



MISSION

To promote agriculture, commerce and industry in North Dakota

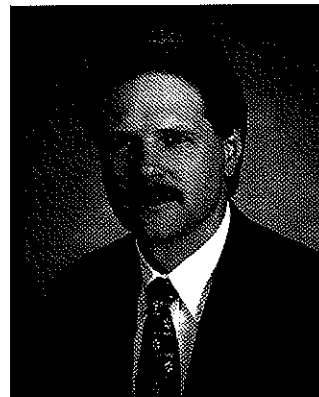
VISION

To be the development bank of North Dakota

A PROUD PAST, A PROMISING FUTURE

Bank of North Dakota 1920's.
Photo provided by ND Historical Society

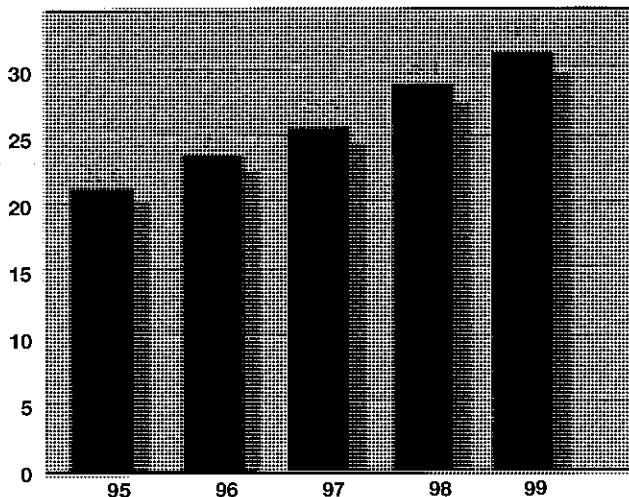
Partnerships with financial institutions, guarantee agencies, and customers were the key to our continued growth and profitability in 1999. Bank of North Dakota (BND) achieved another year of strong performance as loan growth and earnings reached record levels for the sixth consecutive year. Loans increased by more than \$200 million or over 25%; pushing total assets to \$1.68 billion. Banks earnings again exceeded the prior year, reaching a new record of \$30.5 million in 1999, an increase of 8.2% over 1998 earnings of \$28.1 million.



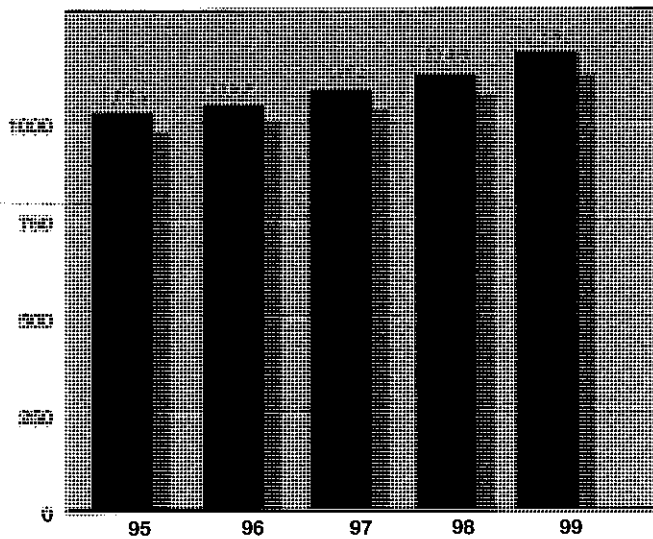
John Hoeven
President

Consistent with recent trends, earnings have been driven by the continuing growth in BND's loan portfolio. BND experienced its strongest loan growth in Bank history, topping the one billion mark for the first time ever. Total loans were more than \$1.05 billion, up from \$835 million in 1998.

BND's annual income (5 year growth) in millions of dollars



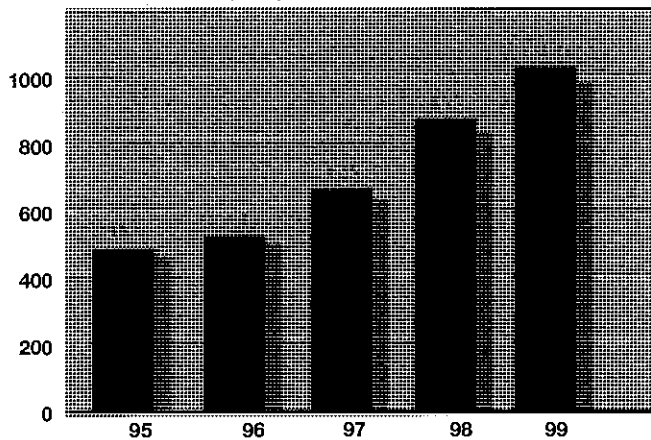
Growth in BND's total assets in millions of dollars



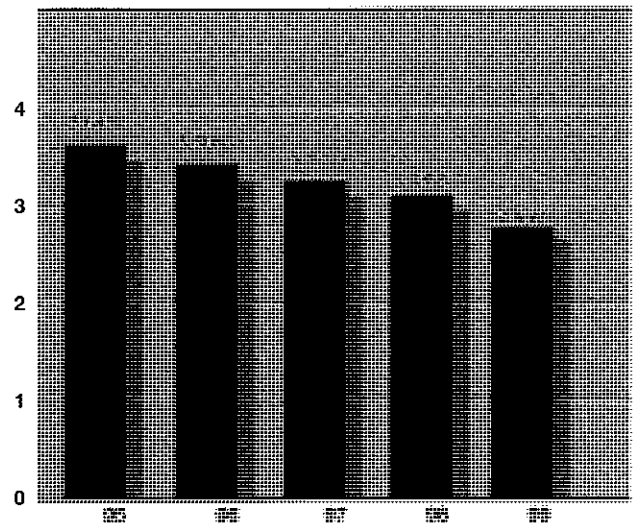
The continued growth in the loan portfolio in 1999 provided further capital to pursue our mission, to promote agriculture, commerce and industry in North Dakota. As the loan volume continued to increase, BND has managed to reduce costs to borrowers.

Strong and consistent earnings performance is necessary for BND to maintain its capital base and make required transfers to the state's General Fund. BND finished the year with capital of \$139 million, for a capital-to-assets ratio of 8.3%, a reduction from last year's ratio of 9.0%, due to asset growth and transfers to the General Fund. This biennium, BND is projected to provide profits of \$50 million to the State's General Fund, making the Bank one of the state's largest revenue sources. In addition, the Bank may be called upon to provide up to an additional \$40 million or a total of \$90 million during the biennium should the state's revenues fall below budget projections.

Financing economic growth, BND's loan volume has grown over the last 5 years from 487 million to 1.1 billion



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



Cirrus Design Corp. is a new generation airplane manufacturer with locations in Grand Forks and Duluth MN. The Grand Forks plant employs over 60 people.



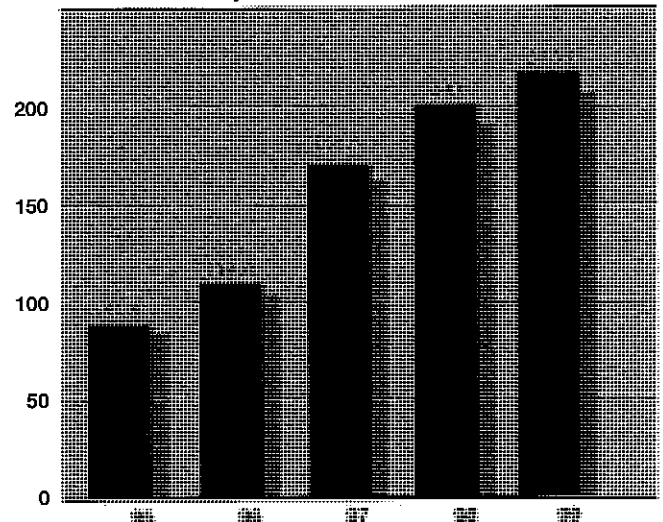
LENDING

The lending function is fundamental to BND's work as a development bank. Loan programs, which provide lower rates of interest, long term fixed rates and often involve taking more risk, are designed to complement and support lending by private financial institutions. The results provide greater access to credit on terms that are more favorable for North Dakota citizens.

BND's development lending covers four major areas: business, agriculture, student, and home lending. All four of these major lending areas continued to show strong growth in 1999 and BND's loan portfolio is well balanced among them.

BND's first objective is financing the expansion and diversification of the State's economy and its job base. Through lending activities, the Bank injects over \$200 million into North Dakota's economy each year. Net new loans increased by \$220 million in 1999 to \$1.056 billion, compared to \$835 million in 1998. Overall, BND originated more than \$445 million in new loan volume last year. That amount was reduced to \$220 million net growth through loan sales and payoffs received as borrowers graduated to new funding sources after receiving assistance from BND's programs.

Total volume of BND PACE Loans in millions of dollars



Melroe invested \$18 million with expansions at their facilities in Bismarck and Gwinner. Serving clients world wide, Melroe employed over 2,000 North Dakotans in 1999.

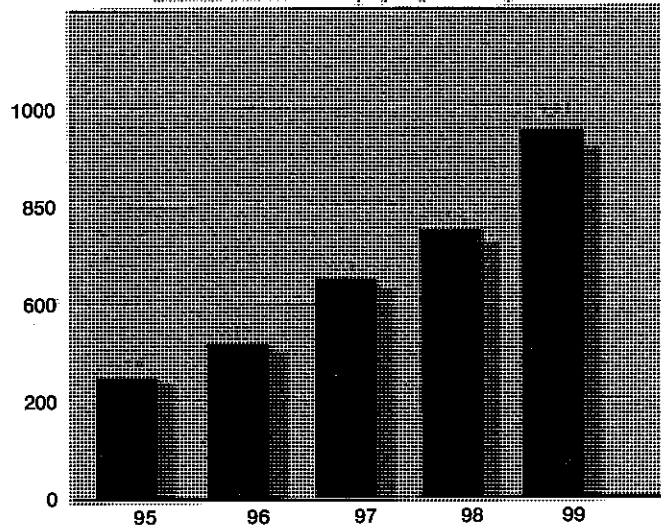


BUSINESS LENDING

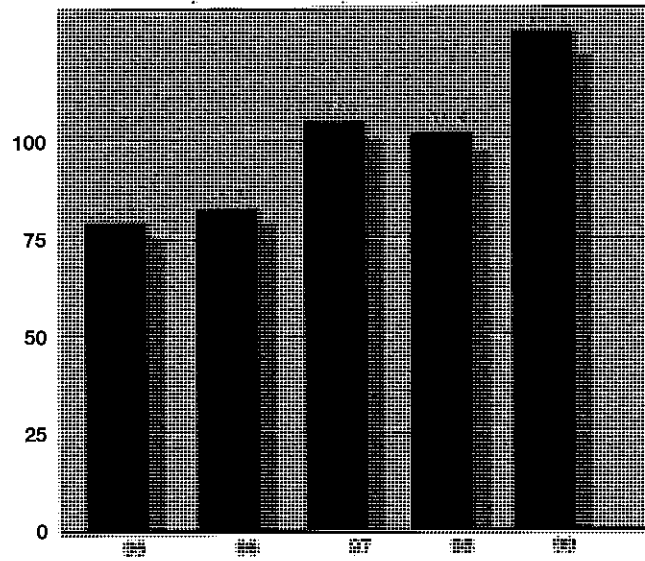
In partnership with private financial institutions, BND helped fund 196 business and industrial projects around the state in 1999. Some of the projects are pictured throughout this annual report. During the past five years, BND, along with private financial institutions, has injected more than \$1 billion into the state's economy.

Business lending increased by 35% in 1999, with a total portfolio of over \$320 million. Growth was particularly significant in two areas: bank participation loans increased by 62%, and Match Program loans increased by 47%. BND's participation with other banks allows them to overline, share risk, and provide lower rates to their customers. The Match Program is a low risk program that provides reduced interest rates to companies generating new wealth to the state. Funding for the the Match Program is available due to the commitment made by the North Dakota Investment Board.

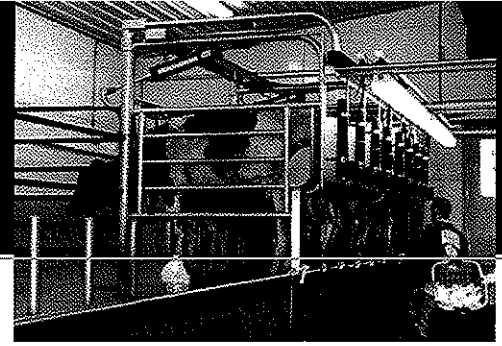
Business and industrial project financing by BND



Annual volume of commercial loans funded by BND in millions of dollars



Dusty Willow Dairy is a 550 cow dairy facility constructed in 1999. The dairy is the first large-scale dairy of its kind located in northeastern ND.

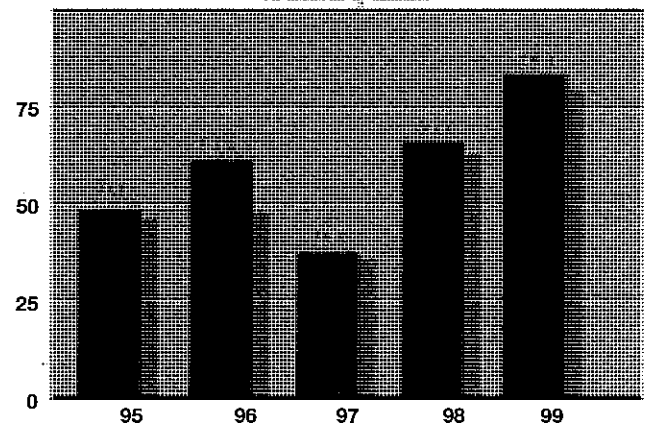


COMMITMENT TO AGRICULTURE

The North Dakota Industrial Commission, the North Dakota Legislature, and the North Dakota Credit Review Board have encouraged enhancements in BND's loan programs to assist with diversification of agriculture in North Dakota. The Ag PACE program, an interest-assist program, was expanded to allow for the purchase of equity shares for value added agricultural ventures and for the purchase of irrigation equipment. The Family Farm and Farm Operating Programs were amended to meet the needs of today's farmers and ranchers.

As North Dakota farmers continue with the battle of low commodity prices and inconsistent growing conditions, the Industrial Commission supported the extension of BND's farm initiative. This program provides cash flow relief through debt restructure packaging and also farm operating money at below market rates. Under the farm initiative, BND provided nearly 325 loans totaling over \$18.5 million, many at an interest rate of 6%. Overall farm loans grew by 22% (from \$155 million to \$189 million) as BND weighed in to assist farmers and ranchers throughout North Dakota.

*Annual volume of agricultural loans funded by BND
in millions of dollars*



Commercial Group West located in Kenmare, is a manufacturer of commercial and single family residential modular construction. They employ more than 25 people.

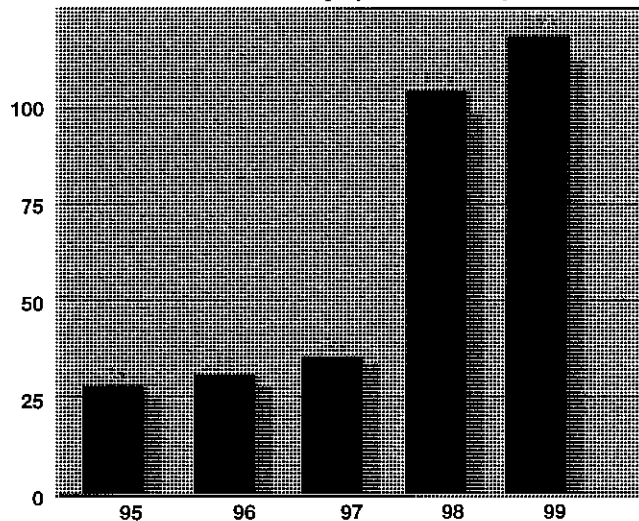


RESIDENTIAL LENDING

BND's residential lending program provides financial institutions and their customers with the benefits of better access to home loan funding and in-state servicing. In 1999, this program grew by \$75 million to a total of \$189 million. Under the program, BND provides other banks a secondary market for FHA and VA guaranteed loans, as well as conventional mortgages.

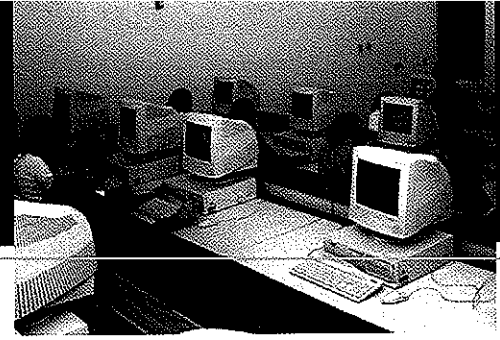


BND's residential loan portfolio in millions of dollars



Student Loans of North Dakota (SLND) *originated and administered over \$80 million dollars to North Dakota students in 1999, an increase in one year of over 9%.*

Jack Science Center, BSC. Photo taken by BSC student who was a 1999 Student Loan recipient.



STUDENT LOANS

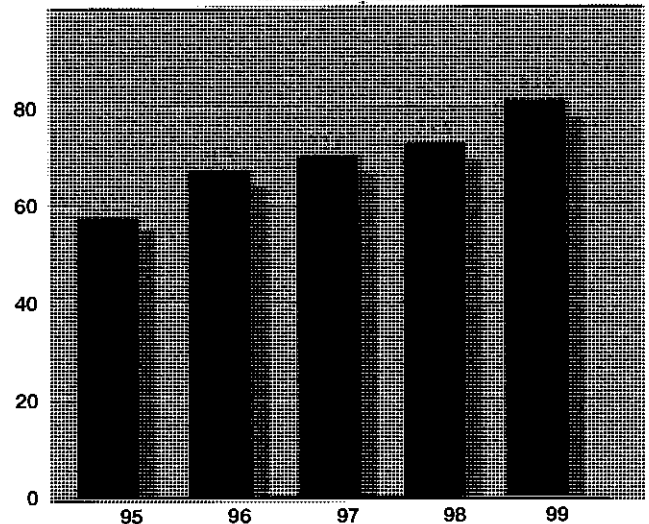
In addition to originating and servicing student loans which are funded by BND, Student Loans of North Dakota (SLND), serves as the guarantee agency for other banks throughout the state that make student loans. As a guarantor, SLND's cumulative federal student loan guarantees now total nearly one billion dollars.

For the fifth straight year, SLND-Guarantor had the lowest cohort default rate of any guarantor in the nation. While the national average was over 8%, SLND's rate was only 1%. Also, SLND-Guarantor continued its program of eliminating the 1% guarantee fee providing annual savings of nearly \$1 million to our students.

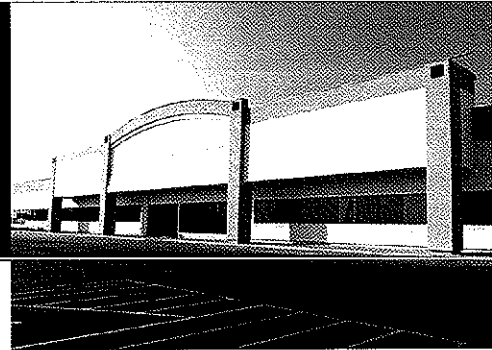
To improve and expedite the application process, SLND continued to upgrade its electronic capabilities. SLND's successful implementation of CommonLine, now allows schools to electronically transmit loan applications and loan disbursement information via the Internet to SLND-Guarantor. In addition, students are able to apply for both state and federal financial aid loan programs electronically at the financial aid offices of colleges and universities throughout the state.

SLND also began work on the College SAVE program that will assist parents to save for their children's education.

*Funded student loans for the 12 months ending December 31
in millions of dollars*



MLT, Inc., is a corporate reservation center for Northwest Airlines located in Minot.



LOAN ADMINISTRATION

BND's loan portfolios are administered to reduce risk by using federal guarantee programs, partnering with other financial institutions and maintaining an appropriate loan loss reserve. More than 52% of BND's total portfolio is guaranteed through federal programs including the Small Business Administration (SBA), and the Rural Development Association. In addition, BND participates with private financial institutions to share risk and provide better funding availability to borrowers. This approach efficiently and effectively spreads the risk among many public and private funding sources and the guarantee agencies.

BND's financial position is further strengthened by maintaining a loan loss reserve at a high level.

Currently the loan loss reserve is \$20.1 million, which amounts to 1.9% of total loans and compares favorably to the industry average of 1.5%. Considering only non-guaranteed loans, BND's ratio is 4.02%.

Net loans charged off for 1999, resulting from gross charge offs of \$634,423 less recoveries of \$219,636, were very low at \$414,787. Non-accruals were \$3.7 million at 1999 year-end, and once again, BND loan delinquencies across all four of its major lending areas ended the year favorably compared to industry averages.

Great Plains Software offers e-business solutions that electronically interconnect business with their communities. Great Plains is headquartered in Fargo and does business around the world.



INVESTMENT AND TRUST

As BND's loan portfolio continues to grow, securing funding sources other than captive state deposits becomes increasingly important. The Investment and Trust Division is responsible for obtaining these funds using the most favorable pricing terms with maturities that match and properly hedge BND's loan portfolio. The Division continues to develop new funding opportunities, and in 1999 only one-quarter of BND's funding base came from captive state deposits. Existing funding opportunities include: certificates of deposit issued in the national market, borrowing from the Federal Home Loan Bank, and discretionary state funds that were formerly managed outside BND. By taking advantage of new and existing programs, the Division increased BND's funding capacity by over \$250 million this past year.

In addition, to continued development of new funding opportunities for BND, the Division continues to expand its services to meet the needs and liquidity of over 100 North Dakota financial institutions. These investment services include: (1) continuous (no day out) unsecured fed funds borrowing for safekeeping customers, (2) letter of credit pledge for public deposits, (3) secured fed funds line, (4) pledge pooling for public deposits, (5) safekeeping, and (6) bond accounting.

Engine Rebuilders, Inc. used a PACE loan to expand their facilities in Oakes. They have been in existence for over 20 years and employ 16 people. The company rebuilds engines for the skid steer market.



RETAIL AND BANK OPERATIONS

The mission of the Bank Operations Department is to “deliver the highest quality financial payment and deposit services to customers of BND.” During 1999, the Retail and Bank Operations Division continued to focus on item processing and improving automated services to customer banks and state agencies.

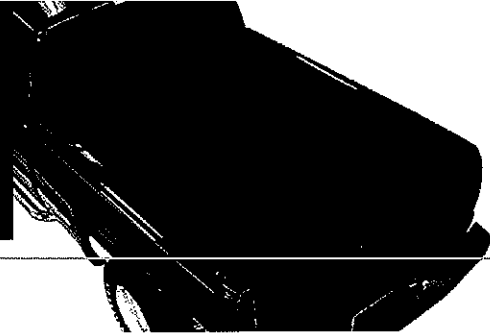
The Retail and Bank Operations Division began developing and testing BND Direct PC. Slated for implementation in 2000, BND Direct PC is software that will enable corporate customers and financial institutions to monitor daily balances, perform reconciliations, obtain various bank reports and file data transfers, and collect information on other account activity.

To ensure a smooth transition into the new year, BND’s Retail and Bank Operations Division analyzed and tested department systems that could be affected by the “Year 2000” changeover.

BND’s check processing service facilitated the rapid collection of checks throughout the State of North Dakota. BND processed 192,249 items per day, or over 48 million items in 1999; an increase of 6.34% over items processed in 1998. BND’s check processing services assisted approximately 122 financial institutions across the state to clear North Dakota items more efficiently and cost effectively. Customers receiving these services are financial institutions that provide wholesale services to other banks.

In an effort to avoid duplicating services and competing with private financial institutions, BND’s retail operations have not expanded beyond check cashing and account services. As a result, BND does not offer retail credit cards or debit cards, ATM services, drive-up facilities or branch banking.

Peragon Enterprises Inc. is located in Grand Forks. The owners used new Beginning Entrepreneur Loan program at BND to start their business of manufacturing retractable bedtops for pickup trucks.



SPECIAL DEVELOPMENTS

BND Year 2000 Project

To avoid any Year 2000 disruptions, BND successfully transitioned into the Year 2000 with the BND Year 2000 Project—To enter the twenty-first century providing the quality service that BND customers have learned to expect in an environment of “business as usual.” This approach allowed BND to be well ahead of schedule in improving data processing systems. All critical functions were Y2K ready by June 1, 1999. In addition to skillfully managing a smooth transition into the new century, the process of thoroughly examining the Bank’s systems and processes resulted in a more efficient, effective and well-controlled operating environment and service platform upon which to offer BND services in the future. Bank of North Dakota is proud of the team effort shown by all of the employees of BND in preparing for the Year 2000.

Web Site Development

BND continues to develop its web site to make services more available for its customers. The web site at www.banknd.com provides detailed information on all products and services including forms and applications.

Women in Technology Institute

BND has also participated in a number of innovative partnerships including the One Stop Capital Center. As part of that effort, in 1999 BND partnered with the United States Small Business Administration and the North Dakota Department of Economic Development and Finance to create the Women In Technology Institute located on the second floor of BND. The Institute played an important role in helping a variety of businesses start or expand in 1999. The Institute has developed a simplified 12-hour computer education program that teaches participants how to use computer software like Microsoft Word, Excel, Access, as well

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VISION

To be the development bank of North Dakota

as the Internet and e-mail. These classes focus on the adult businessperson and are coordinated through local community economic development professionals. Since its inception, the program has trained more than four hundred individuals, including the SBA's SCORE volunteers.

CONCLUSION

North Dakota has a bright future and BND will continue to play an important role in building that future. BND will continue to pursue its mission to promote agriculture, commerce, and industry in North Dakota. BND will continue to deliver quality, sound financial services, provide financing programs in cooperation with private financial institutions, economic development entities, and guarantee agencies, and generate a consistent return on assets while managing risk.

Since the strategic plan was revised five years ago (1995), BND's loan portfolio has more than doubled, and the Bank of North Dakota now has total assets approaching \$1.7 billion. Working with financial institutions, guarantee agencies, and other funding sources, BND has injected more than \$1 billion into North Dakota's economy over the past five years, helping individuals and businesses throughout the state. As the demand for our unique services and financing programs continues to grow, we will continue to support the development and diversification of our state's economy as the development bank of North Dakota.

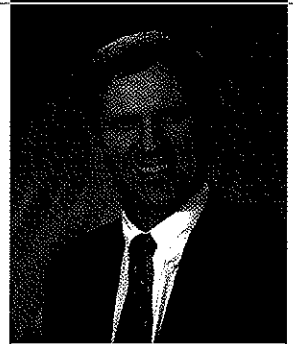
NORTH DAKOTA INDUSTRIAL COMMISSION



Ed Schafer
Governor



Heidi Heitkamp
Attorney General



Roger Johnson
Commissioner of Agriculture

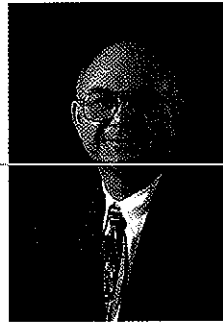
BANK OF NORTH DAKOTA'S EXECUTIVE COMMITTEE



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

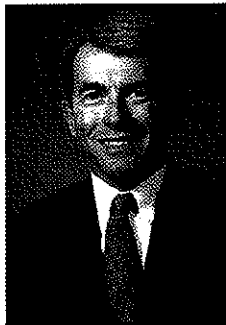
BND'S ADVISORY BOARD

BND Advisory Board members are appointed by the Governor for four-year terms. The North Dakota Century Code states that the board be made up of seven members, including two officers of banks with a majority of stock owned by North Dakota residents, and one officer of a state or federally-chartered financial institution. Current members are listed here.



C. William "Bill" Kingsbury

Grafton, farms sugar beets, beans, wheat and potatoes; on BND board since July 1993.



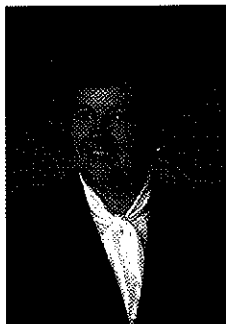
Frank Keogh

Williston, President and CEO of American State Bank and Trust Co.; Chairman of the BND Board since July 1994.



Elaine Fremling

Fargo, certified underwriter for Northwestern Mutual Life Insurance; began serving on board July 1995.



Maren Daley

Grand Forks, Senior Vice President and Loan Product Manager of First National Bank; Vice Chair of the Board, on BND board since July 1991.



Marlys Brown

Hannaford, Vice President and Human Resource Coordinator for Security State Bank of North Dakota with branches in eight towns; on BND board since July 1996.



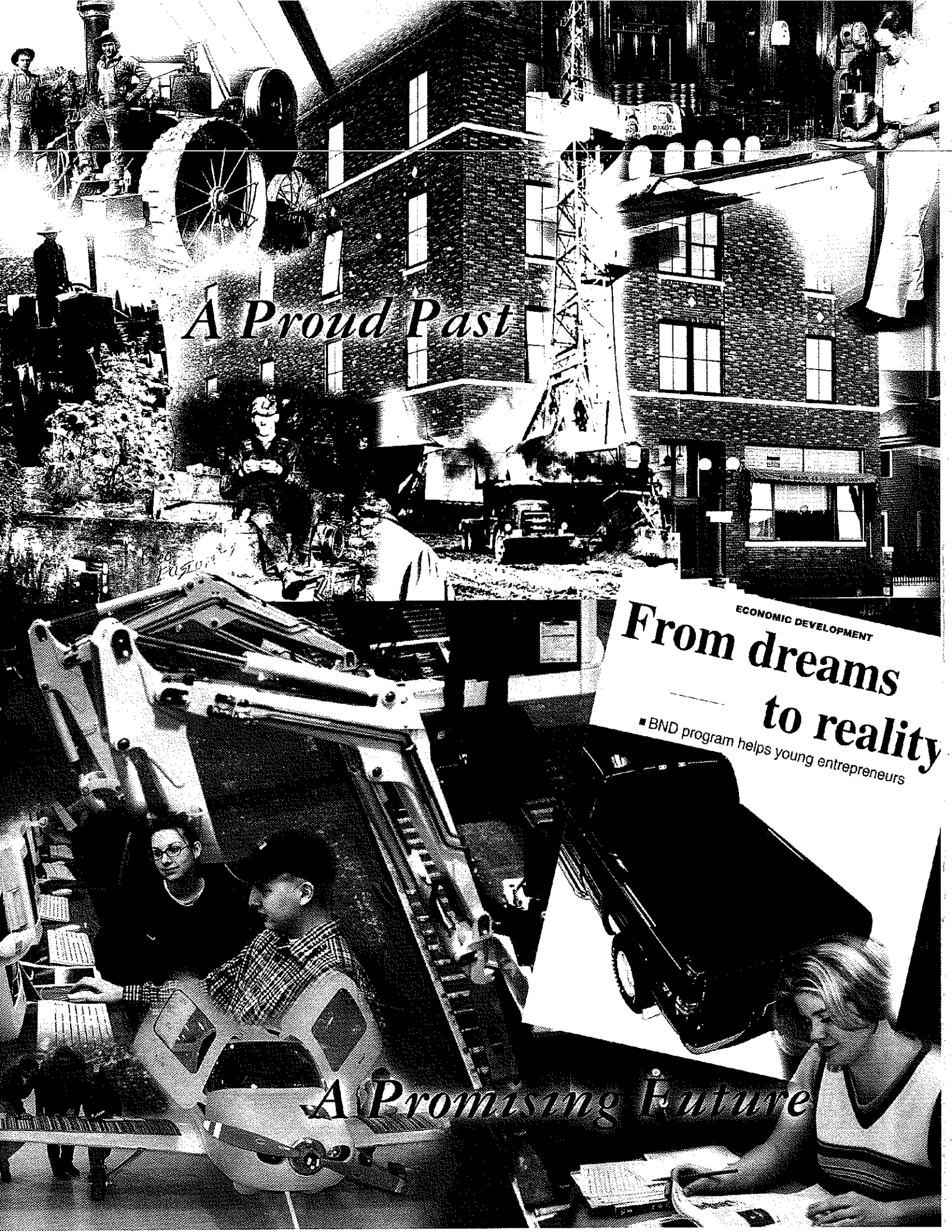
Curly Haugland

Bismarck; owns Recreation Supply Co. and Eureka Manufacturing; Secretary of the Advisory Board; started July 1993.



Shirley Montgomery

Fargo, Vice President for Website Development for CareerLink North; began in August 1997.



A Proud Past

ECONOMIC DEVELOPMENT
**From dreams
to reality**
■ BND program helps young entrepreneurs

A Promising Future

INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the accompanying balance sheets of the Bank of North Dakota as of December 31, 1999, and 1998, and the related statements of income, 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.

As described in Note 1, the Bank of North Dakota is included as part of the primary government in the State of North Dakota's reporting entity. However, the 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 financial statements referred to above present fairly, in all material respects, the financial position of the Bank of North Dakota as of December 31, 1999, and 1998, and the results of its operations and its cash flows for the years then ended on the basis of accounting described in Note 1.

Eide Bailly LLP

Bismarck, North Dakota
January 21, 2000

BANK OF NORTH DAKOTA
Balance Sheets
December 31, 1999, and 1998

	(In Thousands)	
	1999	1998
Cash and due from banks	\$ 135,743	\$ 129,487
Federal funds sold	249,565	206,095
Cash and cash equivalents	385,308	335,582
Securities available for sale	149,941	310,402
Securities held to maturity	85,066	117,440
	235,007	427,842
Loans	1,056,232	835,654
Less allowance for loan losses	(20,106)	(18,921)
	1,036,126	816,733
Bank premises, equipment, and software, net	2,837	3,055
Interest receivable	20,650	20,267
Other assets	7,239	5,560
Total assets	\$ 1,687,167	\$ 1,609,039
Deposits:		
Non-interest bearing	\$ 83,798	\$ 133,307
Interest bearing	826,854	810,230
	910,652	943,537
Federal funds purchased and securities sold under agreements to repurchase	250,985	309,496
Short and long-term debt	363,076	203,779
Other liabilities	23,179	12,296
Total liabilities	1,547,892	1,469,108
Capital funds:		
Capital	22,000	22,000
Capital surplus	22,000	22,000
Undivided profits	96,703	95,736
Unrealized gain (loss) on securities available for sale	(1,428)	195
Total capital funds	139,275	139,931
Total liabilities and capital funds	\$ 1,687,167	\$ 1,609,039

See Notes to Financial Statements

BANK OF NORTH DAKOTA
 Statements Of Income
 December 31, 1999, and 1998

	(In Thousands)	
	1999	1998
Interest Income		
Federal funds sold	\$ 8,961	\$ 13,365
Investment securities	19,109	16,618
Loans	71,280	57,805
Total interest income	99,350	87,788
Interest Expense		
Deposits	35,826	32,794
Federal funds purchased and securities sold under agreements to repurchase	11,383	11,847
Short and long-term debt	15,278	9,211
Total interest expense	62,487	53,852
Other Income	36,863	33,936
Other Expenses	1,600	1,700
Net Realized Gains (Losses) on Sales of Securities	35,263	32,236
Service Fees and Other	8,224	8,625
Net realized gains (losses) on sales of securities	(386)	26
Total non-interest income	7,838	8,651
Non-Interest Expenses		
Salaries	5,176	4,934
Pensions and other employee benefits	1,547	1,444
Data processing	2,009	1,961
Other operating expenses	3,424	3,900
Depreciation and amortization	486	511
Total non-interest expenses	12,642	12,750
Net Income	\$ 30,459	\$ 28,137

See Notes to Financial Statements

BANK OF NORTH DAKOTA
 Statements Of Capital Funds
 Years Ended December 31, 1999, and 1998

	(In Thousands)				
	Capital	Capital Surplus	Undivided Profits	Unrealized Gain (Loss) on Securities Available for Sale	Total
Balance December 31, 1998	\$ 22,000	\$ 22,000	\$ 84,786	\$ 102	<u>\$ 128,888</u>
Comprehensive income:					
Net income			28,137		28,137
Unrealized gain on securities available for sale				93	<u>93</u>
Total comprehensive income					<u>28,230</u>
Appropriation to state general fund			(17,187)		<u>(17,187)</u>
Balance December 31, 1999	22,000	22,000	95,736	195	<u>139,931</u>
Comprehensive income:					
Net income			30,459		30,459
Unrealized loss on securities available for sale				(1,623)	<u>(1,623)</u>
Total comprehensive income					<u>28,836</u>
Appropriation to state general fund from undivided profits			(15,000)		(15,000)
Appropriation to state general fund from current earnings			(14,422)		(14,422)
Appropriation to Industrial Commission			(87)		(87)
Reduction in appropriations			17		<u>17</u>
Balance December 31, 1999	<u>\$ 22,000</u>	<u>\$ 22,000</u>	<u>\$ 96,703</u>	<u>\$ (1,428)</u>	<u>\$ 139,275</u>

See Notes to Financial Statements

BANK OF NORTH DAKOTA
Statements Of Cash Flows
December 31, 1999, and 1998

	(In Thousands)	
	1999	1998
Net Income	\$30,459	\$ 28,137
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	486	511
Provision for loan losses	1,600	1,700
Net amortization of securities	300	420
Loss on retirement of equipment and software	2	10
Net realized (gains) losses on sales of securities	386	(26)
Increase in interest receivable	(383)	(4,849)
Increase in other assets	(1,679)	(1,335)
Decrease in other liabilities	(3,574)	(1,069)
Net cash provided by operating activities	27,597	23,499
Securities available for sale transactions:		
Purchase of securities	(563,138)	(648,263)
Proceeds from sales, maturities, and principal repayments	721,611	510,766
Securities held to maturity transactions:		
Purchase of securities	(1,200)	(43,685)
Proceeds from sales, maturities, and principal repayments	33,253	22,899
Net increase in loans	(220,993)	(212,343)
Purchases of equipment and software	(270)	(408)
Net cash used in investing activities	(30,737)	(371,034)
Cash provided from financing activities:		
Net increase (decrease) in non-interest bearing deposits	(49,509)	15,599
Net increase in interest bearing deposits	16,624	208,430
Net increase (decrease) in federal funds purchased and securities sold under repurchase agreements	(58,511)	75,382
Proceeds from issuance of short and long-term debt	189,079	149,750
Payment of short and long-term debt	(29,782)	(58)
Payment of appropriations	(15,035)	(29,640)
Net cash provided by financing activities	52,866	419,463
INCREASE IN CASH AND CASH EQUIVALENTS	49,726	71,928
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	335,582	263,654
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 385,308	\$ 335,582

See Notes to Financial Statements

BANK OF NORTH DAKOTA
Notes to Financial Statements
Years Ended December 31, 1999, and 1998

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 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 - In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet 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. Significant Group Concentrations of Credit Risk - Most of the Bank's activities are 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 18% and 19% of total loans as of December 31, 1999, and 1998.
- D. Cash and Cash Equivalents - For purposes of the statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all of which mature within 90 days.
- E. Securities Available for Sale - Securities that 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 recorded 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. The change in unrealized holding gains and losses are excluded from earnings and reported in other comprehensive income.
- F. Securities Held to Maturity - Securities that management has the positive intent and ability to hold to maturity are classified as securities held to maturity and recorded at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized by adjustments to interest income.
- G. Loans - Loans are stated at the outstanding unpaid principal balance. Interest income on loans is accrued at the specific rate on the unpaid principal balance. The accrual of interest 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.

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- H. 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.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due.

Impairment is measured on a loan-by-loan basis for commercial, agricultural, farm real estate, state institutions and political subdivisions and bank stock loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual guaranteed student and residential loans for impairment disclosures.

- I. Credit Related Financial Instruments - In the ordinary course of business, the Bank has entered into commitments to extend credit and financial standby letters of credit. Such financial instruments are recorded when they are funded.
- J. Transfers of Financial Assets - Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.
- K. 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, 10 years for improvements to bank premises, 3 to 5 years for equipment and software, and 10 years for furniture.
- L. 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.
- M. Defined Benefit Plan - The Bank funds amounts equal to pension costs accrued.
- N. 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.

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, 1999, and 1998.

NOTE 3 - 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
Balance, December 31, 1999				
Securities Available for Sale:				
U.S. Treasury	\$ 4,981	\$ -	\$ 44	\$ 4,937
Federal agency	117,341	-	1,430	115,911
Mortgage-backed	4,478	64	18	4,524
Other	24,569	-	-	24,569
	<u>\$ 151,369</u>	<u>\$ 64</u>	<u>\$ 1,492</u>	<u>\$ 149,941</u>
Securities Held to Maturity:				
Mortgage-backed	\$ 71,963	\$ 279	\$ 685	\$ 71,557
State and municipal	13,103	-	-	13,103
	<u>\$ 85,066</u>	<u>\$ 279</u>	<u>\$ 685</u>	<u>\$ 84,660</u>
Balance, December 31, 1998				
Securities Available for Sale:				
U.S. Treasury	\$ 5,000	\$ 19	\$ -	\$ 5,109
Federal agency	127,420	239	126	127,533
Mortgage-backed	11,663	86	23	11,726
Commercial paper	150,000	-	-	150,000
Other	16,124	-	-	16,124
	<u>\$ 310,207</u>	<u>\$ 344</u>	<u>\$ 149</u>	<u>\$ 310,402</u>
Securities Held to Maturity:				
Mortgage-backed	\$ 101,279	\$ 305	\$ 916	\$ 100,668
State and municipal	16,161	-	-	16,161
	<u>\$ 117,440</u>	<u>\$ 305</u>	<u>\$ 916</u>	<u>\$ 116,829</u>

The maturity distribution of debt securities at December 31, 1999, 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

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(In Thousands)

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	\$ 50,592	\$ 50,357	\$ 14,547	\$ 14,527
Over one year through five years	74,809	73,606	46,616	46,402
Over five years through ten years	1,399	1,409	17,435	17,263
Over ten years	-	-	6,468	6,468
	<u>\$ 126,800</u>	<u>\$ 125,372</u>	<u>\$ 85,066</u>	<u>\$ 84,660</u>

Proceeds from sales of securities available for sale for the years ended December 31, 1999, and 1998, were \$69,548,000 and \$45,644,000. Gross realized gains on sales for the years ended December 31, 1999, and 1998, were \$15,000 and \$26,000. Gross realized losses on sales for the years ended December 31, 1999, and 1998 were \$401,000 and \$0.

Securities carried at \$81,852,000 at December 31, 1999, and \$186,575,000 at December 31, 1998, 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, 1999, and 1998, was \$81,843,000 and \$185,987,000.

NOTE D. LOANS

The composition of the loan portfolio at December 31, 1999, and 1998, is as follows:

	(In Thousands)	
	1999	1998
Guaranteed student loans	\$ 335,687	\$ 292,896
Bank participation loans:		
Commercial	311,787	228,723
Agricultural	127,131	94,971
Residential loans	188,474	113,934
Farm real estate loans	62,080	61,205
State institutions and political subdivisions	21,037	34,678
Bank stock	10,036	9,247
	<u>1,056,232</u>	<u>835,654</u>
Allowance for loan losses	20,106	18,921
	<u>\$ 1,036,126</u>	<u>\$ 816,733</u>

The total amount of impaired loans was \$3,747,000 and \$1,333,000 at December 31, 1999, and 1998. 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 was \$3,124,000 and \$1,768,000 during 1999 and 1998.

The total amount of restructured loans was \$12,661,000 and \$13,308,000 at December 31, 1999, and 1998.

There were no material commitments to lend additional funds to customers whose loans were classified as impaired or restructured at December 31, 1999.

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The composition of the allowance for loan losses for the years ended December 31, 1999, and 1998, is as follows:

	(In Thousands)	
	1999	1998
Balance - beginning of year	\$ 18,921	\$ 17,442
Provision for loan losses	1,600	1,700
Loans charged off	(634)	(327)
Recoveries	219	106
Balance - end of year	\$ 20,106	\$ 18,921

NOTE 5 - BANK PREMISES, EQUIPMENT AND SOFTWARE

The following is a summary of changes in bank premises, equipment, furniture, and software at December 31, 1999, and 1998:

	(In Thousands)			
	Balance 12/31/98	Additions	Retirements	Balance 12/31/99
Land	\$ 287	\$ -	\$ -	\$ 287
Building	4,278	7	-	4,285
Equipment	1,755	153	582	1,326
Furniture	771	14	1	784
Software	2,170	96	-	2,266
	9,261	270	583	8,948
Less accumulated depreciation	6,206	486	581	6,111
	\$ 3,055	\$ (216)	\$ 2	\$ 2,837

	(In Thousands)			
	Balance 12/31/97	Additions	Retirements	Balance 12/31/98
Land	\$ 287	\$ -	\$ -	\$ 287
Building	3,998	280	-	4,278
Equipment	1,726	64	35	1,755
Furniture	737	36	2	771
Software	2,142	28	-	2,170
	8,890	408	37	9,261
Less accumulated depreciation	5,722	511	27	6,206
	\$ 3,168	\$ (103)	\$ 10	\$ 3,055

Depreciation and amortization expense on the above assets amounted to \$486,000 and \$511,000 in 1999 and 1998.

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NOTE 6 - DEPOSITS

The aggregate amount of locally sold certificates of deposit larger than \$100,000 was \$483,180,000 and \$480,231,000 as of December 31, 1999, and 1998. Certificates of deposit sold on the national market were \$65,000,000 as of December 31, 1999, and 1998, and all are in denominations of \$10,000,000 or more.

At December 31, 1999, the scheduled maturities of certificates of deposits are as follows:

	(In Thousands)	
	Sold Locally	Sold on the National Market
2000	\$ 421,542	\$ -
2001	20,692	-
2002	7,864	-
2003	5,597	65,000
2004	13,286	-
Later years	31,708	-
Totals	\$ 500,689	\$ 65,000

NOTE 7 - SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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.

NOTE 8 - SHORT AND LONG TERM DEBT

Short and long-term debt consist of:

	(In Thousands)	
	1999	1998
Federal Home Loan Bank advances	\$ 362,305	\$ 203,000
North Dakota Municipal Bond Bank, 3%, matures from September 2007 through September 2009	771	779
	\$ 363,076	\$ 203,779

A summary, by years, of future minimum payments required to amortize the outstanding short and long-term debt is as follows:

	(In Thousands)		
	Principal	Interest	Total
2000	\$ 115,927	\$ 14,663	\$ 130,590
2001	5,111	14,418	19,529
2002	25,307	13,931	39,238
2003	14,015	12,660	26,675
2004	14,737	12,156	26,893
Later years	187,979	94,836	282,815
Totals	\$ 363,076	\$ 162,664	\$ 525,740

The Federal Home Loan Bank (FHLB) advances outstanding at December 31, 1999, mature from January 2000 through August 2019. All advances have fixed rate interest, ranging from 5.25% to 7.35%. In order to make FHLB advances, BND is required to purchase FHLB stock equal to 5% of total short and long-term advances from FHLB. 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. BND meets these collateral maintenance levels by pledging guaranteed student loans and residential loans.

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.

NOTE 9 - OTHER LIABILITIES

Other liabilities consist of:

	(In Thousands)	
	1999	1998
Appropriate payable	\$ 14,457	\$ -
Interest payable	4,463	4,921
Student loan origination fee payable	183	276
Official checks	310	1,606
Accrued expenses	958	1,119
Other	2,808	4,374
	<u>\$ 23,179</u>	<u>\$ 12,296</u>

The 1999 North Dakota Legislature passed Senate Bill 2015 that provides for an appropriation from Bank of North Dakota to the State's general fund. An appropriation of \$50,000,000 was made for the biennium beginning July 1, 1999, and ending June 30, 2001, from the current earnings and the accumulated undivided profits of the Bank. No more than \$15,000,000 of the amount transferred may come from accumulated undivided profits. The moneys shall be transferred in amounts and at such times as requested by the director of the Office of Management and Budget. \$15,000,000 has been transferred as of December 31, 1999.

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

Bank of North Dakota participates in the North Dakota Public Employees Retirement System (NDPERS) administered by the State of North Dakota. 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 three years of credited 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 three 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 payable 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 1.89% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three 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% 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. Bank of North Dakota's required and actual contributions to NDPERS for the fiscal years ending December 31, 1999, and 1998, were approximately \$415,000 and \$389,000.

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; PO Box 1214; Bismarck, ND 58502-1214.

NOTICE - PENSION BENEFITS

In addition to providing pension benefits, the state allows all NDPERS retirees to participate in the State Group Health Plan after retirement. The Bank's contribution requirement for the years ended December 31, 1999, and 1998, was approximately \$51,000 and \$48,000.

NOTICE - CONTINGENT BANK CONTRIBUTIONS

Contingent Bank Transfer

The 1999 North Dakota Legislature passed Senate Bill 2015, which included a contingent Bank transfer to the state general fund. If, during the biennium ending June 30, 2001, 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 1999 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. Transfers made under these provisions may not be made before July 1, 2000, and may only be made to the extent necessary to achieve a projected June 30, 2001 general fund balance of \$10,000,000. 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 \$40,000,000 or the revenue shortfall of actual collections compared to the March 1999 legislative forecast. As of December 31, 1999, projected revenues exceed the March 1999 legislative forecast for projected revenues.

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

Statewide Water Development Projects

The 1999 North Dakota Legislature passed Senate Bill 2188, which included the statewide water development goals. In order to implement the state water management plan, the legislative assembly will support the following projects: southwest pipeline, northwest area water supply, Grand Forks flood control, Devils Lake outlet to the Sheyenne River and to west Stump Lake, water to eastern North Dakota, other municipal, rural, and industrial projects, and other general projects. Senate Bill 2188 authorizes the state water commission to issue bonds and appropriates the proceeds for the above statewide water development projects. The state water commission bonds issued for these projects may not exceed \$84,800,000.

Principal and interest on the bonds are payable first from moneys received by the state pursuant to the 1998 settlement agreement with tobacco product manufacturers, and any earnings on these moneys, second from revenues in the resources trust fund, and then from any other revenues the state water commission makes available. If sufficient funds from these sources are not available, principal and interest on the bonds will be payable from the first available current biennial earnings of Bank of North Dakota, not to exceed \$6,500,000 per biennium. No appropriation was made from Bank of North Dakota for the 1999-2001 biennium by the legislature.

Bank of North Dakota shall extend a line of credit not to exceed \$84,800,000 for the biennium ending June 30, 2001, to the state water commission for the purpose of interim financing until bonds are issued. Advances on the line of credit may be made only when a source of repayment has been identified and determined to be available. As of December 31, 1999, Bank of North Dakota has funded \$965,000 and has a commitment outstanding of \$39,035,000 included in commitments to extend credit.

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, 1999, BND does not anticipate it probable that any investor will tender units for repurchase based on the Guarantee.

Beginning Entrepreneur Loan Guarantee Program

The 1999 North Dakota Legislature passed Senate Bill 2242, which created the Beginning Entrepreneur Loan Guarantee Program. The program provides that Bank of North Dakota enters into an agreement with a lender that in the event of default by a beginning entrepreneur under a note and mortgage or other loan or financing agreement, Bank of North Dakota shall pay the lender the amount agree upon up to 85% of the amount of principal due the lender on a loan at the time the claim is approved. A lender may apply to Bank of North Dakota for a loan guarantee for a loan of up to \$75,000. The term of the loan guarantee may not exceed five years. The Bank may not guarantee more than \$500,000 in loans under the program. As of December 31, 1999, Bank of North Dakota has funded \$91,000 and has commitments outstanding of \$95,000 included in commitments to extend credit.

NOTE 13 - 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 14 - FINANCIAL INSTRUMENTS

The Bank is a party to credit related 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. Such commitments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

The following financial instruments were outstanding where contract amounts represent credit risk:

	Contract Amount (In Thousands)	
	1999	1998
Commitments to extend credit	\$ 242,339	\$ 192,076
Financial standby letters of credit	72,317	57,893
	<u>\$ 314,656</u>	<u>\$ 249,969</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 amount of collateral obtained by the Bank upon extension of credit is based on management's credit evaluation of the customer. Collateral held may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties.

Financial standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit 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.

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value estimates 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, 1999, and 1998, were as follows:

	(In Thousands)			
	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
ASSETS				
Cash and cash equivalents	\$ 385,308	\$ 385,308	\$ 335,582	\$ 335,582
Securities available for sale	149,941	149,941	310,402	310,402
Securities held to maturity	85,066	84,660	117,440	116,829
Accrued interest receivable	20,650	20,650	20,267	20,267
Loans:				
Guaranteed student loans	335,687	345,758	292,896	301,166
Residential loans	188,474	186,451	113,934	120,591
Other loans	532,071	516,320	428,824	420,914
Allowance for loan losses	(20,106)	-	(18,921)	-
Total loans	<u>1,036,126</u>	<u>1,048,529</u>	<u>816,733</u>	<u>842,671</u>
Total financial assets	<u>\$ 1,677,091</u>	<u>\$ 1,689,088</u>	<u>\$ 1,600,424</u>	<u>\$ 1,625,751</u>
LIABILITIES				
Non-maturity deposits	\$ 344,963	\$ 344,963	\$ 380,522	\$ 380,522
Deposits with stated maturities	565,689	560,126	563,015	575,980
Federal funds purchased and securities sold under agreements to repurchase	250,985	250,985	309,496	309,496
Short and long-term debt	363,076	349,469	203,779	211,901
Other liabilities	23,179	23,179	12,296	12,296
Total financial liabilities	<u>\$ 1,547,892</u>	<u>\$ 1,528,722</u>	<u>\$ 1,469,108</u>	<u>\$ 1,490,195</u>
Commitments to extend credit	<u>\$ 242,339</u>	<u>\$ 242,339</u>	<u>\$ 192,076</u>	<u>\$ 192,076</u>

The following methods and assumptions were used by the Bank in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents - The carrying amounts 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 for securities are based on quoted market values, when available. If quoted market prices were not available, fair value was estimated using quoted market prices for similar assets.

Residential Loans - The fair value for residential 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 non-accrual loans were reduced by the amount of the estimated losses in the portfolio.

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

Other Loans - The fair value for 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 non-accrual loans were reduced by the amount of the estimated losses on the portfolio.

Interest Receivable and Payable - The carrying amount 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 for 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 for 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 amount of federal funds purchased and securities sold under agreements to repurchase approximates fair value due to the relatively short period of time between the origination of the instruments and their expected payments.

Short and Long -Term Debt - Current market prices were used to estimate the fair value of short and long-term debt using current market rates of similar maturity debt.

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

Off-Balance-Sheet Instruments - Fair values of off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

NOTE 16 - COMPREHENSIVE INCOME

The Bank recognizes and includes revenue, expenses, gains and losses in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the capital funds section of the balance sheet, such items, along with net income, are components of comprehensive income.

Changes in and determination of accumulated other comprehensive income are as follows:

	(In Thousands)	
	1999	1998
Balance, beginning of year	\$ 195	\$ 102
Unrealized holding gains (losses) arising during the period	(2,009)	119
Reclassification adjustment for (gains) losses realized	386	(26)
Other comprehensive income	(1,623)	93
Balance, end of year	<u>\$ (1,428)</u>	<u>\$ 195</u>

NOTE 17 - SUPPLEMENTAL DISCLOSURE RELATED TO STATEMENT OF CASH FLOWS

	(In Thousands)	
	1999	1998
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest paid to customers	\$ 36,373	\$ 31,582
Interest paid on federal funds purchased and securities sold under repurchase agreements	11,391	11,846
Interest paid on long-term debt	15,181	9,207
Supplemental schedule of noncash investing and financing activities:		
Reduction in appropriation payable	(17)	-
Appropriations transfer from undivided profits to other liabilities	29,509	17,187
Net change in unrealized gain (loss) on securities available for sale	(1,623)	93

T E N Y E A R

1999 1998 1997

Interest income	\$99,350	\$87,788	\$70,891
Interest expense	62,487	53,852	40,768
Net interest income	36,863	33,936	30,123
Provision for loan losses	1,600	1,700	600
Net interest income after provision for loan losses	35,263	32,236	29,523
Non Interest Income	7,838	8,651	8,189
Non Interest Expense	12,642	12,750	12,168
Net income	30,459	28,137	25,544
Payments to general fund	15,000	29,600	12,715
Payments to other funds	35	40	41
BALANCE SHEET - YEAR END (in thousands)			
TOTAL ASSETS	1,687,167	1,609,039	1,162,415
FEDERAL FUNDS SOLD AND SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS	249,565	206,095	128,180
SECURITIES AVAILABLE FOR SALE	149,941	310,402	172,765
SECURITIES HELD TO MATURITY	85,066	117,400	97,095
LOANS	1,056,232	835,654	623,532
Loans held for sale	-	-	-
Residential loans	188,474	113,934	38,089
Guaranteed student loans	335,687	292,896	244,154
Bank participation loans			
Commercial	311,787	228,723	190,088
Agricultural	127,131	94,971	75,528
Farm real estate loans	62,080	61,205	45,217
State institutions	21,037	34,678	20,561
Bank stock	10,036	9,247	9,895
DEPOSITS -	910,652	943,537	719,508
Non-interest bearing	83,798	133,307	117,708
Interest bearing	826,854	810,230	601,800
FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	250,985	309,796	234,114
SHORT AND LONG-TERM DEBT	363,076	203,779	54,087
CAPITAL FUNDS	139,275	139,931	128,888
Capital	22,000	22,000	22,000
Surplus	22,000	22,000	22,000
Contributed capital	-	-	-
Unrealized gain (loss) on securities available for sale	(1,428)	195	102
Undivided profits	96,703	95,736	84,786

S U M M A R Y

1996	1995	1994	1993	1992	1991	1990
\$67,742	\$62,742	\$51,273	\$46,985	\$57,335	\$64,453	\$67,540
39,865	37,595	28,564	23,456	28,251	41,391	52,218
27,512	25,147	22,709	23,529	27,584	54,530	17,322
600	1,700	2,500	600	667	698	-
26,912	23,447	20,209	22,929	26,917	20,832	17,322
7,812	9,514	9,597	6,373	4,534	4,405	5,492
11,533	11,322	11,775	11,772	10,611	10,266	10,267
23,191	21,639	18,031	17,530	22,340	16,414	12,547
37,500	-	10,000	11,100	18,52	14,696	14,000
38	25,195	37	16	75	110	3,241
1,068,082	1,033,816	935,070	872,220	1,064,109	956,759	893,972
86,470	67,045	79,810	62,680	208,951	110,305	170,200
173,210	69,026	37,364	-	-	-	-
111,281	278,154	321,035	428,333	458,414	496,789	411,664
554,001	487,297	393,756	305,552	313,873	266,854	227,984
-	-	203	14,996	-	-	-
29,595	27,808	32,913	42,322	61,655	78,564	88,969
205,787	168,755	122,714	75,026	118,639	86,487	46,886
181,179	155,654	120,918	78,697	63,722	51,269	43,474
82,253	83,217	68,514	53,405	43,422	28,940	23,873
40,035	33,314	31,255	25,638	20,675	15,729	12,449
5,947	11,271	10,459	12,264	2,965	3,167	8,441
9,205	7,278	6,780	3,204	2,795	2,698	3,892
728,122	676,798	587,837	573,317	571,355	541,835	509,433
106,120	117,579	98,337	87,916	91,158	80,789	60,794
622,002	559,219	489,500	485,401	480,197	461,046	448,639
198,108	164,956	155,527	121,122	322,308	247,664	227,955
14,500	57,000	53,455	49,908	49,862	49,816	49,778
98,477	76,000	100,206	100,000	114,119	92,917	96,618
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
(61)	508	206	-	-	-	-
54,538	31,492	54,606	54,606	68,725	47,523	51,224

Jana Abel	Elaine Fischer	Julie Kubisiak	Lori Sackmann
Linda Alberty	Dan Fisher	Sharon Kunrz	Ed Sarher
Lisa Andres	Dave Fisher		Karen Schadler
Rod Anheluk	Reyne Fisher	Margie Landgren	Robin Schimke
Jenifer Arteseros	Lucy Fleckenstein	Lisa Lang	Agnes Schirado
Tim Atkinson	Julie Flemmer	Phyllis Lasher	Holly Schirado
Tina Axt	Esther Focke	Melissa Lehde	Kurt Schirado
	Donna Frey	LaDonna Leingang	Melinda Schirado
Connie Barden	Mary Frohlich	Cindy Lund	Don Schmid
Debby Barth	Jodi Fuchs		Leslie Schmit
Lynelle Baumgartner		JoAnn Marsh	Tracy Schmit
Betty Becker	Lori Gabriel	Renae Martin	Dorothy Schmitz
Marla Belohlavek	Claudine Galt	Kirby Martz	Tom Schoeder
Stan Benson	Michelle Galt	Ardean Masseth	Bruce Schumacher
Jeff Berger	Danae Garrett	Kent Masseth	Janet Schwab
Renae Berreth	Nancy Glass	Glen Materl	Marcie Seagren
Lacee Bjork	Shirley Glass	Julie McCabe	Sue Seminary
Dorena Blumhagen	Paul Govig	Kathy McHenry	Linda Sitz
Bill Blumhagen	Miranda Green	Audree McLean	Perry Smith
Troy Boehm	Larry Gross	Rhonda Mendiera	Clair Sorge
Janell Bosch	Leon Gross	Kim Miller	Diane Sperle
Beth Boustead	Donna Groth	Laura Miller	Margaret Spitzer
Marlene Braun		Cathy Mindt	Doug Sprynczynatyk
Sylvia Brockman	Eric Hardmeyer	Roberra Modin	Alyce Starck
Talia Brockman	Lori Hausauer	Linda Monte	JoAnn Steckler
Shelly Brown	Paula Hayward	Leslie Moszer	Tina Steffenson
	Becky Hedberg	Janis Moylan	Bertha Strick
Phyllis Cave	Gayle Heide	Roberra Mueller	Cheryl Storchang
Gayle Ciavarella	Ron Heib		Rod Storchang
Annette Curl	Lance Hill	Kim Neigum	Elizabeth Striefel
	John Hoeven	Ryan Nelson	Karen Strom
Sue Davy	Rod Hoff	Steve Nolz	
Janie DeLeon	Sharon Hoffmann	Al Nosbusch	Elaine Taszarek
Wanda Delvo	Trud Hogue	Susie Nuelle	Deb Theisen
Crystal Deringer	Barb Hoover		Wanda Thering
Julie DeSautel	Bob Humann	Eddy Olson	Jeanne Thomas
Clara Doekter		Carol Perry	Laura Toman
Lynda Doll	Kathy Isach	Danka Pererson	
Alva Draeger	Sandra Iron Road	Laurie Pfliger	Rhonda Vetter
Eoretta Duma	Stacey Iron Road	Dave Plum	Shirley Vetter
John Dvorak	Karen Iverson	Stacey Poffenberger	
	Rhonda Jacobs	Tim Porter	Duane Wagner
Dale Eberle	Melissa Jensen		Shirley Wagner
Marcy Ehli	Evelyn Jochim	Sandy Rasmussen	Cecilia Wanner
Debra Eiseman	Ken Johnson	Tom Redman	Eileen Wehri
Karen Eisenbeis		Yvonne Regnier	Tam Weigel
Randy Ehli	Marsha Kauk	Christopher Reha	Al Weisbeck
Wally Erhardt	Karen Keller	Deb Reisenauer	Joyce Welder
Joel Erickson	Marina Khachaturyan	Yvonne Remmick	Diane Wilcken
Rhonda Erickson	Donna Kienzle	Betty Renz	Karen Workman
Rose Espeland	Kristen Kihle	Teri Riedinger	Angie Wynn
	Kathy Knudson	Lorerra Riehl	
Dave Falkenstein	Irene Koenig	Donna Roll	Shar Zacher
Char Feist	John Kramer	Linda Rosen	Jayson Zeeb
Nancy Feisr	Tammy Krein	Pam Rutherford	Greg Zeis
Joyce Fetch	Jenny Kringstad		Ray Zimmermann
Patty Fillion	Jada Kruckenberg		Tracy Zinke