

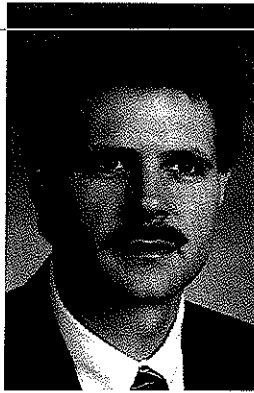
**RESTORING THE PAST**

**RESHAPING THE FUTURE**



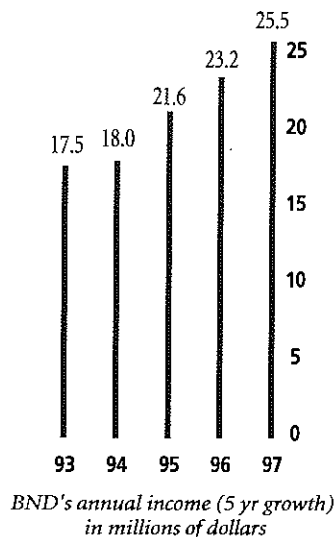
**BANK OF NORTH DAKOTA  
1997 ANNUAL REPORT**

## Summary of Results, 1997

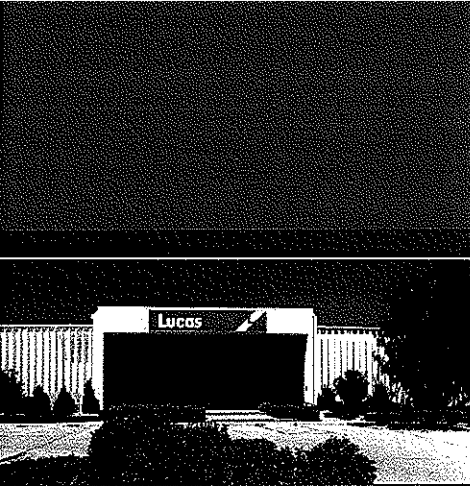


*John Hoeven, President*

Throughout the state, North Dakotans faced and successfully met significant challenges during the course of 1997. These challenges included flooding in the Red River Valley and severe weather resulting in cattle deaths and other losses for farmers and ranchers. Bank of North Dakota, the State's development bank, played an important role in supporting recovery efforts, while turning in its strongest year ever. As a result of strong fundamentals established during the last five years, BND was able to provide over \$100 million in disaster assistance programs while still achieving record levels in total earnings, assets, capital and loan volume.



For the second consecutive year, bank earnings reached a record level. Earnings for 1997 totaled \$25,544,000, a 10% increase over 1996 earnings of \$23,191,000. Over the past five years, bank earnings have increased almost 50% from \$17.5 million in 1993 to the present level of more than \$25.5 million. Return on average assets for the year was 2.4% and return on average equity was 22.8%.



Lucas Aerospace, which manufactures cargo systems and airplane parts, expanded its plant in Jamestown with the help of financing from BND.

**Loan portfolio growth provided expansion**

capital for North Dakota's economy and higher earnings for BND, but it also provided lower cost money to borrowers.

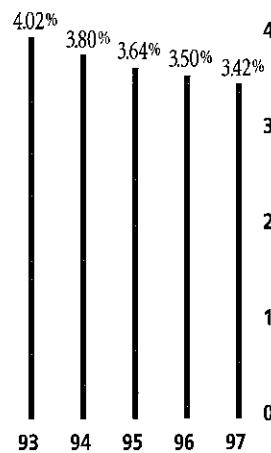
BND's net spread on its loans, or the amount it receives above its cost of funds, has been reduced over the past five years.

The bank is generating more revenue on larger loan volume, but charging borrowers less. This fact demonstrates our commitment to serve as the State's

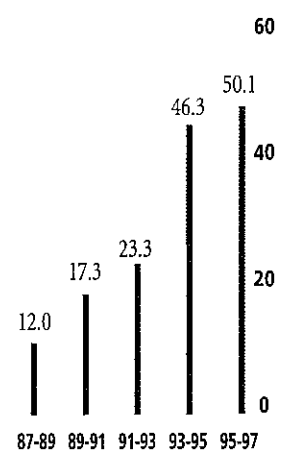
**development bank, helping borrowers with**

lower cost funding while still building earnings.

Strong earnings performance enabled BND to generate more revenue for the state and build its capital base. In the last two bienniums, the bank has paid over \$96.4 million to the state General Fund and other state funds. As a result of the budget surplus for the June 30, 1997 biennium,



*BND has reduced costs to borrowers as demonstrated by its spread between net loan rate and cost of funds each year over the last 5 years*



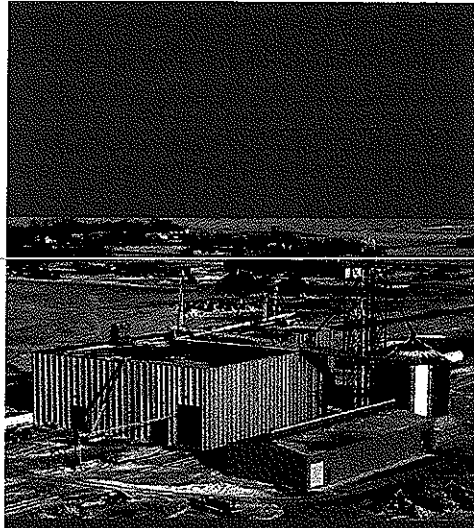
*Transfers from BND to the State General Fund and other state funds in millions by biennium*

other general

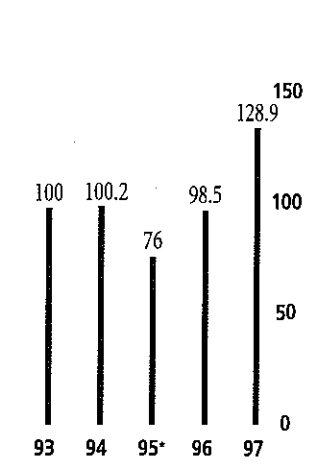
\$17.1 million was returned to the bank resulting in year-end capital of \$128.9 million. This strong capital base is necessary for BND to continue building its loan portfolio to help finance economic development throughout the state.

Total assets at year end reached \$1.162 billion, an increase of 9% over 1996's \$1.068 billion. Since 1993, total assets have increased by one third, from \$872 million to

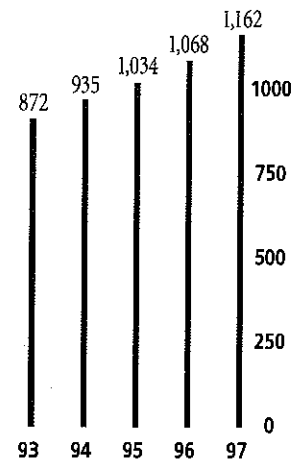
the current level. This growth in assets, like the bank's growth in earnings, is being driven by growth in the loan portfolio. To fund the growth, BND has secured new sources of funding such as state investments which were formerly invested in U.S. Treasury securities and borrowing from the Federal Home Loan Bank. These sources enable BND to inject new money into North Dakota's economy, without competing for retail deposits against our private financial institution partners.



The PACE Program helped AgGrow Oils construct its new oilseed crushing plant in Carrington.



BND's capital by calendar year in millions of dollars  
 \* 23.1 million was transferred to North Dakota Real Estate Trust.



Growth in BND's total assets in millions of dollars

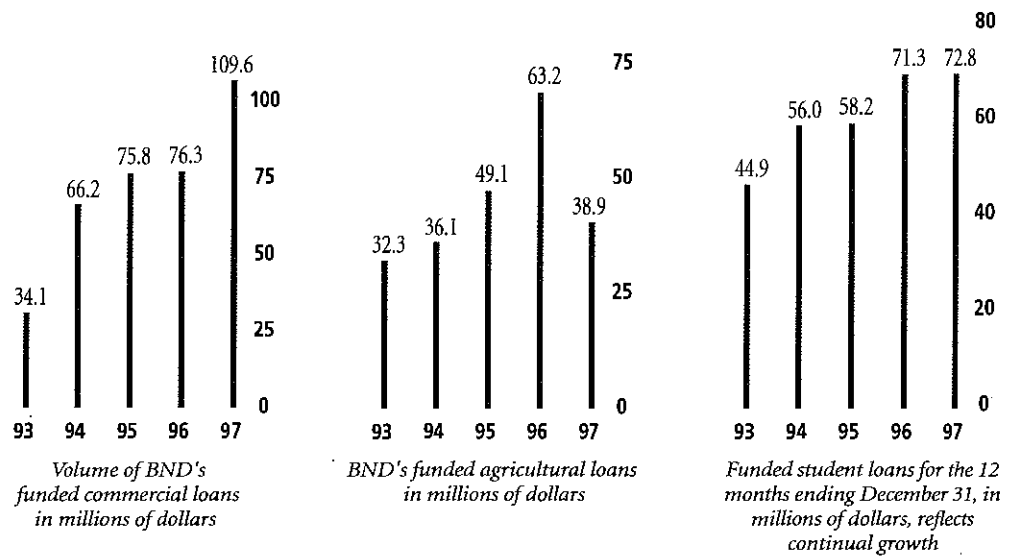


**Working in cooperation with Stark Development Corporation and BND, Rosenbluth International established a new telecenter in Dickinson with 135 employees.**

In comparison to 1996, net new loans in 1997 increased \$70 million (13%) from \$554 million to \$624 million. The volume of commercial loans funded during the year increased significantly, from \$76 million to \$110 million, reflecting the strong economies of the larger communities. Also, the volume of student loans funded continued to show growth, but new farm loans funded declined as a result of stress in the farm sector and the development of new funding sources such as ag credit companies.

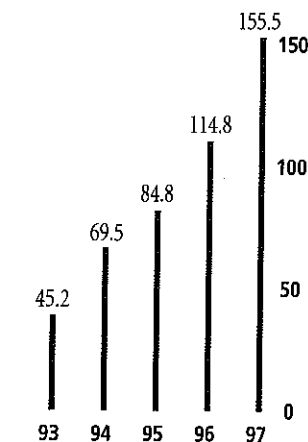
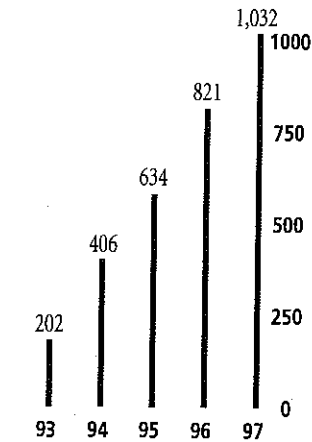
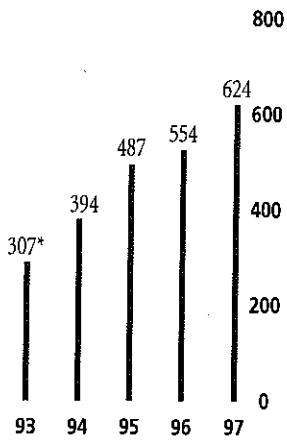
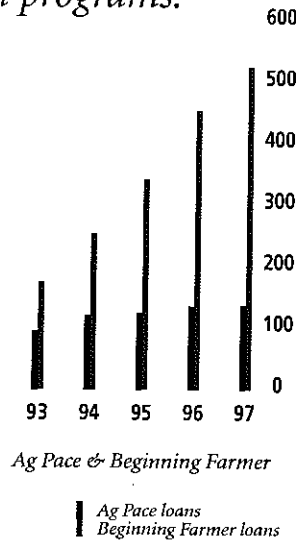
Overall, BND originated more than \$191,000,000 in loan volume during the year. This amount was reduced to the \$70 million net growth figure through loan sales and also pay-offs received as borrowers graduated to new funding sources after assistance from BND's development programs.

Total loans outstanding have tripled over the last five years, increasing from \$211 million in January, 1993, to \$624 million in 1997.

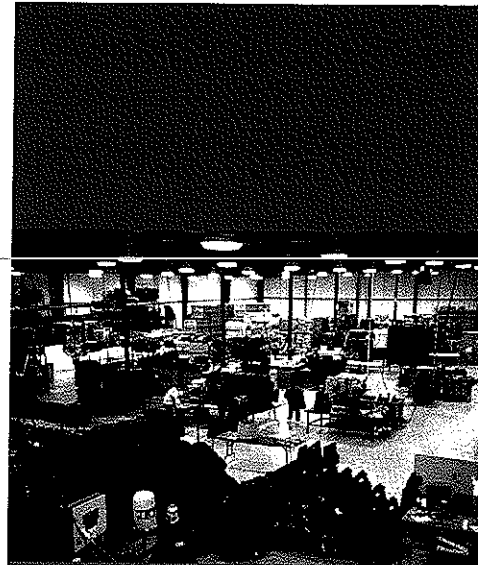


During the same period, in partnership with private financial institutions, BND has injected more than \$800 million into North Dakota's economy, and helped fund over 1,000 business and industrial projects around the state, or, on average, more than 200 projects per year. These projects include new business start-ups, expansions, and recruitment of businesses from outside the state. Some of the projects funded in 1997 are pictured in this annual report.

*PACE and Beginning Farmer continue to be two of BND's strongest economic development loan programs.*



*Financing economic growth*  
 BND's loan volume has tripled over the last 5 years from \$211 million to \$624 million. Together with local banks, \$800 million has been injected into North Dakota's economy over the last 5 years  
 \* 211 million as of January 1, 1993



**Dakota Molding, new in Fargo, is a rotational molding company whose product line includes hydraulic fuel tanks. Pictured is the secondary and sub-assembly area with blower housings in the foreground.**



Cheese vats occupy some of the main processing area of Dakota Dairy Specialties, in Hebron.

In a year that included blizzards, floods and poor farm prices, BND's commitment to low cost financing was vital. After flood waters ravaged the Red River Valley, BND made more than \$100 million available in disaster recovery loan programs to help Grand Forks and other flood stricken areas. The interest rate on many of these programs was 6% or less. Also, BND applied for and received a \$700,000 grant from the Federal Home Loan Bank which it provided to the Grand Forks Housing Authority for grants to help families repair their homes after flood damage.

To help cattle producers after spring blizzards caused significant cattle losses, the rates on BND's Family Farm and Farm Operating loan programs were also reduced to 6%. Other assistance to farm borrowers included streamlining the Irrigation Loan Program and bringing the First Time Farmer program on line, which enables local financial institutions to make farm loans on a tax-free basis. To help local banks make home loans at low, long-term fixed rates, BND provided an aggressive secondary market for home mortgages. BND will continue this secondary market to provide in-state servicing for home loans, as well as provide an important source for FHA and VA mortgages to help with housing in the smaller communities and rural areas.

**Lines of Credit:**

State Division of Emergency Management	<b>\$15,000,000</b>	
National Guard	<b>10,000,000</b>	
		<b>\$ 25,000,000</b>
City of Grand Forks	<b>\$25,000,000</b>	
University of North Dakota	<b>12,000,000</b>	
		<b>\$ 37,000,000</b>
		<b>\$ 62,000,000</b>

**Loan Programs:**

BND Disaster Recovery Loan Program	<b>\$30,000,000</b>	
Grand Forks Public School System	<b>8,300,000</b>	
		<b>\$ 38,300,000</b>
		<b>\$100,300,000</b>

*summary of Grand Forks flood recovery assistance from BND*

## Disaster Recovery Action

Serving as the State's economic development bank, Bank of North Dakota focused its disaster relief assistance on activities to help ensure economic stabilization. During the recovery phase of the State's disaster operations, Bank of North Dakota provided assistance such as:

- Submitted a grant application on behalf of the City of Grand Forks Victory Rehabilitation Program and received a \$700,000 grant from the Affordable Housing Program of the Federal Home Loan Bank of Des Moines, Iowa.
- Administered loan forbearance with the Department of Education for student loan borrowers.
- Worked closely with FHA and VA to establish loan forbearance options and a federal/state housing assistance application center.
- Supported coordination of the '97 Flood Relief Fund of the North Dakota Community Foundation and served as a central deposit bank.
- Provided loan documentation for local lenders whose loan files were destroyed by flood waters.
- Provided direct support for the University of North Dakota Financial Aid Office.
- Operated an emergency food distribution center, raising funds and material supplies totaling \$2,500.
- Provided support for the \$500,000 Healthy Futures Home Ownership Program.
- Provided a grant of \$100,000 to the State of North Dakota for the State of North Dakota.







Tecton Products, an innovative manufacturer of fiberglass composite pultrusions, tripled its facility in Fargo.

Helping finance projects around the state creates growth in BND's loan portfolio and translates into growth for North Dakota's economy. This loan growth is also carefully managed to insure the bank's sound financial condition. Through our partnering approach with local financial institutions, other funding sources and guarantee agencies, risk is managed on a shared basis and 52% of the bank's entire loan portfolio is guaranteed.

In addition to careful risk sharing, loan officers follow proper underwriting guidelines, which reduced delinquencies in 1997 to below 1996 levels for both the commercial and farm loan portfolios. Nonaccrual loans were also reduced from \$3 million to \$2.3 million. Net charge-offs for the year were less than \$900,000, a very low level given the bank's economic development mission, and at .147% of outstanding loans, well below the industry average of .22%. To protect against future

losses, BND maintains a strong loan loss reserve, at 3% of total loans and 6% of unguaranteed loans, well above the industry average of 1.6%.

BND is a billion dollar institution with a unique portfolio of assets. These assets include our people whose pride shows in the effort they exert everyday on behalf of our customers. Their experience, expertise and dedication create BND's success, not just in economic development lending programs, but in all bank operations.

**Student Loans of North Dakota (SLND)**, administered by BND, achieved the *lowest default rate in the nation* for the third consecutive year at 1.0% compared to the national average of 10.4%.

*In 1997 alone, access to higher education was made easier for 27,346 individuals who borrowed money under five student loan programs for a total of \$87 million.*

New loan applications surpassed previous years, totaling 27,405 applications processed for guarantee. *Since inception of the program in 1969, 323,252 loans have been guaranteed through SLND totaling over \$768 million.*

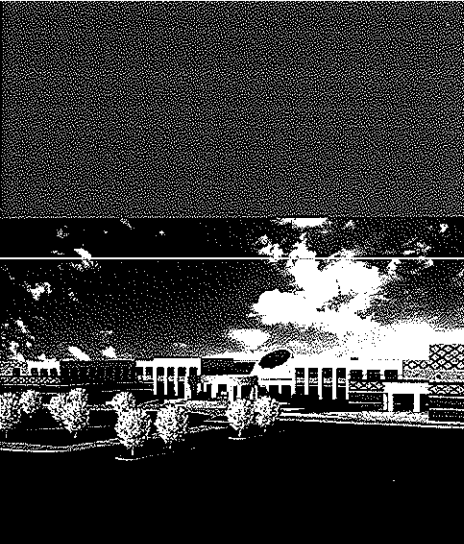
Reinforcing its dedication to help educate students and parents in financial planning for college, SLND coordinated production of the video, *Paying for College*. The video aired on Prairie Public TV in North Dakota and Minnesota and was distributed to high school counselors, financial aid officers, and public libraries in North and South Dakota. A second video, *Entrance and Exit Counseling*, was produced to simplify the counseling process and help the financial aid industry meet Department of Education's counseling requirements. Electronic processing of student loan applications and funds transfer between schools, lenders and guarantors became standardized through the

implementation of CommonLine. SLND also launched efforts to reduce paper files and converted over two million loan documents to optical disk storage.

Improved safekeeping and bond accounting services in the **Investment and Trust Division** generated 21 new bank clients and resulted in improved service for existing customers. To continue meeting the liquidity needs of North Dakota banks, a Letter of Credit pledging program for public deposits was added to existing secured borrowing and repurchase agreement services. *The Fed Funds market provided through our investment services assisted 110 financial institutions and averaged \$297 million daily.* Money management services for state agencies totaled \$400 million in assets.



**A PACE loan through BND helped Summers Manufacturing of Devils Lake expand their product line, a chisel plow tillage tool.**



**Turtle Mountain Community College is building a beautiful new campus at Belcourt with assistance from the Turtle Mountain Reservation tribal council, Rolette State Bank and BND.**

*Corporate and bond trustee services provided to the State totaled \$396 million in outstanding bonds and \$173 million in investments.*

Other trust services include serving as registrar, paying and transfer agent for 575 bond issues totaling \$545 million in outstanding balances and providing escrow agent services for more than 300 customers.

*Volume in our Operations Division grew to 42,300,000 checks and coupons with an average of 162,000 items processed daily.*

BND assisted 122 North Dakota financial institutions with check processing services in 1997. Also, Direct Cash Management was a new service added to meet the money management needs of our customer financial institutions. This system is designed to provide access to information using different levels of technology from fax to on-line interactive transactions.

While financial strength and business performance are important, so are our plans for the future. We are increasing our investment in technology and see the benefits of technological improvements

across a broad spectrum of activities, from managing operating costs and gaining efficiencies to enhancing customer satisfaction.

*In 1996, BND implemented its website at banknd.com, and usage has grown to more than 10,000 customer inquiries per month.*

Information on all bank programs including loan applications are available via the Internet.

In 1997, we began planning to make our website interactive. Through this electronic commerce initiative, BND will soon have the capability to conduct banking activities

on-line over the Internet, providing additional convenience to our customers.

BND will continue to evolve through improvements in technology, new programs, and employee training. In 1998, we will be surveying financial institutions, North Dakota residents, and our employees to gain perspective on needs and ways we can improve our services. These surveys will help ensure that the bank provides quality services that meet its mission, while working to support private financial institutions throughout the state.

*In retrospect,*

*North Dakotans demonstrated tremendous vitality during the course of 1997 rebuilding and moving forward. BND was there to assist with low cost credit and other programs. True to its founding mission to promote agriculture, commerce and industry, BND will continue to help finance economic growth and diversification. We are committed to being the State's development bank and to helping build an even stronger future for North Dakota.*

**BND's ADVISORY BOARD**



**Frank Keogh,  
Chairman**



**Maren Daley,  
Vice Chairman**



**Curly Haugland,  
Secretary**



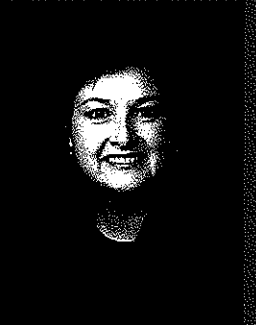
**Marlys Brown**



**Elaine Fremling**



**Bill Kingsbury**



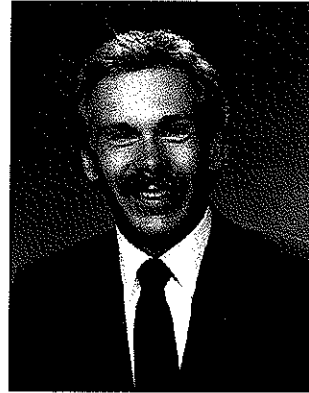
**Shirley Montgomery**

**BND's EXECUTIVE COMMITTEE**



**Eric Hardmeyer, Kathy Ibach, John Hoeven,  
Ed Sather, Dale Eberle, and Julie Kubisiak**

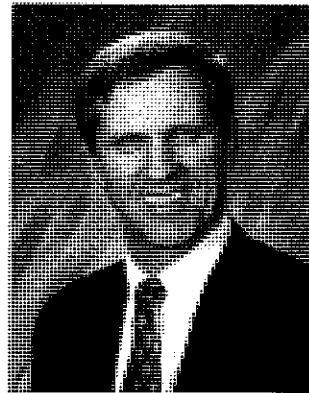
**NORTH DAKOTA INDUSTRIAL COMMISSION**



**Ed Schafer,  
Governor**



**Heidi Heitkamp,  
Attorney General**



**Roger Johnson,  
Commissioner of Agriculture**

INDEPENDENT AUDITOR'S REPORT

The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

We have audited the accompanying balance sheet of Bank of North Dakota as of December 31, 1997, and the related statements of income, capital funds, and cash flows for the year then ended. These financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Bank of North Dakota as of December 31, 1996 were audited by other auditors whose report, dated January 17, 1997, expressed an unqualified opinion on those statements.

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

As described in Note 1, Bank of North Dakota is included as part of the primary government in the State of North Dakota's reporting entity. However, Bank of North Dakota has prepared the accompanying financial statements in accordance with Financial Accounting Standards Board pronouncements, which is generally accepted accounting principles for financial institutions. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles applicable to governmental units.

In our opinion, the 1997 financial statements referred to above present fairly, in all material respects, the financial position of Bank of North Dakota as of December 31, 1997, and the results of its operations and its cash flows for the year then ended on the basis of accounting described in Note 1.

*Eide Helmeke PLLP*

January 23, 1998  
Bismarck, North Dakota

BANK OF NORTH DAKOTA  
Balance Sheets  
December 31, 1997, and 1996

ASSETS

	(In Thousands)	
	1997	1996
Cash and due from banks	\$ 135,474	\$ 139,764
Federal funds sold and securities purchased under agreements to resell	128,180	86,470
Cash and cash equivalents	<u>263,654</u>	<u>226,234</u>
Securities available for sale	172,765	173,210
Securities held to maturity	97,095	111,281
	<u>269,860</u>	<u>284,491</u>
Loans	623,532	554,001
Less allowance for loan losses	(17,442)	(17,707)
	<u>606,090</u>	<u>536,294</u>
Bank premises, equipment, and software, net	3,168	3,504
Interest receivable	15,418	13,975
Other assets	<u>4,225</u>	<u>3,584</u>
Total assets	<u>\$ 1,162,415</u>	<u>\$ 1,068,082</u>

LIABILITIES AND CAPITAL FUNDS

Deposits:		
Non-interest bearing	\$ 117,708	\$ 106,120
Interest bearing	601,800	622,002
	<u>719,508</u>	<u>728,122</u>
Federal funds purchased and securities sold under agreements to repurchase	234,114	198,108
Long-term borrowings	54,087	14,500
Other liabilities	25,818	28,875
Total liabilities	<u>1,033,527</u>	<u>969,605</u>
Capital funds:		
Capital	22,000	22,000
Capital surplus	22,000	22,000
Undivided profits	84,786	54,538
Unrealized gain (loss) on securities available for sale	102	(61)
Total capital funds	<u>128,888</u>	<u>98,477</u>
Total liabilities and capital funds	<u>\$ 1,162,415</u>	<u>\$ 1,068,082</u>

See Notes to Financial Statements.

BANK OF NORTH DAKOTA  
 Statements Of Income  
 Years Ended December 31, 1997, and 1996

	(In Thousands)	
	1997	1996
<b>INTEREST INCOME:</b>		
Interest on federal funds sold and securities purchased under agreements to resell	\$ 7,643	\$ 9,091
Interest on investment securities	14,849	14,783
Interest on loans	48,399	43,503
Total interest income	<u>70,891</u>	<u>67,377</u>
<b>INTEREST EXPENSE:</b>		
Interest on deposits	28,415	26,474
Interest on federal funds purchased and securities sold under agreements to repurchase	10,418	8,854
Interest on long-term debt	1,935	4,537
Total interest expense	<u>40,768</u>	<u>39,865</u>
<b>NET INTEREST INCOME</b>	30,123	27,512
<b>PROVISION FOR LOAN LOSSES</b>	<u>600</u>	<u>600</u>
<b>NET INTEREST AFTER PROVISION FOR LOAN LOSSES</b>	<u>29,523</u>	<u>26,912</u>
<b>NON-INTEREST INCOME:</b>		
Service fees and other	8,103	7,759
Net realized gains on sales of securities	86	53
Total non-interest income	<u>8,189</u>	<u>7,812</u>
<b>NON-INTEREST EXPENSE:</b>		
Salaries	4,776	4,461
Pensions and other employee benefits	1,356	1,333
Data processing	1,966	2,229
Other operating expenses	3,514	2,930
Depreciation and amortization	556	580
Total non-interest expenses	<u>12,168</u>	<u>11,533</u>
<b>NET INCOME</b>	<u>\$ 25,544</u>	<u>\$ 23,191</u>

*See Notes to Financial Statements.*



BANK OF NORTH DAKOTA  
 Statements Of Capital Funds  
 Years Ended December 31, 1997, and 1996

	Capital	Capital Surplus	Undivided Profits	Unrealized Gain (Loss) on Securities Available for Sale	Total
BALANCE, DECEMBER 31, 1995, AS PREVIOUSLY REPORTED	\$ 22,000	\$ 22,000	\$ 31,492	\$ 508	\$ 76,000
Prior period adjustment			(439)		(439)
BALANCE, DECEMBER 31, 1995, AS RESTATED	\$ 22,000	\$ 22,000	\$ 31,053	\$ 508	\$ 75,561
Net income			23,191		23,191
Reduction in appropriations			294		294
Net change in unrealized gain (loss) on securities available for sale				(569)	(569)
BALANCE, DECEMBER 31, 1996	\$ 22,000	\$ 22,000	\$ 54,538	\$ (61)	\$ 98,477
Net income			25,544		25,544
Appropriation to state general fund			(12,413)		(12,413)
Appropriation to Industrial Commission			(85)		(85)
Transfer from state general fund - budget stabilization fund			17,116		17,116
Reduction in appropriations			86		86
Net change in unrealized gain (loss) on securities available for sale				163	163
BALANCE, DECEMBER 31, 1997	\$ 22,000	\$ 22,000	\$ 84,786	\$ 102	\$ 128,888

See Notes to Financial Statements.

BANK OF NORTH DAKOTA  
 Statements Of Cash Flows  
 Years Ended December 31, 1997, and 1996

	( In Thousands )	
	1997	1996
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 25,544	\$ 23,191
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	556	580
Provision for loan losses	600	600
Amortization of premiums and accretion of discounts on investment securities, net	319	49
Loss on retirement of premises, equipment, and software	14	-
Net realized gains on sales of securities	(86)	(53)
Increase in interest receivable	(1,443)	(99)
(Increase) decrease in other assets	(641)	8
Decrease in other liabilities	(2,714)	(30,332)
Net cash provided by (used in) operating activities	<u>22,149</u>	<u>(6,056)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Securities available for sale transactions:		
Purchase of securities	(133,790)	(281,788)
Proceeds from sales, maturities, and principal repayments	134,565	177,450
Securities held to maturity transactions:		
Purchase of securities	(9,725)	(11,815)
Proceeds from sales, maturities, and principal repayments	23,511	178,277
Net increase in loans	(70,396)	(66,811)
Purchases of equipment and software	(234)	(659)
Net cash used in investing activities	<u>(56,069)</u>	<u>(5,346)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase (decrease) in non-interest bearing deposits	11,588	(11,459)
Net increase (decrease) in interest bearing deposits	(20,202)	62,783
Net increase in federal funds purchased and securities sold under repurchase agreements	36,006	33,152
Proceeds from issuance of long-term borrowings	39,587	7,500
Payment of long-term borrowings	-	(50,000)
Payment of appropriations	(12,755)	-
Transfer from state general fund - budget stabilization fund	17,116	-
Net cash provided by financing activities	<u>71,340</u>	<u>41,976</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>37,420</b>	<b>30,574</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b><u>226,234</u></b>	<b><u>195,660</u></b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b><u>\$ 263,654</u></b>	<b><u>\$ 226,234</u></b>

See Notes to Financial Statements.

BANK OF NORTH DAKOTA  
Notes To Financial Statements  
Years Ended December 31, 1997, and 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. **Nature of Operations** - Bank of North Dakota (BND) 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. BND is a unique institution combining elements of banking and state government with a primary role in financing economic development. BND is a participation lender; the vast majority of its loans are made in tandem with financial institutions throughout the State of North Dakota. BND's primary deposit products are interest-bearing accounts for state and political subdivisions.

Bank of North Dakota is included as part of the primary government in the State of North Dakota's reporting entity. As such, the Bank is required to follow the pronouncements of the Government Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing generally accepted accounting principles for governmental entities. In accordance with GASB Statement 20, the Bank follows all applicable GASB pronouncements and all applicable Financial Accounting Standards Board (FASB) pronouncements, unless they conflict with the GASB pronouncements.

However, the accompanying financial statements are prepared in accordance with all Financial Accounting Standards Board pronouncements, which is generally accepted accounting principles for financial institutions. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles applicable to governmental units.

- B. **Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses.
- C. **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 agreements to resell with original maturities of three months or less as cash and cash equivalents.
- D. **Securities Available for Sale** - Securities which may be sold before maturity in response to changes in interest rates or prepayment risk, or due to liquidity needs or changes in funding sources or terms, are classified as securities available for sale. These securities are carried at fair value, with unrealized holding gains and losses, reported in capital. When securities are sold, the amortized cost of the specific securities sold is used to compute the gain or loss on sale.
- E. **Securities Held to Maturity** - Securities for which management has the positive intent and ability to hold to maturity are stated at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized by adjustments to interest income.
- F. **Loans** - Loans are stated at the unpaid principal balance outstanding. Interest income on loans is accrued at the specific rate on the outstanding principal balance.

The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

- G. **Allowance for Loan Losses** - The Bank uses the allowance method in providing for loan losses. Accordingly, the allowance 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.

H. **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 10 years for improvements to bank premises, 3 to 5 years for equipment and software, and 10 years for furniture.

I. **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 write-down to fair market value at the time of the 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.

J. **Defined Benefit Plan** - The Bank funds amounts equal to pension costs accrued.

K. **Income Taxes** - Bank of North Dakota is a governmental agency of the State of North Dakota and, as such, is not obligated for federal or state income taxes.

L. **Reclassification** - Certain amounts in the 1996 financial statements have been reclassified to conform with the 1997 presentation.

#### NOTE 2 - RESTRICTION ON CASH AND DUE FROM BANKS

Federal Reserve Board regulations require reserve balances on deposits to be maintained by BND with the Federal Reserve Bank. BND maintains a clearing account with an average balance of \$4 million with the Federal Reserve Bank as of December 31, 1997, and 1996.

#### NOTE 3 - FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

Information related to federal funds sold and securities under agreements to resell is summarized as follows:

	(In Thousands)	
	Federal Funds Sold	Securities Purchased Under Agreements to Resell
1997:		
Ending balance	\$ 128,180	\$ -
Highest month-end balance	224,890	-
Average daily balance	136,381	58
Weighted average interest rate:		
As of year end	6.67%	-
Earned during year	5.57%	5.98%
1996:		
Ending balance	\$ 85,350	\$ 1,120
Highest month-end balance	266,240	3,725
Average daily balance	162,419	932
Weighted average interest rate:		
As of year end	6.49%	6.88%
Earned during year	5.41%	5.76%

Federal funds sold generally mature the day following the date of sale.

The Bank enters into securities purchased under agreements to resell the same securities. These agreements may have a fixed maturity or be open-ended, callable at any time. The agreements are secured by book-entry securities.

NOTE 4 - DEBT AND EQUITY SECURITIES

Debt and equity securities have been classified in the financial statements according to management's intent. The carrying amount of securities and their approximate fair values at December 31 were as follows:

	(In Thousands)			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 1997:				
SECURITIES AVAILABLE FOR SALE:				
U.S. Treasury securities	\$ 34,978	\$ 71	\$ -	\$ 35,049
Federal agency securities	63,992	13	14	63,991
Mortgage-backed securities	25,065	125	93	25,097
Commercial paper	40,000			40,000
Other securities	8,628			8,628
	<u>\$ 172,663</u>	<u>\$ 209</u>	<u>\$ 107</u>	<u>\$ 172,765</u>
SECURITIES HELD TO MATURITY:				
Mortgage-backed securities	\$ 80,236	\$ 411	\$ 501	\$ 80,146
State and municipal securities	16,859			16,859
	<u>\$ 97,095</u>	<u>\$ 411</u>	<u>\$ 501</u>	<u>\$ 97,005</u>
DECEMBER 31, 1996:				
SECURITIES AVAILABLE FOR SALE:				
U.S. Treasury securities	\$ 64,850	\$ 91	\$ 100	\$ 64,841
Federal agency securities	43,994		145	43,849
Mortgage-backed securities	5,799	95	2	5,892
Commercial paper	50,000			50,000
Other securities	8,628			8,628
	<u>173,271</u>	<u>\$ 186</u>	<u>\$ 247</u>	<u>\$ 173,210</u>
SECURITIES HELD TO MATURITY:				
Mortgage-backed securities	\$ 95,786	\$ 37	\$ 1,341	\$ 94,482
State and municipal securities	15,495			15,495
	<u>\$ 111,281</u>	<u>\$ 37</u>	<u>\$ 1,341</u>	<u>\$ 109,977</u>

The maturity distribution of debt securities at December 31, 1997 is shown below. The distribution of mortgage-backed securities is based on average expected maturities. Actual maturities may differ because issuers may have the right to call or prepay obligations.

	(In Thousands)			
	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 230	\$ 230	\$ 116,389	\$ 116,418
Due from one year through five years	53,197	53,157	47,646	47,719
Due from five years through ten years	27,258	27,163		
Due after ten years	16,410	16,455		
	<u>\$ 97,095</u>	<u>\$ 97,005</u>	<u>\$ 164,035</u>	<u>\$ 164,137</u>

Proceeds from the sales of securities available for sale for the years ended December 31, 1997, and 1996, were \$39,001,000, and \$24,951,000. Gross gains realized on sales for the years ended December 31, 1997, and 1996, were \$43,000 and \$37,000. Gross losses were \$7,000 for the year ended December 31, 1997, and no gross losses were incurred for the year ended December 31, 1996.

Securities carried at \$104,602,000 at December 31, 1997 and \$83,149,000 at December 31, 1996, were used for securities sold under agreements to repurchase and for other required pledging purposes. The approximate market value of the securities at December 31, 1997, and 1996, was \$104,545,000 and \$82,500,000.

NOTE 5 - LOANS

The composition of the loan portfolio at December 31, 1997, and 1996, is as follows:

	1997	1996
Guaranteed student loans	\$ 244,154	\$ 205,787
Bank participation loans:		
Commercial	190,088	181,179
Agricultural	75,528	82,253
Farm real estate loans	45,217	40,035
Residential loans	38,089	29,595
State institutions	20,561	5,947
Bank stock	9,895	9,205
	<u>623,532</u>	<u>554,001</u>
Allowance for loan losses	17,442	17,707
	<u>\$ 606,090</u>	<u>\$ 536,294</u>

The total amount of impaired loans was \$2,308,000 at December 31, 1997, and \$3,005,000 at December 31, 1996. The carrying value of the impaired loans was less than the fair value of the collateral and, accordingly, no allowance for credit losses is specifically required for impaired loans. The average balance of impaired loans during 1997 and 1996 was \$2,797,000 and \$2,306,000.

The total amount of restructured loans was \$7,524,000 and \$4,794,000 at December 31, 1997, and 1996.

There were no material commitments to lend additional funds to customers whose loans were classified as non-accrual or restructured at December 31, 1997.

The composition of the allowance for loan losses for the years ended December 31, 1997, and 1996, is as follows:

	1997	1996
Balance - beginning of year	\$ 17,707	\$ 17,214
Provision for loan losses	600	600
Loans charged off	(953)	(207)
Recoveries	88	100
	<u>\$ 17,442</u>	<u>\$ 17,707</u>

NOTE 6 - BANK PREMISES, EQUIPMENT, AND SOFTWARE

The following is a summary of changes in bank premises, equipment, furniture, and software at December 31, 1997, and 1996, as follows:

	( In Thousands )			
	Balance 12/31/96	Additions	Retirements	Balance 12/31/97
Land	\$ 287	\$ -	\$ -	\$ 287
Building	3,953	45	-	3,998
Equipment	2,433	89	796	1,726
Furniture	811	63	137	737
Software	2,307	37	202	2,142
	9,791	234	1,135	8,890
Less accumulated depreciationn	6,287	556	1,121	5,722
	<u>\$ 3,504</u>	<u>\$ (322)</u>	<u>\$ 14</u>	<u>\$ 3,168</u>

	( In Thousands )			
	Balance 12/31/95	Additions	Retirements	Balance 12/31/96
Land	\$ 287	\$ -	\$ -	\$ 287
Building	3,953	-	-	3,953
Equipment	2,223	210	-	2,433
Furniture	775	36	-	811
Software	1,894	413	-	2,307
	9,132	659	-	9,791
Less accumulated depreciation	5,707	580	-	6,287
	<u>\$ 3,425</u>	<u>\$ 79</u>	<u>\$ -</u>	<u>\$ 3,504</u>

Depreciation and amortization expense on the above assets amounted to \$556,000 and \$580,000 in 1997 and 1996.

NOTE 7 - DEPOSITS

The aggregate amount of certificates of deposit larger than \$100,000 was \$393,713,000 and \$397,316,000 as of December 31, 1997, and 1996.

At December 31, 1997, the scheduled maturities of certificates of deposit are as follows:

	( In Thousands )
1998	\$ 357,430
1999	17,778
2000	2,818
2001	5,112
2002	4,502
Later years	24,707
	<u>\$ 412,347</u>

NOTE 8 - FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	( In Thousands )	
	Federal Funds Purchased	Securities Sold Under Agreements To Repurchase
1997:		
Ending balance	\$ 205,814	\$ 28,300
Highest month-end balance	222,097	74,488
Average daily balance	159,304	32,910
Weighted average interest rate:		
As of year end	6.44%	5.43%
Paid during year	5.41%	5.46%
1996:		
Ending balance	\$ 140,352	\$ 57,756
Highest month-end balance	203,665	64,075
Average daily balance	136,827	30,978
Weighted average interest rate:		
As of year end	6.38%	6.13%
Paid during year	5.30%	5.19%

Federal funds purchased generally mature the day following the date of purchase.

The Bank enters into securities sold under agreements to repurchase the same securities. These agreements may have a fixed maturity or be open-ended, callable at any time. These agreements are secured by Fed book-entry securities. The market value of these securities at December 31, 1997, and 1996, was \$33,218,000 and \$58,812,000.

NOTE 9 - LONG-TERM BORROWINGS

Long-term borrowings consists of:

	( In Thousands )	
	1997	1996
Federal Home Loan Bank advances	\$ 53,500	\$ 14,500
North Dakota Municipal Bond Bank, 3%, due September 1, 2007	587	
	<u>\$ 54,087</u>	<u>\$ 14,500</u>

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

	( In Thousands )		
	Principal	Interest	Total
1998	\$ 59	\$ 3,490	\$ 3,549
1999	8,059	3,402	11,461
2000	9,559	2,626	12,185
2001	2,058	2,337	4,395
2002	22,058	1,655	23,713
Later years	12,294	3,166	15,460
Totals	<u>\$ 54,087</u>	<u>\$ 16,676</u>	<u>\$ 70,763</u>



The Federal Home Loan Bank (FHLB) long-term advances outstanding at December 31, 1997, and 1996, mature from November 1999 through November 2007. All long-term advances have fixed rate interest, ranging from 5.78% to 8.19%. In order to make FHLB short and long-term advances, BND is required to purchase FHLB stock equal to 5% of total short and long-term borrowings from FHLB divided by the mortgage-to-asset ratio which was 48.73% as of December 31, 1997. At December 31, 1997, and 1996, BND had FHLB stock, classified as other securities, carried at a cost of \$8,627,400. FHLB short and long-term advances are secured by an assignment of the FHLB stock owned by BND. In addition, advances must also be secured by minimum qualifying collateral maintenance levels. Long-term advances were secured by mortgage-backed securities with carrying value of approximately \$56,251,000 and \$15,413,000 as of December 31, 1997, and 1996.

The North Dakota Municipal Bond Bank long-term borrowing is unsecured. Proceeds from the long-term borrowing are used to make irrigation loans at Bank of North Dakota.

The Bank has obtained advance commitments for disaster relief assistance from the Federal Home Loan Bank of Des Moines totaling \$77,000,000 as of December 31, 1997. These advance commitments expire from February 1998 to June 1998.

NOTE 10 - OTHER LIABILITIES

Other liabilities consist of:

(In Thousands)

	1997	1996
Appropriations payable	\$ 12,453	\$ 12,796
Interest payable	3,704	4,580
Student loan origination fee payable	351	359
Official checks	868	855
Accrued expenses	1,357	1,765
Other	7,085	8,520
	<u>\$ 25,818</u>	<u>\$ 28,875</u>

The 1997 North Dakota Legislature passed House Bill 1015 that provides for an appropriation from Bank of North Dakota to the State's General Fund. An appropriation of \$29,600,000 was made for the biennium beginning July 1, 1997, and ending June 30, 1999, from the current earnings of the Bank. The moneys shall be transferred in amounts and at such times as requested by the director of the Office of Management and Budget.

No transfers may be made which would reduce the Bank's capital structure below \$100,000,000.

NOTE 11 - CAPITAL

The 1997 North Dakota Legislature passed House Bill 1015, which directed the director of the Office of Management and Budget to transfer any amounts in the Budget Stabilization Fund as of July 1, 1997, to Bank of North Dakota. Funds totaling \$17,116,000 were transferred to the undivided profits of the Bank.

NOTE 12 - PENSION PLAN

Bank of North Dakota participates in the North Dakota Public Employees' Retirement System administered by the State of North Dakota. The following is a brief description of the plan.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of Bank of North Dakota. The plan provides retirement, disability, and death benefits. If an active employee dies with less than five years of credit service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than five years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred, or monthly payments in an amount equal to the employee's accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be paid to the surviving spouse's designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days of service receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 1.74% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 88, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with five or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. Bank of North Dakota has implemented a salary reduction agreement and is currently contributing the employee's share. Bank of North Dakota is required to contribute 4.12 percent of each participant's salary as the employer's share. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. Bank of North Dakota's required and actual contributions to NDPERS for the fiscal years ending December 31, 1997, and 1996, were approximately \$377,000 and \$353,000.

NDPERS issues a publicly available report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; P.O. Box 1214; Bismarck, ND 58502-1214.

#### NOTE 13 - 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, 1997, and 1996, was approximately \$46,000 and \$44,000.

#### NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES

##### *Contingent Bank Transfer*

The 1997 North Dakota Legislature passed House Bill 1015, which included a contingent Bank transfer to the State General Fund. If, during the biennium ending June 30, 1999, the director of the Office of Management and Budget determines via revised projections that General Fund revenue collections will not meet the revenues as forecast in the March 1997 legislative forecast, the Industrial Commission shall transfer to the State General Fund an additional amount, as determined by the director of the Office of Management and Budget and as approved by the budget section, from the earnings and accumulated and undivided profits of Bank of North Dakota. The moneys must be transferred in amounts and at such times as requested by the director of the Office of Management and Budget. The additional amount transferred may not exceed the lesser of \$23,000,000 or the revenue shortfall of actual collections compared to the March 1997 legislative forecast. As of December 31, 1997, projected revenues exceed the March 1997 legislative forecast for projected revenues.

No transfers may be made which would reduce the Bank's capital structure below \$100,000,000.

*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 Bank of North Dakota. In connection with these bond issues, Bank of North Dakota is obligated to purchase bonds and uncertified obligations when there is insufficient cash flow in the Trust for payment of the bonds and interest as they become due.

The 1995 North Dakota Legislature passed House Bill Number 1017, which prevents the Bank from presenting any bond or uncertified obligation to the State Treasurer for payment. However, the Bank may recover any previous, current, or future transfers to the Trust from the net assets of the Trust as they may become available.

*Partial Investment Return Guarantee*

BND has issued a Partial Investment Return Guarantee (hereinafter "Guarantee") to each initial investor limited partner of North Dakota Small Business Investment Company (NDSBIC), a North Dakota Limited Partnership. This unconditional Guarantee issued by BND promises that at any time between the dates of January 1, 2004, and December 31, 2009, BND will guarantee 25% of the original offering price, or \$2,500 for each said \$10,000 unit tendered for repurchase. The Guarantee expires on December 31, 2009. The Guarantee is limited in total to no more than twenty-five percent (25%) of the \$4,976,000 of units sold to the initial investors in the NDSBIC. As of December 31, 1997, BND does not anticipate it probable that any investor will tender units for repurchase based on the Guarantee.

NOTE 15 - 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, educational 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 16 - FINANCIAL INSTRUMENTS

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and financial standby letters of credit. Those instruments involve varying degrees of credit 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.

	Contract Amount (In Thousands)	
	1997	1996
Commitments to extend credit	\$ 197,430	\$ 104,617
Financial standby letters of credit	40,818	33,826
	<u>\$ 238,248</u>	<u>\$ 138,443</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no 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 credit worthiness 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. Funding expectations for commercial and agricultural loan commitments 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 Bank has not incurred any losses on these commitments in 1997 and 1996.

#### NOTE 17 - 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 19% and 22% of total loans as of December 31, 1997, and 1996.

#### NOTE 18 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107 "Disclosures About Fair Value of Financial Instruments" (SFAS 107) requires the disclosure of estimated fair values of all asset, liability and off-balance sheet financial instruments. Fair value estimates under SFAS 107 are determined as of a specific point in time utilizing various assumptions and estimates. Quoted market prices are the preferred means of estimating the value of a specific instrument, but in the cases where market quotes are not available, fair values are determined using various valuation techniques such as discounted cash flow calculations or by using pricing models.

The carrying values and estimated fair values of the Bank's financial instruments as of December 31, 1997, and 1996, were as follows:

	( In Thousands )			
	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets:</b>				
Cash and cash equivalents	\$ 263,654	\$ 263,654	\$ 226,234	\$ 226,234
Securities available for sale	172,765	172,765	173,210	173,210
Securities held to maturity	97,095	97,005	111,281	109,977
Accrued interest receivable	15,418	15,418	13,975	13,975
<b>Loans:</b>				
Guaranteed student loans	244,154	246,181	205,787	205,787
Residential loans	38,089	37,862	29,595	30,201
Other loans	341,289	334,535	318,619	310,352
Allowance for loan losses	(17,442)		(17,707)	
Total Loans	606,090	618,578	536,294	546,340
Total Financial Assets	\$ 1,155,022	\$ 1,167,420	\$ 1,060,994	\$ 1,069,736
<b>Financial Liabilities:</b>				
Non-maturity deposits	\$ 307,161	\$ 307,161	\$ 312,244	\$ 312,244
Deposits with stated maturities	412,347	422,446	415,878	426,999
Federal funds purchased and securities sold under agreements to repurchase	234,114	234,114	198,108	198,108
Long-term borrowings	54,087	54,376	14,500	14,437
Other liabilities	25,818	25,818	28,214	28,214
Total Financial Liabilities	\$ 1,033,527	\$ 1,043,915	\$ 968,944	\$ 980,002

The following methods and assumptions were used by the Bank in estimating fair values of financial instruments as disclosed herein:

*Cash and Cash Equivalents* - The carrying value of cash and cash equivalents approximates fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

*Securities Available For Sale and Securities Held To Maturity* - The fair value of securities were estimated using quoted market values, when available. If quoted market prices were not available, fair value was estimated using quoted market prices for similar assets.

*Loans Held For Sale* - Fair values of loans held for sale are stated at quoted market prices.

*Residential Loans* - The fair value of residential loans has been estimated using a valuation technique which adjusts mortgages to approximate the quoted market yield for GNMA mortgage-backed securities.

*Guaranteed Student Loans* - The fair value of student loans is based on quoted market values.

*Other Loans* - The fair value of all other categories of loans 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. Projected cash flows on nonaccrual loans were reduced by the amount of the estimated losses on the portfolio.

*Interest Receivable and Payable* - The carrying value of interest receivable and payable approximates fair value due to the relatively short period of time between accrual and expected realization.

*Non-Maturity Deposits* - The fair value of deposits with no stated maturity, such as demand deposits, savings, NOW, and money market accounts, are disclosed as the amount payable upon demand.

*Deposits With Stated Maturities* - The fair value of interest bearing certificates of deposit has been estimated by discounted future cash flows using rates currently offered for deposits of similar remaining maturities.

*Federal Funds Purchased and Securities Sold Under Agreements To Repurchase* - The carrying value of short term borrowings approximates fair value due to the relatively short period of time between the origination of the instruments and their expected payments.

*Long-Term Borrowings* - Current market prices were used to estimate the fair value of the long-term borrowings using current market rates of similar maturity borrowings.

*Other Liabilities* - The carrying value of other liabilities approximates fair value due to the short period of time until expected payment.

NOTE 19 - SUPPLEMENTAL DISCLOSURES RELATED TO STATEMENTS OF CASH FLOWS

	( In Thousands )	
	1997	1996
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest paid to customers	\$ 29,303	\$ 25,012
Interest paid on federal funds purchased and securities sold under repurchase agreements	10,411	8,903
Interest paid on long-term debt	1,931	4,684
Supplemental schedule of noncash investing and financing activities:		
Reduction in appropriation payable	(86)	(294)
Appropriations transfer from undivided profits to other liabilities	12,498	-
Net change in unrealized gain (loss) on securities available for sale	163	(569)

NOTE 20 - PRIOR PERIOD ADJUSTMENT

Undivided profits as of January 1, 1996, have been adjusted by approximately \$439,000 for the repayment of amounts which had previously been received from the North Dakota Guaranteed Student Loan Program for the amount of the mark-up on services and administrative costs. Net income for the year ended December 31, 1996, has decreased by approximately \$222,000 as a result of the adjustment.

# T E N      Y E A R

	1997	1996	1995
<b>OPERATING RESULTS (in thousands)</b>			
Non-Interest income	\$ 70,891	\$ 67,377	\$ 62,742
Non- Interest expense	40,768	39,865	37,595
Net interest income	30,123	27,512	25,147
Provision for loan losses	600	600	1,700
Net interest income after provision for loan losses	29,523	26,912	23,447
Other income	8,189	7,812	9,514
Other expenses	12,168	11,533	11,322
Net income	25,544	23,191	21,639
Payments to general fund	12,715	37,500	-
Payments to other funds	40	38	25,195
<b>BALANCE SHEET - YEAR END (in thousands)</b>			
TOTAL ASSETS	1,162,415	1,068,082	1,033,816
<b>FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS</b>			
	128,180	86,470	67,045
<b>SECURITIES AVAILABLE FOR SALE</b>			
	172,765	173,210	69,026
<b>INVESTMENT SECURITIES</b>			
U.S. Treasury securities	-	-	123,989
Obligations of other U.S. Government agencies	-	-	14,029
Mortgage - backed securities	80,236	95,786	104,886
Other money market instruments	-	-	-
Obligations of states and political subdivisions	16,859	15,495	15,250
Commercial paper	-	-	20,000
Other securities	-	-	-
<b>LOANS</b>			
	623,532	554,001	487,297
Loans held for sale	-	-	-
Residential loans	38,089	29,595	27,808
Guaranteed student loans	244,154	205,787	168,755
Bank participation loans -			
Commercial	190,088	181,179	155,654
Agriculture	75,528	82,253	83,217
Farm real estate loans	45,217	40,035	33,314
State institutions	20,561	5,947	11,271
Bank stock	9,895	9,205	7,278
<b>DEPOSITS -</b>			
	719,508	728,122	676,798
Non-interest bearing	117,708	106,120	117,579
Interest bearing	601,800	622,002	559,219
<b>FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS</b>			
	234,114	198,108	164,956
<b>CAPITAL FUNDS</b>			
	128,888	98,477	76,000
Capital	22,000	22,000	22,000
Surplus	22,000	22,000	22,000
Contributed capital	-	-	-
Unrealized gain (loss) on securities available for sale	102	(61)	508
Undivided profits	84,786	54,538	31,492

# S U M M A R Y

1994	1993	1992	1991	1990	1989	1988
\$ 51,273	\$ 46,985	\$ 57,335	\$ 64,453	\$ 69,540	\$ 74,899	\$ 68,884
28,564	23,456	28,251	41,391	52,218	55,990	49,489
22,709	23,529	27,584	21,530	17,322	18,909	19,395
2,500	600	667	698	-	-	750
20,209	22,929	26,917	20,832	17,322	18,909	18,645
9,597	6,373	4,534	4,405	5,492	4,485	3,684
11,775	11,772	10,611	10,355	10,267	8,217	7,089
18,031	17,530	22,340	16,414	12,547	15,176	15,240
10,000	11,100	18,521	4,696	14,000	-	6,000
37	16	75	110	3,241	-	-
935,070	872,220	1,064,109	956,759	893,972	971,866	900,113
79,810	62,680	208,951	110,305	170,200	388,172	278,875
37,364	-	-	-	-	-	-
321,035	428,333	458,414	496,789	411,664	319,773	368,499
161,777	254,792	316,861	349,028	230,117	86,228	252,057
14,518	10,019	10,030	55,352	40,484	83,065	48,430
126,066	126,532	63,205	72,925	75,574	-	-
-	-	-	5,000	50,002	136,250	56,978
14,777	12,989	11,628	7,942	7,381	5,927	4,971
-	17,312	50,000	-	-	-	-
3,897	6,689	6,690	6,542	8,106	8,303	6,063
391,345	305,552	313,873	266,854	227,984	203,315	209,225
203	14,996	-	-	-	-	-
32,913	42,322	61,655	78,564	88,969	99,049	109,445
122,714	75,026	118,639	86,487	46,886	32,744	29,373
120,918	78,697	63,722	51,269	43,474	32,405	30,077
68,514	53,405	43,422	28,940	23,873	16,126	12,754
31,255	25,638	20,675	15,729	12,449	10,004	7,745
10,459	12,264	2,965	3,167	8,441	8,590	13,856
6,780	3,204	2,795	2,698	3,892	4,398	5,975
587,837	573,317	571,355	541,835	509,433	545,868	457,485
98,337	87,916	91,158	80,789	60,794	49,133	48,947
489,500	485,401	480,197	461,046	448,639	496,735	408,538
155,527	121,112	322,308	247,664	227,955	255,952	274,434
100,206	100,000	114,119	92,917	96,618	84,016	89,472
22,000	22,000	22,000	22,000	22,000	22,000	22,000
22,000	22,000	22,000	22,000	22,000	22,000	22,000
1,394	1,394	1,394	1,394	1,394	1,394	1,394
206	-	-	-	-	-	-
54,606	54,606	68,725	47,523	51,224	38,622	44,078



