'S EXECUTIVE COMMITTEE, THE ADVISORY BOARD, AND THE INDUSTRIAL COMMISSION THANK ALL OF THE EMPLOYEES FOR THEIR FINE PERFORMANCE. IN APPRECIATION FOR THEIR DEDICATED SERVICE, THIS ANNUAL REPORT HAS BEEN DEDICATED TO THE EMPLOYEES, AND THEIR PICTURES ARE FEATURED IN IT.



1992 PERFORMANCE: The Bank of North Dakota reported historically high earnings in 1992. The $22.1 million was a 35 percent increase over last year. These earnings translate into a Return on Average Assets of 2.49 percent in 1992 compared to 1.86 percent in 1991, and a Return on Equity of 19.4 percent in 1992 compared to 17.7 percent in 1991. All divisions of the Bank contributed to the strong earnings generated for the year. The Lending Division increased its commercial and agricultural loan portfolio and reduced its overall delinquency rate. The Student Loan Division maintained one of the lowest delinquency and default rates in the nation among Student Loan Guarantee Agencies. Operating volumes in the Retail Banking and Operations Division increased by 19.2 percent. Capitalizing on the downward trend in interest rates, the Investment and Trust Division used proven management techniques to extract additional earnings from the Bank's already profitable investment portfolio, and persisted in its efforts to provide the highest level of professionalism in meeting the needs of its customers. These accomplishments came while maintaining a tight control on the Bank's overall expenses.

THE FUTURE: BND earnings for 1993 will be significantly lower. The banking industry had record earnings in 1992. Profits industry-wide exceeded the former record year of 1988 by over 30 percent. Banks in general will be hard-pressed to repeat the earnings of 1992, but the Bank of North Dakota, in particular, has some difficult issues to manage. The 1993 Legislature transferred $52 million dollars from the Bank to the State General Fund, approximately $24 million will be transferred from capital and $28 million from profits. The Legislature guaranteed that the capital of the Bank would not be drawn below $100 million. The Bank's capital is the foundation which enables BND to take reasonable risks in financing North Dakota's business and agriculture. The smaller capital base and opportunities for future earnings must be closely analyzed and several significant problems must be recognized. In 1982, long-term fixed rate agricultural loans held by the Bank were placed in the North Dakota Real Estate Trust and financed with general obligation bonds. The bonds were issued at a rate which was higher than that yielded by the underlying loans. Consequently, the Trust is unable to service its debt; resulting in a shortfall. The Bank is obligated to cover the shortfall as bonds come due. The Real Estate Trust has a current shortfall of approximately $24 million. Under generally accepted accounting principles, the Trust is recognized as a

contingent liability of the Bank, but the shortfall has not been charged against the Bank's capital. To satisfy the shortfall, however, the Bank will need to expense $1.5 million each year until 2013 when the bonds fully mature. Other factors will also adversely impact BND's future earnings. On January 1, 1993, $85 million in variable rate student loans were sold to the Student Loan Trust. This sale reduced BND's total loan portfolio by 27 percent. Replacing these variable rate assets will be difficult, but very important, particularly, if interest rates rise. Together this reduction in the loan portfolio, and the 20 percent reduction in the Bank's capital through transfer to the State will have a negative impact of approximately $5 million on the Bank's earnings. In addition, changes pending in the Federal Student Loan Program may prevent BND and all banks from funding student loans in the future.

IN SUMMARY: 1992 was a profitable year, but significant challenges will force the Bank of North Dakota to change the way it does business and look for new opportunities to restore earnings. The Bank's primary mission is to finance business, industry, and agriculture throughout the State. Aggressively seeking to fulfill this mandate will benefit the State's economy and build BND's loan portfolio. As the loan portfolio grows, so will BND's ability to generate earnings for the State General Fund. The management and staff of the Bank are dedicated to that pursuit.

NORTH DAKOTA INDUSTRIAL COMMISSION: COMMISSIONER OF AGRICULTURE SARAH VOGEL; GOVERNOR ED SCHAFER, CHAIRMAN; ATTORNEY GENERAL HEIDI HEITKAMP.

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 sheets of The Bank of North Dakota as of December 31, 1992 and 1991, 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.

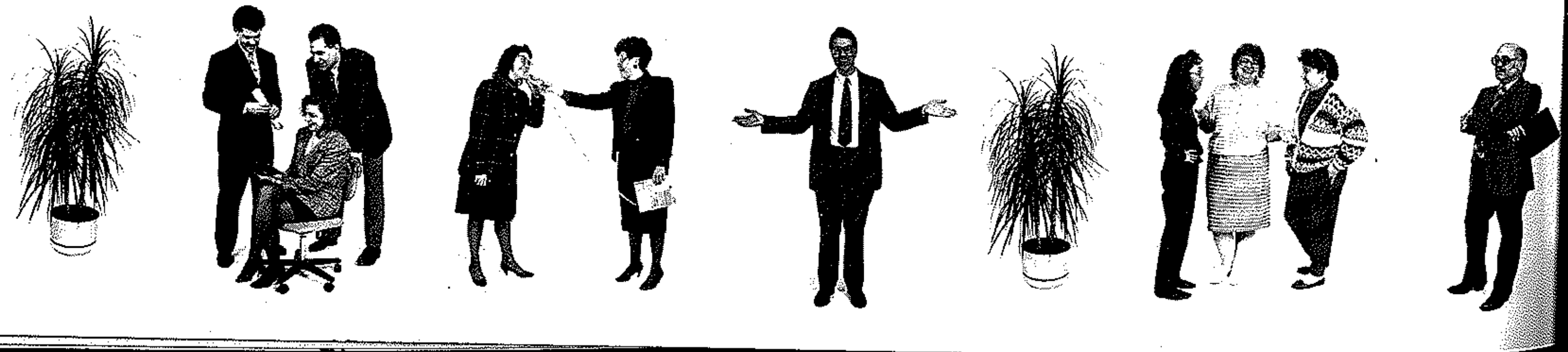
We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence 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 consolidated financial position of The Bank of North Dakota as of December 31, 1992 and 1991, and the consolidated 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 15, 1993
Minot, North Dakota



THE BANK OF NORTH DAKOTA

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1992 AND 1991

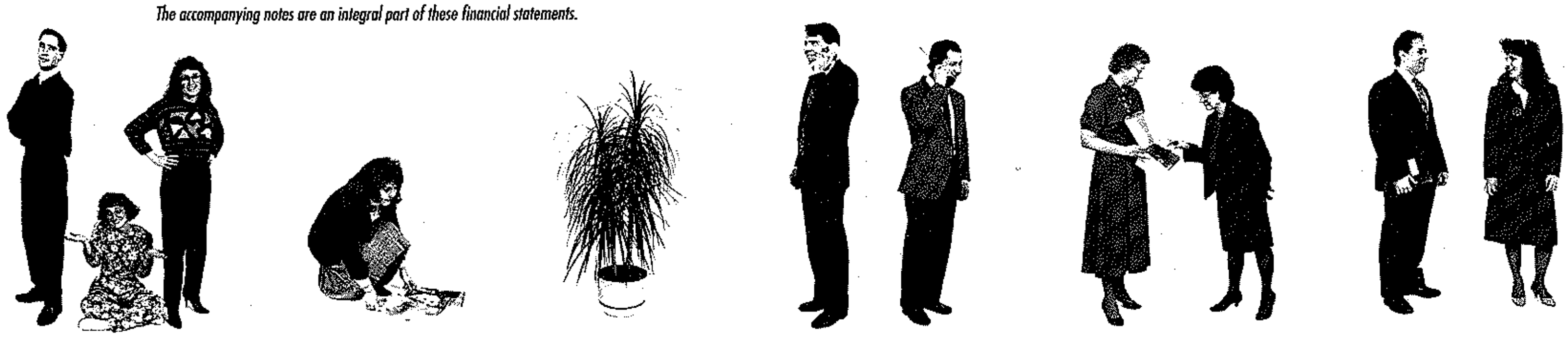
ASSETS

	(in thousands) 1992	1991
CASH AND DUE FROM BANKS	$ 79,837	$ 75,094
FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS	208,951	110,305
CASH AND CASH EQUIVALENTS	$ 288,788	$ 185,399
INVESTMENT SECURITIES	$ 456,694	$ 496,789
Less allowance for investment losses	(1,591)	(1,258)
	$ 455,103	$ 495,531
LOANS	$ 313,873	$ 266,854
Less allowance for loan losses	(12,664)	(12,162)
	$ 301,209	$ 254,692
BANK PREMISES, EQUIPMENT AND SOFTWARE	4,268	4,395
ACCRUED INTEREST RECEIVABLE	11,325	14,028
OTHER ASSETS	2,507	2,713
	$ 1,063,200	$ 956,758

LIABILITIES AND CAPITAL FUNDS

	1992	1991
DEPOSITS:		
Non-interest bearing	$ 91,139	$ 80,789
Interest bearing	479,510	461,046
	$ 570,649	$ 541,835
FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	322,307	247,664
LONG-TERM DEBT	49,862	49,816
ACCRUED INTEREST PAYABLE	1,450	2,496
OTHER LIABILITIES	3,890	3,434
APPROPRIATIONS PAYABLE	1,135	18,596
TOTAL LIABILITIES	$ 949,293	$ 863,841
CAPITAL FUNDS:		
Capital	$ 22,000	$ 22,000
Surplus	22,000	22,000
Contributed capital	1,394	1,394
Undivided profits	68,513	47,523
Total capital funds	$ 113,907	$ 92,917
	$ 1,063,200	$ 956,758

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



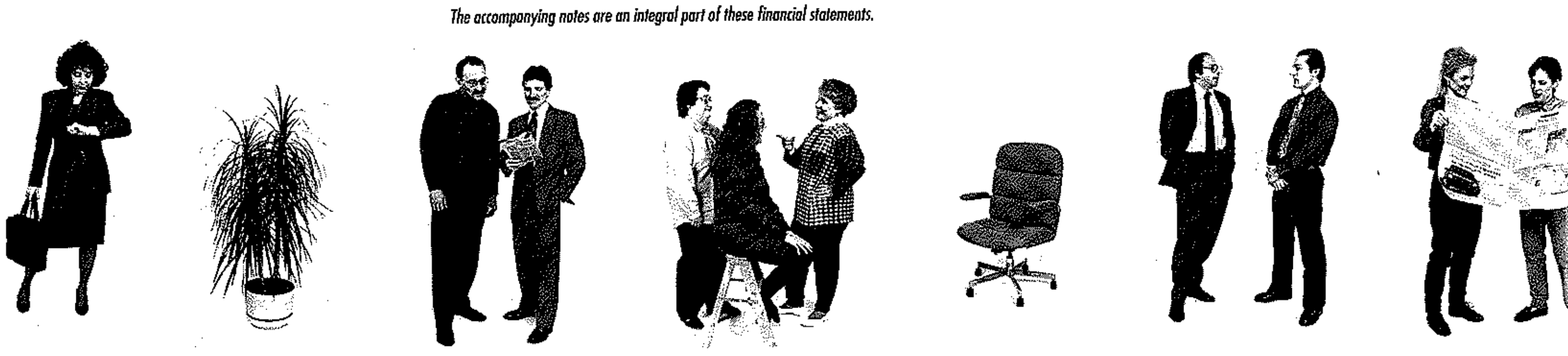
THE BANK OF NORTH DAKOTA
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1992 AND 1991

	1992 (in thousands)	1991
INTEREST INCOME:		
Interest and fees on loans	$ 23,054	$ 21,036
Interest on investment securities	30,586	36,164
Interest on federal funds sold and securities purchased under reverse repurchase agreements	3,526	7,011
	$ 57,166	$ 64,211
INTEREST EXPENSE:		
Interest on deposits	$ 17,195	$ 25,723
Interest on federal funds purchased and securities sold under repurchase agreements	6,807	11,458
Interest on long-term debt	4,221	4,210
	$ 28,223	$ 41,391
Net interest income	$ 28,943	$ 22,820
PROVISION FOR LOAN LOSSES	667	698
Net interest income after provision for loan losses	$ 28,276	$ 22,122
OTHER INCOME:		
Service fees and other	$ 4,242	$ 4,523
Securities gains and losses	1,003	560
Provision for investment losses	(333)	—
	$ 4,912	$ 5,083
OTHER EXPENSE:		
Salaries	$ 3,979	$ 3,919
Pensions and other employee benefits	1,138	1,104
Data processing	1,520	1,293
Other operating expenses	2,184	2,227
Depreciation and amortization	742	716
	$ 9,563	$ 9,259
INCOME BEFORE EXTRAORDINARY ITEM	$ 23,625	$ 17,946
Extraordinary item — Relief of indebtedness granted to North Dakota Real Estate Trust	1,500	1,532
NET INCOME	$ 22,125	$ 16,414

THE BANK OF NORTH DAKOTA
CONSOLIDATED STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 1992 AND 1991

	Capital	Surplus	(in thousands) Contributed Capital	Undivided Profits	Total
BALANCES, JANUARY 1, 1991	$ 22,000	$ 22,000	$ 1,394	$ 51,223	$ 96,617
Net income	—	—	—	16,414	16,414
Appropriations	—	—	—	(23,292)	(23,292)
Repayment of past appropriation	—	—	—	86	86
Reversal of previous appropriations	—	—	—	3,092	3,092
BALANCES, DECEMBER 31, 1991	$ 22,000	$ 22,000	$ 1,394	$ 47,523	$ 92,917
Net income	—	—	—	22,125	22,125
Appropriations	—	—	—	(1,135)	(1,135)
BALANCES, DECEMBER 31, 1992	$ 22,000	$ 22,000	$ 1,394	$ 68,513	$ 113,907

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, 1992 AND 1991

	(in thousands) 1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 22,125	$ 16,414
Adjustments to reconcile net income to net cash provided by operating activities:		
Relief of indebtedness granted to North Dakota Real Estate Trust	1,500	1,532
Depreciation and amortization	850	804
Provision for loan losses	667	698
Provision for investment losses	333	2
Amortization of premiums and accretion of discounts on investment securities	(101)	(1,127)
Securities gains, net	(1,003)	(560)
(Gain) loss on sale of equipment	(1)	(4)
Changes in assets and liabilities:		
Decrease in accrued interest receivable	2,703	184
(Increase) decrease in other assets	274	(58)
Increase (decrease) in accrued interest payable	(1,046)	272
Increase (decrease) in other liabilities	455	(1,328)
Net cash provided by operating activities	$ 26,756	$ 16,829
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investment securities	$ 638,315	$ 573,201
Purchase of investment securities	(598,615)	(658,169)
(Increase) decrease in term federal funds sold	—	30,000
Increase in loans	(47,314)	(39,760)
Purchases of equipment and software	(615)	(340)
Proceeds from sale of equipment	1	4
Net cash used by investing activities	$ (8,228)	$ (95,064)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in non-interest bearing deposits	$ 10,349	$ 19,995
Net increase in interest bearing deposits	18,464	12,407
Net increase in federal funds purchased and securities sold under repurchase agreements	74,644	19,709
Payment of appropriations due	(18,596)	(4,806)
Repayment of previous appropriation	—	86
Net cash provided in financing activities	84,861	$ 47,391
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 103,389	$ (30,844)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	185,399	216,243
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 288,788	$ 185,399
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash payments for:		
Interest paid to customers	$ 18,010	$ 25,569
Interest paid on federal funds purchased and securities sold under repurchase agreements	7,064	11,389
Interest paid on long-term debt	3,938	3,938
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Other real estate acquired in settlement of loans	$ 130	$ 171
Transfer from Undivided Profits to appropriation payable to various state agencies	1,135	23,292
Reverse appropriation payable	—	3,092

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, 1992 AND 1991

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 — 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. The carrying amount of cash and cash equivalents is a reasonable estimate of its fair value.

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 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 or amortization. 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.

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 loan 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:

	(in thousands) December 31			
	1992		1991	
	Carrying Amount	Approximate Market Value	Carrying Amount	Approximate Market Value
U.S. TREASURY SECURITIES				
Due within 1 year	$ 145,068	$ 147,842	$ 178,727	$ 181,509
After 1 year, within 5 years	171,793	174,600	170,301	176,599
Total	$ 316,861	$ 322,442	$ 349,028	$ 358,108
OBLIGATIONS OF OTHER U.S. GOVERNMENT AGENCIES				
Due within 1 year	$ 5,004	$ 5,009	$ 35,075	$ 35,233
After 1 year, within 5 years	5,026	5,452	20,277	20,981
Total	$ 10,030	$ 10,461	$ 55,352	$ 56,214
MORTGAGE-BACKED SECURITIES	$ 63,205	$ 64,951	$ 72,925	$ 76,742
OBLIGATIONS OF STATES AND POLITICAL SUBDIVISIONS				
Due within 1 year	$ 49	$ 49	$ 103	$ 103
After 1 year, within 5 years	1,767	1,766	1,064	1,064
After 5 years, within 10 years	2,979	2,979	2,749	2,749
After 10 years	6,833	6,322	4,026	4,025
Total	$ 11,628	$ 11,116	$ 7,942	$ 7,941
INVESTMENT IN DEBT SECURITIES	$ 401,724	$ 408,970	$ 485,247	$ 499,005
NEGOTIABLE CERTIFICATES OF DEPOSIT				
Due within 1 year	$ —	$ —	$5,000	$5,000
COMMERCIAL PAPER				
Due within 1 year	$ 50,000	$ 50,000	$ —	$ —
OTHER SECURITIES				
After 10 years	$ 4,970	$ 996	$ 6,542	$ 6,542
TOTAL INVESTMENT SECURITIES	$ 456,694	$ 459,966	$ 496,789	$ 510,547

The market value of investment securities is based on quoted market prices bid, if available. Quoted market prices are not readily available for obligations of state and political subdivisions and certain other securities. The carrying amount of the Bank's investment in state and political subdivision debt is believed to be a conservative estimate of the market value of that debt. The market value of other securities is estimated by discounting future cash flows. The carrying amount of accrued interest receivable on investments is a reasonable estimate of its fair value.

B A N K O F N O R T H D A K O T A 1 9 9 2 A N N U A L R E P O R T

NOTE 2 (CONTINUED)

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

(in thousands)
December 31, 1992

	Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. TREASURY SECURITIES	$ 316,861	$ 5,819	$ 238	$ 322,442
OBLIGATION OF OTHER U.S. GOVERNMENT AGENCIES	10,030	431	—	10,461
MORTGAGE-BACKED SECURITIES	63,205	1,748	2	64,951
OBLIGATIONS OF STATE AND POLITICAL SUBDIVISIONS	11,628	—	512	11,116
	$ 401,724	$ 7,998	$ 752	$ 408,970

(in thousands)
December 31, 1991

	Gross Carrying Amount	Gross Unrealized Gains	Unrealized Losses	Market Value
U.S. TREASURY SECURITIES	$ 349,028	$ 9,080	$ —	$ 358,108
OBLIGATION OF OTHER U.S. GOVERNMENT AGENCIES	55,352	862	—	56,214
MORTGAGE-BACKED SECURITIES	72,925	3,817	—	76,742
OBLIGATIONS OF STATE AND POLITICAL SUBDIVISIONS	7,942		1	7,941
	$ 485,247	$ 13,759	$ 1	$ 499,005

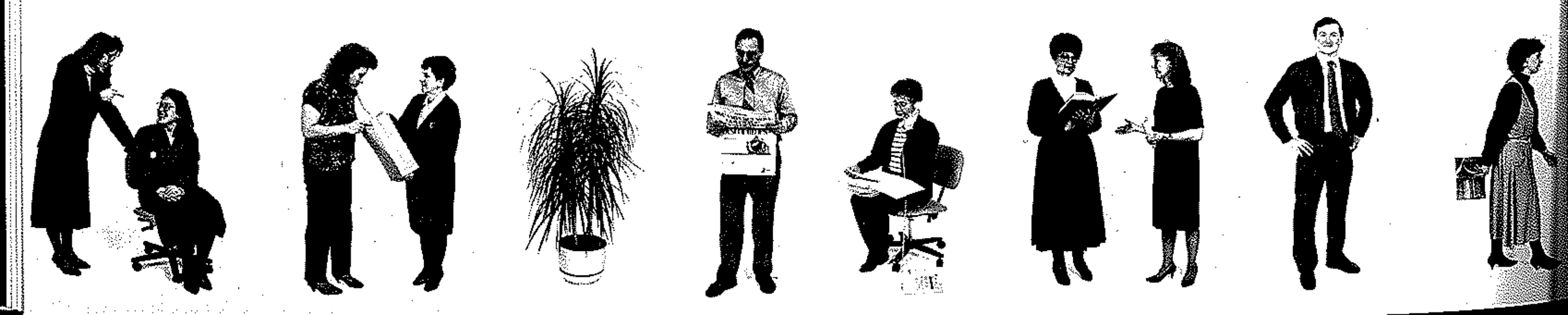
Proceeds from sales of investments in debt securities for the years December 31, 1992 and 1991 were $ 135,225,000 and $ 318,165,000, respectively. Gross gains of $ 937,000 and $ 577,000 were realized on those sales in 1992 and 1991, respectively. Gross losses of $ 17,000 were realized on sales in 1991.

Securities carried at $ 151,389,000 at December 31, 1992 and $ 70,950,000 at December 31, 1991 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, 1992 and 1991 was $ 155,283,000 and $ 74,317,000, respectively.

The detail of changes in the allowance for investment losses for the years ended December 31, 1992, and 1991 is as follows:

(in thousands)

	1992	1991
Balance, beginning of year	$ 1,258	$ 1,256
Provision for investment losses	333	2
Investments charged off	—	—
Balance, end of year	$ 1,591	$ 1,258



NOTE 3 — LOANS

The fair value of residential loans has been estimated using valuation techniques which adjust mortgage values to approximate the quoted market yield for GNMA mortgage backed securities.

The fair value of student loans is based on quoted market prices.

The fair value of all other loan categories has been estimated by discounting future cash flows to reflect management's estimate of current rates for financing borrowers under substantially similar terms and degrees of risk.

The fair value of all loans reflects the credit risk within the individual loan categories.

		(in thousands)	
	1992	1992	1991
	Carrying Value	Fair Value	Carrying Value
Residential loans	$ 61,655	$ 62,984	$ 78,564
Guaranteed student loans	118,639	118,944	86,487
Bank participation loans			
Commercial	63,722	57,528	51,269
Agricultural	43,270	41,541	28,636
Farm real estate loans	20,675	19,010	15,729
State institutions	2,965	2,689	3,167
Bank stock	2,795	2,502	2,698
Other	152	141	304
	$ 313,873	$ 305,339	$ 266,854
Less allowance for loan losses	12,664	—	12,162
	$ 301,209	$ 305,339	$ 254,692

The carrying amount of accrued interest receivable on loans is a reasonable estimate of fair value.

Nonaccrual and restructured loans amounted to $ 823,000 and $ 5,269,000, respectively, at December 31, 1992, and $ 1,776,000 and $ 5,510,000, respectively, at December 31, 1991. Additional interest income that would have been earned under original terms of the nonaccrual loans amounted to approximately $ 74,000 and $ 154,000 for 1992 and 1991, respectively. There was no interest collected on nonaccrual loans in 1992. In 1991, $ 45,000 was collected.

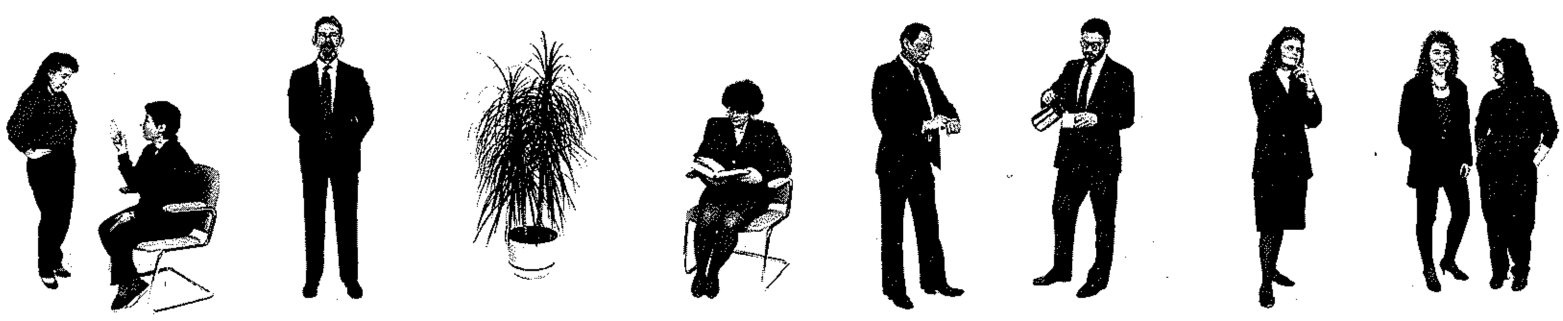
The detail of changes in the allowance for loan losses for years ended December 31, 1992 and 1991 is as follows:

	(in thousands)	
	1992	1991
Balance, beginning of year	$ 12,162	$ 12,182
Provision charged to operations	667	698
Loans charged off	(341)	(1,047)
Recoveries	176	329
Balance, end of year	$ 12,664	$ 12,162

NOTE 4 — BANK PREMISES, EQUIPMENT AND SOFTWARE

The following is a summary of changes in bank premises, equipment, furniture and software at December 31, 1992 and 1991:

		(in thousands)		
	Balance December 31, 1991	Additions	Retirements	Balance December 31, 1992
Land	$ 287	$ —	$ —	$ 287
Building	3,382	305	—	3,687
Equipment	1,764	103	—	1,867
Furniture	552	10	—	562
Software	1,473	197	—	1,670
	$ 7,458	$ 615	$ —	$ 8,073
Less accumulated depreciation	3,063	742	—	3,805
	$ 4,395	$ (127)	$ —	$ 4,268



NOTE 4 (CONTINUED)

	Balance December 31, 1990	Additions	Retirements	Balance December 31, 1991
Land	$ 287	$ —	$ —	$ 287
Building	3,329	52	—	3,381
Equipment	1,658	107	—	1,765
Furniture	544	7	—	551
Software	1,300	174	—	1,474
	$ 7,118	$ 340	$ —	$ 7,458
Less accumulated depreciation	2,348	715	—	3,063
	$ 4,770	$ (375)	$ —	$ 4,395

Depreciation and amortization expense on the above assets amounted to $ 742,000 and $ 715,000 in 1992 and 1991, respectively.

NOTE 5 — DEPOSITS

The fair value of deposits with no stated maturity, such as checking, savings, money market, and NOW accounts is equal to the amount payable on demand. The fair value of interest bearing certificates of deposit has been estimated by discounting future cash flows using rates currently offered for deposits of similar remaining maturities. The carrying amount of those certificates is $ 254,369,000, and the fair value is estimated to be $ 261,842,000. The carrying amount of accrued interest payable on deposits is a reasonable estimate of fair value.

NOTE 6 — FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER REPURCHASE AGREEMENT

Federal funds purchased and securities sold under repurchase agreements are short-term instruments for which carrying amounts are reasonable estimates of fair value. The carrying amount of accrued interest payable on federal funds purchased and securities sold under repurchase agreements is a reasonable estimate of fair value.

NOTE 7 — LONG-TERM DEBT

Long-term debt consists of:

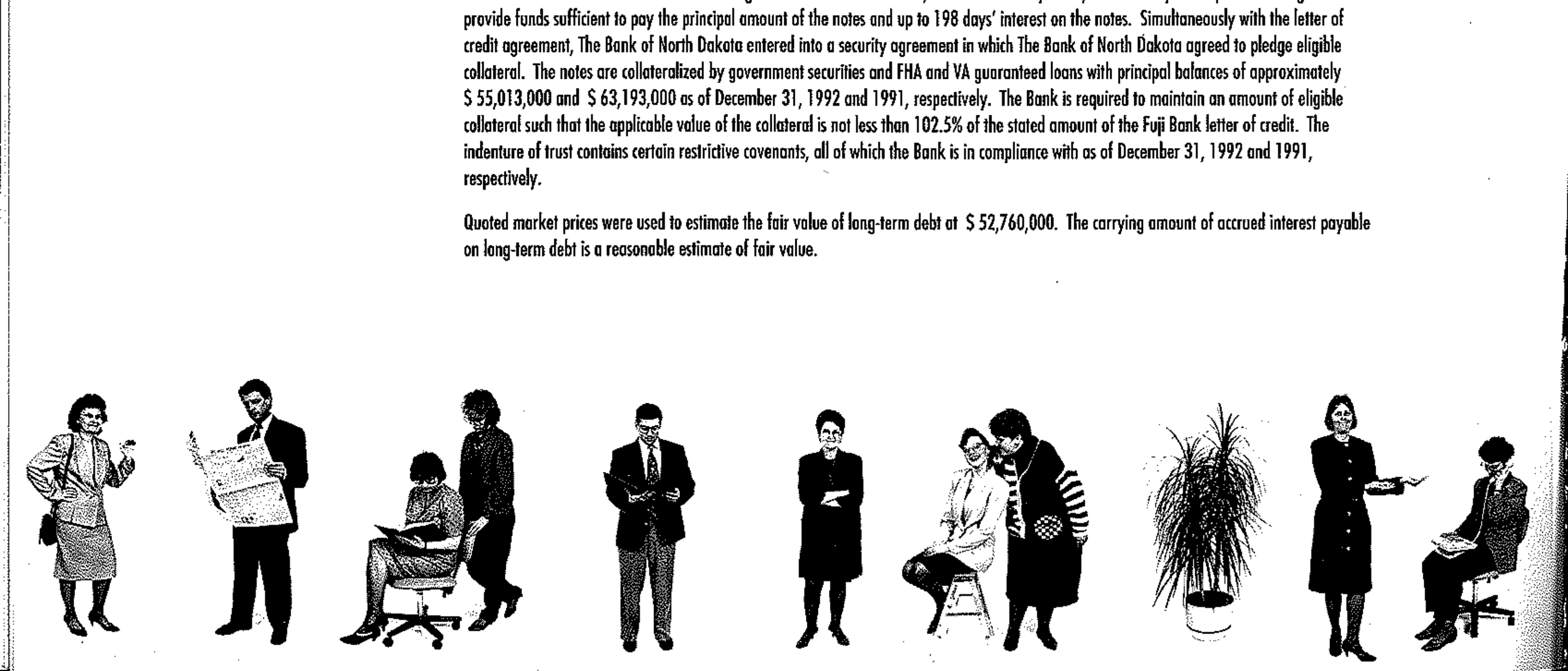
	(in thousands) 1992	1991
Long-term notes, 7.875%, (effective interest rate 7.94%) issued December 1986, due December 1996,	$ 50,000	$ 50,000
Less unamortized discount	(138)	(184)
	$ 49,862	$ 49,816

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

	Principal	(in thousands) Interest	Total
1993	$ —	$ 3,937	$ 3,937
1994	—	3,937	3,937
1995	—	3,938	3,938
1996	50,000	3,938	53,938
Total	$ 50,000	$ 15,750	$ 65,750

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 government securities and FHA and VA guaranteed loans with principal balances of approximately $ 55,013,000 and $ 63,193,000 as of December 31, 1992 and 1991, 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, 1992 and 1991, respectively.

Quoted market prices were used to estimate the fair value of long-term debt at $ 52,760,000. The carrying amount of accrued interest payable on long-term debt is a reasonable estimate of fair value.



NOTE 8 — APPROPRIATIONS PAYABLE

Appropriations have been transferred out of undivided profits to appropriations payable. The Bank has the following appropriations payable at December 31, 1992 and 1991:

	(in thousands) 1992	1991
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, 1992 funds totaling $23,217,457 have been transferred.	$ —	$ 18,521
Industrial Commission To be transferred during the biennium beginning July 1, 1991 and ending June 30, 1993. As of December 31, 1992, all funds have been transferred.	—	75
PACE II Loan Fund To be transferred during the period beginning February 7, 1992 and ending June 30, 1993. As of December 31, 1992, no funds have been transferred.	1,135	—
	$ 1,135	$ 18,596

Appropriations payable is of a short-term nature. Its carrying amount is a reasonable estimate of fair value.

NOTE 9 — 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, 1992 and 1991 was approximately $ 3,869,000 and $ 3,783,000, respectively. The Bank's total payroll was approximately $ 3,979,000 and $ 3,919,000, 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 1.69% 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, 1992 and 1991 was approximately $314,000 and $306,000, 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, 1992 and 1991, for the System as a whole, was $ 367.4 million and $ 333.5 million, respectively. The System's net assets available for benefits (valued at market) on June 30, 1992 were $ 454.0 million and on June 30, 1991 were $ 400.6 million, leaving an over funded pension benefit obligation of $ 86.5 million and $ 67.0 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, 1992 and 1991 audited financial statements.

NOTE 10 — POST-RETIREMENT BENEFITS

In addition to providing pension benefits, the state allows all PERS retirees to participate in the State Group Health Plan after retirement. The Bank's contribution requirement for the years ended December 31, 1992 and 1991, was approximately $ 39,000 and $ 38,000, respectively.

NOTE 11 — 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 of North Dakota has purchased \$ 7,827,000 in bonds and uncertificated obligations through December 31, 1992. During 1992 and 1991, The Bank of North Dakota relinquished its rights to collect \$ 1,500,000 and \$ 1,532,000, respectively, in bonds and uncertificated obligations from the North Dakota Real Estate Trust.

Myron G. Nelson Fund, Incorporated

On August 5, 1992, the Industrial Commission authorized and directed the Bank to subscribe for and purchase up to \$ 1,200,000 of common stock of the Myron G. Nelson Fund, Incorporated. The purchase of shares of common stock of the Fund will be made on a matching basis for all "private capital" invested in the Fund. For each dollar of private capital invested, the Bank shall invest an equal amount through the purchase of shares.

NOTE 12 — 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 13 — 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, put and call agreements, and a guarantee agreement. 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, financial standby letters of credit, and the guarantee agreement 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)	
	1992	1991
Financial standby letters of credit	\$ 25,647	\$ 20,368
Commitments to extend credit	29,647	39,472
Put and call agreements	890	890
Guarantee agreement	3,515	3,700
	\$ 59,699	\$ 64,430

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. Approximately 53% of the commercial and agricultural loan commitments are expected to fund within the first six months of 1993. The fair value estimate for those loans approximates the expected funding amounts of \$ 15.6 million. For the remaining commercial and agricultural loan commitments, funding expectations vary. The fair value of these loans is not expected to have a material impact on the financial position of the Bank.

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 likelihood of funding any of these letters of credit is considered to be remote. The fair value calculation is, therefore, limited to the cash flows associated with fee revenues over the life of the individual instruments. At December 31, 1992, the fair value of those fee revenues is estimated to be \$ 1,235,000.

NOTE 13 (CONTINUED)

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 Bank considers the likelihood of its having to fund this agreement to be remote. The fair value of the agreement is considered to be immaterial.

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. This guaranty expires upon the earlier to occur of (a) payment in full of all principal and interest due or to become due on the bonds of (b) the close of business on September 1, 1994. The Bank considers the likelihood of its having to fund this agreement to be remote. The fair value of the agreement is considered to be immaterial.

NOTE 14 — SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

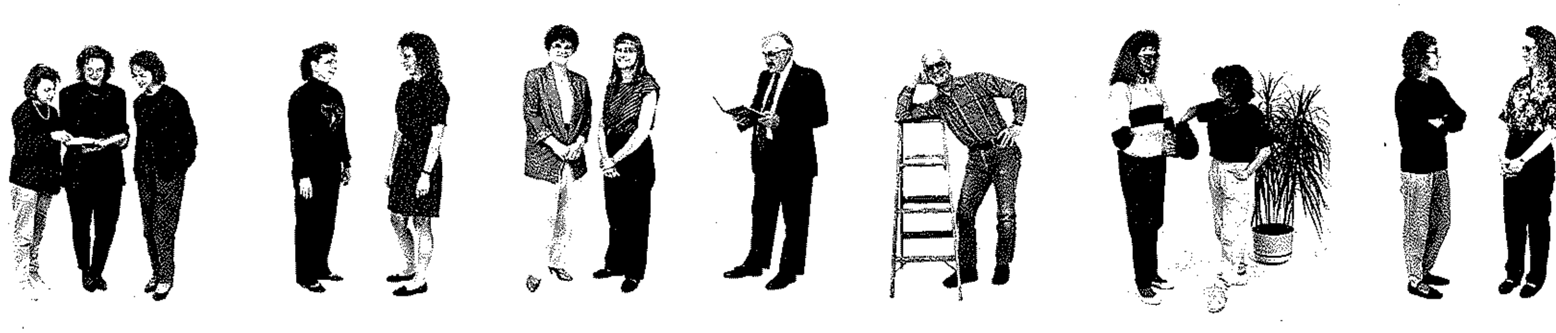
Most of the Bank's business is with customers within the state of North Dakota. Concentrations of credit are present in the agricultural industry. Due to the pervasive nature of agriculture in the economy of the state, all loans, regardless of type, are impacted by agriculture. Loans for agricultural purposes comprised approximately 20% and 17% of the total loans at December 31, 1992 and 1991, respectively.

NOTE 15 — 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 1992 and 1991 The Bank of North Dakota relinquished its rights to collect on $ 1,500,000 and $ 1,532,000, respectively, of bonds and uncertificated obligations from the North Dakota Real Estate Trust.

NOTE 16 — SUBSEQUENT EVENT

On January 1, 1993, the Bank sold approximately $ 80,000,000 in guaranteed student loans. The Bank is also scheduled to sell approximately $ 6,000,000 in student loans on February 1, 1993.



FIVE YEAR SUMMARY

	1992	1991	1990	1989	1988
OPERATING RESULTS (in thousands)					
Interest income	$ 57,166	$ 64,211	$ 69,783	$ 74,899	$ 68,884
Interest expense	28,223	41,391	52,727	55,990	49,489
Net interest income	28,943	22,820	17,056	18,909	19,395
Provision for loan losses	667	698	—	—	750
Net interest income after provision for loan losses	28,276	22,122	17,056	18,909	18,645
Other income	4,912	5,083	4,631	4,485	3,684
Other expenses	11,063	10,791	9,140	8,217	7,089
Net income	22,125	16,414	12,547	15,176	15,240
Paid to State Treasurer (Appropriation)	18,596	4,696	14,000	—	6,000
BALANCE SHEET — YEAR END (in thousands)					
TOTAL ASSETS	1,063,200	956,759	893,972	971,866	900,113
FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS	208,951	110,305	170,200	388,172	278,875
INVESTMENT SECURITIES	456,694	496,789	411,664	319,773	368,499
U.S. Treasury securities	316,861	349,028	230,117	86,228	252,057
Obligations of other U.S. Government agencies	10,030	55,352	40,484	83,065	48,430
Mortgage-backed securities	63,205	72,925	75,574	—	—
Other money market instruments	—	5,000	50,002	136,250	56,978
Obligations of states and political subdivisions	11,628	7,942	7,381	5,927	4,971
Commercial paper	50,000	—	—	—	—
Other securities	4,970	6,542	8,106	8,303	6,063
LOANS	313,873	266,854	227,984	203,315	209,225
Residential loans	61,655	78,564	88,969	99,049	109,445
Guaranteed student loans	118,639	86,487	46,886	32,744	29,373
Bank participation loans					
Commercial	63,722	51,269	43,474	32,405	30,077
Agriculture	43,270	28,636	22,786	15,495	12,489
Farm real estate loans	20,675	15,729	12,449	10,004	7,745
State institutions	2,965	3,167	8,441	8,590	13,856
Bank stock	2,795	2,698	3,892	4,398	5,975
Other loans	152	304	1,087	631	265
DEPOSITS	570,649	541,835	509,433	545,868	457,485
Non-interest bearing	91,139	80,789	60,794	49,133	48,947
Interest bearing	479,510	461,046	448,639	496,735	408,538
FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	322,307	247,664	227,955	255,952	274,434
CAPITAL FUNDS	113,907	92,917	96,618	84,016	89,472
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	68,513	47,523	51,224	38,622	44,078

Reclassifications: Certain amounts have been reclassified in prior years to conform to the 1992 presentation.