BND
Bank of North Dakota

Stronger Together

Annual Report 2013

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Contents

In 1919, Bank of North Dakota (BND) was established to promote agriculture, commerce and industry in the state. Concerned a state-owned bank would compete with community banks, BND's first set of operating guidelines defined its role as a partner with financial institutions, not a competitor. Over the years, trust has been built and relationships strengthened.

Today, the ideals of BND's founders remain a driving force behind all of the Bank's activities. Partnerships with financial institutions, state agencies and others enhance economic development and provide support in times of need. We are stronger together.

Vision

Bank of North Dakota is a financial services leader in North Dakota, fostering growth and economic well-being for the state and its citizens, using a partnership approach.

Mission

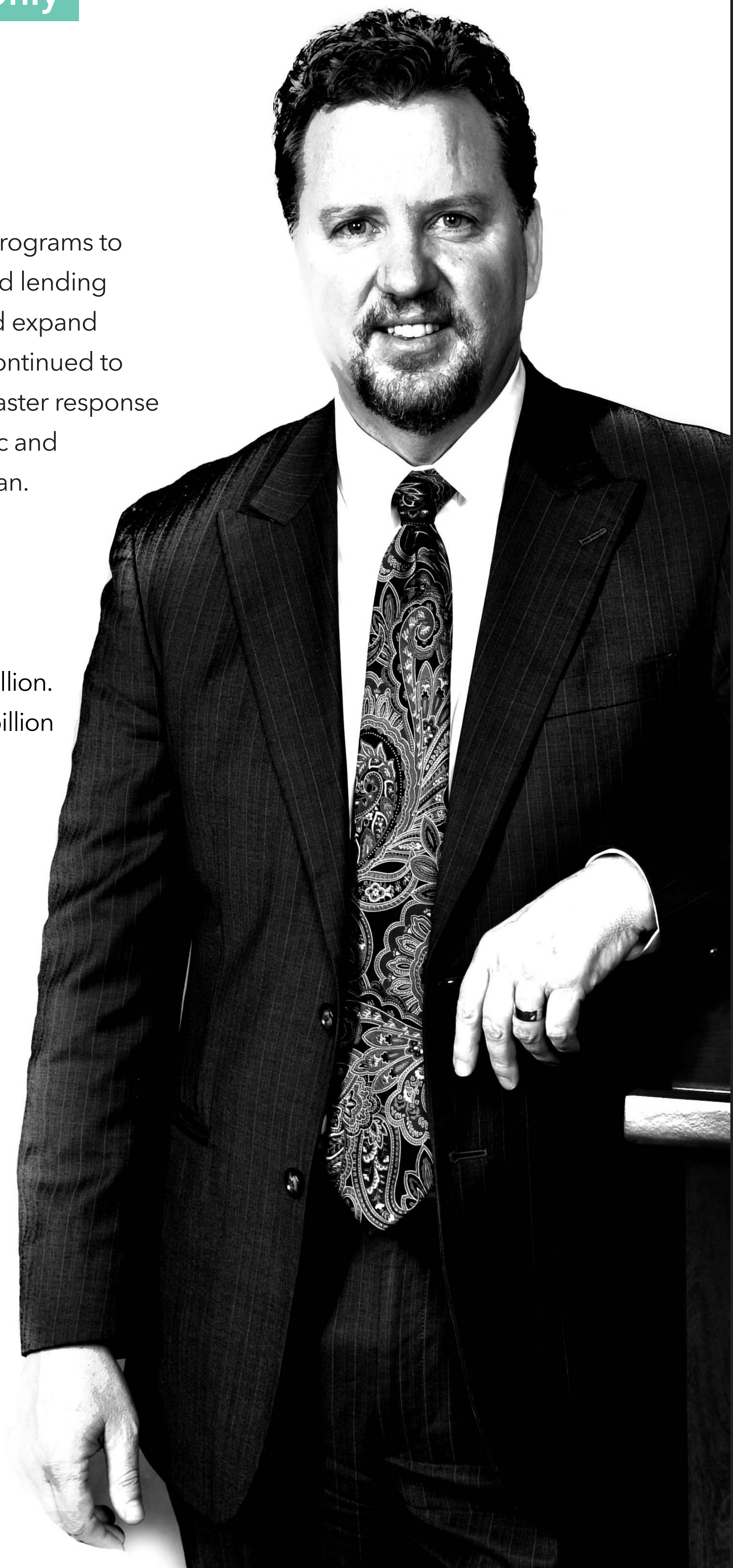
To deliver quality, sound financial services that promote agriculture, commerce and industry in North Dakota.

Core Values

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

President's Letter

Bank of North Dakota (BND) can only be successful when it functions in partnership with others.



This year, we worked with legislators and enhanced programs to support their constituents. Financial institutions utilized lending programs to help customers start new businesses and expand operations. Residents impacted by the 2011 floods continued to rebuild thanks to the work of financial institutions, disaster response offices and media. All contributed to inform the public and simplify the application process for the Rebuilders Loan. Undoubtedly, we are stronger together.

It was a financially successful year at BND with its 10th consecutive year of record profits. The Bank had $94 million in profits and grew its total assets to $6.8 billion. Treasury experienced a fourth consecutive year of $1 billion increases in securities held for safekeeping at BND, bringing the total to more than $8 billion.

The 2013 North Dakota Legislature responded to the state's needs by calling upon several of the Bank's programs. Affordable housing and child care issues were addressed through the Flex Partnership in Assisting Community Expansion (PACE).

Concerns over increasing student loan debt led to a pilot program allowing physicians in rural areas to consolidate all of their student loans. This may be expanded to all North Dakotans in 2014.

The Mortgage Origination Program allowed residents living in rural areas to obtain a home loan from BND when lack of a sufficient appraisal made it difficult to secure one via traditional home mortgage sources.

Extension of the Rebuilders Loan Program helped more people return home.

The correspondent banking initiative completed visits with nearly 50 banks, credit unions, and state agencies. We appreciated your hospitality.

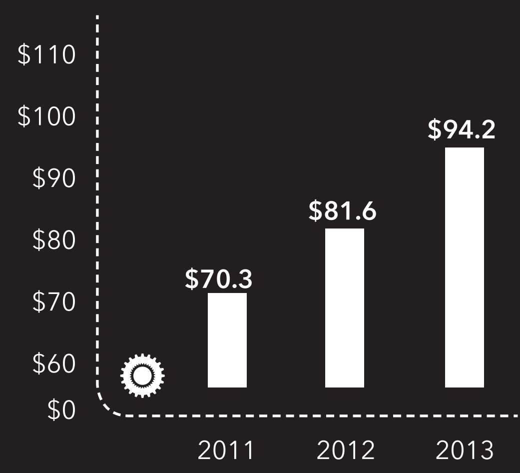
BND's College Planning Center educated parents and students and supported high school and financial aid counselors. College SAVE touched even more lives with 3,332 new accounts in 2013. Of these, 708 took advantage of Children First, a $100 grant given to every newborn in North Dakota and 878 benefited from the Matching Grant program.

DEAL Student Loans completed its first year of distributing $500 Real DEAL scholarships to 48 students across the state. These students were eligible to compete for a $3,000 scholarship. Congratulations to Jacob Jacobson of Max High School for receiving this scholarship.

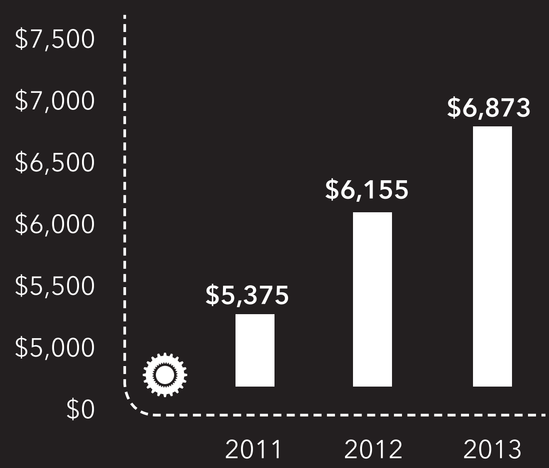
This year's theme, Stronger Together, emphasizes the value we place on our relationships with financial institutions, legislative partners, state agencies, economic developers, high school counselors, financial aid officers and the citizens of North Dakota. These partnerships allow us to identify issues and respond with solutions that fulfill the Bank's mission to support agriculture, commerce and industry in our state.

Eric Hardmeyer, President

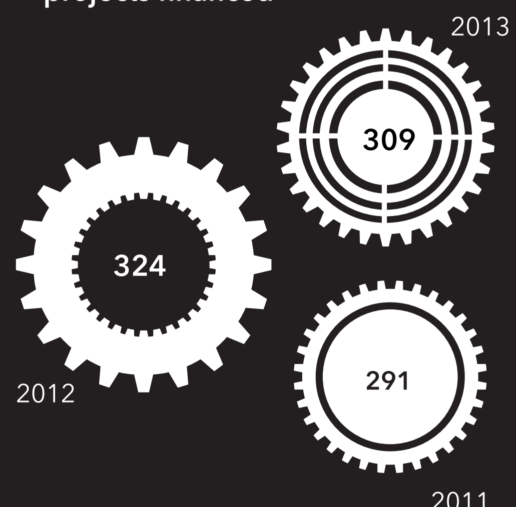
Annual income
(in millions)



BND assets
(in millions)



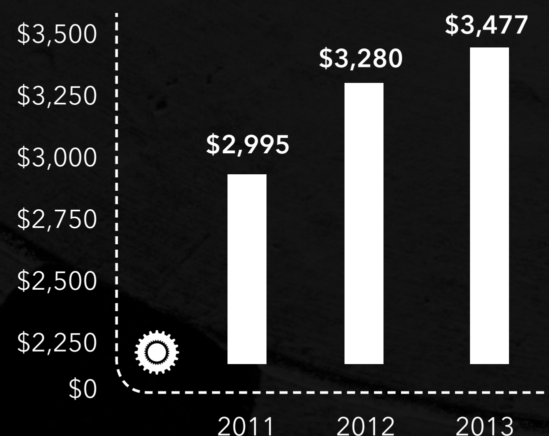
New business and industrial projects financed



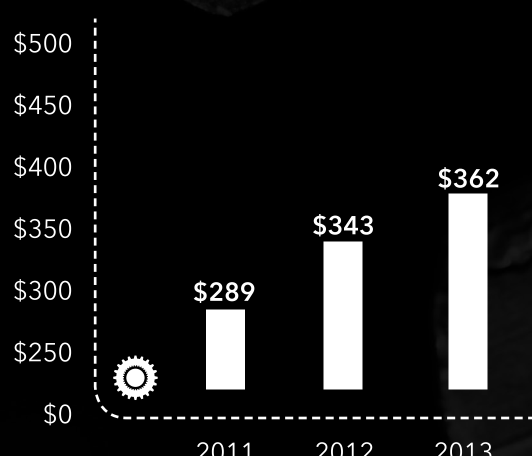
Lending Portfolio

Bob Humann, Senior VP of Lending

Lending Total Loan Portfolio
(in millions)



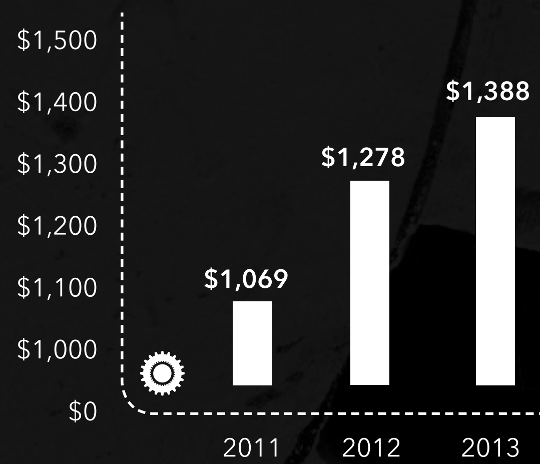
Agriculture Lending Portfolio
(in millions)



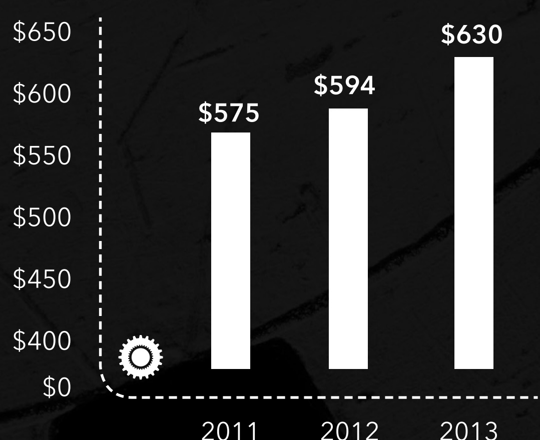
Harvesting north of Washburn, ND

Lending programs support economic development

Commercial Lending Portfolio
(in millions)



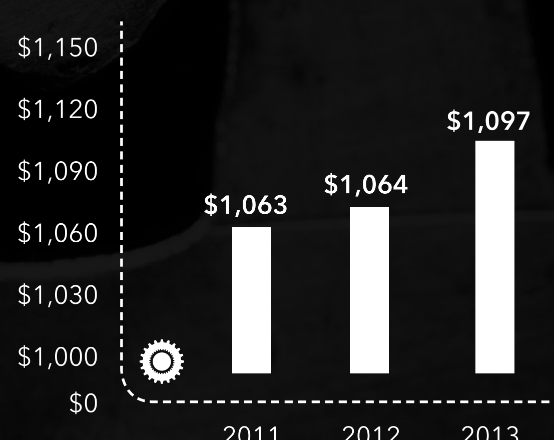
Residential Lending Portfolio
(in millions)




Building homes in rural North Dakota


DEAL Loan helps residents meet higher ed goals

Student Loan Portfolio
(in millions)



Rebuilding continues after 2011 floods

It took residents up to eight weeks before they could return home to assess the damage after the Souris and Missouri River floods of 2011. After the waters receded from the longest flood in U.S. history, 4,000 homes were unlivable and more than 12,000 residents were displaced. Of these homes, less than 400 had flood insurance.(1)

The North Dakota Legislature held a special session in November 2011 and passed legislation for the Rebuilders Loan Program. Residents were able to receive up to $30,000, with a 1% interest rate, to repair damage or purchase a new home in the same community. No payments were required for the first two years.

The rebuilding process was a lengthy one, so the 2013 North Dakota Legislature extended the application date for the Rebuilders Loan and added a Supplemental Rebuilders Loan which allowed residents to borrow an additional $20,000 through December 31, 2013.

Local banks originated the Rebuilders Loans on behalf of BND. Special recognition must be given to seven financial institutions in Minot which facilitated the highest numbers of loans: Gate City Bank, First Western Bank & Trust, Town & Country Credit Union, Prairie Federal Credit Union, First International Bank, Bremer Bank and United Community Bank.

A total of $51.2 million was committed for 1,946 loans through the program; 96 percent was distributed in the Minot area and the balance in the Bismarck-Mandan region.

BND funded nearly 2,000 loans through the Rebuilders Loan Program to help thousands of residents return home after flooding devastated the Minot and Bismarck-Mandan areas.

Addressing home mortgage needs

In 2010, rural banks came to BND and expressed concern that they did not have adequate software and staffing to serve their customers who wanted to originate residential loans. Knowing additional regulations were forthcoming through the Dodd-Frank Act, legislators, bankers and BND developed the Rural Mortgage Loan Program during the 2011 Legislative Session. It was the first time BND had worked in the home mortgage loan origination business since the 1970s.

The 2013 Legislature removed funding limits and loan caps for the program. Today, lenders can refer their customers to BND for a home mortgage while serving all of their other banking needs. When BND has questions regarding the loan, the local lender serves as the intermediary and maintains a strong banking relationship with the customer.

For the first time in decades, BND is performing home loan origination to help rural banks meet customer needs.

Improving child care

The availability of high-quality child care is an essential component of a thriving workforce.

Child care needs in McKenzie County provide a snapshot of what is happening across the state. In 2013, there were 1,388 children in the county younger than 12 years old; approximately 925 of them required child care. Licensed child care options only covered 117 of those children. (2)

Expansion of two BND programs is aimed at addressing the growing demand for child care in western North Dakota.

State and local government officials, economic developers, employers and legislators are working together to resolve the issue. In Watford City, child care providers can access the Roughrider Fund which funnels sales tax revenue and lodging tax revenue to assist with start-up and expansion of day care facilities and other businesses.

BND expanded two programs this year to support child care providers, the Flex PACE for Affordable Housing and the Beginning Entrepreneur Loan Guaranty Programs. Child care facilities can receive interest buydown assistance up to $300,000 through Flex PACE. The Beginning Entrepreneur Program partners with a local lender to provide a guaranty for a loan up to $200,000 to meet the costs associated with a child care provider's start-up or expansion.

By pooling local and state resources, communities across North Dakota are improving the lives of our youngest residents. Building the Wolf Pup Daycare Center in Watford City is one example of a community's response to this tremendous need.

It takes a village

In recent years, Watford City and communities in western North Dakota have experienced a tremendous growth in population. This has led to an increased demand for housing and child care facilities. A local non-profit organization, Wolf Run Village Inc., has stepped up to address the issue.

Along with an apartment and townhome development for essential services personnel, Wolf Run Village Inc. is constructing a day care. Wolf Pup Daycare Center (Wolf Pup) will care for approximately 200 children. To fund this project, Wolf Run Village Inc. and First International Bank and Trust in Watford City looked to BND's Flex PACE Program.

The Flex PACE program requires community involvement and encourages specific types of economic activity, such as affordable housing and licensed child care. A key feature of Flex PACE is the interest buydown. According to Katie Walters, property manager for Wolf Run Village and business manager for Wolf Pup, this feature is what makes the program so attractive.

"The Flex PACE program will help us in these first couple years of operation by buying down the interest on the loan and effectively reducing our expenses while we are in the process of enrolling children and working up to full capacity," said Walters. "It also allows us to offer day care rates that are as low as possible to accommodate the entire community."

Steve Morris, vice president of First International Bank and Trust, agrees with Walters' feelings on the interest buydown and believes working with BND has benefits from a lender's standpoint too.

"The personal and professional relationships I have developed with the BND lending staff over the years make it easy to work with them," said Morris. "The ease of the programs make the Bank a great choice. Through their programs, BND helps create a win-win for us (First International Bank and Trust) and our customers."

Walters says the Wolf Pup project is on schedule. They are in the design phase and purchasing furniture and fixtures; it is expected to open May 2014.

Through the Flex PACE program, Wolf Run Village Inc. is working to address Watford City's housing and child care crunch.

Diversifying farming and ranching

The agricultural lending portfolio grew in 2013. Overall, program loan numbers decreased slightly, while the requested dollar amounts were larger resulting in the increased portfolio. While many programs contributed to this, the Beginning and Established Farmer Real Estate Loan Programs led the way, mainly due to higher land values throughout the state. Program changes were made to accommodate those needs, including net worth and loan limit increases. With the Ag PACE Loan, sub-surface field tiling projects continued to be popular in eastern North Dakota, as well as financing of equity shares in value-added processing businesses.

Agritourism is a growing industry in North Dakota. Farms and ranches are becoming vacation destination sites, often including the chance to help with daily tasks during the visit. From the perspective of the agricultural industry, agritourism is a means of expanding farm operations, increasing the long-term sustainability of farm businesses, improving awareness of local agricultural products and creating new on-farm revenue streams to family members who might otherwise have to work away from the farm. It generates revenue for local businesses, helping to diversify and stabilize the local economy. [3]

"Agritourism is a natural area for development in North Dakota with agriculture and tourism both leading industries," stated North Dakota Tourism Director Sara Otte Coleman. "The interest in experiencing farms, ranches and gardens continues to grow as consumers look to escape to the country and see first-hand where their food comes from."

The Breker family stands at the forefront of North Dakota's agritourism industry. Their Coteau des Prairies Lodge has been attracting guests since its June 2013 grand opening.

Breaking new ground

Farms and ranches in rural North Dakota have been a place to make a living and raise a family for generations. That is why many rural residents might find it difficult to see the farm or ranch as a vacation destination. Fortunately for the Breker family, they could see it pretty clearly. The Brekers own Coteau des Prairies Lodge and are pioneers in North Dakota's budding agritourism industry.

Coteau des Prairies Lodge is located on a fully-functioning grain and livestock operation near Havana in southeastern North Dakota. Since its official grand opening June 9, 2013, Coteau des Prairies Lodge has hosted weddings, family gatherings, educational tours and visits from international farming groups.

The brainchild of years of planning by Joe Breker and his family and friends, Coteau des Prairies Lodge was built on land belonging to the Breker family for decades. With the help of BND's Flex PACE program, the long anticipated lodge became a reality. Much like the concept for the Coteau des Prairie Lodge developed from longstanding local relationships, Sargent County Bank's decision to partner with BND came from a long history of working with BND to meet the financial needs of residents in the area.

"Over the years, we have done countless lending projects with BND," said Steven McLaen, president of Sargent County Bank and lead lender for the project. "It's always easy working with BND. They treat us the way we treat our customers and they trust us like we trust our customers. BND has been a good partner in helping us serve our customers, our area and the state of North Dakota."

McLaen's opinions are reflected by Breker who has also partnered with BND in the past.

"Working with the Flex PACE program has been a good experience; everything has gone smoothly," said Breker. "I have worked with BND on other farm projects, and working with the Bank programs makes sense for farmers."

The Breker family looks forward to sharing their home with guests for many years to come. Agriculture will continue to play a significant role in North Dakota's economy; BND and Sargent County Bank are committed to working together, creating more opportunities for people like the Brekers.

Photo Courtesy of Coteau des Prairies Lodge

Encouraging new business

Scott Hartje, Erik Chadwick and Shane Werner were longtime friends and co-workers before deciding to start State Side Electric in Cavalier, N.D.

North Dakotans have long been known for their resourcefulness and entrepreneurial spirit.

Great ideas often require financing and BND partners with local lenders to make dreams a reality. Local lenders want to encourage business development in their communities while spreading the risk in their portfolio. Sometimes, the principals in the company don't have much business experience or their personal balance sheet may not be strong.

Lending programs at BND support economic development in the state. The PACE programs provide interest buydowns; the Beginning Entrepreneur Loan Program mitigates the local lender's risk and provides a source of funds which the borrower may not have otherwise received.

BND works beside financial institutions and economic development professionals to ensure a strong economic sector for the state. In 2013, the Bank participated with local lenders to finance 309 new businesses and industrial projects.

Powering the local community

When Scott Hartje, Shane Werner and Erik Chadwick wanted to start their own electrical contracting company in Cavalier N.D., they went to Ramsey National Bank and spoke with President Tom Ford. Hartje, Werner and Chadwick needed equipment and vehicles to get State Side Electric up and running. Having worked with BND on participation loans in the past, Ford recommended looking into the Flex PACE program.

"I was very familiar with BND through Ag PACE and other participation loans, but this was the first time I used the Flex PACE program," said Ford. "Flex PACE gives the business owner a jumpstart. The interest break can be what a young entrepreneur needs to make their business successful."

An offshoot of the PACE program, Flex PACE provides an interest buydown to borrowers who do not fit into the traditional definition of a PACE-qualifying business. The buydown is funded by BND and the local community.

A business's eligibility for Flex PACE is determined by the community in which the business is established. This feature allows a community to focus on their specific needs and bring in businesses that might not otherwise qualify for other BND programs like PACE. According to Ford, the relationship between State Side Electric and the city of Cavalier is a testament to the value of community support.

"State Side has been very busy since they started doing business," said Ford. "They're certainly doing well, and the community truly supports them."


State Side Electric LLC
701.265.4298
CAVALIER, ND
FARMBOY BRAND LIVESTOCK JACK
CHAMPION ★ QUALITY

Embracing industry

The world's largest oil deposit lies in western North Dakota. With that comes an increase in industrial opportunities.

At the end of 2013, North Dakota was producing nearly 1 million barrels of oil per day, and looked to eclipse that mark in 2014.

Fueling the Bakken

When MDU Resources Group, Inc. (MDU Resources) and Calumet Specialty Products Partners, L.P. set out to construct the first refinery built in the U.S. since 1976, it needed strategic-minded financial partners to work with them.

MDU Resources visited with institutional lenders and the governor's office before deciding to partner with US Bank and BND to fund the $300 million project. As is the case with most industrial projects, there was a certain level of risk involved.

Dakota Prairie Refinery, being constructed near Dickinson, N.D., will process 20,000 barrels of Bakken crude oil per day, producing high-quality diesel fuel to be distributed throughout the region. The remaining byproducts of the crude oil will be transported to other facilities for use or further processing. Upon completion, the 24/7 facility will staff 90 employees and generate an estimated $70 million to $90 million in earnings before interest, taxes, depreciation and amortization (EBITDA) in its first year.

Upon analysis, BND's Bank Participation and MATCH programs were identified as ideal choices to assist with the funding. The Bank Participation Loan program is founded on the principle that all loans should focus on the credit needs of the state and be made on a sound and collectible basis. The MATCH program allows BND to participate in loans to financially strong companies and provides interest rates among the lowest in the nation.

Photo Courtesy of MDU Resources

When MDU Resources Group, Inc. set out to build the nation's first refinery in nearly 40 years, US Bank approached BND to help fund the $300 million project.

This is something John Stumpf, vice president of strategic planning with MDU Resources, recognized as beneficial for them.

"This is a pretty high-risk project," said Stumpf. "But, BND rolled up their sleeves and moved quickly. They were very accommodating. The commercial terms are comparable with many of our other projects."

Stumpf, who has worked on the Dakota Prairie Refinery project since November 2011, says they are making good progress and look to be on schedule for the target completion date of December 2014. He also believes the right decision was made to partner with BND on the first new U.S. refinery in more than three decades.

"We appreciate BND stepping up to work with us on the Dakota Prairie Refinery project," said Stumpf. "It has been a good fit."

Creating higher education opportunities

An educated workforce is a key component for economic development.

BND plays a vital role in helping residents achieve their higher education goals. This is addressed through four efforts at BND: College SAVE helps North Dakotans save for higher education; the College Planning Center answers questions about the college planning process; North Dakota Dollars for Scholars provides scholarships for students; and DEAL Student Loans is a financing option for college when other funding sources are not adequate.

College Planning Center

Three of four components supporting higher education reside within the College Planning Center: the Center itself, College SAVE and North Dakota Dollars for Scholars.

The College Planning Center is a trusted resource for North Dakotans to help plan for college, from cradle to career. The website continues to grow in popularity among parents, students, teachers and counselors. Residents appreciate knowing they can pick up the phone and visit with someone about their questions as well.

In 2013, a group of 10 parents, high school students and college students from North Dakota began blogging for the College

Programs like College SAVE, the College Planning Center and North Dakota Dollars for Scholars help students prepare for and afford the increasing cost of higher education.

Planning Center about their college experience and received a $1,000 scholarship for their efforts. The blogs offer excellent insights into the practical realities of college life like applying for scholarships, getting to know your roommate and surviving mid-term exams.

The College Planning Center funds a number of programs in the state including the RU Ready ND website for middle school and high school youth and their parents to assess personal interests, explore careers and study for the ACT. The Center also provides Dual Credit Assistance for low-income high school youth taking college courses and funds General Educational Developmental (GED) tests for North Dakotans. For people of all ages pursuing their high school diploma, the Center covers the expenses for the first and final exams. The student is responsible for the expenses of other exams.

College SAVE continues to build the foundation for a bright future in North Dakota. Its Matching Grant Program matches funds placed in a child's account for up to three years for qualifying accounts. Children First matches $100 for every newborn up to 1 year old.

North Dakota Dollars for Scholars is administered through the College Planning Center. With nearly 80 local chapters statewide, BND distributes $1,000 in scholarship money to chapters attending the annual meeting to be used for local scholarships. The state chapter also raises money for statewide scholarships.

A community investing in its youth

Hillsboro, North Dakota may not be a large city, but you wouldn't know it by looking at their Dollars for Scholars program.

From donors to scholarship recipients, the Hillsboro chapter is truly a community effort. A strong majority of the community donates to the program which allows the Hillsboro chapter to give at least one scholarship to every student who applies during their senior year.

Founded in 1987 as the H509 Hillsboro Scholarship Foundation, the program gets its name from the practice of asking all parents in Hillsboro to become a "base member" by donating $509 to the fund with the extra $9 representing Hillsboro School District #9.

This model has made it possible for the program to award more than $546,000 to students and amass an endowment fund of nearly $2 million.

In 2013, 23 of Hillsboro High School's 26 graduating students applied for the Dollars for Scholars scholarship. Each of them received an average of $3,000, six times the amount their parents were asked to donate to become "base members."

The H509 Board of Directors takes great pride in building the program and continuing to assist the students of their community further their education. Board President Larry Mueller believes it is the diverse backgrounds of each board member and their willingness to promote Dollars for Scholars that makes Hillsboro's chapter stand out.

"Our board is second-to-none," said Mueller. "We all have special skills, from investing to marketing, that are vital to our success. Every board member is also at least a 'base member,' and we are all willing to get out there and invite anyone to donate. You can't promote something you don't believe in, and every board member genuinely believes in the H509 Foundation."

DEAL Student Loan

Student loan debt is an increasing concern for many in our state. As of December 2013, there were more than 54,000 consumers with student loan debt totaling $1.44 billion in North Dakota.[4]

Nearly 10,000 individuals took advantage of the DEAL Student Loan Program in 2013, North Dakota's state-sponsored student loan. When federal loan programs, grants, scholarships and personal savings are not enough to pay for higher education, the DEAL Loan helps students achieve their education goals.

North Dakota legislators passed a bill allowing physicians practicing in rural North Dakota to consolidate their student loans, including federal loans, into a DEAL Consolidation Loan. The bill also gave BND the authority to expand the program to all residents. Pilot programs will be completed and this feature may be expanded in 2014.

DEAL Student Loan staff contacted every high school in the state about the "You're the Real DEAL" scholarship program. The program awarded 48 high school seniors from across North Dakota a $500 scholarship. These 48 students were then given the chance to compete for a $3,000 scholarship. The "You're the Real DEAL" scholarship program is now in its second school year with applications increasing significantly from last year.

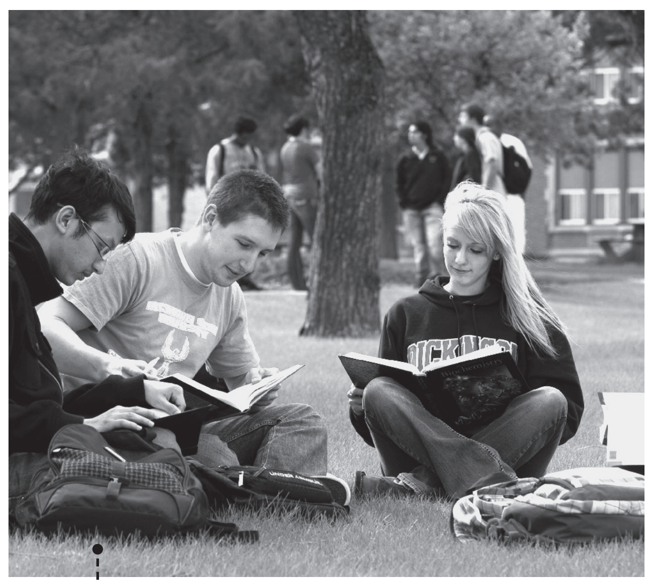


Photo Courtesy of Dickinson State University

The DEAL Student Loan is North Dakota's only state-sponsored student loan.

A family tradition

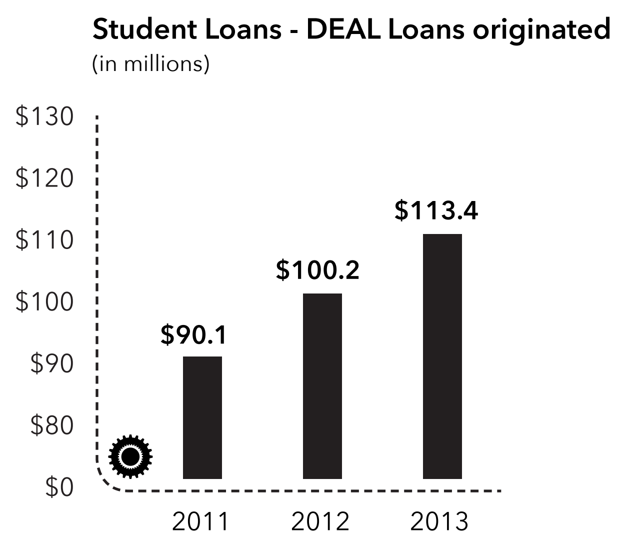
Roy Musland and his family certainly know the ropes when it comes to student loans. Musland and his wife, Pam, have three children. One is an Ivy League graduate, another is in law school and a third is pursuing an undergraduate degree at a North Dakota university. In the past eight years, the Musland family has become very familiar with the student loan process.

Throughout the time Musland's children have been receiving student loans, he identifies good customer service from BND staff members as the key to his positive experience. As president of Dakota Heritage Bank of North Dakota in Gackle, Musland understands lending isn't always easy, but he feels BND does a good job of educating its customers and simplifying the process.

"I can be a bit of a skeptic when it comes to student loan programs," said Musland. "When I first heard about the DEAL Student Loan and the DEAL Consolidation Program, I had some questions. I contacted BND and everyone I have worked with has been knowledgeable and answered my questions in a friendly manner."

In addition to helpful customer service, Musland enjoys seeing North Dakota help the people of the state through programs like the DEAL Consolidation Program. "My family values education," said Musland. "As college costs increase, it gets more difficult for people to afford it. It is great to see the state giving back to North Dakotans so getting an education is possible."

For the Musland family, great customer service and the satisfaction of a state looking out for its residents will keep them coming back to BND for student loans.



Strengthening bank portfolios

Several factors impacting the banking industry in North Dakota prompted BND to start a sub-participation loan program for banks and credit unions.

- Housing and business development projects in the Bakken require a large investment.
- Community banks are continually challenged to diversify their portfolios and manage their risk.
- Some financial institutions are working through credit issues arising from out-of-state loans originated from remote branches or purchased participations originated by loan syndicators.
- Bank deposits continue to rise and yields on investment grade securities remain low.

Lenders call BND when they are approached with a large loan request and would like to share the risk associated with the loan. In a sub-participation loan, BND shares portions of the loan with other financial institutions, helping them meet their financial goals.

In 2013, BND coordinated six sub-participation loans with 17 different sub-participants for $17,654,322. BND accepts the payments from the borrower and distributes the funds to the loan sub-participants.

Sub-participation loans are an example of the effective partnerships BND establishes with lending partners across the state.

Supporting financial institutions with correspondent services

This year, nearly 150 financial institutions and state agencies partnered with BND's Operations to utilize its financial transaction software and rely upon the expertise of its staff. This allowed them to efficiently serve their customers who had item processing, wires and Automated Clearing House (ACH) needs. In 2013, BND facilitated $134.4 billion in transactions through these activities.

The number of transactions and volume of money moving through electronic processes continues to grow. While check processing volume has remained fairly consistent for the past five years, ACH and wire transfer volumes are increasing. Operations works diligently to monitor and update processes in this rapidly changing regulatory environment.

Loan processing disburses funds for all commercial, agricultural, residential and student loans. They also process payments for all student loans.

The operations division of Stock Growers Bank in Napoleon recently added several new operations support services from BND. Previously, they postal mailed their return checks to Atlanta for processing; it took about five days to credit their account. Now, they simply mail the checks to BND daily and their account is credited in one day. Stock Growers Bank also added the receipt of ACH electronic files from BND and started entering wire transactions electronically.

Annette Schumacher is the supervisor of operations and teller services for Stock Growers Bank. "This was an easy decision for us to make. We already had a working relationship with BND," states Schumacher. "Making these three changes saved us about $325 monthly and improved our efficiencies."

Activities like these highlight the diverse range of services offered by BND that support financial institutions across the state, demonstrating the belief that we are stronger together.

Managing record deposits

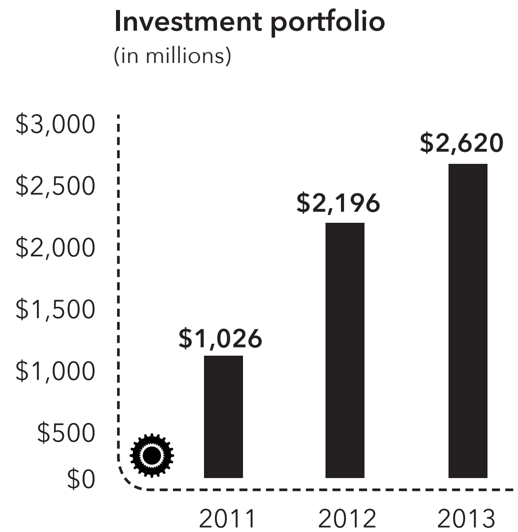
Financial institutions and state agencies work with Treasury at BND to manage their money through federal funds, safekeeping, bond accounting and investments. Bond and safekeeping accounting services are at record levels.

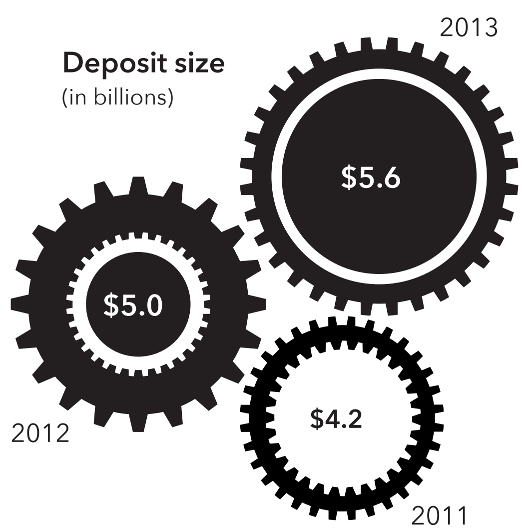
BND's deposits have grown 12 percent, 20 percent, and 37 percent, in the last three years respectively. Correspondingly, the investment portfolio at $2.6 billion is more than six times larger than just five years ago.

The Bank serves as a correspondent bank for more than 110 financial institutions in North Dakota. By utilizing BND as custodian or correspondent bank, they obtained

- More than $2 billion in public deposits through pledging services.
- $181 million in large non-public deposits through repurchase agreement accounts.
- $545 million of liquidity through BND's secured and unsecured federal funds lines.
- More than $256 million of additional liquidity through the Letters of Credit for Public Deposits Program.

BND Trust is experiencing record growth as well. The State Land Board used Trust Services to set aside funds from disputed accounts. The Bank continues to administer the disbursements for the Western Area Water Supply Authority (WAWSA) project and provides custodial and paying agent services for school and infrastructure projects.





North Dakota Industrial Commission

Jack Dalrymple
Governor

Doug Goehring
Agriculture Commissioner

Wayne Stenehjem
Attorney General

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, Bob Humann, Wally Erhardt, Eric Hardmeyer

Seated: Lori Leingang, Tim Porter

Financial Statements 2013

FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

Bank of North Dakota

BANK OF NORTH DAKOTA

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EideBailly
CPAs & BUSINESS ADVISORS

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, 2013 and 2012, 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 consolidated 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, 2013 and 2012, 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.

Eide Bailly LLP

Bismarck, North Dakota
February 14, 2014

BANK OF NORTH DAKOTA
BALANCE SHEETS
YEARS ENDED DECEMBER 31, 2013 AND 2012
(In Thousands)

	2013	2012
ASSETS		
Cash and due from banks	$ 739,799	$ 673,570
Federal funds sold	36,645	24,050
Cash and cash equivalents	776,444	697,620
Securities	2,584,169	2,171,546
Loans	3,476,946	3,279,778
Less allowance for loan losses	(51,770)	(52,280)
	3,425,176	3,227,498
Interest receivable	39,599	40,102
Bank premises, equipment, and software, net	11,197	11,637
Rebuilders loan program receivable	32,255	-
Other assets	4,569	6,798
Total assets	$ 6,873,409	$ 6,155,201
LIABILITIES AND EQUITY		
Deposits		
Non-interest bearing	$ 798,559	$ 891,197
Interest bearing	4,802,568	4,112,365
	5,601,127	5,003,562
Federal funds purchased and repurchase agreements	245,110	275,960
Short and long-term debt	465,961	406,252
Other liabilities	9,414	5,765
Total liabilities	6,321,612	5,691,539
Equity		
Capital	2,000	2,000
Capital surplus	72,000	42,000
Undivided profits	477,705	402,846
Accumulated other comprehensive income	92	16,816
Total equity	551,797	463,662
Total liabilities and equity	$ 6,873,409	$ 6,155,201

See Notes to Financial Statements

BANK OF NORTH DAKOTA
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2013 AND 2012
(In Thousands)

	2013	2012
INTEREST INCOME		
Federal funds sold	$ 211	$ 178
Securities	19,985	16,735
Loans, including fees	132,986	128,957
Total interest income	153,182	145,870
INTEREST EXPENSE		
Deposits	13,517	16,572
Federal funds purchased and repurchase agreements	326	287
Short and long-term debt	16,374	18,490
Total interest expense	30,217	35,349
NET INTEREST INCOME	122,965	110,521
PROVISION FOR LOAN LOSSES	-	2,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	122,965	108,521
NONINTEREST INCOME		
Service fees and other	7,639	7,932
Net gain/(loss) on available-for-sale securities	(217)	(3,273)
Total noninterest income	7,422	4,659
NONINTEREST EXPENSE		
Salaries and benefits	13,121	12,060
Data processing	4,484	4,001
Occupancy and equipment	862	874
Long-term debt prepayment fee	9,382	8,962
Other operating expenses	8,323	5,689
Total noninterest expenses	36,172	31,586
NET INCOME	$ 94,215	$ 81,594

BANK OF NORTH DAKOTA
STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2013 AND 2012
(In Thousands)

	2013	2012
Net income	$ 94,215	$ 81,594
Other comprehensive income		
Unrealized gain/(loss) on securities available for sale	(16,747)	8,727
Reclassification adjustment for (gains) losses realized in net income	23	2,435
Other comprehensive income	(16,724)	11,162
Comprehensive income	$ 77,491	$ 92,756

BANK OF NORTH DAKOTA
STATEMENTS OF EQUITY
YEARS ENDED DECEMBER 31, 2013 AND 2012
(In Thousands)

	Capital	Capital Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 2011	$ 2,000	$ 42,000	$ 350,249	$ 5,654	$ 399,903
Net income			81,594		81,594
Unrealized gain on securities available for sale				8,727	8,727
Reclassification adjustment for (gains) losses realized in net income				2,435	2,435
Transfers to other state funds			(28,997)		(28,997)
BALANCE, DECEMBER 31, 2012	2,000	42,000	402,846	16,816	463,662
Net income			94,215		94,215
Unrealized loss on securities available for sale				(16,747)	(16,747)
Reclassification adjustment for (gains) losses realized in net income				23	23
Transfers from/(to) other state funds		30,000	(19,356)		10,644
BALANCE, DECEMBER 31, 2013	$ 2,000	$ 72,000	$ 477,705	$ 92	$ 551,797

BANK OF NORTH DAKOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012
(In Thousands)

	2013	2012
OPERATING ACTIVITIES		
Net income	**$ 94,215**	$ 81,594
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	**760**	883
Provision for loan losses	**-**	2,000
Net amortization (accretion) of securities	**(6,894)**	7,278
Loss on available-for-sale securities	**23**	2,436
Impairment of other equity securities	**199**	836
Gain on sale of residential loans	**(173)**	(214)
Loss on retirement of equipment	**1**	14
Gain on sale of foreclosed assets	**(145)**	(35)
(Increase)/decrease in interest receivable	**503**	(623)
(Increase)/decrease in other assets	**471**	(1,336)
Increase in other liabilities	**3,691**	223
NET CASH FROM OPERATING ACTIVITIES	**92,651**	93,056
INVESTING ACTIVITIES		
Securities available for sale transactions		
Purchase of securities	**(801,775)**	(1,552,783)
Proceeds from sales, maturities, and principal repayments	**380,514**	389,165
Purchase of Federal Home Loan Bank stock	**(74,521)**	(3,951)
Sale of Federal Home Loan Bank stock	**73,014**	5,239
Purchase of other equity securities	**(259)**	(929)
Sale of other equity securities	**354**	375
Proceeds from sales of loans	**12,187**	17,311
Net increase in loans	**(210,090)**	(306,447)
Purchases of premises and equipment	**(322)**	(368)
Advances to rebuilders loan program	**(5,000)**	-
Payments from rebuilders loan program	**2,745**	-
Proceeds from sale of foreclosed assets	**2,302**	432
NET CASH USED FOR INVESTING ACTIVITIES	**(620,851)**	(1,451,956)
FINANCING ACTIVITIES		
Net increase/(decrease) in non-interest bearing deposits	**(92,638)**	241,275
Net increase in interest bearing deposits	**690,203**	582,449
Net decrease in federal funds purchased and repurchase agreements	**(30,850)**	(42,365)
Proceeds from issuance of short and long-term debt	**1,795,000**	53,000
Payment of short and long-term debt	**(1,735,292)**	(118,169)
Payment of transfers	**(19,399)**	(29,040)
NET CASH FROM FINANCING ACTIVITIES	**607,024**	687,150
NET CHANGE IN CASH AND CASH EQUIVALENTS	**78,824**	(671,750)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**697,620**	1,369,370
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 776,444**	$ 697,620

See Notes to Financial Statements

(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 made in tandem with financial institutions throughout the State of North Dakota. BND's primary deposit products are interest-bearing accounts for state and political subdivisions.

Bank of North Dakota is included as part of the primary government in the State of North Dakota's reporting entity. As such, 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 determination of the allowance for loan losses.

Significant Group Concentrations of Credit Risk

Most of the Bank's lending activities are with customers within the State of North Dakota. Due to the pervasive nature of agriculture in the economy of the state, all loans, regardless of type, are impacted by agriculture. The Bank's loan portfolio is comprised of the following concentrations as of December 31, 2013 and 2012:

	2013	2012
Commercial loans, of which 3% and 4% are federally guaranteed	**40%**	40%
Student loans, of which 97% and 97% are guaranteed	**32%**	32%
Residential loans, of which 80% and 83% are federally guaranteed	**18%**	18%
Agricultural loans, of which 5% and 5% are federally guaranteed	**10%**	10%
	100%	100%

Continued on next page

Reclassification

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation.

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 4.40% 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. We recognize the estimated loss as a loss from equity securities in the line item net gain/(loss) on available-for-sale securities included in non-interest income.

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.

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.

Continued on next page

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-classified 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.

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.

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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 $824 and $2,582 as of December 31, 2013 and 2012, respectively.

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

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 $93,158 in 2013 and $62,835 in 2012.

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 Company 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 $446,141 and $304,798 as of December 31, 2013 and 2012, respectively. Of these amounts, $390,496 and $225,660 were deposited at the Federal Reserve Bank.

NOTE 3 - DEBT AND EQUITY SECURITIES

Debt and equity securities have been classified in the financial statements according to management's intent. The carrying value of securities as of December 31, 2013 and 2012 consists of the following:

	2013	2012
Securities available for sale, at fair value	**$ 2,554,305**	$ 2,142,899
Federal Home Loan Bank stock, at cost	**25,995**	24,488
Other equity securities, at cost	**3,869**	4,159
	$ 2,584,169	$ 2,171,546

Continued on next page

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, 2013				
Securities available for sale				
Federal agency	**$ 1,912,045**	**$ 4,065**	**$ 3,439**	**$ 1,912,671**
Mortgage-backed	**621,796**	**4,802**	**5,293**	**621,305**
State and municipal	**20,372**	**-**	**43**	**20,329**
	$ 2,554,213	**$ 8,867**	**$ 8,775**	**$ 2,554,305**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2012				
Securities available for sale				
Federal agency	$ 1,512,848	$ 7,160	$ 121	$ 1,519,887
Mortgage-backed	589,603	9,886	114	599,375
State and municipal	23,633	7	3	23,637
	$ 2,126,084	$ 17,053	$ 238	$ 2,142,899

There were no securities pledged as of December 31, 2013 and 2012 for repurchase agreements or for other required pledging purposes. FHLB stock totaling $25,995 and $24,488 at December 31, 2013 and 2012, respectively are pledged on the FHLB advances (Note 9).

Continued on next page

The maturity distribution of debt securities at December 31, 2013, 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	$ 697,186	$ 700,061
Over one year through five years	1,796,199	1,794,656
Over five years through ten years	59,828	58,588
Over ten years	1,000	1,000
	$ 2,554,213	$ 2,554,305

For the year ended December 31, 2013, proceeds from the sale of securities available for sale were $14,296. Gross realized losses were $23 on these sales. For the year ended December 31, 2012, proceeds from the sale of securities available for sale were $7,678. Gross realized losses were $2,435 on these sales.

Information pertaining to securities with gross unrealized losses at December 31, 2013 and 2012 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, 2013	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available for sale				
Federal agency	**$ 3,416**	**$ 567,040**	**$ 23**	**$ 9,977**
Mortgage-backed	**4,728**	**341,812**	**565**	**22,046**
State and municipal	**43**	**9,007**	**-**	**-**
	$ 8,187	**$ 917,859**	**$ 588**	**$ 32,023**

	Less Than Twelve Months		Over Twelve Months	
DECEMBER 31, 2012	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available for sale				
Federal agency	$ 121	$ 28,833	$ -	$ -
Mortgage-backed	114	33,282	-	-
State and municipal	3	3,357	-	-
	$ 238	$ 65,472	$ -	$ -

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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, 2013, there was one government agency collateralized mortgage obligation security that had unrealized losses with aggregate depreciation of 5% from the amortized cost basis. As the Bank has the ability to hold the debt securities for the foreseeable future, this decline is not deemed to be other than temporary.

At December 31, 2013, two venture capital securities were written down as other-than-temporary impairments. At December 31, 2012, four venture capital securities were written down as other-than-temporary impairments. The following roll forward reflects the amount related to credit losses recognized in earnings:

	Available for Sale	
	2013	2012
Beginning balance*	$ -	$ 1,800
Add: Amount related to the credit loss for which an other-than-temporary impairment was not previously recognized	-	-
Add: Increases to the amount related to the credit loss for which an other-than-temporary impairment was previously recognized	-	-
Less: Realized losses for securities sold	-	(1,800)
Less: Securities for which the amount previously recognized in other comprehensive income was recognized in earnings because the Bank intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis	-	-
Less: Increases in cash flows expected to be collected that are recognized over the remaining life of the security	-	-
Ending balance	$ -	$ -

*The beginning balance represents the amount related to credit losses on debt securities held by the Bank at the beginning of the period for which a portion of an other-than-temporary impairment was recognized in other comprehensive income.

Continued on next page

NOTE 4 - LOANS

The composition of the loan portfolio at December 31, 2013 and 2012 is as follows:

	2013	2012
Commercial	**$ 1,388,104**	$ 1,278,405
Student	**1,097,155**	1,064,041
Residential	**629,931**	594,508
Agricultural	**361,756**	342,824
	3,476,946	3,279,778
Allowance for loan losses	**51,770**	52,280
	$ 3,425,176	$ 3,227,498

Unamortized deferred student loan costs totaled $8,938 and $10,368 as of December 31, 2013 and 2012, respectively. Net unamortized loan premiums and discounts, including purchased servicing rights, on residential loans totaled $8,259 and $8,145 as of December 31, 2013 and 2012, respectively.

Overdrafts of deposit accounts at December 31, 2012 in the amount of $1,217 have been reclassified as loans. There were no overdrafts of deposit accounts at December 31, 2013.

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.

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-classified 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.

Continued on next page

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 $51,770 adequate to cover loan losses inherent in the loan portfolio, at December 31, 2013. The following tables represent, by portfolio segment, the changes in the allowance for credit losses and the recorded investment in loans.

	2013				
	Commercial	**Agricultural**	**Residential**	**Student**	**TOTAL**
Beginning Balance:	**$ 42,112**	**$ 7,102**	**$ 1,447**	**$ 1,619**	**$ 52,280**
Charge-offs	**(2,217)**	**-**	**(58)**	**(314)**	**(2,589)**
Recoveries	**1,802**	**17**	**258**	**2**	**2,079**
Reallocation	**1,362**	**(633)**	**(992)**	**263**	**-**
Ending Balance	**$ 43,059**	**$ 6,486**	**$ 655**	**$ 1,570**	**$ 51,770**

	2012				
	Commercial	Agricultural	Residential	Student	TOTAL
Beginning Balance:	$ 40,118	$ 9,478	$ 2,000	$ 1,287	$ 52,883
Charge-offs	(2,418)	(12)	(362)	(188)	(2,980)
Recoveries	253	24	98	2	377
Provision	4,159	(2,388)	(289)	518	2,000
Ending Balance	$ 42,112	$ 7,102	$ 1,447	$ 1,619	$ 52,280

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

	2013				
	Commercial	**Agricultural**	**Residential**	**Student**	**TOTAL**
Collectively evaluated	**$ 32,033**	**$ 6,479**	**$ 655**	**$ 1,570**	**$ 40,737**
Individually evaluated	**11,026**	**7**	**-**	**-**	**11,033**
Total	**$ 43,059**	**$ 6,486**	**$ 655**	**$ 1,570**	**$ 51,770**

	2012				
	Commercial	Agricultural	Residential	Student	TOTAL
Collectively evaluated	$ 33,866	$ 6,817	$ 1,277	$ 1,619	$ 43,579
Individually evaluated	8,246	285	170	-	8,701
Total	$ 42,112	$ 7,102	$ 1,447	$ 1,619	$ 52,280

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The following tables disaggregate our loan portfolio by impairment methodology.

	2013				
	Commercial	**Agricultural**	**Residential**	**Student**	**TOTAL**
Collectively evaluated	**$1,235,590**	**$ 345,906**	**$ 629,439**	**$ 548,518**	**$2,759,453**
Individually evaluated	**44,489**	**94**	**387**	**-**	**44,970**
Loan types excluded from allowance	**108,025**	**15,756**	**105**	**548,637**	**672,523**
Total	**$1,388,104**	**$ 361,756**	**$ 629,931**	**$1,097,155**	**$3,476,946**

	2012				
	Commercial	Agricultural	Residential	Student	TOTAL
Collectively evaluated	$ 1,092,501	$ 325,140	$ 593,853	$ 617,665	$ 2,629,159
Individually evaluated	39,471	1,068	538	-	41,077
Loan types excluded from allowance	146,431	16,618	117	446,376	609,542
Total	$ 1,278,403	$ 342,826	$ 594,508	$ 1,064,041	$ 3,279,778

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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 Mention	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.

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The following table represents credit exposures by internally assigned risk ratings for the years ended December 31, 2013 and 2012. 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.

	2013				
Risk Rating	Commercial Participations	Bank Stock	All Other Business Loans (Including PACE)	Farm & Ranch	Farm Real Estate
No assigned risk rating	$ -	$ -	$ -	$ -	$ -
1	-	-	-	-	-
2	-	-	73,663	3,992	100
3	334,277	90,942	59,552	52,681	50,936
4	470,373	61,252	96,162	81,463	87,593
5	23,751	11,664	5,203	80	29,995
6	44,996	1,929	542	2,552	-
7	4,665	-	1,108	-	-
8	-	-	-	-	-
Loan types excluded from allowance	-	-	108,025	-	-
Total	$ 878,062	$ 165,787	$ 344,255	$ 140,768	$ 168,624

Risk Rating	All Other Farm Loans	Residential Real Estate	Student Loans	Total
No assigned risk rating	$ -	$ 629,826	$ 548,518	$ 1,178,344
1	298	-	-	298
2	576	-	-	78,331
3	9,476	-	-	597,864
4	17,573	-	-	814,416
5	8,685	-	-	79,378
6	-	-	-	50,019
7	-	-	-	5,773
8	-	-	-	-
Loan types excluded from allowance	15,756	105	548,637	672,523
Total	$ 52,364	$ 629,931	$ 1,097,155	$ 3,476,946

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	2012				
Risk Rating	Commercial Participations	Bank Stock	All Other Business Loans (Including PACE)	Farm & Ranch	Farm Real Estate
No assigned risk rating	$ -	$ -	$ -	$ -	$ -
1	2,685	-	-	-	-
2	11,389	-	83,812	6,425	104
3	318,585	79,087	35,531	73,373	42,675
4	365,187	54,493	71,340	67,239	70,750
5	35,585	2,028	5,749	3,136	28,142
6	45,825	12,339	834	873	80
7	5,885	-	1,621	-	-
8	-	-	-	-	-
Loan types excluded from allowance	-	-	146,431	-	-
Total	$ 785,141	$ 147,947	$ 345,318	$ 151,046	$ 141,751

Risk Rating	All Other Farm Loans	Residential Real Estate	Student Loans	Total
No assigned risk rating	$ -	$ 594,391	$ 617,665	$ 1,212,056
1	-	-	-	2,685
2	404	-	-	102,134
3	5,429	-	-	554,680
4	19,084	-	-	648,093
5	8,491	-	-	83,131
6	-	-	-	59,951
7	-	-	-	7,506
8	-	-	-	-
Loan types excluded from allowance	16,618	117	446,376	609,542
Total	$ 50,026	$ 594,508	$ 1,064,041	$ 3,279,778

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Following are tables which include an aging analysis of the recorded investment of past due financing receivables as of December 31, 2013 and 2012. 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.

	2013						
Loan Class	**31-60 days past due**	**61 - 90 days past due**	**Greater than 90 days**	**Total Past Due**	**Current**	**Total Loans**	**Investment >90 days and accruing**
Commercial Participations	**$ 4,630**	**$ -**	**$ 4,452**	**$ 9,082**	**$ 868,980**	**$ 878,062**	**$ 181**
Bank Stock	**-**	**-**	**-**	**-**	**165,787**	**165,787**	**-**
All other Business Loans (Including PACE)	**669**	**80**	**768**	**1,517**	**342,738**	**344,255**	**20**
Farm & Ranch	**558**	**-**	**-**	**558**	**140,210**	**140,768**	**-**
Farm Real Estate	**508**	**-**	**-**	**508**	**168,116**	**168,624**	**-**
All other Farm loans	**36**	**-**	**-**	**36**	**52,328**	**52,364**	**-**
Residential Real Estate	**12,028**	**2,852**	**3,908**	**18,788**	**611,143**	**629,931**	**3,783**
Student Loans	**21,745**	**7,037**	**47,713**	**76,495**	**1,020,660**	**1,097,155**	**47,625**
Totals	**$ 40,174**	**$ 9,969**	**$ 56,841**	**$ 106,984**	**$3,369,962**	**$3,476,946**	**$ 51,609**

	2012						
Loan Class	31-60 days past due	61 - 90 days past due	Greater than 90 days	Total Past Due	Current	Total Loans	Investment >90 days and accruing
Commercial Participations	$ 349	$ 4,202	$ 3,577	$ 8,128	$ 777,013	$ 785,141	$ 1,753
Bank Stock	-	-	-	-	147,947	147,947	-
All other Business Loans (Including PACE)	335	887	1,386	2,608	342,709	345,317	15
Farm & Ranch	873	-	253	1,126	149,920	151,046	253
Farm Real Estate	454	-	-	454	141,297	141,751	-
All other Farm loans	389	-	-	389	49,638	50,027	-
Residential Real Estate	11,358	1,706	4,825	17,889	576,619	594,508	4,664
Student Loans	22,169	8,519	45,676	76,364	987,677	1,064,041	45,445
Totals	$ 35,927	$ 15,314	$ 55,717	$ 106,958	$ 3,172,820	$ 3,279,778	$ 52,130

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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.

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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.

	2013				
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	387	387	-	394	11
With an Allowance Recorded:					
Commercial Participations	$ 40,871	$ 42,471	$ 9,873	$ 43,223	$ 1,151
Bank Stock	1,929	1,929	290	1,929	70
All other Business Loans (Including PACE)	1,689	1,689	863	1,850	38
Farm & Ranch	-	-	-	-	-
Farm Real Estate	94	94	7	98	2
All other Farm loans	-	-	-	-	-
Residential Real Estate	-	-	-	-	-
Totals:					
Commercial Participations	$ 40,871	$ 42,471	$ 9,873	$ 43,223	$ 1,151
Bank Stock	1,929	1,929	290	1,929	70
All other Business Loans (Including PACE)	1,689	1,689	863	1,850	38
Farm & Ranch	-	-	-	-	-
Farm Real Estate	94	94	7	98	2
All other Farm loans	-	-	-	-	-
Residential Real Estate	387	387	-	394	11

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

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Loan Class	Recorded Investment (2012)	Unpaid Principal Balance (1) (2012)	Associated Allowance (2012)	Average Recorded Investment (2012)	Interest Income Recognized (2012)
With No Specific Allowance Recorded:					
Commercial Participations	$ -	$ -	$ -	$ -	$ -
Bank Stock	-	-	-	-	-
All other Business Loans (Including PACE)	2	2	-	2	-
Farm & Ranch	-	-	-	-	-
Farm Real Estate	-	-	-	-	-
All other Farm loans	-	-	-	-	-
Residential Real Estate	300	300	-	302	15
With an Allowance Recorded:					
Commercial Participations	$ 35,527	$ 35,527	$ 7,106	$ 39,034	$ 1,337
Bank Stock	1,929	1,929	290	2,006	80
All other Business Loans (Including PACE)	2,013	2,113	850	2,148	21
Farm & Ranch	873	873	265	928	66
Farm Real Estate	178	178	19	241	8
All other Farm loans	17	17	1	17	-
Residential Real Estate	238	238	170	238	5
Totals:					
Commercial Participations	$ 35,527	$ 35,527	$ 7,106	$ 39,034	$ 1,337
Bank Stock	1,929	1,929	290	2,006	80
All other Business Loans (Including PACE)	2,015	2,115	850	2,150	21
Farm & Ranch	873	873	265	928	66
Farm Real Estate	178	178	19	241	8
All other Farm loans	17	17	1	17	-
Residential Real Estate	538	538	170	540	20

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

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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, 2013 and 2012. The balances are presented by class of financing receivable.

	2013	2012
Commercial Participations	**$ 12,283**	$ 6,329
Bank Stock	**-**	-
All Other Business Loans (Including PACE)	**1,601**	1,923
Farm & Ranch	**-**	-
Farm Real Estate	**-**	-
All Other Farm Loans	**-**	-
Residential Real Estate	**125**	161
Student	**88**	231
TOTAL	**$ 14,097**	$ 8,644

Accruing loans 90 days or more past due include guaranteed student loans of $47,625 and $45,445 as of December 31, 2013 and 2012, 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.

Residential loans of $3,783 and $4,664 as of December 31, 2013 and 2012, 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.

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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, 2013 and 2012. None of these loans subsequently defaulted after modification.

	2013		2012	
	Number of Modifications	**Recorded Investment**	Number of Modifications	Recorded Investment
Commercial Participations	**-**	**$ -**	7	$ 3,708
Bank Stock	**-**	**-**	-	-
All Other Business Loans (Including PACE)	**3**	**179**	1	352
Farm & Ranch	**-**	**-**	-	-
Farm Real Estate	**-**	**-**	-	-
All Other Farm Loans	**-**	**-**	-	-
Residential Real Estate	**-**	**-**	-	-
Student Loans	**-**	**-**	-	-
TOTAL	**3**	**$ 179**	8	$ 4,060

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The following table presents the unpaid principal of loans modified in a troubled debt restructuring during the years ended December 31, 2013 and 2012, by type of modification.

	2013			
	To Interest Only	**Below Market Rate**	**Other (1)**	**Total**
Commercial Participations	**$ -**	**$ -**	**$ -**	**$ -**
Bank Stock	**-**	**-**	**-**	**-**
All Other Business Loans (Including PACE)	**28**	**-**	**151**	**179**
Farm & Ranch	**-**	**-**	**-**	**-**
Farm Real Estate	**-**	**-**	**-**	**-**
All Other Farm Loans	**-**	**-**	**-**	**-**
Residential Real Estate	**-**	**-**	**-**	**-**
Student Loans	**-**	**-**	**-**	**-**
TOTAL	**$ 28**	**$ -**	**$ 151**	**$ 179**

	2012			
	To Interest Only	Below Market Rate	Other (1)	Total
Commercial Participations	$ 867	$ 2,312	$ 529	$ 3,708
Bank Stock	-	-	-	-
All Other Business Loans (Including PACE)	-	-	352	352
Farm & Ranch	-	-	-	-
Farm Real Estate	-	-	-	-
All Other Farm Loans	-	-	-	-
Residential Real Estate	-	-	-	-
Student Loans	-	-	-	-
TOTAL	$ 867	$ 2,312	$ 881	$ 4,060

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

There were no material commitments to lend additional funds to customers whose loans were classified as impaired or restructured at December 31, 2013 and 2012.

NOTE 5 - LOAN SALES AND LOAN SERVICING

A summary of BND loan sales during 2013 and 2012 follows:

	2013	2012
Residential loans sold on the secondary market	**$ 12,014**	$ 17,097

BND recognized gains on sale of loans of $173 in 2013 and $214 in 2012 which is included in non-interest income on the Statements of Income.

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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, 2013 and 2012 were as follows:

	2013	2012
Student loans		
North Dakota Student Loan Trust	**$ 30,164**	$ 35,339
Residential loans		
Fannie Mae	**22,777**	13,655
Other state fund loans		
Rebuilders Loan Program	**43,088**	36,616
Western Area Water	**60,000**	32,390
Board of University and School Lands	**20,099**	30,751
Community Water Facility Loan Fund	**15,809**	16,048
Department of Human Services	**6,809**	7,433
Information Technology Department	**8,756**	6,268
Workforce Safety	**175**	162
	$ 207,677	$ 178,662

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.

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NOTE 6 - BANK PREMISES, EQUIPMENT, AND SOFTWARE

A summary of changes in bank premises, equipment, furniture, and software at December 31, 2013 and 2012 is as follows:

	Balance 2012	Additions	Retirements	Balance 2013
Land	$ 1,688	$ -	$ -	$ 1,688
Building	10,212	-	-	10,212
Equipment	682	172	71	783
Furniture	678	13	-	691
Hardware	252	10	59	203
Software	4,835	127	175	4,787
	18,347	322	305	18,364
Less accumulated depreciation	6,710	760	303	7,167
	$ 11,637	$ (438)	$ 2	$ 11,197

	Balance 2011	Additions	Retirements	Balance 2012
Land	$ 1,445	$ 243	$ -	$ 1,688
Building	10,212	-	-	10,212
Equipment	663	27	8	682
Furniture	679	-	1	678
Hardware	574	-	322	252
Software	4,913	98	176	4,835
	18,486	368	507	18,347
Less accumulated depreciation	6,320	883	493	6,710
	$ 12,166	$ (515)	$ 14	$ 11,637

Depreciation and amortization expense on the above assets amounted to $760 and $883 in 2013 and 2012.

NOTE 7 - DEPOSITS

The aggregate amount of locally sold certificates of deposit larger than $100,000 was $3,596,545 and $3,136,633 as of December 31, 2013 and 2012, respectively.

At December 31, 2013, the scheduled maturities of certificates of deposits are as follows:

One year or less	$ 3,163,324
One to three years	329,168
Over three years	129,510
	$ 3,622,002

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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, 2013 and 2012.

NOTE 9 - SHORT AND LONG-TERM DEBT

Short and long-term debt consists of:

	2013	2012
Federal Home Loan Bank advances - long-term	**$ 465,228**	$ 405,339
ND Public Finance Authority, 3%, matures from September 2014 through September 2021	**733**	914
	$ 465,961	$ 406,253

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

	Principal	Interest	Total
2014	$ 3,417	$ 15,317	$ 18,734
2015	3,540	15,178	18,718
2016	3,650	15,038	18,688
2017	3,763	14,885	18,648
2018	98,854	12,971	111,825
Later years	352,737	36,023	388,760
Totals	$ 465,961	$ 109,412	$ 575,373

The FHLB long-term advances outstanding at December 31, 2013, mature from January 2018 through March 2025. The FHLB long-term advances have fixed rate interest, ranging from 1.12% to 7.35%. The advances must be secured by minimum qualifying collateral maintenance levels. Residential loans and student loans with carrying values of $556,368 and $537,031 at December 31, 2013 and 2012, respectively, are currently being used as security to meet these minimum levels.

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

Continued on next page

NOTE 10 - OTHER LIABILITIES

Other liabilities consist of:

		2013		2012
Interest payable	$	1,002	$	1,156
Salary and benefits payable		1,083		1,058
Student loan related payables		245		217
Rebuilders loan program payable		3,791		-
Transfers payable		-		43
Accounts payable, accrued expenses and other liabilities		3,293		3,291
	$	9,414	$	5,765

The Bank does not have to transfer any funds to the State's General Fund for the biennium beginning July 1, 2013 and ending June 30, 2015.

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

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

Employees are entitled to unreduced monthly pension benefits equal to 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). The plan permits early retirement at ages 55-64, with five or more years of service.

Continued on next page

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 6.12% of each participant's salary as the employer's share. In addition to the 6.12% employer contribution, the employer is required to contribute 1% of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. Bank of North Dakota's required and actual contributions to NDPERS for the fiscal years ending December 31, 2013 and 2012 were approximately $997 and $868, respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 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, 2013 and ending June 30, 2015. Following is a summary of legislative action and/or North Dakota Statute in effect:

H.B. 1020, Section 5 – The Bank shall provide a loan of $40,000 to the Western Area Water Supply Authority for construction of a large water project in the western part of the state. The terms and conditions of the loan must be negotiated between the Bank and the Western Area Water Supply Authority. As of December 31, 2013, the Bank had disbursed $5,906.

H.B. 1185, Section 3 – The Bank shall transfer up to $5,000 to the rebuilders loan program. As of December 31, 2013, the Bank had transferred the entire amount.

S.B. 2003, Section 28 – The State Board of Higher Education may borrow up to $62,000 for the University of North Dakota School of Medicine and Health Sciences facility project.

S.B. 2014, Section 7 – The Bank shall transfer 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, 2013, the Bank had transferred $6,800.

S.B. 2014, Section 8 – The Bank shall transfer shall transfer up to $2,000 from its current earnings and undivided profits to the agriculture partnership in assisting community expansion fund. As of December 31, 2013, the Bank had transferred $700.

S.B. 2014, Section 9 – The Bank shall transfer 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, 2013, the Bank had transferred $100.

S.B. 2014, Section 10 – The Bank shall transfer up to $6,000 from its current earnings and undivided profits to the beginning farmer revolving loan fund. As of December 31, 2013, the Bank had transferred $1,200.

S.B. 2019, Section 6 – Williston State College may borrow up to $2,500 for the workforce training building project.

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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.

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, 2012, the Bank had guarantees outstanding totaling $106. There were no guarantees outstanding as of December 31, 2013. The Bank had no guarantee commitments outstanding as of December 31, 2013 and 2012 included in commitments to extend credit.

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, 2013 and 2012, the Bank has guarantees outstanding totaling $4,733 and $4,516, respectively, and had guarantee commitments outstanding of $47 and $558, respectively, included in commitments to extend credit.

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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 $545,723 and $443,413 at December 31, 2013 and 2012, 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, 2013 and 2012 amounted to $8,954 and $7,994, respectively. Deposits and short term borrowings held by the Bank were $68,494 and $52,860, 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, 2013 the Bank had a receivable from this program for $32,255 and a payable of $3,791.

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 and financial standby letters of credit. 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, 2013 and 2012, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2013	2012
Commitments to extend credit	**$ 804,130**	$ 780,001
Financial standby letters of credit	**311,131**	260,731
Guarantees provided	**4,780**	5,180

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.

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Financial standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The likelihood of funding any of these letters of credit is considered to be remote. The Bank holds collateral supporting those commitments.

Financial standby letters of credit include letters of credit pledged for public deposits by North Dakota banks for $258,285 and $191,935 at December 31, 2013 and 2012, respectively. These letters of credit are an authorized form of collateral for public deposits per North Dakota Century Code 21-04-09.

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS

We use fair value measurements 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.

Effective January 1, 2008, the Bank adopted Statement of Financial Accounting Standards Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements*. ASC 820-10 defines fair value and establishes a consistent framework for measuring fair value under generally accepted accounting principles and expands disclosure requirements for fair value measurements.

Fair Value Hierarchy

Under ASC 820-10, we group our assets and liabilities 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 for identical instruments traded in active markets.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments 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.

Determination of Fair Value

Under ASC 820-10, we base our fair values 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 our 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).

Cash and Cash Equivalents

Cash and cash equivalents, include cash and due from banks, items out for collection, and federal funds sold. These assets are carried at historical cost. The carrying amounts of cash and cash equivalents approximate fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

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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 on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury, other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets. Level 2 securities include privatized 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 Receivable

The carrying amount of interest receivable approximates fair value due to the relatively short period of time between accrual and expected realization.

Rebuilders Loan Program Receivable

The fair value of the Rebuilders Loan Program receivable has been estimated by discounted future cash flows using an equivalent rate of a similar U.S. Treasury.

Non-Maturity Deposits

The fair value for deposits with no stated maturity, such as demand deposits, savings, NOW, and money market accounts, are disclosed as the amount payable upon demand.

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Deposits with Stated Maturities

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

Federal Funds Purchased and Repurchase Agreements

The carrying amount of federal funds purchased and repurchase agreements approximates fair value due to the relatively short period of time between the origination of the instruments and their expected payments.

Interest payable

The carrying amount of interest payable approximates fair value due to the relatively short period of time between accrual and expected payment.

Short and Long-Term Debt

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

Other Liabilities

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

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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, 2013 and 2012.

	2013			
	Total	**Quoted Prices in Active Markets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Available-for-sale debt securities				
Mortgage-backed securities				
Agency	**$ 246,714**	**$ 246,714**	**$ -**	**$ -**
Collateralized mortgage obligations				
Agency	**374,304**	**374,304**	**-**	**-**
Non-agency	**287**	**-**	**287**	**-**
Agency bonds	**1,912,671**	**1,912,671**	**-**	**-**
Municipal bonds	**20,329**	**-**	**20,329**	**-**
Totals	**$ 2,554,305**	**$2,533,689**	**$ 20,616**	**$ -**

	2012			
	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Available-for-sale debt securities				
Mortgage-backed securities				
Agency	$ 277,762	$ 277,762	$ -	$ -
Collateralized mortgage obligations				
Agency	320,914	320,914	-	-
Non-agency	701	-	701	-
Agency bonds	1,519,885	1,519,885	-	-
Municipal bonds	23,637	-	23,637	-
Totals	$ 2,142,899	$ 2,118,561	$ 24,338	$ -

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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, 2013 and 2012.

	2013		
	Quoted Prices in Active Markets Level 1	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Impaired loans	**$ -**	**$ -**	**$ 33,937**
Totals	**$ -**	**$ -**	**$ 33,937**

	2012		
	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Impaired loans	$ -	$ -	$ 32,376
Totals	$ -	$ -	$ 32,376

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.

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.

ASC 825-10, Disclosures about Fair Value of Financial Instruments

The table below is a summary of fair value estimates as of December 31, 2013 and 2012, for financial instruments, as defined by ASC 825-10. The carrying amounts in the following table are recorded in the balance sheet under the indicated captions. In accordance with ASC 825-10, we have not included assets and liabilities that are not financial instruments in our disclosure, such as our premises and equipment and other assets. Additionally, the amounts in the table have not been updated since year end, therefore the valuations may have changed significantly since that point in time. For these reasons, the total of the fair value calculations presented does not represent, and should not be construed to represent, the underlying value of the Bank.

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The carrying amounts and estimated fair values of the Bank's financial instruments as of December 31, 2013 and 2012 were as follows:

	2013		2012	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	**$ 776,444**	**$ 776,444**	$ 725,231	$ 725,231
Securities	**2,584,169**	**2,584,169**	2,171,546	2,171,546
Interest receivable	**39,599**	**39,599**	40,102	40,102
Loans, net	**3,425,176**	**3,453,448**	3,227,498	3,311,568
Rebuilders loan receivable	**32,255**	**23,670**	-	-
Financial liabilities				
Non-maturity deposits	**$ 1,979,125**	**$1,979,125**	$ 1,840,028	$ 1,840,028
Deposits with stated maturities	**3,622,002**	**3,636,147**	3,163,534	3,189,792
Federal funds purchased and repurchase agreements	**245,110**	**245,110**	275,960	275,960
Short and long-term debt	**465,961**	**475,840**	406,252	461,798
Other liabilities	**9,414**	**9,414**	5,765	5,765
Unrecognized financial instruments				
Commitments to extend credit	**$ 804,130**	**$ 804,130**	$ 780,001	$ 780,001
Financial standby letters of credit	**311,131**	**311,131**	260,731	260,731
Guarantees provided	**4,780**	**4,780**	5,180	5,180

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NOTE 16 - SUPPLEMENTAL DISCLOSURES RELATED TO STATEMENTS OF CASH FLOWS

	2013	2012
Supplemental disclosures of cash flow information		
Cash payments for:		
Interest paid to customers	**$ 13,669**	$ 17,252
Interest paid on federal funds purchased and securities sold under repurchase agreements	**326**	288
Interest paid on short and long-term debt	**16,376**	18,492
Supplemental schedule of noncash investing and financing activities		
Transfers from undivided profits to other liabilities	**19,356**	28,997
Net change in unrealized gain (loss) on securities available for sale	**(16,724)**	11,162
Other real estate and property owned acquired in exchange for loans	**399**	2,123
Amount required to be repaid by rebuilders loan program previously transferred from Bank equity	**30,000**	-

NOTE 17 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2014, which is the date these financial statements were available to be issued.

TEN YEAR SUMMARY	2013	2012	2011	2010
OPERATING RESULTS (in thousands)				
Interest income	$153,182	$145,870	$137,459	$133,400
Interest expense	30,217	35,349	39,541	45,188
Net interest income	122,965	110,521	97,918	88,212
Provision for loan losses	-	2,000	11,000	12,100
Net interest income after provision for loan losses	122,965	108,521	86,918	76,112
Non-interest income	7,422	4,659	4,911	6,113
Non-interest expense	36,172	31,586	21,494	20,374
Net income	**94,215**	**81,594**	**70,335**	**61,851**
Payments to general fund	-	-	-	-
Payments to other funds	19,356	28,997	2,815	5,088
BALANCE SHEET - YEAR END (in thousands) TOTAL ASSETS	**6,873,409**	**6,155,201**	**5,375,073**	**4,029,927**
FEDERAL FUNDS SOLD AND RESELL AGREEMENTS	36,645	24,050	18,315	33,100
SECURITIES	2,584,169	2,171,546	1,008,051	537,157
LOANS	**3,476,946**	**3,279,778**	**2,995,154**	**2,814,548**
Student	1,097,155	1,064,041	1,062,534	1,044,442
Commercial	1,388,104	1,278,403	1,068,598	1,022,002
Residential	629,931	594,508	575,020	471,411
Agriculture	361,756	342,826	289,002	276,693
DEPOSITS	**5,601,127**	**5,003,562**	**4,179,837**	**3,058,726**
Non-interest bearing	798,559	891,197	649,922	387,040
Interest bearing	4,802,568	4,112,365	3,529,915	2,671,686
FEDERAL FUNDS PURCHASED AND REPURCHASE AGREEMENTS	245,110	275,960	318,325	240,725
SHORT AND LONG-TERM DEBT	465,961	406,252	471,422	397,365
EQUITY	**551,797**	**463,662**	**399,903**	**327,297**
Capital	2,000	2,000	2,000	2,000
Capital surplus	72,000	42,000	42,000	42,000
Undivided profits	477,705	402,846	350,249	282,729
Accumulated other comprehensive income (loss)	92	16,816	5,654	568

BANK OF NORTH DAKOTA
TEN YEAR SUMMARY

2009	2008	2007	2006	2005	2004
$132,277	$148,613	$152,416	$126,598	$98,086	$80,133
50,994	71,801	87,090	71,284	51,623	38,392
81,283	76,812	65,326	55,314	46,463	41,741
10,300	8,900	3,100	3,400	2,400	2,400
70,983	67,912	62,226	51,914	44,063	39,341
6,206	7,617	6,673	7,748	9,332	11,248
19,106	18,485	17,813	16,808	17,038	16,373
58,083	**57,044**	**51,086**	**42,854**	**36,357**	**34,216**
30,000	30,000	30,000	30,000	30,000	30,000
-	46	46	43	43	37
3,959,669	**3,516,965**	**2,779,360**	**2,326,693**	**2,062,247**	**2,014,525**
24,190	75,675	277,565	129,135	195,370	122,230
397,370	331,416	235,551	219,412	157,623	253,186
2,713,611	**2,618,402**	**2,004,999**	**1,755,562**	**1,467,061**	**1,456,256**
932,323	776,473	643,297	561,178	459,287	417,356
1,038,589	1,064,811	689,150	564,946	431,068	480,870
475,124	509,052	419,700	388,043	342,786	322,044
267,575	268,066	252,852	241,395	233,920	235,986
2,939,059	**2,645,356**	**1,871,767**	**1,617,136**	**1,352,516**	**1,198,586**
442,867	313,900	317,949	230,993	205,854	208,277
2,496,192	2,331,456	1,553,818	1,386,143	1,146,662	990,309
337,627	304,020	434,061	249,145	248,932	201,959
405,005	315,604	245,070	257,209	275,926	436,593
271,649	**223,922**	**192,471**	**163,542**	**161,824**	**152,776**
2,000	2,000	2,000	2,000	2,000	2,000
42,000	42,000	42,000	42,000	42,000	42,000
225,966	182,883	145,843	119,894	119,894	110,947
1,683	(2,961)	2,628	(352)	(2,070)	(2,171)

Photo Credits

Coateau des Prairies Lodge, The Creative Treatment, Dickinson State University, MDU Resources, North Dakota University System and Neal A. Shipman.

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