BND

Bank of North Dakota

ANNUAL REPORT **2016**

Making North Dakota Better

Bank of North Dakota (BND) is truly North Dakota's unique competitive advantage over other states. It has a unique way of encouraging entrepreneurship and growth while taking some calculated risks in a manner no one else can.

The Bank navigates networks, creates partnerships and helps drive economic development in the state. It plays an important role in supporting the educational needs of residents with its student loan programs and in the recruitment of talent with its student loan refinancing options.

Its willingness to collaborate with regional and community banks is essential. By doing this, local resources are leveraged and the local economy continues to be vibrant. In all things, BND is a good steward of its resources to benefit North Dakotans.

***Greg Tehven**, Co-Founder and Executive Director, Emerging Prairie Inc.*

Contents

Bank of North Dakota does not discriminate on the basis of race, color, national origin, sex, religion, age or disability in the admission to, access to, or operations of programs, services or activities. Individuals who need accommodations, alternative formats, or information on internal grievance procedures may contact Human Resources, 701.328.5748, M-F, 8 a.m. to 5 p.m.

Mission

To deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota.

Vision

BND is an agile partner that creates financial solutions for current and emerging economic needs.

Core Values

Our core values of service, teamwork, ethics and people-centered allow us to excel and deliver while accomplishing more together by doing the right thing and setting ourselves apart.

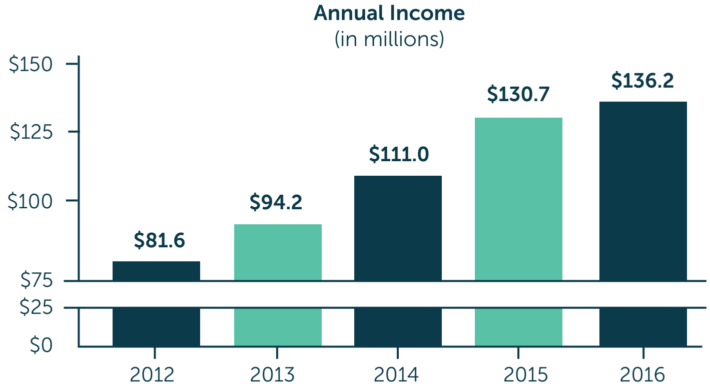
President's Message

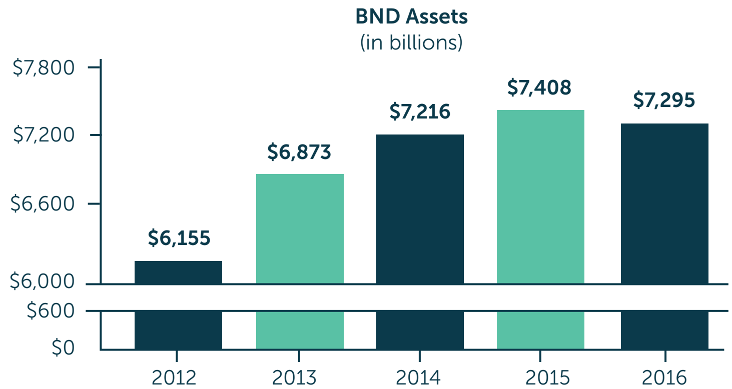
One resounding theme rings clear for 2016: Partnerships. Existing partnerships have been strengthened. New partnerships were established. As a result, Bank of North Dakota has been able to more clearly define what we can do to make North Dakota better.

The Bank continues to be financially sound, posting its 13th consecutive year of record profits with more than $136 million in income. The loan portfolio grew by $449 million with the largest increases in business and agricultural loans.

Standard & Poor's affirmed the Bank's credit rating as "A+" and "A-1+" for long-term and short-term credit respectively in its annual review. For the first time since 2007, BND was asked to return a portion of its profits to the state to meet a general fund shortfall for the 2015-17 biennium. If needed, this will happen by June 2017. Even with the potential return of up to $100 million of retained earnings, the Bank's capital position remains strong.

The BND Farm Financial Stability Loan program assisted 328 farmers and ranchers in the state with their 2016 input needs. Six communities took advantage of the BND Infrastructure Loan which enables communities that did not receive surge funding to build new infrastructure. The School Construction Loan program will benefit students and families in six communities so they can enjoy improved and new facilities.





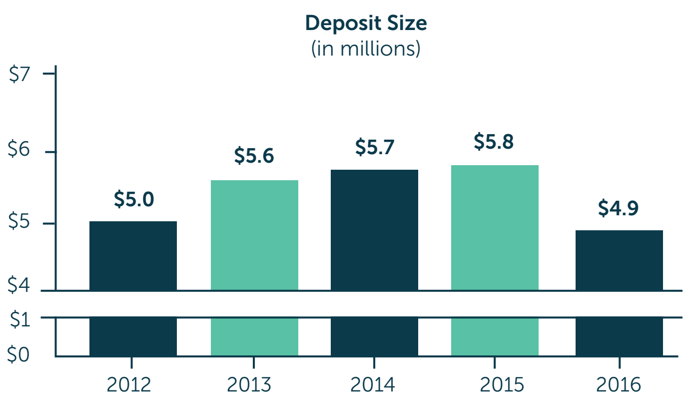
More than 40 meetings were held across the state with economic developers, city officials, business owners and entrepreneurs with the intention of identifying funding gaps for business development. It is evident that the entrepreneurial spirit has never been stronger in North Dakota. Rather than becoming victims of lower oil and commodity prices, our communities are determined to grow business and need more tools to make that happen. This group will continue its dialogue, keeping each other informed about initiatives and seeking efficiencies.

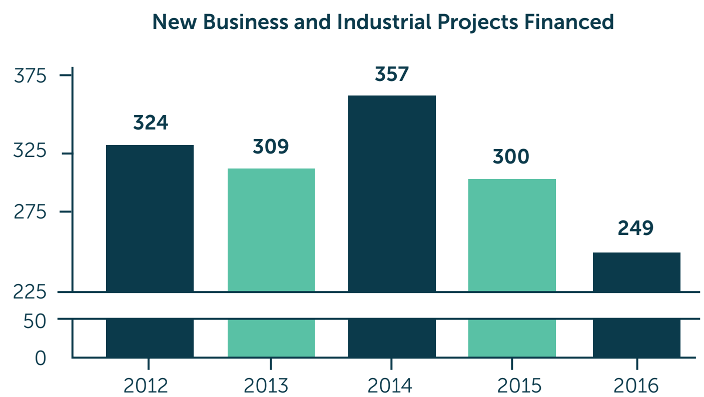
More than one-third of the state's high school seniors applied to a North Dakota college during College Application Month. BND paid one $35 application fee per student. I'd like to thank the volunteers from the state's colleges and our banking partners who helped students in their local communities complete their applications. We are grateful for your involvement in this important initiative.

BND has offices open in Fargo, Grand Forks and Minot, each with a business banker. This allows us to serve our customers in a proactive manner, focusing on relationships, operations and lending needs with financial institutions across the state.

As our vision statement proclaims: BND is an agile partner that creates financial solutions for current and emerging economic needs. We will continue to modify existing programs or create new ones that make North Dakota better.

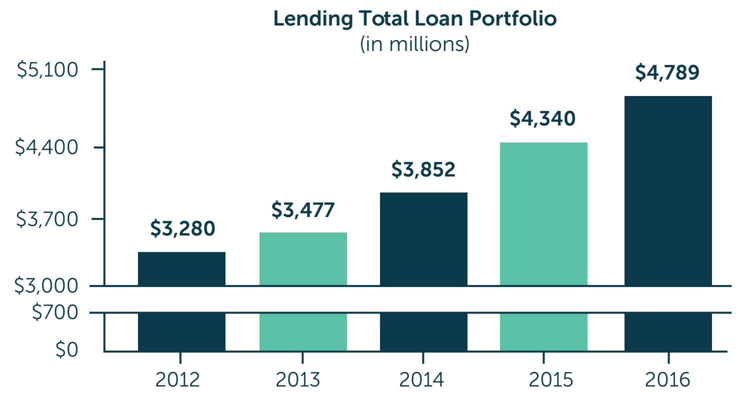
Eric Hardmeyer
President/CEO





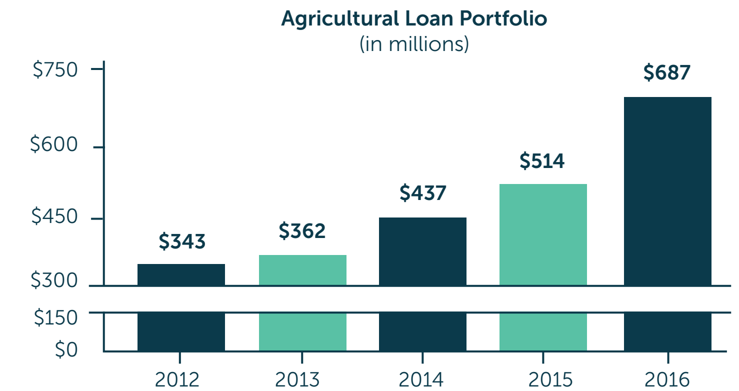
Total Loan Portfolio

Bank of North Dakota had an excellent year in 2016 with 20,709 loans originated or renewed for a total of $1.46 billion. BND's total loan portfolio grew by $449 million, an overall loan growth of 10.3 percent. Business loans and ag loans accounted for the largest growth.



Agricultural Loan Portfolio

The ag loan portfolio increased by $173 million with BND funding and renewing $399 million of loans during 2016. BND financed 328 Farm Financial Stability Loans for a total of $147 million. Loan growth in the ag portfolio is a result of restructuring, inventory carryover and continued demand for farm real estate loans.

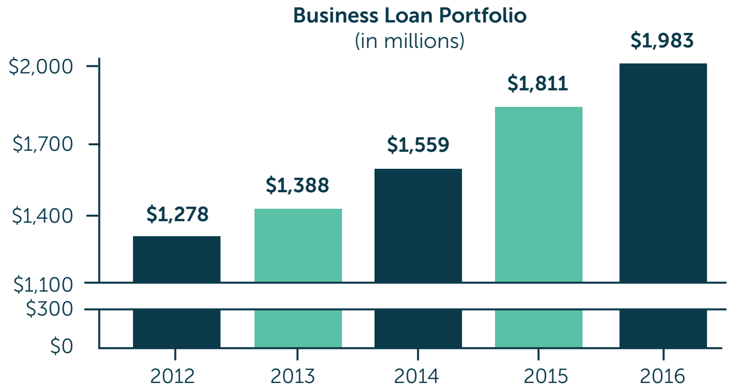


Community banks are vital to the financial success of rural America, particularly as it relates to agricultural lending. Nowhere is that more true than in our state where ICBND-member banks provide financing for a diverse agricultural economy in a very rural state. Critical to the ability to fund diverse needs is Bank of North Dakota's very important partnership with these local community banks. The programs developed and implemented by the Bank of North Dakota provide the flexibility for community banks to serve their customers in times of growth and expansion, or periods of challenging commodity prices as we're currently experiencing. Without a doubt, the Bank of North Dakota's proactive response to the needs of its partners strengthens the important role that independent community banks provide in North Dakota.

***Barry D. Haugen**, President, Independent Community Banks of North Dakota (ICBND)*

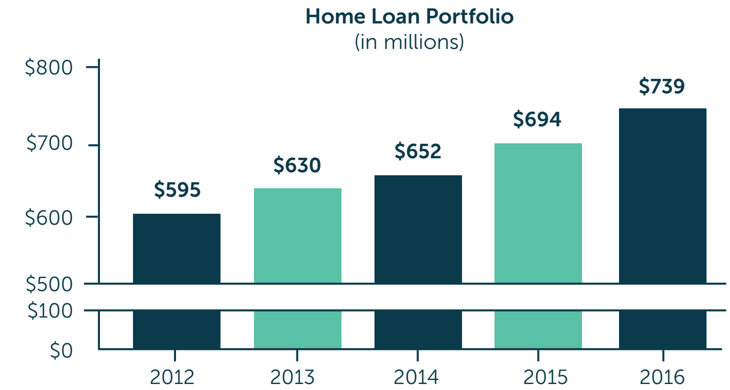
Business Loan Portfolio

The business loan portfolio increased by $172 million with BND funding and renewing $678 million of loans during 2016. The largest areas of growth were commercial participations of $466 million. The business loan portfolio accounts for 41.4 percent of BND's total loan portfolio.



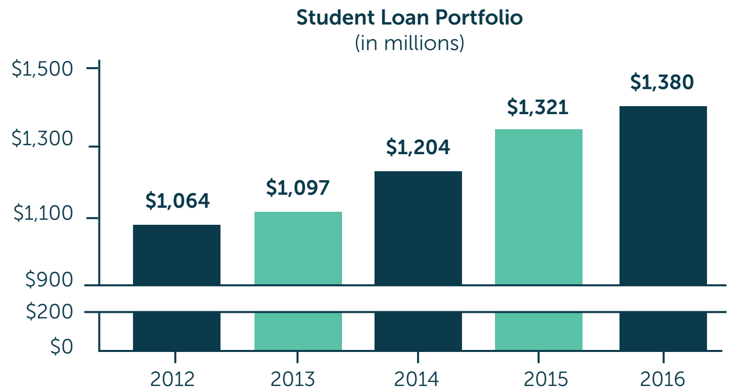
Home Loan Portfolio

The home loan portfolio increased by $45 million with BND funding $158 million of home loans during 2016. Favorable interest rates and demand in the housing market are two factors that contributed to this growth.



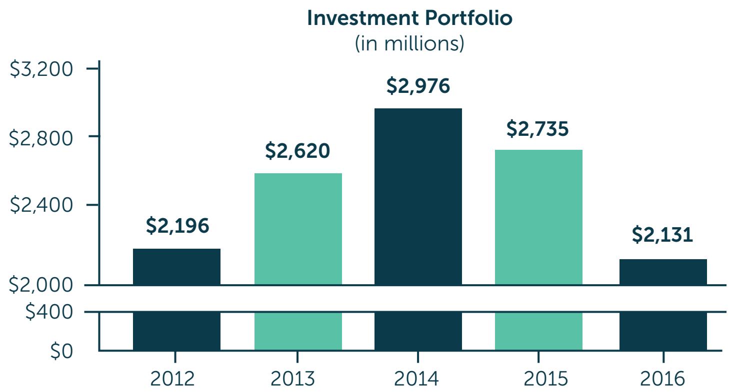
Student Loan Portfolio

The student loan portfolio grew by $59 million with close to $224 million in loans disbursed. Of the total dollar amount of loans disbursed, 57 percent were DEAL One Loans, 38 percent were DEAL Student Loans and the remaining were DEAL Consolidation Loans. There were 6,298 new borrowers of DEAL Student Loans in 2016.



Investment Portfolio

The investment portfolio decreased by $604 million, or 22 percent, in 2016. As state reserves declined, the portfolio became a needed source of liquidity to fund increases in the loan portfolio.



Education programs change lives

College Application Month

Nearly 3,000 North Dakota high school seniors from 84 high schools applied to a North Dakota college in October as part of the state's largest ever College Application Month. The goal of College Application Month is to increase the number of first-generation and low-income students pursuing a degree or other postsecondary education credential. Results of the 2016 College Application Month were outstanding and far exceeded expectations.

Volunteers from North Dakota University System, University of Mary, University of Jamestown and the banking community attended events throughout the state to help high school seniors complete college applications. During each school's event, Bank of North Dakota paid one $35 application fee per student when the student applied to a North Dakota college or university.

College Application Month motivates students to start the application process, complete the Free Application for Federal Student Aid (FAFSA) and begin their scholarship searches. One student explained, "It's kind of like a goal for the rest of the year. If you apply early, then you have something to work toward."

DEAL One Loan

When Bank of North Dakota's DEAL One Loan program launched in April 2014, the program offered North Dakota residents a unique option to refinance all student loans, including federal, into one loan with a lower interest rate. In 2016, this state-sponsored program was recognized by North Dakota businesses as a recruitment tool.

When recruiting nationally for a position that is located in North Dakota and requires a higher education degree, chances are many in the applicant pool have student loans they are repaying. The new hire, if relocating from another state, can apply to refinance their student loans with the DEAL One Loan program after residing in North Dakota for six months.

The Education Market team held presentations at businesses across the state to discuss the DEAL One Loan program and the potential benefits it offers. More than 9,000 North Dakotans have taken advantage of the program. The average amount refinanced with a DEAL One Loan is $48,289.

Bank of North Dakota's commitment to helping North Dakota residents and out-of-state residents attending North Dakota colleges achieve their higher education goals is an essential component to the success of our state and North Dakota University System (NDUS).

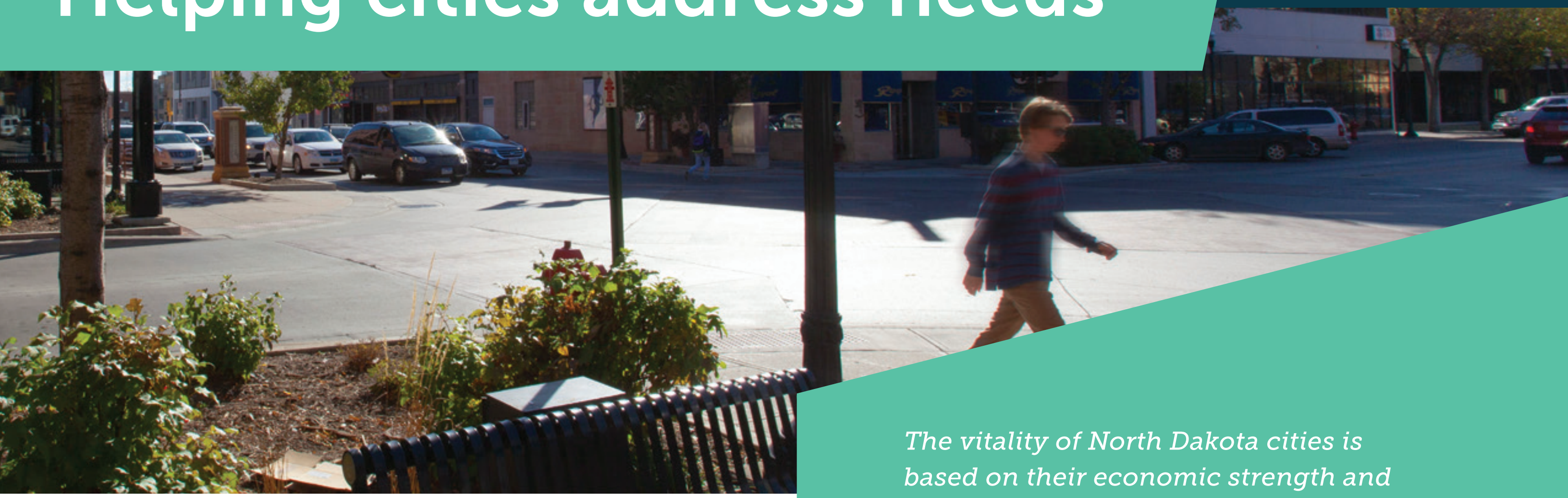
Expanding the knowledge and skill set of the next generation of the state's workforce and leaders is no small task. BND contributes with its college planning resources and strong student loan program. When asked to partner with NDUS for College Application Month this year, nearly 3,000 students applied to North Dakota colleges with the assistance of BND's network of financial institutions and college admissions staff.

BND and NDUS partner on many programs to help achieve student success. Some of these include Dual Credit Assistance, RU Ready, STEM and Teacher Shortage Loan Forgiveness.

The NDUS anticipates that our positive relationship with Bank of North Dakota will continue to expand the College Application Month to include more ND high schools and the reporting of student completion of the Free Application for Federal Student Aid (FAFSA) to school districts and counselors. NDUS has an approximately $5 million impact on North Dakota's economy as well as the investments in students that yield lifetime results.

***Mark Hagerott**, North Dakota University System, Chancellor*

Helping cities address needs



Bank of North Dakota's Infrastructure Loan program assists communities and the state with addressing pressing infrastructure needs to accommodate growth.

City of Hazen

The city of Hazen, with a population of about 2,500 residents, expanded its hospital facility in 2016. In order to improve access, the city began a 58,200-square-foot road construction project which included curb, gutter, sidewalk and asphalt paving for streets adjacent to the new facility.

The vitality of North Dakota cities is based on their economic strength and diversity. Since Governor William Guy in 1961 encouraged Bank of North Dakota to expand its commercial loan portfolio, the economic needs of cities have been an important part of BND's mission. With over 80 percent of all North Dakota residents living in the 357 cities across the state, the ability to access capital for infrastructure projects such as water towers, water mains, sewer lines, street/road construction and medical and school facility construction has been vital. Business loans for small retailers, young entrepreneurs and community needs such as child care businesses continue to be crucial. Partnering with BND through its various programs and its ability to bring additional sources of capital to the table will continue to be an essential need for North Dakota cities as well as BND's capability to "quick to market" as needs arise.

On behalf of those 357 North Dakota cities, I extend the utmost thanks and appreciation for services BND has provided since 1919.

***Blake Crosby**, Executive Director, North Dakota League of Cities*

City of Milnor

Job growth is strong in Sargent County. However, the county's population is decreasing due to a lack of available housing. To increase viability and population, the city of Milnor purchased land north of the city for a 51-lot residential development. The city installed utilities and necessary gravel roads to sell the lots to interested families, individuals and developers.

City of Grand Forks

With planned improvements and pressing needs from new growth, the city of Grand Forks began necessary city water, sanitary, storm and road infrastructure at key points around the city. The project will open development areas for new businesses, homes and city facilities.

City of Park River

Located in northeastern North Dakota, the city of Park River added new sewer and water mains to increase the number of service connections for future development of industrial, commercial and recreational properties.

City of West Fargo

West Fargo has experienced more than 100 percent growth in population over the last 15 years, stressing the city's existing infrastructure. The city, in conjunction with the city of Fargo, Cass County and North Dakota Department of Transportation, reconstructed the 12th Avenue Northwest roadway from a two-lane rural highway to a three-lane urban section. Lighting upgrades and pathways for pedestrians were included in this project. The city also embarked on a project to reconstruct a two-lane highway, expanding it to a four-lane concrete urban section. This project was on 40th Avenue West and 32nd Avenue West from Sheyenne Street to 15th Street West. It included new street lighting, traffic signals and off-street pedestrian/bike pathways.

City of Wahpeton

Wahpeton's upward trend in population drove the city's affordable housing needs to a critical level. As the Westdale Development becomes a reality with apartment complexes, 11 single-family lots and up to 40 additional lots in future phases, the city is ready to accommodate the infrastructure needs. These needs include public utilities and streets.

Educating the next generation

Increasing enrollments, aging facilities and outdated technologies are challenges schools face when creating quality learning environments. Bank of North Dakota's School Construction Loan program helps school districts finance new school construction or remodeling projects with an interest buydown.

Carrington Public School

Considering its existing building's age and number of levels with stairs, Carrington Public School District deemed the needed renovations too costly. With limited space to accommodate today's education standards, the district approved the construction of a new elementary school as an addition to the high school. New locker rooms and an art room along with access to the existing vocational education building are also included with the project.

Dickinson Public School

Although the economy in Dickinson is primarily energy and agriculture based, a solid manufacturing sector also exists. This helps create diversity and a growing enrollment trend. Dickinson Public School District anticipates enrollment growth of 29 percent from fall 2014 through fall 2019. To accommodate this growth the district approved construction of a 200,000-square-foot middle school for grades 6-8. The new school, which is scheduled to open fall 2017, will have a 17,000 square-foot gymnasium, track and football field.

Flasher Public School

Increasing enrollment and structural issues with the 100-year-old building that housed the majority of high school classes prompted the Flasher Public School District to take action. The district broke ground on a new high school wing and gymnasium May 11, 2016. The new structure will be attached to the existing elementary school and will be approximately 15,000 square feet.

Thanks to Bank of North Dakota, school districts have been able to access low-interest construction loans to address their facility needs that resulted from the dramatic rapid growth in enrollment over the past few years.

New construction and remodeling of existing facilities allowed schools to meet the changing needs of students as well as instructional methodologies. Some projects incorporated cutting-edge technology and connectivity in buildings. Other construction involved additional classroom space, new gymnasiums, locker rooms, weight rooms, and auditoriums for performance groups. Schools also added significant safety and security measures such as the installation of cameras and video screens to monitor activity inside and outside school buildings.

A number of small rural school districts that lose students to larger communities nearby have benefited the most. One school board member said, "Our fear is that without a low interest loan from Bank of North Dakota that enabled us to engage in this construction/renovation project, our small town would go away." It's true--small towns are built around schools.

On behalf of the 1,100 school board members elected to represent the citizens in North Dakota's 180 school districts, I extend my heartfelt appreciation and gratitude to BND.

***Jon Martinson**, Executive Director, North Dakota School Boards Association*

Hillsboro Public School

A steady trend of enrollment growth not only increased class sizes at Hillsboro Public School District, but it also increased participation in extracurricular activities. This increased participation, paired with the co-op activities with Central Valley School, raised the need for a new sports complex which will include a track, ADA accessibility to the football field, grandstands and lighting for the football and baseball fields.

South Heart School

South Heart School District has experienced a 35 percent enrollment increase since 2010 and has very little room for the growth they expect as the oil industry recovers. The district will demolish and replace the 1916 building, build new classrooms in the elementary and secondary wings, and expand and update the vocational shop area and entrance.

Strasburg Public School

Realizing there are significant gains in having a single campus for grades K-12, the Strasburg Public School District is building an addition onto the existing elementary school structure. As well as providing health, safety and comfort benefits, the single campus will also bring staff into one location, reduce overall operating costs and provide services and an environment more consistent with the needs of students.

Identifying the funding gaps

As the cornerstones of North Dakota's economy – energy and agriculture – undergo price retreats, a renewed emphasis on the need for diversification in the state is apparent. This leads to the question of how North Dakota can address that need and help foster diversification. To gain insight, BND initiated a review of all programming related to economic development.

This review was the first step in creating a seamless funding model to position the state for economic growth. It centered on four questions:

1. What are the challenges of the next decade in creating a more diversified economy?
2. Is BND's economic development programming positioned to meet the changing needs?
3. How should BND participate in public-private economic development efforts?
4. How can BND better integrate its financing options into those existing from other state agencies?

Nearly 300 people participated in meetings organized by BND to provide input. The North Dakota Development Fund, North Dakota League of Cities, North Dakota Association of Counties and state agencies including Department of Commerce, Public Finance Authority and Housing Finance Agency led these meetings with the Bank. Participants included business owners, entrepreneurs, financial institution professionals, local and state elected officials and local government professionals.

Throughout the meetings, there was agreement that BND, through its programming with the North Dakota Department of Commerce, local financial institutions, communities and economic developers, is an essential part of the state's economic development strategy. Participants shared their vision for utilizing technology to enhance North Dakota's competitive position, highlighted the importance of entrepreneurs and expressed the opportunities for value-added products and international sales.

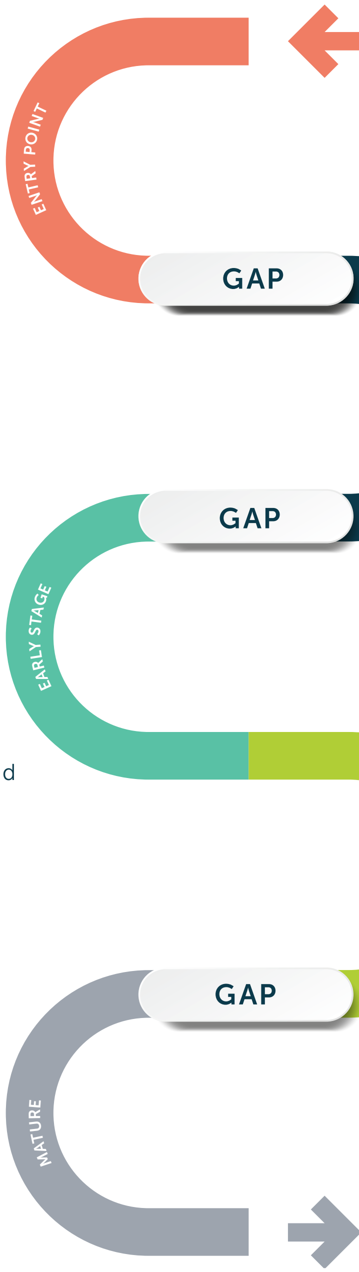
From a financing perspective, the key challenges identified through the meetings were:

1. Provide access to affordable capital for beginning entrepreneurs
2. Develop funding options for business owners to access capital for rapid expansion
3. Increase current cap limits on BND's community partnership programs
4. Ensure North Dakota has the lending tools for large-scale projects

North Dakota offers a variety of programs and incentives intended to assist businesses in various phases of growth. To realize the full potential of these offerings, a financing road map was developed to help identify needs leading to changes in loan policy and implementation.

In response to these findings, BND is proposing changes to its programs in 2017 to help businesses navigate through the various stages of the Economic Development Road Map on page 16.

Economic Development Road Map



Entry Point

Department of Commerce

Entrepreneur Centers

Local EDC Organization

Local Financial Institutions

Million Cups

Regional Councils

SBA & SCORE

University Research Centers

Seed Funding

BND Beginning Entrepreneur

BND Venture Capital Fund

Innovate North Dakota

Research ND

Early Stage

BND Beginning Entrepreneur

BND Business Development Loan

BND Venture Capital Fund

North Dakota Development Fund

Private Venture Capital Fund

Private Sector Angel Funding

Intermediate Stage

BND Accelerated Growth Loan Program

BND Venture Capital Fund

North Dakota Development Fund

Private Sector Venture Capital Funds

Mature Stage

Bank Financing

BND PACE/Flex PACE

Private Sector Equity

SBA Loans

It took visionary leadership to create an institution in 1919 that helps drive North Dakota's economy. That spirit of visionary leadership continues today.

Bank of North Dakota is a premier partner of the Economic Development Association of North Dakota and development organizations throughout the state. BND provides North Dakota a true competitive advantage by partnering with communities to make business financing more affordable and with private-sector lenders to expand capital access that encourages investment in the state. No other state can claim an institution exclusively focused on creating financial solutions for current and emerging economic needs.

Organizations need high-caliber people to execute their missions. BND staff members are very knowledgeable and creative in developing financial support packages that meet the needs of industries and communities. Its executive team is committed to listening to all stakeholders and tailoring its programming to meet the need.

North Dakota's continued success will be impacted by its ability to diversify and support new wealth creation in the digital economy and create an environment that celebrates business creation and embraces the risks along with the rewards of success. Bank of North Dakota is providing tremendous leadership in this area. I am extremely impressed with their entrepreneurial spirit and demonstrated willingness to seek novel approaches to support business creation and innovation throughout North Dakota.

***Keith Lund**, Immediate Past President, Economic Development Association of North Dakota*

Supporting the state's budget needs

BND is the depository for all of the state tax revenue. Upon receipt of tax revenues, the Bank exercises a variety of investment and loan strategies to enhance the Bank's profits.

The North Dakota Legislature is charged with managing the budget and cash flows of the state, providing them the authority to draw down BND capital to meet the government's budget needs. Although the Bank was established in 1919, the first transfer of its funds into the general fund didn't occur until 1945 for $1,725.

Since 1971, North Dakota has reinvested 46 percent of the Bank's profits in the general fund and special funds. In addition to funding the general fund, the Bank also serves as a resource for disaster funding, and has been specifically called upon during times of agricultural market distress and flooding in North Dakota. During the challenging economic times of the 1980s, the Bank's profits were consistently used to meet the budget needs.

The amount of profits transferred by the Legislature varies depending on the budgetary needs of the state. During the past 10 years, the amount has been lower because strong commodity prices and the oil tax revenues resulted in higher total revenues. During the special session in 2016, the North Dakota Legislature voted to allow for $100 million to be used by the end of the 2015-17 biennium to cover the budget shortfall if needed.

General fund and special fund support are distinct benefits of Bank of North Dakota. It's one more way we make North Dakota better.

As the only state-owned bank in America, Bank of North Dakota is a unique financial institution and is the envy of many other states. The North Dakota Bankers Association (NDBA) is a champion of Bank of North Dakota. We applaud the agility, stability and opportunity Bank of North Dakota provides state government, local communities, and citizens. North Dakota's banks work closely with BND. Our members look at Bank of North Dakota as a partner, not a competitor. BND is agile when it comes to providing assistance and creating programs to meet the changing needs of our state. Whether it be adapting to fluctuations in major economic sectors like agriculture and energy, responding to catastrophic flooding, or helping first-time homeowners and startup businesses, BND can mobilize assets and partner with North Dakota banks to provide opportunities for communities and customers. BND programs help banks help their customers.

***Rick Clayburgh**, Executive Director, North Dakota Bankers Association*

North Dakota Industrial Commission

Doug Burgum
Governor

Doug Goehring
Agriculture Commissioner

Wayne Stenehjem
Attorney General

Jack Dalrymple
Former Governor

Governor Jack Dalrymple left his position on the Industrial Commission in mid-December 2016. Governor Dalrmyple is commended for his vision and actions that have continued to nourish the progress and success of BND.

BND Advisory Board

Standing: Pat Mahar, Karl Bollingberg, Frank Larson, Gary Petersen

Seated: Sue Morton, John Stewart, Pat Clement

BND Executive Committee

Standing: Joe Herslip, Kirby Evanger, Eric Hardmeyer, Tim Porter

Seated: Lori Leingang, Todd Steinwand

Ending Balance Sheet

Bank of North Dakota
December 31, 2016 (Unaudited)

			(In thousands)
Assets			
Cash and due from banks	$		361,807
Federal funds sold			63,070
Securities			2,068,327
Loans			
Commercial		1,982,625	
Agricultural		687,486	
Residential		739,412	
Student		1,380,030	
Total Loans		4,789,553	
Less allowance for loan loss		(78,747)	
Total loans less allowance			4,710,806
Other assets			91,258
Total assets	$		7,295,268
Liabilities and Equity			
Deposits			
Noninterest bearing	$	663,156	
Interest bearing		4,224,036	
Total Deposits			4,887,192
Federal funds purchased and repurchase agreements			242,480
Short- and long-term borrowings			1,280,538
Other liabilities			9,326
Total liabilities			6,419,536
Equity			875,732
Total liabilities and equity	$		7,295,268

Ending Income Statement

Bank of North Dakota
December 31, 2016 (Unaudited)

		(In thousands)
Interest Income	$ 210,803	
Interest Expense	(33,975)	
Net Interest Income		176,828
Provision for Loan Losses		(16,000)
Net Interest Income After Provision		160,828
Noninterest Income		6,323
Noninterest Expense		
Salaries and benefits	(16,151)	
Data processing	(5,745)	
Occupancy and equipment	(843)	
Other operating expense	(8,257)	
Total noninterest expense		(30,996)
Net Income		$ 136,155

View complete copy of the Audited Financial Statements at **bnd.nd.gov/annualreport**

Ten-Year Summary

Bank of North Dakota
December 31, 2016 (Unaudited)

	2016	2015	2014	2013
Operating Results (in thousands)				
Interest income	$210,803	$194,298	$174,584	$153,182
Interest expense	33,975	32,164	31,455	30,217
Net interest income	176,828	162,134	143,129	122,965
Provision for loan losses	16,000	12,500	8,000	-
Net interest income after provision for loan losses	160,828	149,634	135,129	122,965
Noninterest income	6,323	7,688	7,987	7,422
Noninterest expense	30,996	26,668	32,157	36,172
Net Income	**136,155**	**130,654**	**110,959**	**94,215**
Payments to general fund	-	-	-	-
Payments to other funds	19,989	28,645	17,345	19,356
Balance Sheet (in thousands)				
Total Assets - Year End	**7,295,268**	**7,407,942**	**7,215,687**	**6,873,409**
Federal funds sold and resell agreements	63,070	77,905	42,105	36,645
Securities	2,068,327	2,657,527	2,933,570	2,584,169
Loans	**4,789,553**	**4,339,618**	**3,852,155**	**3,476,946**
Agricultural	687,486	513,899	436,970	361,756
Commercial	1,982,625	1,811,259	1,559,137	1,388,104
Residential	739,412	693,712	652,076	629,931
Student	1,380,030	1,320,748	1,203,972	1,097,155
Deposits	**4,887,192**	**5,802,142**	**5,730,611**	**5,601,127**
Noninterest bearing	663,156	641,264	700,446	798,559
Interest bearing	4,224,036	5,160,878	5,030,165	4,802,568
Federal funds purchased and repurchased agreements	242,480	119,500	178,455	245,110
Short- and Long- Term Debt	**1,280,538**	**727,322**	**645,126**	**465,961**
Equity	**875,732**	**749,493**	**652,134**	**551,797**
Capital	2,000	2,000	2,000	2,000
Capital surplus	72,000	72,000	72,000	72,000
Undivided profits	789,496	673,330	571,276	477,705
Accumulated other comprehensive income (loss)	12,236	2,163	6,858	92

2012	2011	2010	2009	2008	2007
$145,870	$137,459	$133,400	$132,277	$148,613	$152,416
35,349	39,541	45,188	50,994	71,801	87,090
110,521	97,918	88,212	81,283	76,812	65,326
2,000	11,000	12,100	10,300	8,900	3,100
108,521	86,918	76,112	70,983	67,912	62,226
4,659	4,911	6,113	6,206	7,617	6,673
31,586	21,494	20,374	19,106	18,485	17,813
81,594	**70,335**	**61,851**	**58,083**	**57,044**	**51,086**
-	-	-	30,000	30,000	30,000
28,997	2,815	5,088	-	46	46
6,155,201	**5,375,073**	**4,029,927**	**3,959,669**	**3,516,965**	**2,779,360**
24,050	18,315	33,100	24,190	75,675	277,565
2,171,546	1,008,051	537,157	397,370	331,416	235,551
3,279,778	**2,995,154**	**2,814,548**	**2,713,611**	**2,618,402**	**2,004,999**
342,826	289,002	276,693	267,575	268,066	252,852
1,278,403	1,068,598	1,022,002	1,038,589	1,064,811	689,150
594,508	575,020	471,411	475,124	509,052	419,700
1,064,041	1,062,534	1,044,442	932,323	776,473	643,297
5,003,562	**4,179,837**	**3,058,726**	**2,939,059**	**2,645,356**	**1,871,767**
891,197	649,922	387,040	442,867	313,900	317,949
4,112,365	3,529,915	2,671,686	2,496,192	2,331,456	1,553,818
275,960	318,325	240,725	337,627	304,020	434,061
406,252	**471,422**	**397,365**	**405,005**	**315,604**	**245,070**
463,662	**399,903**	**327,297**	**271,649**	**223,922**	**192,471**
2,000	2,000	2,000	2,000	2,000	2,000
42,000	42,000	42,000	42,000	42,000	42,000
402,846	350,249	282,729	225,966	182,883	145,843
16,816	5,654	568	1,683	(2,961)	2,628

FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

BND

Bank of North Dakota

BANK OF NORTH DAKOTA

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Independent Auditor's Report

To the Industrial Commission
State of North Dakota
Bismarck, North Dakota

Report on the Financial Statements
We have audited the accompanying financial statements of the Bank of North Dakota, which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income, comprehensive income, equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bank of North Dakota as of December 31, 2016 and 2015, and the results of its operations and its cash flows for years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Reporting Entity
The financial statements of the Bank of North Dakota are intended to present the financial position, results of operations, and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Bank of North Dakota. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of December 31, 2016 and 2015 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Eide Bailly LLP

Bismarck, North Dakota
February 13, 2017

BANK OF NORTH DAKOTA
BALANCE SHEETS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands)

	2016	2015
ASSETS		
Cash and due from banks	**$ 361,807**	$ 318,354
Federal funds sold	**63,070**	77,905
Cash and cash equivalents	**424,877**	396,259
Securities	**2,068,327**	2,657,527
Loans	**4,789,553**	4,339,618
Less allowance for loan losses	**(78,747)**	(69,294)
	4,710,806	4,270,324
Interest receivable	**50,824**	44,635
Bank premises, equipment, and software, net	**11,942**	11,566
Rebuilders loan program receivable	**17,474**	21,369
Other assets	**11,018**	6,262
Total assets	**$ 7,295,268**	$ 7,407,942
LIABILITIES AND EQUITY		
Deposits		
Non-interest bearing	**$ 663,156**	$ 641,264
Interest bearing	**4,224,036**	5,160,878
	4,887,192	5,802,142
Federal funds purchased and repurchase agreements	**242,480**	119,500
Short and long-term debt	**1,280,538**	727,322
Other liabilities	**9,326**	9,485
Total liabilities	**6,419,536**	6,658,449
Equity		
Capital	**2,000**	2,000
Capital surplus	**72,000**	72,000
Undivided profits	**789,496**	673,330
Accumulated other comprehensive income	**12,236**	2,163
Total equity	**875,732**	749,493
Total liabilities and equity	**$ 7,295,268**	$ 7,407,942

See Notes to Financial Statements

BANK OF NORTH DAKOTA
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands)

	2016	2015
INTEREST INCOME		
Federal funds sold	**$ 477**	$ 380
Securities	**35,289**	38,026
Loans, including fees	**175,037**	155,892
Total interest income	**210,803**	194,298
INTEREST EXPENSE		
Deposits	**11,457**	12,814
Federal funds purchased and repurchase agreements	**861**	223
Short and long-term debt	**21,657**	19,127
Total interest expense	**33,975**	32,164
NET INTEREST INCOME	**176,828**	162,134
PROVISION FOR LOAN LOSSES	**16,000**	12,500
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**160,828**	149,634
NONINTEREST INCOME		
Service fees and other	**6,323**	7,648
Net gain on sale of available for sale securities	**-**	40
Total noninterest income	**6,323**	7,688
NONINTEREST EXPENSE		
Salaries and benefits	**16,151**	14,817
Data processing	**5,745**	4,838
Long-term debt prepayment fee	**1,343**	-
Occupancy and equipment	**843**	726
Net loss on sale of available for sale securities	**131**	-
Other operating expenses	**6,783**	6,287
Total noninterest expenses	**30,996**	26,668
NET INCOME	**$ 136,155**	$ 130,654

BANK OF NORTH DAKOTA
STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands)

	2016	2015
Net income	**$ 136,155**	$ 130,654
Other comprehensive income		
Unrealized gain/(loss) on securities available for sale	**3,933**	(4,897)
Unrealized gain/(loss) on interest rate swap	**6,009**	242
Reclassification adjustment for (gains)/losses realized in net income	**131**	(40)
Other comprehensive income	**10,073**	(4,695)
Comprehensive income	**$ 146,228**	$ 125,959

See Notes to Financial Statements

BANK OF NORTH DAKOTA
STATEMENTS OF EQUITY
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands)

	Capital	Capital Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 2014	$ 2,000	$ 72,000	$ 571,276	$ 6,858	$ 652,134
Net income			130,654		130,654
Unrealized gain on securities available for sale				(4,897)	(4,897)
Unrealized loss on interest rate swap				242	242
Reclassification adjustment for gains realized in net income				(40)	(40)
Transfers to other state funds			(28,600)		(28,600)
BALANCE, DECEMBER 31, 2015	2,000	72,000	673,330	2,163	749,493
Net income			136,155		136,155
Unrealized loss on securities available for sale				3,933	3,933
Unrealized gain on interest rate swap				6,009	6,009
Reclassification adjustment for losses realized in net income				131	131
Transfers to other state funds			(19,989)		(19,989)
BALANCE, DECEMBER 31, 2016	$ 2,000	$ 72,000	$ 789,496	$ 12,236	$ 875,732

BANK OF NORTH DAKOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands)

	2016	2015
OPERATING ACTIVITIES		
Net income	$ 136,155	$ 130,654
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	730	742
Provision for loan losses	16,000	12,500
Net amortization/(accretion) of securities	8,486	10,065
(Gain) loss on available-for-sale securities	131	(40)
(Gain) on sale of residential loans	(193)	(201)
Loss on sale of foreclosed assets	103	-
Increase in interest receivable	(6,189)	(2,792)
Decrease (increase) in other assets	1,232	(1,173)
Increase (decrease) in other liabilities	249	(452)
NET CASH FROM OPERATING ACTIVITIES	156,704	149,303
INVESTING ACTIVITIES		
Securities available for sale transactions		
Purchase of securities	-	(475,155)
Proceeds from sales, maturities, and principal repayments	607,683	740,336
Purchase of Federal Home Loan Bank stock	(119,231)	(25,015)
Sale of Federal Home Loan Bank stock	96,866	21,283
Purchase of other equity securities	(1,005)	(397)
Sale of other equity securities	334	28
Proceeds from sales of loans	12,862	14,332
Net increase in loans	(469,757)	(503,146)
Purchases of premises and equipment	(1,106)	(630)
Payments from rebuilders loan program	3,895	4,103
Proceeds from sale of foreclosed assets	116	-
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	130,657	(224,261)
FINANCING ACTIVITIES		
Net increase (decrease) in non-interest bearing deposits	21,892	(59,182)
Net increase (decrease) in interest bearing deposits	(936,842)	130,713
Net increase (decrease) in federal funds purchased and repurchase agreements	122,980	(58,955)
Proceeds from issuance of short and long-term debt	2,975,001	615,000
Payment of short and long-term debt	(2,421,785)	(532,804)
Payment of transfers to other state funds	(19,989)	(28,645)
NET CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	(258,743)	66,127
NET CHANGE IN CASH AND CASH EQUIVALENTS	28,618	(8,831)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	396,259	405,090
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 424,877	$ 396,259

(In Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, fiduciary, investment management services, and other financial services, and state government with a primary role in financing economic development. BND is a participation lender; the vast majority of its loans are purchased from financial institutions throughout the State of North Dakota. BND's primary deposit products are interest-bearing accounts for state and political subdivisions. Deposits held at the Bank are not covered by depository insurance, but rather are guaranteed by the State of North Dakota as described in NDCC Section 6-09-10.

Bank of North Dakota is included as part of the primary government in the State of North Dakota's reporting entity. As such, BND 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.

However, the accompanying financial statements are prepared in accordance with Financial Accounting Standards Board Accounting Standards Codification, which are generally accepted accounting principles for financial institutions.

BND also prepares financial statements in accordance with GASB pronouncements.

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 determinations of the allowance for loan losses and the fair market value of interest rate swaps.

Significant Group Concentrations of Credit Risk

Most of the Bank's lending activities are with customers within the State of North Dakota. The Bank's loan portfolio is comprised of the following concentrations as of December 31, 2016 and 2015:

	2016	2015
Commercial loans, of which 3% and 4% are federally guaranteed	**41%**	42%
Student loans, of which 99% and 99% are guaranteed	**29%**	30%
Residential loans, of which 70% and 73% are federally guaranteed	**16%**	16%
Agricultural loans, of which 4% and 4% are federally guaranteed	**14%**	12%
	100%	100%

Continued on next page

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 with original maturities of three months or less.

Securities

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 available for sale. These securities are recorded at fair value, with unrealized gains and losses reported in equity. The changes in unrealized gains and losses are excluded from earnings and reported in other comprehensive income. Securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issue for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

In order to borrow from the Federal Home Loan Bank (FHLB), the Bank is required to hold FHLB stock. The amount of stock that the Bank must hold is equal to .12% of total bank assets plus 4% of total FHLB advances. Since ownership of this stock is restricted, these securities are carried at cost and evaluated periodically for impairment.

Nonmarketable equity securities represent venture capital equity securities that are not publicly traded. The Bank reviews these assets at least annually for possible other-than-temporary impairment. These securities do not have a readily determinable fair value and are stated at cost. The Bank reduces the asset value when it considers declines in value to be other than temporary. The Bank would recognize any estimated loss as a loss from equity securities in the line item net gain/(loss) on available for sale securities included in non-interest expense. Other-than-temporary write-downs totaled $300 and $0 as of December 31, 2016 and 2015, respectively.

Loans Held For Sale

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Bank. The carrying value of the mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. Loans held for sale are carried at the lower of aggregate cost or market value. Gains or losses on sale of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

Continued on next page

Loans

Loans are reported at the outstanding unpaid principal balances, adjusted for charge-offs, unamortized deferred fees and costs on originated loans and premiums or discounts on purchased loans. Interest income on loans is accrued at the specific rate on the unpaid principal balance. Unearned income, deferred fees and costs, and discounts and premiums are amortized to income over the estimated life of the loan using the interest or straight line method.

The accrual of interest is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. When interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Future payments are generally applied against principal until the loan balance is at zero. Any further payments are then recorded as interest income on the cash basis. Loans can be returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses

The Bank uses the allowance method in providing for credit losses. Accordingly, the allowance is increased by the current year's provision for credit losses charged to operations and reduced by net charge-offs. Credit losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The adequacy of the allowance for credit losses and the provision for credit losses charged to operations are based on management's evaluation of a number of factors, including recent credit loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and amount of the shortfall in relation to the principal and interest owed.

Continued on next page

Impairment is measured on a loan-by-loan basis for commercial, agricultural, farm real estate, state institution 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, except for such loans that are placed on nonaccrual.

Loan Charge-Offs

Loans are generally fully or partially charged down to the fair value of collateral securing the asset when:

- An unsecured loan that has principal or interest 120 or more days past due.
- A loan secured by a commercial real estate mortgage, farm real estate mortgage, conventional real estate mortgage, or by other than real property that has principal or interest 120 or more day past due.
- A loan classified as a "loss" by the North Dakota Department of Banking and Financial Institutions.
- A loan where there is a recognized loss in conjunction with the acquisition of real estate by the Bank.
- A loan where the Bank deems itself insecure due to the financial condition of the borrower.
- A loan or portion of a loan has been forgiven.

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.

Bank Premises, Equipment, and Software

Bank premises, equipment, hardware 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.

Foreclosed Assets

Foreclosed assets, which are included in other assets, represent assets acquired through loan foreclosure or other proceedings. Foreclosed assets are recorded at the lower of the amount of the loan or fair market value of the assets. Any write-down to fair market value at the time of the transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and change in the valuation allowance are included in other operating expenses. Foreclosed assets totaled $894 and $508 as of December 31, 2016 and 2015, respectively.

Continued on next page

Derivatives and Hedging Activities

At the inception of a derivative contract, the Bank designates the derivative as one of three types based on the Bank's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. For both types of hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as non-interest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Bank formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Bank also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Bank discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income into earnings over the same periods which the hedged transactions will affect earnings.

Defined Benefit Plan

The Bank funds amounts equal to pension costs accrued.

Income Taxes

Bank of North Dakota is a governmental agency of the State of North Dakota and, as such, is not subject to federal or state income taxes.

Continued on next page

(In Thousands)

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

Federal Reserve Board regulations require the Bank to maintain reserve balances with the Federal Reserve Bank. The average required reserve balances maintained at the Federal Reserve Bank were approximately $55,131 in 2016 and $65,079 in 2015.

The Bank has depository relationships where it is a requirement of the other institution in order to have a business relationship. Deposits at these institutions are insured up to $250,000 with the Federal Deposit Insurance Corporation except for deposits with the Federal Reserve Bank and the Federal Home Loan Bank. The amount of cash deposits not covered by FDIC insurance was $117,333 and $73,691 as of December 31, 2016 and 2015, respectively. Of these amounts, $116,841 and $65,854 were deposited at the Federal Reserve Bank.

NOTE 3 - SECURITIES

Securities have been classified in the financial statements according to management's intent. The carrying value of securities as of December 31, 2016 and 2015 consists of the following:

	2016	2015
Securities available for sale, at fair value	**$ 2,003,060**	$ 2,615,296
Federal Home Loan Bank stock, at cost	**60,124**	37,758
Other equity securities, at cost	**5,143**	4,473
	$ 2,068,327	$ 2,657,527

Continued on next page

(In Thousands)

The amortized cost and fair value of securities with gross unrealized gains and losses follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2016				
Securities available for sale				
Federal agency	**$ 1,239,379**	**$ 7,720**	**$ 907**	**$ 1,246,192**
Mortgage-backed	**709,329**	**4,806**	**1,382**	**712,753**
US treasuries	**39,793**	**182**	**-**	**39,975**
State and municipal	**4,131**	**9**	**-**	**4,140**
	$ 1,992,632	**$ 12,717**	**$ 2,289**	**$ 2,003,060**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2015				
Securities available for sale				
Federal agency	$ 1,588,252	$ 6,850	$ 2,985	$ 1,592,117
Mortgage-backed	973,428	5,062	2,747	975,743
US treasuries	39,621	175	-	39,796
State and municipal	7,631	9	-	7,640
	$ 2,608,932	$ 12,096	$ 5,732	$ 2,615,296

There were no securities pledged as of December 31, 2016 and 2015 for repurchase agreements. There were $759,048 and $5,267 of securities pledged as of December 31, 2016 and 2015 for other required pledging purposes**.** FHLB stock totaling $60,124 and $37,758 at December 31, 2016 and 2015, respectively are pledged on the FHLB advances (Note 9).

Continued on next page

(In Thousands)

The maturity distribution of debt securities at December 31, 2016, 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.

	Available for Sale	
	Amortized Cost	Fair Value
Within one year	$ 360,140	$ 362,254
Over one year through five years	1,534,236	1,541,695
Over five years through ten years	54,424	54,324
Over ten years	43,832	44,787
	$ 1,992,632	$ 2,003,060

For the year ended December 31, 2016, proceeds from the sale of securities available for sale were $90,037. Gross realized gains were $169 on these sales. For the year ended December 31, 2015, proceeds from the sale of securities available for sale were $9,552. Gross realized gains were $40 on these sales.

Continued on next page

(In Thousands)

Information pertaining to securities with gross unrealized losses at December 31, 2016 and 2015 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
DECEMBER 31, 2016	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available for sale				
Federal agency	**$ 136**	**$ 107,482**	**$ 771**	**$ 99,945**
Mortgage-backed	**458**	**167,020**	**924**	**96,321**
	$ 594	**$ 274,502**	**$ 1,695**	**$ 196,266**

	Less Than Twelve Months		Over Twelve Months	
DECEMBER 31, 2015	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available for sale				
Federal agency	$ 2,985	$ 761,919	$ -	$ -
Mortgage-backed	2,384	501,757	363	46,726
	$ 5,369	$ 1,263,676	$ 363	$ 46,726

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2016 and 2015, no available for sale securities were written down as other-than-temporary impairments. The unrealized loss position is primarily driven by changes in interest rates and not due to underlying credit losses. The Bank has evaluated and concluded that it does not intend to sell any of these securities, and that it is more likely than not that it will not be required to sell prior to recovery.

Continued on next page

(In Thousands)

NOTE 4 - LOANS

The composition of the loan portfolio at December 31, 2016 and 2015 is as follows:

	2016	2015
Commercial	**$ 1,982,625**	$ 1,811,259
Student	**1,380,030**	1,320,748
Residential	**739,412**	693,712
Agricultural	**687,486**	513,899
	4,789,553	4,339,618
Allowance for loan losses	**(78,747)**	(69,294)
	$ 4,710,806	$ 4,270,324

Unamortized deferred student loan costs totaled $17,543 and $15,571 as of December 31, 2016 and 2015, respectively. Net unamortized loan premiums and discounts, including purchased servicing rights, on residential loans totaled $5,122 and $6,195 as of December 31, 2016 and 2015, respectively.

In the normal course of business, overdrafts of deposit accounts are reclassified as loans. There were no overdrafts of deposit accounts at December 31, 2016 and 2015.

Management has an established methodology to determine the adequacy of the allowance for credit losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for credit losses, the Bank has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: commercial, agricultural, residential real estate, and student loans. The Bank also sub-segments the commercial and agricultural segments into classes based on the associated risks within those segments. Commercial loans are divided into three classes: commercial participations, bank stock, and all other business loans (including PACE). Agricultural loans are also divided into three classes: farm & ranch, farm real estate, and all other farm loans. Each class of loan exercises significant judgment to determine the estimation method that fits the credit risk characteristics of its portfolio segment.

The adequacy of the allowance for credit losses and the provision for credit losses charged to operations are based on management’s evaluation of a number of factors, including recent credit loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Changes in the allowance for credit loss and the related provision expense can materially affect net income.

Continued on next page

(In Thousands)

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

The total allowance reflects management's estimate of credit losses inherent in the loan portfolio at the balance sheet date. The Bank considers the allowance for credit losses of $78,747 adequate to cover loan losses inherent in the loan portfolio, at December 31, 2016. The following tables represent, by portfolio segment, the changes in the allowance for credit losses and the recorded investment in loans.

	2016				
	Commercial	**Agricultural**	**Residential**	**Student**	**TOTAL**
Beginning Balance:	**$ 52,931**	**$ 13,939**	**$ 915**	**$ 1,509**	**$ 69,294**
Charge-offs	**(6,303)**	**-**	**-**	**(527)**	**(6,830)**
Recoveries	**262**	**14**	**-**	**7**	**283**
Provision	**11,377**	**3,117**	**1,516**	**(10)**	**16,000**
Ending Balance	**$ 58,267**	**$ 17,070**	**$ 2,431**	**$ 979**	**$ 78,747**

	2015				
	Commercial	Agricultural	Residential	Student	TOTAL
Beginning Balance:	$ 46,298	$ 9,552	$ 710	$ 1,786	$ 58,346
Charge-offs	(6,632)	-	-	(256)	(6,888)
Recoveries	5,319	11	-	6	5,336
Reallocation	7,946	4,376	205	(27)	12,500
Ending Balance	$ 52,931	$ 13,939	$ 915	$ 1,509	$ 69,294

Continued on next page

(In Thousands)

The following tables disaggregate our allowance for credit losses by impairment methodology.

	2016				
	Commercial	**Agricultural**	**Residential**	**Student**	**TOTAL**
Collectively evaluated	**$ 50,019**	**$ 16,722**	**$ 2,431**	**$ 979**	**$ 70,151**
Individually evaluated	**8,248**	**348**	**-**	**-**	**8,596**
Total	**$ 58,267**	**$ 17,070**	**$ 2,431**	**$ 979**	**$ 78,747**

	2015				
	Commercial	Agricultural	Residential	Student	TOTAL
Collectively evaluated	$ 45,794	$ 13,482	$ 915	$ 1,509	$ 61,700
Individually evaluated	7,137	457	-	-	7,594
Total	$ 52,931	$ 13,939	$ 915	$ 1,509	$ 69,294

The following tables disaggregate our loan portfolio by impairment methodology.

	2016				
	Commercial	**Agricultural**	**Residential**	**Student**	**TOTAL**
Collectively evaluated	**$ 1,763,897**	**$ 630,589**	**$ 738,582**	**$ 298,877**	**$ 3,431,945**
Individually evaluated	**50,591**	**29,922**	**780**	**-**	**81,293**
Loan types excluded from allowance	**168,137**	**26,975**	**50**	**1,081,153**	**1,276,315**
Total	**$ 1,982,625**	**$ 687,486**	**$ 739,412**	**$ 1,380,030**	**$ 4,789,553**

	2015				
	Commercial	Agricultural	Residential	Student	TOTAL
Collectively evaluated	$ 1,635,748	$ 490,837	$ 693,250	$ 373,917	$ 3,193,752
Individually evaluated	37,745	3,550	365	-	41,660
Loan types excluded from allowance	137,766	19,512	97	946,831	1,104,206
Total	$ 1,811,259	$ 513,899	$ 693,712	$ 1,320,748	$ 4,339,618

Continued on next page

The Bank's internally assigned ratings are as follows:

	Risk Code	Description
Exceptional	1	Loan considered prime on the basis of very substantial financial capacity with minimal risk of non payment.
Excellent	2	Loan considered sound on the basis of strong financial capacity with little or no apparent weakness and very limited risk of non payment. The probability of serious financial deterioration is highly unlikely.
Good	3	Loan may reveal weaknesses in some areas, however, not of a serious nature and the debt remains collectible in its entirety. The collateral may be characterized as being less marketable than that of a higher rated borrower.
Acceptable	4	Bank feels that the credit risk is acceptable, but may require above average officer attention. Credit in this class exhibit the earliest signs of potential problems. A greater reliance will be placed on the quality and marketability of the underlying collateral as the cash flow may be unproven or somewhat erratic.
Special Men	5	May be bankable based on certain types of loan programs which fall within the Bank's mission. This type of loan may be currently protected, but has potential unrealized weaknesses. The loan will require close monitoring as deterioration remains a strong possibility. The potential problems must remain manageable and must not pose a serious threat to repayment.
Substandard	6	Well defined weaknesses jeopardize orderly repayment. The loan is no longer protected by sound net worth or repayment capacity of the borrower. Even though elements of loss are present, the borrower can potentially repay if deficiencies are corrected. Close monitoring of this type of loan is extremely important to prevent loss to the Bank.
Doubtful	7	Loan had deteriorated to the point where collection or liquidation in full on the basis of current information, conditions and values is highly questionable and improbable. A doubtful classification is warranted during this period of quantifying/defining the amount of exposure or loss. A well defined corrective action or liquidation plan should be developed and implemented as soon as possible to limit further loss potential for the Bank.
Loss	8	Loan is considered uncollectible and of such value that it should be charged-off. This classification does not mean that the asset has no recovery or salvage value.

Continued on next page

(In Thousands)

The following table represents credit exposures by internally assigned risk ratings for the years ended December 31, 2016 and 2015. The rating analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Bank's internal credit risk rating is based on experiences with similarly rated loans. Credit risk ratings are refreshed periodically as they become available, at which time management analyzes the resulting scores, as well as other external statistics and factors, to track loan performance.

	2016				
Risk Rating	**Commercial Participations**	**Bank Stock**	**All Other Business Loans (Including PACE)**	**Farm & Ranch**	**Farm Real Estate**
No assigned risk rating	$ -	$ -	$ -	$ -	$ -
1	-	-	-	-	-
2	6,240	-	232,949	3,106	84
3	196,152	169,003	45,214	50,459	58,763
4	752,293	80,302	195,903	130,907	164,839
5	59,953	-	12,129	17,052	46,616
6	53,367	556	1,434	4,422	2,065
7	8,675	-	318	531	122
8	-	-	-	-	-
Loan types excluded from allowance	-	-	168,137	-	-
Total	$ 1,076,680	$ 249,861	$ 656,084	$ 206,477	$ 272,489

Risk Rating	**All Other Farm Loans**	**Residential Real Estate**	**Student Loans**	**Total**
No assigned risk rating	$ -	$ 739,362	$ 298,877	$ 1,038,239
1	-	-	-	-
2	703	-	-	243,082
3	17,445	-	-	537,036
4	89,716	-	-	1,413,960
5	66,973	-	-	202,723
6	6,361	-	-	68,205
7	347	-	-	9,993
8	-	-	-	-
Loan types excluded from allowance	26,975	50	1,081,153	1,276,315
Total	$ 208,520	$ 739,412	$ 1,380,030	$ 4,789,553

Continued on next page

(In Thousands)

	2015				
Risk Rating	Commercial Participations	Bank Stock	All Other Business Loans (Including PACE)	Farm & Ranch	Farm Real Estate
No assigned risk rating	$ -	$ -	$ -	$ -	$ -
1	-	-	-	-	-
2	-	-	137,323	5,536	89
3	305,801	164,314	54,317	53,991	52,867
4	704,858	83,947	144,859	132,908	142,081
5	26,711	1,010	3,685	22,158	42,112
6	40,079	674	1,308	6,555	-
7	1,652	-	2,956	-	-
8	-	-	-	-	-
Loan types excluded from allowance	-	-	137,766	-	-
Total	$ 1,079,101	$ 249,945	$ 482,214	$ 221,148	$ 237,149

Risk Rating	All Other Farm Loans	Residential Real Estate	Student Loans	Total
No assigned risk rating	$ -	$ 693,615	$ 373,917	$ 1,067,532
1	-	-	-	-
2	878	-	-	143,826
3	10,790	-	-	642,080
4	16,475	-	-	1,225,128
5	7,946	-	-	103,622
6	-	-	-	48,616
7	-	-	-	4,608
8	-	-	-	-
Loan types excluded from allowance	19,512	97	946,831	1,104,206
Total	$ 55,601	$ 693,712	$ 1,320,748	$ 4,339,618

Continued on next page

(In Thousands)

Following are tables which include an aging analysis of the recorded investment of past due financing receivables as of December 31, 2016 and 2015. Also included are loans that are 90 days or more past due as to interest and principal and still accruing, because they are (1) well-secured and in the process of collection, (2) real estate loans or loans exempt under regulatory rules from being classified as nonaccrual or (3) student loans where accrued interest is guaranteed.

	2016						
Loan Class	**31-60 days past due**	**61 - 90 days past due**	**Greater than 90 days**	**Total Past Due**	**Current**	**Total Loans**	**Recorded Investment >90 days and**
Commercial Participations	$ 3,986	$ 4,034	$ 7,591	$ 15,611	$ 1,061,069	$ 1,076,680	$ 990
Bank Stock	-	-	-	-	249,861	249,861	-
All other Business Loans (Including PACE)	878	245	458	1,581	654,503	656,084	-
Farm & Ranch	321	-	1,932	2,253	204,224	206,477	1,433
Farm Real Estate	1,834	-	1,423	3,257	269,232	272,489	1,423
All other Farm loans	37	-	116	153	208,367	208,520	-
Residential Real Estate	15,944	5,885	15,673	37,502	701,910	739,412	15,673
Student Loans	21,035	12,760	43,218	77,013	1,303,017	1,380,030	43,148
Totals	$ 44,035	$ 22,924	$ 70,411	$ 137,370	$ 4,652,183	$ 4,789,553	$ 62,667

	2015						
Loan Class	31-60 days past due	61 - 90 days past due	Greater than 90 days	Total Past Due	Current	Total Loans	Recorded Investment >90 days and
Commercial Participations	$ 316	$ -	$ 5,909	$ 6,225	$ 1,072,876	$ 1,079,101	$ 271
Bank Stock	-	-	-	-	249,945	249,945	-
All other Business Loans (Including PACE)	838	2,027	964	3,829	478,385	482,214	-
Farm & Ranch	1,448	487	788	2,723	218,425	221,148	788
Farm Real Estate	2,090	4	165	2,259	234,890	237,149	165
All other Farm loans	188	41	19	248	55,353	55,601	19
Residential Real Estate	15,079	5,224	5,815	26,118	667,594	693,712	5,815
Student Loans	20,440	8,409	47,689	76,538	1,244,210	1,320,748	47,619
Totals	$ 40,399	$ 16,192	$ 61,349	$ 117,940	$ 4,221,678	$ 4,339,618	$ 54,677

Continued on next page

Management considers a loan to be impaired when, based on current information and events, it is determined that the Bank will not be able to collect all amounts due according to the loan contract, including scheduled interest payments. Determination of impairment is treated the same across all classes of loans. When management identifies a loan as impaired, the impairment is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases management uses the current fair value of the collateral, less selling costs when foreclosure is probable, instead of discounted cash flows. If management determines that the value of the impaired loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance.

When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

The following tables include the recorded investment and unpaid principal balances for impaired financing receivables with the associated allowance amount, if applicable. Management determined the specific allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the specific allowance recorded.

Also presented are the average recorded investments in the impaired loans during the time within the period that the impaired loans were impaired. When the ultimate collectability of the total principal of an impaired loan is in doubt and the loan is on nonaccrual status, all payments are applied to principal, under the cost recovery method. When the ultimate collectability of the total principal of an impaired loan is not in doubt and the loan is on nonaccrual status, contractual interest is credited to interest income when received, under the cash basis method.

Continued on next page

(In Thousands)

	2016				
Loan Class	Recorded Investment	Unpaid Principal Balance (1)	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With No Specific Allowance Recorded:					
Commercial Participations	$ -	$ -	$ -	$ -	$ -
Bank Stock	556	556	-	632	23
All other Business Loans (Including PACE)	-	-	-	-	-
Farm & Ranch	-	-	-	-	-
Farm Real Estate	1,237	1,237	-	1,237	51
All other Farm loans	25,807	25,807	-	26,101	620
Residential Real Estate	780	780	-	787	34
With an Allowance Recorded:					
Commercial Participations	$ 49,072	$ 53,553	$ 7,831	$ 58,001	$ 2,892
Bank Stock	-	-	-	-	-
All other Business Loans (Including PACE)	963	963	417	1,013	20
Farm & Ranch	2,878	2,878	348	3,483	152
Farm Real Estate	-	-	-	-	-
All other Farm loans	-	-	-	-	-
Residential Real Estate	-	-	-	-	-
Totals:					
Commercial Participations	$ 49,072	$ 53,553	$ 7,831	$ 58,001	$ 2,892
Bank Stock	556	556	-	632	23
All other Business Loans (Including PACE)	963	963	417	1,013	20
Farm & Ranch	2,878	2,878	348	3,483	152
Farm Real Estate	1,237	1,237	-	1,237	51
All other Farm loans	25,807	25,807	-	26,101	620
Residential Real Estate	780	780	-	787	34

(1) Represents the borrower’s loan obligation, gross of any previously charged-off amounts.

Continued on next page

(In Thousands)

	2015				
Loan Class	Recorded Investment	Unpaid Principal Balance (1)	Associated Allowance	Average Recorded Investment	Interest Income Recognized
With No Specific Allowance Recorded:					
Commercial Participations	$ -	$ -	$ -	$ -	$ -
Bank Stock	-	-	-	-	-
All other Business Loans (Including PACE)	-	-	-	-	-
Farm & Ranch	-	-	-	-	-
Farm Real Estate	-	-	-	-	-
All other Farm loans	-	-	-	-	-
Residential Real Estate	365	365	-	369	17
With an Allowance Recorded:					
Commercial Participations	$ 33,683	$ 39,992	$ 6,072	$ 41,653	$ 1,298
Bank Stock	674	674	101	752	24
All other Business Loans (Including PACE)	3,388	3,388	964	3,394	90
Farm & Ranch	3,142	3,142	427	3,374	146
Farm Real Estate	84	84	6	88	3
All other Farm loans	324	324	24	337	8
Residential Real Estate	-	-	-	-	-
Totals:					
Commercial Participations	$ 33,683	$ 39,992	$ 6,072	$ 41,653	$ 1,298
Bank Stock	674	674	101	752	24
All other Business Loans (Including PACE)	3,388	3,388	964	3,394	90
Farm & Ranch	3,142	3,142	427	3,374	146
Farm Real Estate	84	84	6	88	3
All other Farm loans	324	324	24	337	8
Residential Real Estate	365	365	-	369	17

(1) Represents the borrower’s loan obligation, gross of any previously charged-off amounts.

Continued on next page

(In Thousands)

A loan which meets any of the following criteria must be placed in a non-accrual status:

- The following loans on which the principal and interest is 90 or more days past due: Unsecured loans, loans secured by other than real property, loans secured by a mortgage on commercial real estate, loans secured by a farm real estate mortgage, loans secured by a conventional residential real estate mortgage.
- A loan where the borrower has filed for bankruptcy or where the lead bank or the Bank deems itself insecure due to the financial condition of the borrower.
- A loan which the North Dakota Department of Financial Institutions recommends to be placed in a non-accrual status.

A loan which meets the criteria for non-accrual status may be retained in accrual status if it is (1) guaranteed or insured by the state or federal government or secured by collateral with a fair market value sufficient to discharge the outstanding principal and interest and (2) in the process of collection supported by a document source of collection.

A loan which has been placed in a non-accrual status may be returned to an accrual status only if principal and interest are no longer due and unpaid and if current principal and interest appear to be collectable. In addition, the loan must either be secured by collateral with a fair market value sufficient to discharge the outstanding principal and interest or the borrower must demonstrate through a documented repayment plan the ability to discharge the outstanding principal and interest.

On the following table are the financing receivables on nonaccrual status as of December 31, 2016 and 2015. The balances are presented by class of financing receivable.

	2016	2015
Commercial Participations	**$ 13,560**	$ 12,082
Bank Stock	**-**	-
All Other Business Loans (Including PACE)	**677**	3,066
Farm & Ranch	**1,029**	-
Farm Real Estate	**-**	-
All Other Farm Loans	**380**	-
Residential Real Estate	**-**	-
Student Loans	**70**	70
TOTAL	**$ 15,716**	$ 15,218

Accruing loans 90 days or more past due include guaranteed student loans of $43,148 and $47,619 as of December 31, 2016 and 2015, respectively. The Bank is entitled to reimbursement from the guarantor 270 days after default in the case of a student loan payable in monthly installments and 330 days in the case of a student loan payable in less frequent installments.

Continued on next page

(In Thousands)

Residential loans of $15,673 and $5,815 as of December 31, 2016 and 2015, respectively, are also included in accruing loans 90 days or more past due. In the event of a foreclosure a residential loan guaranteed by the Federal Housing Administration will be paid in full and the property title is transferred to them with the exception of flooded properties. The Department of Veterans Affairs has the option of paying their guaranty percentage and the Bank keeps the foreclosed property as well as any gain or loss from the sale or they can pay the loan in full and title is transferred to them.

The Bank's loan portfolio also includes certain loans that have been modified in a Trouble Debt Restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Bank's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months.

When the Bank modifies a loan, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole (remaining) source of repayment for the loan is the operation or liquidation of the collateral. In these cases management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized by segment or class of loan, as applicable, through an allowance estimate or a charge-off to the allowance. Segment and class status is determined by the loan's classification at origination.

The following table presents information related to loans modified in a troubled debt restructuring during the years ended December 31, 2016 and 2015. Six of these loans subsequently defaulted after modification.

	2016		2015	
	Number of Modifications	**Recorded Investment**	Number of Modifications	Recorded Investment
Commercial Participations	**16**	**$ 18,511**	12	$ 8,800
Bank Stock	**-**	**-**	-	-
All Other Business Loans (Including PACE)	**1**	**180**	4	293
Farm & Ranch	**4**	**735**	-	-
Farm Real Estate	**1**	**1,237**	-	-
All Other Farm Loans	**42**	**23,366**	-	-
Residential Real Estate	**3**	**423**	-	-
Student Loans	**-**	**-**	-	-
TOTAL	**67**	**$ 44,452**	16	$ 9,093

Continued on next page

(In Thousands)

The following table presents the unpaid principal of loans modified in a troubled debt restructuring during the years ended December 31, 2016 and 2015, by type of modification.

	2016			
	To Interest Only	**Below Market Rate**	**Other (1)**	**Total**
Commercial Participations (a)	**$ 1,412**	**$ -**	**$ 17,099**	**$ 18,511**
Bank Stock	**-**	**-**	**-**	**-**
All Other Business Loans (Including PACE)	**180**	**-**	**-**	**180**
Farm & Ranch	**431**	**-**	**304**	**735**
Farm Real Estate	**1,237**	**-**	**-**	**1,237**
All Other Farm Loans (b)	**-**	**-**	**23,366**	**23,366**
Residential Real Estate	**-**	**-**	**423**	**423**
Student Loans	**-**	**-**	**-**	**-**
TOTAL	**$ 3,260**	**$ -**	**$ 41,192**	**$ 44,452**

	2015			
	To Interest Only	Below Market Rate	Other (1)	Total
Commercial Participations	$ 586	$ -	$ 8,214	$ 8,800
Bank Stock	-	-	-	-
All Other Business Loans (Including PACE)	138	-	155	293
Farm & Ranch	-	-	-	-
Farm Real Estate	-	-	-	-
All Other Farm Loans	-	-	-	-
Residential Real Estate	-	-	-	-
Student Loans	-	-	-	-
TOTAL	$ 724	$ -	$ 8,369	$ 9,093

(1) Other modifications include reamortization of payments, extended maturity and reduction of interest rate.

(1)(a) During 2016, the Bank experienced an increase in Commercial Participation TDR's due in large part to the economic decline in western North Dakota and within the energy industry sector. The majority of concessions granted in this loan category were extensions of maturity and reamortization of payments.

(1)(b) During 2016, the Bank implemented the Farm Financial Stability Loan Program. The purpose of this Program was to partner with North Dakota financial institutions to assist agriculture producers through challenging economic conditions within the agriculture industry sector. A number of these loans are classified as TDR as a result of one or more of the concessions described in (1) above. Total Farm Financial Stability loans were $147,317 as of December 31, 2016.

There were no material commitments to lend additional funds to customers whose loans were classified as impaired or restructured at December 31, 2016 and 2015.

Continued on next page

(In Thousands)

NOTE 5 - LOAN SALES AND LOAN SERVICING

A summary of BND loan sales during 2016 and 2015 follows:

	2016	2015
Residential loans sold on the secondary market	**$ 12,669**	$ 14,131

BND recognized gains on sale of loans of $193 in 2016 and $201 in 2015 which is included in non-interest income on the Statements of Income.

BND has contracts to provide servicing of loans for others. These loans are not included in the accompanying balance sheets. The unpaid principal balances of loans serviced for others as of December 31, 2016 and 2015 were as follows:

	2016	2015
Student loans		
North Dakota Student Loan Trust	**$ 16,556**	$ 20,915
Residential loans		
Fannie Mae	**45,440**	36,856
Other state fund loans		
Western Area Water	**99,500**	99,500
Medical Facility Infrastructure Loan Fund	**37,384**	-
Rebuilders Loan Program	**35,783**	40,230
Community Water Facility Loan Fund	**21,555**	19,204
State Water Commission	**14,667**	1,576
Infrastructure Revolving Loan Fund	**11,364**	-
Board of University and School Lands	**10,080**	13,238
Information Technology Department	**7,674**	8,144
Department of Human Services	**5,627**	6,018
Workforce Safety	**126**	139
Addiction Counseling Internship Loan Program	**82**	-
	$ 305,838	$ 245,820

Under existing student loan servicing agreements, the Bank generally agrees to reimburse lenders for all principal, accrued interest and special allowance which the lender has been denied if the denial resulted from the actions or inactions of the Bank. Under the existing residential loan servicing agreement with Fannie Mae, the Bank will indemnify Fannie Mae and hold them harmless against all losses, damages, judgments or legal expenses that result from the Bank's failure in any way to perform its services and duties.

Continued on next page

(In Thousands)

NOTE 6 - BANK PREMISES, EQUIPMENT, AND SOFTWARE

A summary of changes in bank premises, equipment, furniture, and software at December 31, 2016 and 2015 is as follows:

	Balance 2015	Additions	Retirements	Balance 2016
Land	$ 2,449	$ -	$ -	$ 2,449
Building	10,317	470	-	10,787
Equipment	629	198	73	754
Furniture	697	12	4	705
Hardware	183	-	10	173
Software	5,464	426	-	5,890
	19,739	1,106	87	20,758
Less accumulated depreciation	8,173	730	87	8,816
	$ 11,566	$ 376	$ -	$ 11,942

	Balance 2014	Additions	Retirements	Balance 2015
Land	$ 2,449	$ -	$ -	$ 2,449
Building	10,212	105	-	10,317
Equipment	678	72	121	629
Furniture	698	-	1	697
Hardware	233	-	50	183
Software	5,045	453	34	5,464
	19,315	630	206	19,739
Less accumulated depreciation	7,637	742	206	8,173
	$ 11,678	$ (112)	$ -	$ 11,566

Depreciation and amortization expense on the above assets amounted to $730 and $742 in 2016 and 2015.

NOTE 7 - DEPOSITS

At December 31, 2016, the scheduled maturities of certificates of deposits are as follows:

One year or less	$ 2,860,678
One to three years	86,978
Over three years	74,566
	$ 3,022,222

Continued on next page

(In Thousands)

NOTE 8 - REPURCHASE AGREEMENTS

The Bank enters into agreements to repurchase the same securities that it previously sold. These agreements may have a fixed maturity or be open-ended, callable at any time. There were no repurchase agreements as of December 31, 2016 and 2015.

NOTE 9 - SHORT AND LONG-TERM DEBT

Short and long-term debt consists of:

	2016	2015
Federal Home Loan Bank advances - long-term	**$ 470,303**	$ 526,942
Federal Home Loan Bank advances - short-term	**810,000**	200,000
ND Public Finance Authority, 3%, matures from September 2017 through September 2021	**235**	380
	$ 1,280,538	$ 727,322

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

	Principal	Interest	Total
2017	$ 816,909	$ 14,677	$ 831,586
2018	37,130	14,289	51,419
2019	47,337	12,416	59,753
2020	27,580	11,254	38,834
2021	100,833	8,475	109,308
Later years	250,749	14,705	265,454
Totals	$ 1,280,538	$ 75,816	$ 1,356,354

The FHLB long-term advances outstanding at December 31, 2016, mature from February 2018 through October 2029. The FHLB long-term advances have fixed rate interest, ranging from 1.12% to 5.56%**.** All FHLB advances must be secured by minimum qualifying collateral maintenance levels. Residential, student, agriculture, and commercial loans with carrying values of $1,893,362 and $1,139,629 at December 31, 2016 and 2015, respectively, are currently being used as security to meet these minimum levels.

The money borrowed from the ND Public Finance Authority is unsecured and was used to fund irrigation and livestock waste program loans.

Continued on next page

(In Thousands)

NOTE 10 - OTHER LIABILITIES

Other liabilities consist of:

	2016	2015
Interest payable	**$ 874**	$ 966
Salary and benefits payable	**1,199**	1,160
Student loan related payables	**119**	152
Interest rate swap payable	**4,656**	5,064
Accounts payable, accrued expenses and other liabilities	**2,478**	2,143
	$ 9,326	$ 9,485

NOTE 11 - PENSION PLAN

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 multi-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 2.0% 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). For employee with an effective employment date on and after January 1, 2016, pension benefits will begin when the sum of age and years of credited service equal or exceed 90, 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 5% 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 is required to contribute 7.12% of each participant's salary as the employer's share. In addition to the 7.12% employer contribution, the employer is required to contribute 1.14% of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal

Continued on next page

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, 2016 and 2015 were approximately $1,346 and $1,227, respectively, and are charged directly to operations. There were no surcharges paid by the Bank to the Plan in 2016 and 2015.

Specific plan assets and accumulated benefit information for the Bank's portion of the fund is not available. Under the Employee Retirement Income and Security Act of 1974 ("ERISA"), a contributor to a multi-employer pension plan may be liable in the event of complete or partial withdrawal for the benefit payments guaranteed under ERISA, but there is no intention to withdraw. NDPERS operates as a multi-employer plan for accounting purposes and as a multiple-employer plan under ERISA and the Internal Revenue Code. There are no collective bargaining agreements in place that require contributions to the Plan. As of December 31, 2016 and 2015, there were no funding improvement plans or rehabilitation plans implemented. The Plan is a single plan under Internal Revenue Code 413(c) and, as a result, all of the assets stand behind all of the liabilities. Accordingly, contributions made by a participating employer may be used to provide benefits to participants of other participating employers.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. The Bank's contributions to the Plan do not represent more than 5 percent of total contributions to the Plan as indicated in the Plan's most recently available annual report as of June 30, 2016. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES

Legislative Action – Various legislative bills provide state agencies the authority to borrow money from the Bank of North Dakota during the biennium beginning July 1, 2015 and ending June 30, 2017. Following is a summary of legislative action and/or North Dakota Statute in effect:

H.B. 1014, Section 7 – The Bank shall transfer the sum of $5,000 from the Bank's current earnings and undivided profits to the Housing Incentive Fund. As of December 31, 2015, the Bank had transferred $5,000.

H.B. 1014, Section 8 – The Bank shall transfer the sum of $5,000 from the Bank's current earnings and undivided profits to the Housing Incentive Fund for the period beginning July 1, 2015, and ending June 30, 2017, if the Bank's net income, reported in accordance with Financial Accounting Standards Board accounting standards, for the calendar year 2015 exceeds $130,000. The Bank transferred $5,000 in January 2016.

H.B. 1014, Section 9 – The Bank shall transfer up to $28,000 from its current earnings and undivided profits to the Partnership in Assisting Community Expansion Fund. As of December 31, 2016, the Bank had transferred $17,600.

H.B. 1014, Section 10 – The Bank shall transfer up to $3,000 from its current earnings and undivided profits to the Agriculture Partnership in Assisting Community Expansion Fund. As of December 31, 2016, the Bank had transferred $1,200.

H.B. 1014, Section 11 – The Bank shall transfer up to $2,000 from its current earnings and undivided profits to the Biofuels Partnership in Assisting Community Expansion Fund. As of December 31, 2016, the Bank had transferred $900.

Continued on next page

H.B. 1014, Section 12 – The Bank shall transfer up to $7,000 from its current earnings and undivided profits to the Beginning Farmer Revolving Loan Fund. As of December 31, 2016, the Bank had transferred $4,500.

H.B. 1014, Section 13 – The Bank of North Dakota shall develop a Medical Partnership in Assisting Community Expansion Program to assist in the financing of critical access hospital medical infrastructure projects and transfer $10,250. As of December 31, 2016, the Program was fully funded by the Bank through transfers to buy-down loan programs.

H.B. 1014, Section 26 – The Bank of North Dakota approved budget includes $17,000 from the assets of the Bank of North Dakota for the purpose of constructing a North Dakota Financial Center on a site adjacent to the existing building on which the Bank is located. The Bank may spend the funding only if the Bank's net income, reported in accordance with Financial Accounting Standards Board accounting standards, for calendar year 2015 exceeds $125,000. The Bank’s net income exceeded this threshold as of December 31, 2015. As a result, the Bank has engaged an architect and construction manager-at-risk to assist in the Financial Center project. Cost incurred through December 31, 2016 totaled $470.

H.B. 1049, Section 2 – The Bank of North Dakota shall develop and implement a program under which loans may be provided to qualified individuals participating in a paid or unpaid internship at a licensed substance abuse treatment facility in this state, in order to obtain licensure as an addiction counselor. Interest on outstanding loans under this section must accrue at the Bank of North Dakota's current base rate, but may not exceed six percent per annum. The maximum loan for which an applicant may qualify under this section is seven thousand five hundred dollars. The Bank of North Dakota shall maintain a revolving loan fund for the purpose of making loans under this section. All moneys transferred into the fund, interest upon moneys in the fund, and payments to the fund of principal and interest on loans under this section are appropriated to the Bank on a continuing basis. There is appropriated out of any moneys in the Student Loan Trust Fund in the State Treasury, not otherwise appropriated, the sum of $200, or so much of the sum as may be necessary, which the Director of the Office of Management and Budget shall transfer to the Bank of North Dakota, for purposes of the Addiction Counselor Internship Loan Program Revolving Fund. As of December 31, 2016, outstanding loans totaled $82.

H.B. 1112, Section 2 – When approved by the Emergency Commission, the Office of the Adjutant General is authorized to borrow from the Bank of North Dakota, to respond and recover from state disasters if the event has met the Stafford Act minimum for a presidential disaster declaration for which the request is denied, and to match federal funds under the Robert T. Stafford Disaster Emergency Assistance Act [Public Law 93-288, as amended]. In addition to the principal repayment, the Bank of North Dakota shall receive interest on the loan at a rate equal to other state agency borrowings. On behalf of the State, the Office of the Adjutant General shall administer the Disaster or Emergency Recovery Program according to State procedures based on federal laws or regulations. As of December 31, 2016, the outstanding loan totaled $5,012.

H.B. 1373, Section 1 – The Bank of North Dakota shall adopt rules to administer, manage, promote, and market the North Dakota Achieving a Better Life Experience Plan. The Bank shall ensure that the North Dakota Achieving a Better Life Experience Plan is maintained in compliance with internal revenue service standards for qualified state disability expense programs. The Bank, as trustee of the North Dakota Achieving a Better Life Experience Plan, may impose an annual administrative fee to recover expenses incurred in connection with operation of the plan. Administrative fees received by the Bank are appropriated to the Bank on a continuing basis to be used as provided under this section.

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H.B. 1443, Section 3 – Provides for the creation of the Infrastructure Revolving Loan Fund. The Infrastructure Revolving Loan Fund is a special loan fund in the State Treasury from which the Bank of North Dakota shall provide loans to political subdivisions for essential infrastructure projects. The Bank shall administer the Infrastructure Loan Fund. The maximum term of a loan made under this section is thirty years. A loan made from this Fund under this section must have an interest rate that does not exceed two percent per year. Loan funds must be used to address the needs of the community by providing critical infrastructure funding. In processing political subdivision loan applications under this section, the Bank shall calculate the maximum loan amount for which a qualified applicant may qualify, not to exceed $15,000 per loan. The Bank shall deposit in the Infrastructure Revolving Loan Fund all payments of interest and principal paid under loans made from the Infrastructure Revolving Loan Fund. The Bank may use a portion of the interest paid on the outstanding loans as a servicing fee to pay for administrative costs which may not exceed one-half of one percent of the amount of the interest payment. All moneys transferred to the Fund, interest upon moneys in the Fund, and payments to the Fund of principal and interest are appropriated to the Bank on a continuing basis for administrative costs and for loan disbursement according to this section. If a political subdivision receives funds distributed by the State Treasurer under subsection 1 or 4 of section 1 or by the Department of Transportation under subsection 1 of section 2 of Senate Bill No. 2103, as approved by the sixty-fourth legislative assembly, it is the intent of the legislative assembly that political subdivision be ineligible to receive a loan under the Infrastructure Revolving Loan Fund until July 1, 2017. As of December 31, 2016, outstanding loans totaled $11,364.

During the biennium beginning July 1, 2015, and ending June 30, 2017, the Office of Management and Budget shall transfer the sum of $50,000 from the Strategic Investment and Improvements Fund to the Infrastructure Revolving Loan Fund. The Office of Management and Budget shall transfer the funds provided under this section to the Infrastructure Revolving Loan Fund as requested by the Bank of North Dakota. As of December 31, 2016, the Bank had requested and received transfer of $50,000.

During the biennium beginning July 1, 2015, and ending June 30, 2017, the Bank of North Dakota shall transfer the sum of $100,000, or so much of the sum as may be necessary, from the Bank's current earnings and undivided profits to the Infrastructure Revolving Loan Fund. As of December 31, 2016, the Bank had transferred $0.

S.B. 2008, Section 6 – The Bank of North Dakota shall transfer from the Beginning Farmer Revolving Loan Fund to the Public Service Commission the sum of $900, or so much of the sum as may be necessary, included in the estimated income line item in section 1 of this Act to pay for costs associated with a rail rate complaint case. Transfers must be made during the biennium beginning July 1, 2015, and ending June 30, 2017, upon order of the Commission. If any amounts are spent pursuant to this section, the Public Service Commission shall reimburse the Beginning Farmer Revolving Loan Fund using amounts available from damages or proceeds received, net of legal fees, from a successful outcome of a rail complaint case. As of December 31, 2016, the Bank had transferred $0.

S.B. 2018, Section 6 – The State Historical Society may obtain a loan from the Bank of North Dakota in an amount not to exceed $1,250, the sum of which is appropriated to the State Historical Society for the purpose of defraying the expenses of repairs to the Double Ditch historic site, for the biennium beginning July 1, 2015, and ending June 30, 2017. The loan authorization and appropriation in this section is contingent on the State Historical Society being unable to obtain assistance to contract with the Adjutant General for the Double Ditch historic site repairs. As of December 31, 2016, there was no outstanding loan balance.

S.B. 2020, Section 7 – The State Water Commission shall obtain a loan from the Bank of North Dakota in an amount that may not exceed $56,000 for the purpose of paying off or defeasing outstanding bond issues, for the period ending June 30, 2017. As of December 31, 2016, the outstanding loan totaled $42,784.

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S.B. 2020, Section 32 – The Bank of North Dakota shall extend a line of credit not to exceed $200,000 at a rate that may not exceed one and three-quarters percent to the State Water Commission. The State Water Commission shall repay the line of credit from funds available in the Resources Trust Fund, Water Development Trust Fund, or other funds, as appropriated by the legislative assembly. The State Water Commission may access the line of credit, as necessary, to provide funding as authorized by the legislative assembly for water supply projects in suspense, water supply projects identified in section 19 of this Act and water supply projects approved before June 30, 2017, and flood control projects that have approval for funding before June 30, 2017. As of December 31, 2016, there was no outstanding loan balance.

S.B. 2039, Section 5 – The Bank of North Dakota may provide up to $200,000 from the School Construction Assistance Loan Fund to eligible school districts for school construction loans, except that the total of all loans provided under this section prior to July 1, 2018, may not exceed fifty percent of the total amount authorized under this subsection. With the advice and consent of the Superintendent of Public Instruction, the Bank of North Dakota shall award the loans in accordance with a prioritization system that is based on a review of all applications filed during the twelve-month period preceding April 1st. The term of a loan under this section is twenty years, unless a shorter term is requested by the board of a school district in its application. The interest rate on a loan under this section may not exceed two percent. The legislative assembly shall, however, conduct a biennial review of interest rates applicable to new loans. The maximum loan amount to which a school district is entitled under this section is $20,000. Bank may charge a school district a fee for managing and servicing the loan. The Bank shall receive payments of principal and interest from school districts and shall deposit such payments in the School Construction Assistance Loan Fund. As of December 31, 2016, there were no outstanding loan balances.

S.B. 2178, Section 2 – In addition to any construction loans made available under North Dakota Century Code Section 15.1-36-02, the Bank of North Dakota may provide up to $250,000 to eligible school districts for school construction loans, except that the total of all loans provided under this section during the first year of the 2015-17 biennium may not exceed fifty percent of the total amount authorized under this subsection. With the advice and consent of the Superintendent of Public Instruction, the Bank of North Dakota shall award the loans in accordance with a prioritization system set out in this Section. The term of a loan under this section is twenty years, unless a shorter term is requested by the board of a school district in its application. The interest rate on a loan under this section may not exceed two percent, until July 1, 2025. Thereafter, the interest rate on the remainder of a loan under this section may not exceed the Bank of North Dakota's base rate, or may be fixed. The maximum loan amount to which a school district is entitled under this section is $20,000. As of December 31, 2016, outstanding loans totaled $66,693.

S.B. 2178, Section 5 – There is transferred from the Bank of North Dakota's current earnings and undivided profits the sum of $7,875, or so much of the sum as may be necessary, to the Bank of North Dakota for the purpose of providing interest rate buy-downs on construction loans awarded to school districts under section 2 of this Act, for the biennium beginning July 1, 2015, and ending June 30, 2017. As of December 31, 2016, the Bank had transferred $2,434.

S.B. 2379, Section 4 – During the North Dakota Special Legislative Session held in August 2016, Senate Bill 2379 was passed that states that if the Office of Management and Budget (OMB) determines the State General Fund will not have a projected positive June 30, 2017 balance, the Industrial Commission shall transfer $100,000, or so much of the sum as may be necessary, from the earnings and accumulated and undivided profits of BND to the State General Fund. The monies must be transferred in amounts and at such times as requested by OMB. The sum of the amounts transferred may not exceed the lesser of $100,000 or the amount necessary to provide for a positive June 30, 2017 General Fund Balance. As of December 31, 2016, no request or transfer has taken place.

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State Water Commission

Under chapter 61-02.1-04 of North Dakota Century Code, principal and interest on bonds issued are payable from transfers to be made and appropriated by the legislative assembly from the Water Development Trust Fund as provided in section 61-02.1-05, then from transfers to be made and appropriated by the legislative assembly from revenues in the Resources Trust Fund other than revenues from state taxes, then from appropriations of other available revenues in the then current biennium, and then from any other revenues the State Water Commission makes available during the then current biennium for that purpose, including any federal moneys received by the state for the construction of flood control or reduction projects to pay bonds issued for that project. If sufficient funds from these sources are not available, then from transfers to be made and appropriated by the legislative assembly from the first available current biennial earnings of the Bank of North Dakota not to exceed $6,500 per biennium prorated with any other bonds payable from transfers to be made and appropriated by the legislative assembly from the available current biennial earnings of the Bank of North Dakota, to be credited by the Trustee to the Fund established for paying principal and interest on the bonds under a trust indenture. If the Bank has to provide a transfer to the State Water Commission to make principal and interest payments on these bonds, the State Water Commission would then have to request from the next legislative assembly funding to repay the transfer made by the bank. As of December 31, 2016, the Bank has provided no such transfers.

Farm Real Estate Loan Guarantee Program

Chapter 6-09.7-09 provides that the Bank of North Dakota may guarantee the loan of money by banks, credit unions, lending institutions that are part of the farm credit system, and savings and loan associations in this state to eligible persons for the purchase of agricultural real estate or the restructuring of agricultural real estate loans, provided the transactions do not exceed a loan to value ratio of 80% and further provided that no single loan exceeds $400. The Bank may have no more than $8,000 in outstanding loan guarantees under this Program. The Bank may guarantee up to 75% of the amount of principal due the lender. The guarantee term may not exceed 5 years. As of December 31, 2016 and 2015, the Bank has guarantees outstanding totaling $806 and $296, respectively, and had no guarantee commitments outstanding, respectively, included in commitments to extend credit. The Bank has not recorded a contingent liability related to the guarantee loan program as of December 31, 2016 and 2015.

Beginning Entrepreneur Loan Guarantee Program

Chapter 6-09.15 provides that the Bank of North Dakota provide a Beginning Entrepreneur Loan Guarantee Program. The Program includes 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, the Bank shall pay the lender the amount agreed upon up to 85% of the amount of principal due the lender on a loan at the time the claim is approved. The total outstanding loans that the Bank may guarantee cannot exceed 5% of the Bank’s tier one capital as defined by the Department of Financial Institutions. A lender may apply to the Bank for a loan guarantee for a loan up to $200. The term of the guarantee may not exceed five years. As of December 31, 2016 and 2015, the Bank has guarantees outstanding totaling $4,924 and $5,035, respectively, and had guarantee commitments outstanding of $120 and $379, respectively, included in commitments to extend credit. The Bank has not recorded a contingent liability related to the guarantee loan program as of December 31, 2016 and 2015.

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(In Thousands)

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.

See Note 5 for disclosure relating to loans sold to other state funds and/or loans serviced for other state funds, including the North Dakota Student Loan Trust.

Dakota Education Alternative Loans are fully guaranteed by the North Dakota Guaranteed Student Loan Program, which is administered by the Bank. The outstanding principal balance of these loans was $1,065,772 and $934,666 at December 31, 2016 and 2015, respectively.

In the ordinary course of business, the Bank holds loans and deposits of principal officers and directors and their affiliates. Outstanding principal balances of these loans were held by the Bank at December 31, 2016 and 2015 amounted to $26,959 and $14,738, respectively. Deposits and short term borrowings held by the Bank were $13,811 and $13,212, respectively.

The Bank also made transfers to the Rebuilders Loan Program to fund loans to owners of homes damaged in the 2011 floods. These funds will be repaid to the Bank as payments are received from the borrowers. At year end December 31, 2016 the Bank had a receivable form this program for $17,474. At year end December 31, 2015 the Bank had a receivable from this program for $21,369.

NOTE 14 - OFF-BALANCE-SHEET ACTIVITIES

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, financial standby letters of credit, and guarantees related to loan programs as discussed in Note 12. Such commitments involve, to varying degrees, elements of credit and interest rate 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.

At December 31, 2016 and 2015, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2016	2015
Commitments to extend credit	**$ 1,001,295**	$ 1,158,518
Financial standby letters of credit	**345,919**	379,528
Guarantees provided	**5,850**	5,710

Continued on next page

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 Bank has segmented this category into three components: (1) letters of credit, (2) confirming letters of credit, and (3) letters of credit pledged for public deposits to North Dakota financial institutions.

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party which require this type of facility. The maturities for these letters of credit range from one month to ten years, and the likelihood of funding any of these letters of credit is considered to be remote. The Bank holds collateral supporting those commitments. The Bank also has letters of credit with the North Dakota Public Finance Authority (NDPFA) with maturities ranging from 17 months to 29 years. If the letters issued to the NDPFA were ever drawn upon, the NDPFA is legally obligated to reimburse the Bank from funds legally available, or from any appropriation made available from the Legislative Assembly after certification by the Industrial Commission. The likelihood of funding any of these letters of credit is also considered to be remote. Outstanding issued letters of credit as of December 31, 2016 and 2015 were $88,914 and $84,806, respectively.

Confirming letters of credit are issued to North Dakota financial institutions to support letters of credit they have issued but are still in need of backing from an institution with a long-term, high quality bond rating. In the event these letters were to be drawn upon, based on the terms of the agreement, the Bank would immediately withdraw funds from the institution's correspondent bank account held at the Bank to cover the amount drawn. These agreements generally have terms of 12 months or less. The likelihood of funding any of these confirming letters of credit is also considered to be remote. Outstanding issued confirming letters of credit as of December 31, 2016 and 2015 were $6,795 and $6,532, respectively.

Letters of credit pledged for public deposits to North Dakota financial institutions are issued to support public borrowing arrangements. These letters are fully collateralized by a pool of loans pledged to the Bank. These agreements generally have terms of 12 months or less. Financial standby letters for public deposits by North Dakota banks totaled $250,210 and $288,190 at December 31, 2016 and 2015, respectively. The likelihood of funding any of these letters of credit is also considered to be remote. These letters of credit are an authorized form of collateral for public deposits per North Dakota Century Code 21-04-09.

The Bank has not recorded a contingent liability related to off-balance sheet activity as of December 31, 2016 and 2015.

Continued on next page

(In Thousands)

NOTE 15 - INTEREST RATE SWAP CONTRACTS

Interest rate swap contracts are entered into primarily as an asset/liability management strategy of the Bank to help manage its interest rate risk position. The primary risk associated with all swaps is the exposure to movements in interest rates and the ability of the counterparties to meet the terms of the contract. The Bank is exposed to losses if the counterparty fails to make its payments under a contract in which the Bank is in a receiving status. The Bank minimizes its risk by monitoring the credit standing of the counterparties. The Bank anticipates the counterparties will be able to fully satisfy their obligations under the remaining agreements. These contracts are typically designated as cash flow hedges.

The Bank has outstanding interest rate swap agreements with a notional amount totaling $150,000 as of December 31, 2016, and $100,000 as of December 31, 2015, to convert variable rate federal funds into fixed-rate instruments over the term of the contracts. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and other terms of the individual interest rate swap agreements. These cash flow hedges were determined to be fully effective during all periods presented, and as such, no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of the swaps is recorded in other assets or other liabilities with changes in fair value recorded in other comprehensive income (loss). In the event a hedge is no longer considered effective, the resulting impact would be reclassified to current year earnings. The Bank expects the hedges to remain fully effective during the remaining terms of the swaps.

The following table summarizes the derivative financial instrument utilized at December 31, 2016:

			Estimated fair value	
	Balance sheet location	Notional amount	Gain	Loss
Cash flow hedge	Other assets	**$ 50,000**	**$ 827**	
Cash flow hedge	Other assets	**$ 50,000**	**$ 5,637**	
Cash flow hedge	Other liabilities	**$ 50,000**		**$ (4,656)**

The following table details the derivative financial instruments, the remaining maturities, and the interest rates being paid and received at December 31, 2016:

	Notional value	Maturity (years)	Fair value gain/(loss)	Receive	Pay
Interest rate swap	**$ 50,000**	**12.4**	**$ (4,656)**	**0.54%**	**2.86%**
Interest rate swap	**$ 50,000**	**13.3**	**$ 827**	**0.54%**	**1.92%**
Interest rate swap	**$ 50,000**	**14.7**	**$ 5,637**	**0.62%**	**1.48%**

Amongst all swap counterparties for the transactions noted above, the Bank holds a net $2,890 in cash pledged under collateral arrangements related to the interest rate swaps at December 31, 2016, to satisfy the collateral requirements.

Continued on next page

(In Thousands)

The following table summarizes the derivative financial instrument utilized at December 31, 2015:

	Balance sheet location	Notional amount	Estimated fair value Gain	Estimated fair value Loss
Cash flow hedge	Other assets	$ 50,000	$ 863	
Cash flow hedge	Other liabilities	$ 50,000		$ (5,064)

The following table details the derivative financial instruments, the remaining maturities, and the interest rates being paid and received at December 31, 2015:

	Notional value	Maturity (years)	Fair value gain/(loss)	Receive	Pay
Interest rate swap	$ 50,000	13.4	$ (5,064)	0.06%	2.86%
Interest rate swap	$ 50,000	14.3	$ 863	0.13%	1.92%

Amongst all swap counterparties for the transactions noted above, the Bank pledged a net $3,540 in cash under collateral arrangements related to the interest rate swaps at December 31, 2015, to satisfy the collateral requirements.

Interest expense recorded on these swap transactions totaled $2,178 and $2,002 as of December 31, 2016 and December 31, 2015, and is reported as a component of interest expense on short- and long-term debt.

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements are used to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available for sale securities are recorded at fair value on a recurring basis.

Fair Value Hierarchy

Under ASC 820-10, assets and liabilities are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 – Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- Level 2 – Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Continued on next page

Determination of Fair Value

Under ASC 820-10, fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is Bank policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy of ASC 820-10.

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value (ASC 825-10 disclosures).

Securities Available for Sale

Securities available for sale consist primarily of Federal agencies and mortgage backed securities. Securities available for sale are recorded at fair value on a recurring basis. Fair value is based upon quoted prices, if available. If quoted market prices are not available, fair values are measured using observable market prices from independent pricing models, or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded in an active market; examples would include U.S. Treasury securities and Agency securities. Level 2 securities as defined above would include mortgage-backed securities, collateralized mortgage obligations, and state and political subdivision securities. FHLB stock and nonmarketable securities are not publicly traded and management has determined fair value approximate cost.

Loans

The carrying value of loans is described in Note 1, "Summary of Significant Accounting Policies". We do not record loans at fair value on a recurring basis. As such, valuation techniques discussed herein for loans are primarily for estimating fair value for ASC 825-10 disclosure purposes. However, from time to time, we record nonrecurring fair value adjustments to loans to reflect (1) partial write-downs that are based on the observable market price or current appraised value of the collateral, or (2) the full charge-off of the loan carrying value.

The fair value estimates for ASC 825-10 purposes differentiates loans based on their financial characteristics, such as product classification, loan category, pricing features and remaining maturity. Prepayment and credit loss estimates are evaluated by product and loan rate.

- The fair value of student loans is based on market values as established by the secondary market.
- For real estate 1-4 family first and junior lien mortgages, fair value is based on market values as established by the secondary market.
- The fair value of all other loans is calculated by discounting contractual cash flows using discount rates that reflect our current pricing for loans with similar characteristics and remaining maturity.
- Off-Balance Sheet Credit-Related Instruments include loan commitments, standby letters of credit, and guarantees. These instruments generate ongoing fees at our current pricing levels, which are recognized over the term of the commitment period. The fair value of these instruments is estimated based upon fees charged for similar agreements. The carrying value of the deferred fees is a reasonable estimate of the fair value of the commitments.

Interest Rate Swap Agreements

Fair values for interest rate swap agreements are based upon the amounts required to settle the contracts.

Continued on next page

(In Thousands)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2016 and 2015.

	2016			
	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
ASSETS				
Available-for-sale debt securities				
Mortgage-backed securities				
Agency	$ 275,285	$ -	$ 275,285	$ -
Collateralized mortgage obligations				
Agency	437,393	-	437,393	-
Non-agency	75	-	75	-
Agency bonds	1,246,192	1,246,192	-	-
US treasuries	39,975	39,975	-	-
Municipal bonds	4,140	-	4,140	-
Interest rate swap	6,464	-	6,464	-
Totals	$ 2,009,524	$ 1,286,167	$ 723,357	$ -
LIABILITIES				
Interest rate swap	$ 4,656	$ -	$ 4,656	$ -
Totals	$ 4,656	$ -	$ 4,656	$ -

Continued on next page

(In Thousands)

	2015			
	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets				
Available-for-sale debt securities				
Mortgage-backed securities				
Agency	$ 448,777	$ -	$ 448,777	$ -
Collateralized mortgage obligations				
Agency	526,835	-	526,835	-
Non-agency	132	-	132	-
Agency bonds	1,592,117	1,592,117	-	-
US Treasuries	39,796	39,796	-	-
Municipal bonds	7,639	-	7,639	-
Interest rate swap	863	-	863	-
Totals	$ 2,616,159	$ 1,631,913	$ 984,246	$ -
LIABILITIES				
Interest rate swap	$ 5,064	$ -	$ 5,064	$ -
Totals	$ 5,064	$ -	$ 5,064	$ -

Assets Measured at Fair Value on a Nonrecurring Basis

The tables below presents the Bank's balances of financial instruments measured at fair value on a nonrecurring basis at December 31, 2016 and 2015.

The significant unobservable inputs used in the fair value measurement of collateral for collateral-dependent impaired loans primarily relate to customized discounting criteria applied to the customer's reported amount of collateral. The amount of the collateral discount depends upon the marketability of the underlying collateral. The Bank's primary objective in the event of default would be to monetize the collateral to settle the outstanding balance of the loan, in which collateral with lesser marketability characteristics would receive a larger discount.

Continued on next page

The valuations are reviewed at least quarterly by the internal Problem Loan Committee and are considered in the overall calculation of the allowance for credit losses. Unobservable inputs are monitored and adjusted if market conditions change.

	2016		
	Quoted Prices in Active Markets Level 1	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Impaired loans	**$ -**	**$ -**	**$ 72,697**
Totals	**$ -**	**$ -**	**$ 72,697**

	2015		
	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Impaired loans	$ -	$ -	$ 34,066
Totals	$ -	$ -	$ 34,066

NOTE 17 - ACCUMULATED OTHER COMPREHENSIVE INCOME

The Bank recognizes and includes revenues, 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 separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Continued on next page

(In Thousands)

The changes in accumulated other comprehensive income by component for the years ended December 31, 2016 and 2015 follows:

	Unrealized gain and losses on available-for-sale securities	Gains and losses on cash flow hedges	Total
Year ended December 31, 2016			
Beginning balance	**$ 6,364**	**$ (4,201)**	**$ 2,163**
Other comprehensive income (loss) before reclassifications	**3,933**	**6,009**	**9,942**
Amount reclassified from accumulated other comprehensive income	**131**	**-**	**131**
Net current period other comprehensive income	**4,064**	**6,009**	**10,073**
Ending balance	**$ 10,428**	**$ 1,808**	**$ 12,236**

	Unrealized gain and losses on available-for-sale securities	Gains and losses on cash flow hedges	Total
Year ended December 31, 2015			
Beginning balance	$ 11,301	$ (4,443)	$ 6,858
Other comprehensive income (loss) before reclassifications	(4,897)	242	(4,655)
Amount reclassified from accumulated other comprehensive income	(40)	-	(40)
Net current period other comprehensive income	(4,937)	242	(4,695)
Ending balance	$ 6,364	$ (4,201)	$ 2,163

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The line items in the statements of income affected by the reclassifications out of accumulated other comprehensive income for the years ended December 31, 2016 and 2015 is as follows:

2016

Details About Accumulated Other Comprehensive Income Components	**Amount Reclassified from Accumulated Other Comprehensive Income**	**Affected Line Item in the Statement where Net Income is Presented**
Unrealized gains and losses on available-for sale securities	**$ (131)**	**Net gain/(loss) on available-for-sale securities**

2015

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement where Net Income is Presented
Unrealized gains and losses on available-for sale securities	$ 40	Net gain/(loss) on available-for-sale securities

Continued on next page

(In Thousands)

NOTE 18 - SUPPLEMENTAL DISCLOSURES RELATED TO STATEMENTS OF CASH FLOWS

	2016	2015
Supplemental disclosures of cash flow information		
Cash payments for:		
Interest paid to customers	**$ 11,601**	$ 13,003
Interest paid on federal funds purchased and securities sold under repurchase agreements	**849**	221
Interest paid on short and long-term debt	**21,616**	19,047
Supplemental schedule of noncash investing and financing activities		
Transfers from undivided profits to other liabilities	**19,989**	28,600
Net change in unrealized gain (loss) on securities available for sale	**4,065**	(4,937)
Net change in unrealized gain (loss) on interest rate swap	**6,009**	242
Other real estate and property owned acquired in exchange for loans	**606**	-

NOTE 19 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 13, 2017, which is the date these financial statements were available to be issued.

BND

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