MISSION DRIVEN

2014 ANNUAL REPORT

BND

Bank of North Dakota

For nearly 100 years, North Dakota residents have benefited from Bank of North Dakota's commitment to its mission. Whether it is a business on Main Street, a farmer in the fields or a student in the college classroom, the Bank's programs support a diverse and thriving economy.

BND looks to the future with optimism and determination, committed to responding to the state's challenges and opportunities. By keeping the mission foremost in our decisions, the Bank will continue to be an agile partner for agriculture, commerce and industry.


BND
Bank of North Dakota

MISSION

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

VISION

Bank of North Dakota will be an agile partner that creates financial solutions to current and emerging economic needs.

CORE VALUES

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

CONTENTS

PRESIDENT'S LETTER

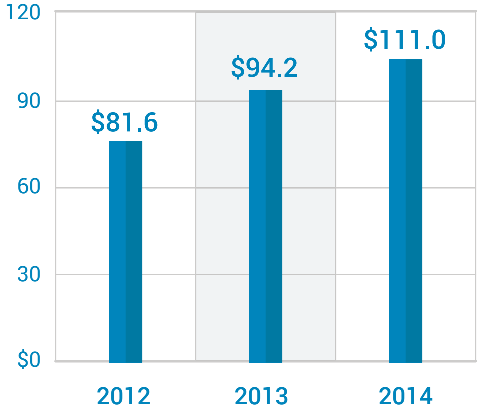
Bank of North Dakota's responsibility to the state is clearly defined in its founding principles, established in 1919: "To promote agriculture, commerce and industry in North Dakota." Since its earliest days, these words have driven the Bank's work, later becoming our mission statement.

Today, we remain true to this mission by ensuring that every activity of this Bank supports the intent of its founders.

In 2014, Bank of North Dakota (BND) posted its eleventh consecutive year of record profits with $111 million in income. Assets increased to $7.2 billion. The loan portfolio grew by $375 million with the largest increases in the business and student loan areas.

An educated workforce is an essential component of a strong economy. The DEAL One Loan was announced in April and the response has been overwhelmingly positive. By year-end, nearly 3,100 North Dakotans took advantage of the program's low interest rates and combined all of their student loans into one loan. It is one of the first student loans of its type in the country to consolidate all federal student loans and alternative student loans into a single loan.

Annual Income (in millions)



Treasury Services introduced a new executive analytics report for its bond accounting customers that provides more interest rate risk analysis on their bond portfolios. This new service offers one more tool to help our customers respond to the mounting regulatory requirements that focus on interest rate risk management.

"Mergers and acquisitions will continue to change the face of the banking industry in North Dakota. At the end of 2014, there were 74 state-chartered banks, a decrease of five since 2009."

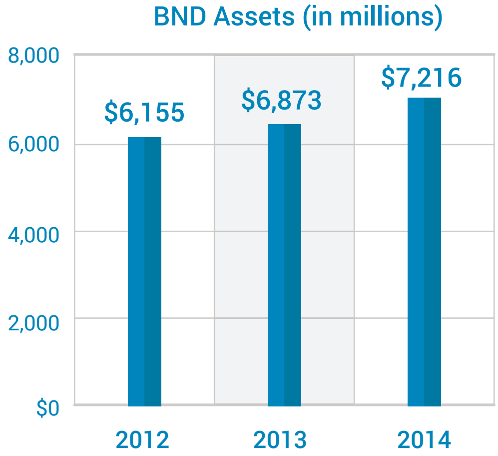
- Eric Hardmeyer, President and CEO

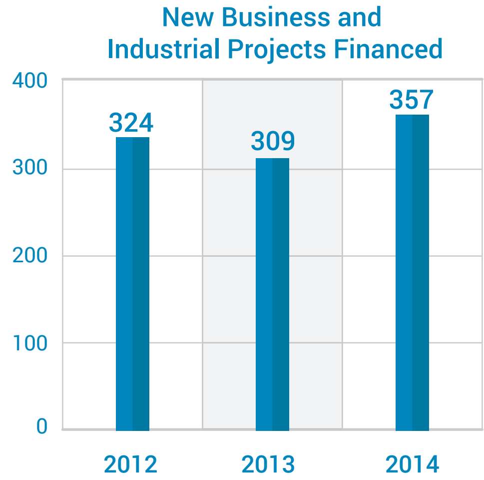
Nearly 100 visits to financial institutions and follow-up contacts were made by the Business Development team. These meetings yield valuable insights that are used to ensure the Bank's programs are meeting the needs of financial institutions and their customers.

We developed the Strategic Plan for 2015-2017 and created a vision statement that better reflects today's business environment. The new statement, "BND will be an agile partner that creates financial solutions for current and emerging economic needs," sets a high standard for all BND staff members. Financial institution mergers, shifting oil prices and variables in the agriculture economy mandate a flexible business model that develops new avenues to meet the Bank's mission.

While we commit to flexibility, it is balanced with a disciplined approach to new activities and investment opportunities. The Industrial Commission, Legislature, BND's Advisory Board and Executive Committee play important roles in ensuring the Bank's financial integrity while meeting the state's needs, solidifying our position to meet our mission for future generations.

Eric Hardmeyer, President



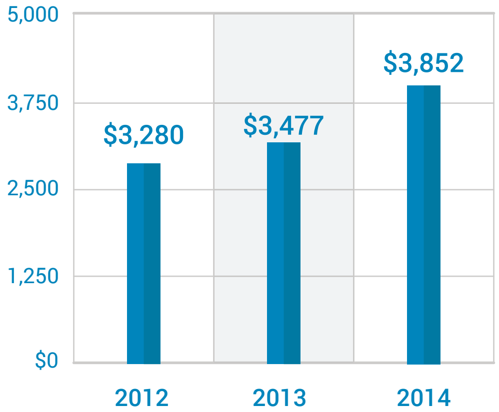


LENDING PORTFOLIO

Lending Total Loan Portfolio

The lending portfolio grew by $375 million in 2014, with all four areas, agriculture, business, residential and student loans, experiencing growth. There were 357 new businesses financed, an increase from 309 last year.

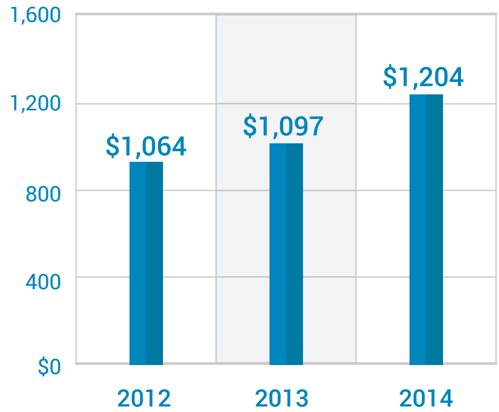
Lending Total Loan Portfolio (in millions)



Student Loan Portfolio

The announcement in April 2014 of DEAL One, the new student loan consolidation program, was welcomed by many North Dakotans. It is the largest contributor to growth in the student loan portfolio this year, which increased by $107 million.

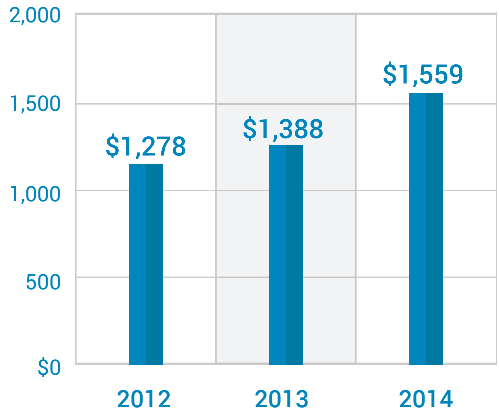
Student Loan Portfolio (in millions)



Business Lending Portfolio

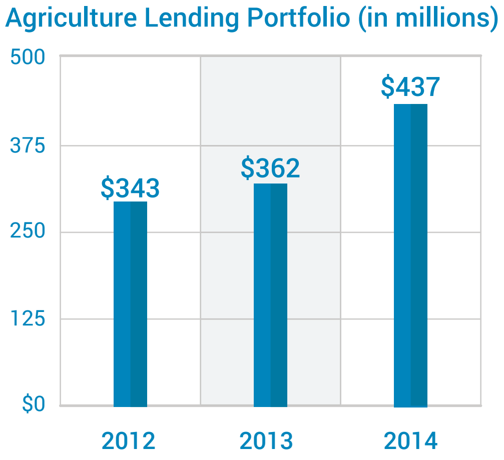
Participation loans were the primary driver of the $171 million increase in the business loan portfolio this year. A total of $986 million in commercial loans was funded or renewed in 2014, reflecting a strong business climate in the state.

Business Lending Portfolio (in millions)



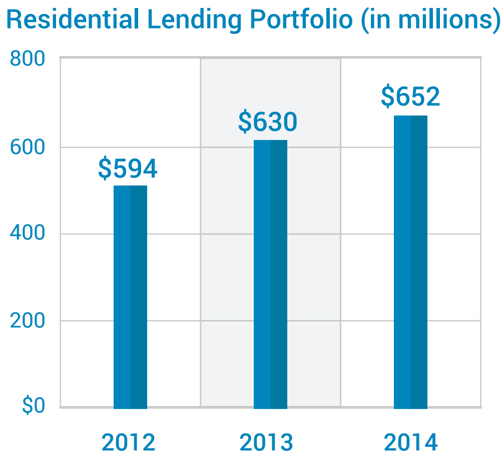
"The majority of BND's loan programs are facilitated through partnerships with local financial institutions. This local-level approach to conducting business guarantees that individual North Dakotans and their communities benefit from BND's success."

- Bob Humann, Senior Vice President and CLO



Agriculture Lending Portfolio

The agriculture portfolio increased by $75 million with BND funding and renewing $285 million in loans. Farm and Ranch loans led the way with $232 million in loan volume followed by $23 million of Beginning Farmer Real Estate loans. This year, farmers and ranchers were affected by higher land values, higher feeder cattle prices and challenges getting grain to market, resulting in the need for increased lending support from BND.



Residential Lending Portfolio

Residential lending's portfolio increased by $22 million with BND funding $117.5 million in home loans. These loans are either originated by local North Dakota lenders or by BND with referral from the local lender. This year's growth is primarily attributed to the financing of home purchases rather than refinancing loans as in the recent past.

GLEN ULLIN FAMILY AUTOMATES DAIRY FARM

The Duppong family has spent countless hours feeding, caring for and milking cows in the 40 years they've operated Pleasant Ridge LLP in Glen Ullin, North Dakota. Brothers Eric and Mark purchased the farm from their father in 2001. Eric's wife Kelsy, Mark's wife Carrie, both families' children, and the brothers' parents all live on the property.

As Pleasant Ridge LLP grew, the time required to maintain the farm operations mounted. Eric and Mark recognized that automation would play a key role in their future success and decided to add 6,100 square feet of two highly automated barns to their operation. However, before they could break ground, financing needed to be secured.

The Duppongs contacted Bob Spangelo, loan officer at the Bank of Glen Ullin. They examined the project's needs and the benefits of various loan programs and determined BND's Biofuels Partnership in Assisting Community Expansion (PACE) Program was the best option.

The Duppongs feed their cattle a corn byproduct called distillers grains, which comes from ethanol plants like Dakota Spirit AgEnergy.

Similar to other PACE programs, a local lender must request BND's participation so the borrower can receive an interest rate buydown. It differs from other PACE loans by having provisions for livestock operations that use a byproduct of a biodiesel or ethanol production facility.

"We qualified for the Biofuels PACE Program because we handle and milk livestock and we feed a corn byproduct of ethanol production called distillers grains," said Kelsy Duppong. "The interest buydown helped us improve our operation with much-needed updates."

Spangelo feels small banks in North Dakota benefit from the support of BND programs. He believes these programs are bolstered by the efforts of the Bank's staff.

"BND has the size to help our small banks compete in a competitive environment," said Spangelo. "The people make the difference with guidance and shepherding through the loan process. Jim (Leier) and Nancy (Feist) were absolutely great to work with on this and several other projects we have tackled."

The new barns and equipment have drastically improved efficiency. A transmitter on each cow expedites diagnosis and treatment of health issues. The Duppongs no longer tote 5-gallon buckets to feed every calf by hand. Instead, an automated feeder ensures each calf receives appropriate nourishment and care. As Pleasant Ridge LLP continues to expand over the next 40 years, the Duppongs know BND will be there to help.

IMPLEMENTING JOB GROWTH IN MAPLETON

When HORSCH LLC, an agricultural equipment manufacturer, was looking to expand their production, they wanted to locate near a major city with a supply of skilled workers and easy access to an Interstate highway. Mapleton, North Dakota, a bedroom community of Fargo with a population of less than 1,000 people, proved to be the perfect spot for the new agricultural implement factory.

The 111,000 square-foot facility, equipped with manufacturing space, warehouse stores and a state-of-the-art powder coat paint line, also serves as the company's corporate headquarters. HORSCH, through Bell State Bank & Trust, utilized BND's Partnership in Assisting Community Expansion (PACE) and MATCH programs to make the facility become a reality.

Dave Idso, senior vice president of business banking at Bell State Bank & Trust, the lead bank on the project, has worked with BND several times over the last 30 years.

HORSCH LLC is a collaborative effort of HORSCH Maschinen, GmBH of Schwandorf, Germany; Harper Industries Inc. of Harper, Kansas; and Kory Anderson.

"The ability to share risk, especially when working with a new client, is a significant benefit," said Idso. "The PACE and MATCH programs provide substantial interest rate savings to our clients."

The MATCH program is designed to encourage and attract financially strong companies to North Dakota. BND participates in the loan and provides interest rates that are among the lowest in the nation. PACE provides for new job development by offering an interest buydown, dependent on community involvement.

"This was a key piece to the puzzle in a very complex financing package," said Jim Peterson, CFO of HORSCH. "As a growing business, keeping costs of financing to a minimum is key to freeing up monies that can otherwise be reinvested in new products and our most important assets: our people."

Today, HORSCH's Mapleton facility provides 35 permanent jobs in the community, and has significantly expanded the company's production capacity.

Eric Hillman, mayor of Mapleton, said that HORSCH has been a great asset to the community.

"They have provided jobs for many residents. They've been a positive influence in our community and are always willing to participate in any way," said Hillman.

"BND is a unique entity in place to foster economic development in North Dakota," said Peterson. "The staff is friendly, courteous and helpful in getting things put together and in place."

DISHING UP SUCCESS IN BISMARCK

Lucky Duck's Deli and Catering has been serving up deli soups and sandwiches since October 2012, offering a number of duck-themed dishes along with more customary fare. But owner Russ Kadlec wanted to bring his customers something more.

"We wanted to offer our guests a full-service experience," said Kadlec, who has operated restaurants in Denver, Fargo, Grand Forks, Mason City and elsewhere.

To offer this kind of customer experience, Kadlec decided to open The Pond at Lucky Duck's Deli and Catering, a 2,500 square-foot restaurant with three outdoor patios and a full-service bar. But before he could start on the expansion, Kadlec talked to Jerry Hauff, market president at Cornerstone Bank. Hauff recommended Kadlec take advantage of BND's Business Development Loan Program.

"We had good management with the entrepreneur (Kadlec), but yet, being a startup, it's good to spread the risk with an organization like BND," said Hauff.

Long before Lucky Duck's, 307 N 3rd St. was home to the Drumstick Cafe, which was open from the mid-1950s to 2002.

The Business Development Loan Program assists new and existing North Dakota businesses to obtain loans that might have a higher degree of risk, like loans to startup businesses. In the case of The Pond, it helped add another restaurant option to a continually expanding downtown Bismarck scene.

"It's an easy program to work with" said Hauff. "The lenders are accessible, they're very congenial and they approach it with a can-do attitude."

Kadlec, who also worked with BND when originally opening Lucky Duck's Deli and Catering, had a good experience working with BND once again, and hopes to have the opportunity to do so in the future.

"BND is great to work with and has been very helpful in all aspects of our business ventures," said Kadlec.

Hauff recommended that others keep BND in mind when searching for a partner to create financial solutions.

"If you've got a question about whether or not BND wants to participate, make the call," said Hauff. "Leverage them as a partner for the benefit of the consumer."

The Pond opened its doors in June 2014. How has business been since then? "Busy. Very busy," said Kadlec.

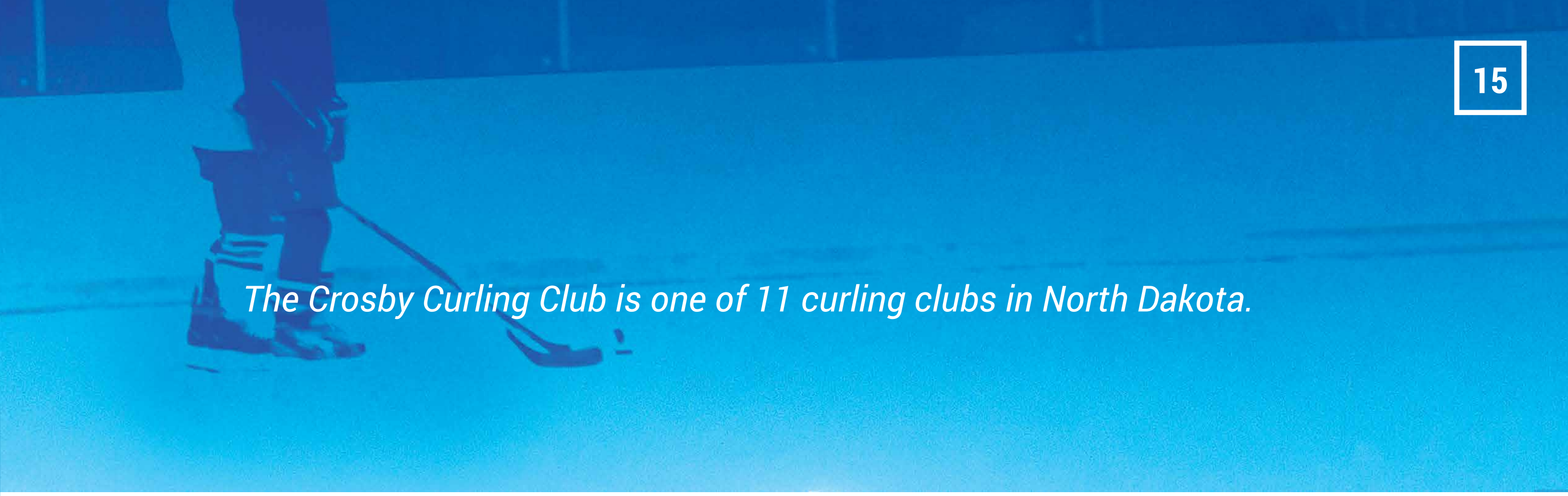
COMMUNITY-CENTERED IN CROSBY

Crosby, North Dakota is a town of 1,300 people nestled a stone's throw from the Canadian border in the northwest corner of the state.

The county seat of Divide County is home to the Northwest Health and Wellness Center (NHWC), which features a hockey arena, curling rink and meeting rooms. It is a facility worthy of being called a community center, and not only because of its amenities.

In 2009, members of the community's hockey program, the Crosby Blue Line Club, formed a committee to discuss replacing the Crosby Sports Arena. The Crosby Blue Line Club called the Crosby Sports Arena home for more than 50 years, and the building was showing its age. The city of Crosby, Divide County, the Divide County Fair Board and the Prairie Tumbleweeds gymnastics program joined the Crosby Blue Line Club to raise funds and make the facility a reality.

The NHWC committee researched financing options. Donations had been pledged, but many financial institutions were skeptical about the community's ability to obtain the money and complete the project. First International Bank & Trust in Williston, North Dakota was willing to give the committee a chance, but they wanted some support.



The Crosby Curling Club is one of 11 curling clubs in North Dakota.

Brock Romine at First International Bank & Trust had partnered with BND on similar projects and immediately turned to the Flex Partnership in Assisting Community Expansion (PACE) Program. Flex PACE offers an interest buydown program and requires community involvement, something that was no problem for the people of Crosby.

“This was a difficult project to make work,” said Romine, assistant vice president/office manager. “The interest buydown brought the rate to nearly one percent. That enabled the club to do additional fundraising. Without BND, this project probably wouldn’t have been possible.”

Motivated by the support from First International Bank & Trust and BND, the NHWC committee kicked off the project. Members of the committee toured other facilities and planned fundraisers. Donors followed through on their pledges, including eight individual gifts of at least $50,000. To stretch its money, the committee purchased secondhand equipment whenever feasible and community members donated labor during construction.

“The project should have cost about $7 million, but because so many people donated time and materials, it has only cost about $4 million,” said Gerald Brady of the NHWC construction committee.

Harlan Johnson, who is also a member of the NHWC construction committee, added, “Because everyone pitched in so much, it really is a community center. The parents and kids own the building.”

Since opening, it has hosted hockey teams from North Dakota, Montana and Canada as well as being the site for Boy Scout meetings, weddings, graduation parties, curling bonspiels and various banquets. Additions of an indoor pool, walking track and more public-use spaces are in the works and will further cement the NHWC’s identity as a community center.

FUELING PRODUCTION IN SPIRITWOOD

When it begins operating in 2015, Midwest AgEnergy Group's Dakota Spirit AgEnergy ethanol biorefinery (DSA), located east of Jamestown near Spiritwood, will produce 62.5 million gallons of ethanol a year from North Dakota corn.

The first corn ethanol plant built in the U.S. since 2007, it will also be the first and only corn ethanol plant to meet the Environmental Protection Agency's stringent Renewable Fuel Standard. The standard requires cornstarch-based ethanol facilities built after 2007 to have lifecycle carbon intensities 20 percent lower than conventional motor fuels.

Even with such impressive credentials, financing the $155 million construction proved to be a complex process.

"In today's ethanol space, any time you have senior debt, you need to have a loan guarantee on that debt," said Al Christianson, Great River Energy's director of business development and North Dakota governmental affairs. "BND's program was by far the lowest cost and provided the best coverage."

In 2012, President Obama signed an executive order calling for the addition of 40 gigawatts of industrial combined-heat-and-power by 2020.

BND was also engaged in the project as a significant lending capacity partner. BND's Fuel Production Facility Loan Guarantee offers the multi-party lender group risk protection during the construction and start-up phase of the project, with continuing risk protection during the life of the loan.

"With this credit enhancement, AgCountry was able to attract adequate lending capacity within the state of North Dakota to finance a large value-added agricultural processing facility," said Randy Aberle, senior vice president of agribusiness and capital markets at AgCountry Farm Credit Services.

DSA achieves a lower carbon intensity through a combined-heat-and-power (CHP) relationship with Great River Energy's Spiritwood Station, a coal-based power plant located just across the road. DSA uses steam produced by the power plant, resulting in lower costs for the ethanol biorefinery and higher efficiency for the power plant.

Christianson praised the ease and effectiveness of working with BND, and the way the Bank's programs directly help fulfill its mission.

"The program was put there by the legislature to incent biofuel production in North Dakota, and it did exactly that," said Christianson. "And because of that, we're creating a demand for 25 million bushels of corn and 44 new permanent jobs."

DSA is expected to begin operations in the second quarter of 2015.

"The flexibility, simplicity and timeliness of the program, along with the knowledgeable local decision making by BND staff members, set the BND program apart from other loan and bank programs that AgCountry has utilized," said Aberle.

DEAL ONE REFINANCES STUDENT LOANS

In 2013, the North Dakota Legislature passed SB 2361 to initiate a student loan consolidation program for eligible physicians, with the authority to include others when BND was prepared to do so.

It was expanded to include chiropractors, dentists and pharmacists across the state, and all health care workers in a medical facility in a community of 4,500 or fewer residents. This initial group of borrowers provided feedback to prepare the staff for the types of questions that would be asked and to create a user-friendly online application.

The DEAL One Loan was offered to the general public on April 21, 2014. It is one of the first student loans in the country to allow the consolidation of federal student loans along with private student loans. By the end of the year, 3,086 North Dakota residents consolidated $140.8 million in student loans. Nearly $50 million of this amount was already held by BND, with the balance coming from other lenders.

The average amount of debt being consolidated was $45,567 with interest rates as high as 14.25% APR from funding sources outside BND. At the end of 2014, the rate for fixed-rate DEAL One Loans was 5.25% APR and the rate for variable-rate DEAL One Loans was 1.73% APR. As a protection to borrowers selecting the variable rate, the DEAL One Loan rate will not increase more than one percent per year.

"Student Loans is the primary area where North Dakotans work directly with BND staff members for their loan. We appreciate the role local financial institutions play informing their customers about the student loan programs offered by BND. Improving the financial security and educational opportunities of North Dakotans is a priority for all of us."

- Eric Hardmeyer, President and CEO

"With a simple application and short turnaround time from Bank of North Dakota, we are making the same monthly payment we were before, but actually seeing the principal shrink, which is refreshing!" - Lisa

"With the DEAL One, my payments go a lot farther and I am now saving hundreds of dollars in interest every month." - Jennifer

"The whole process was really easy—we just submitted our forms and heard back right away. It was just awesome for us financially, and everyone at the Bank was great to work with." - Lacy

COLLEGE PLANNING MADE EASY

BND's College Planning Center provides information specific to North Dakota schools, scholarships and funding. To promote planning for college and increase awareness of the state's Dollars for Scholars chapters, the College Planning Center sponsored five Tigirlily concerts in 2014.

The communities of Crosby, Watford City, Kulm, Hope and Wimbledon each won the privilege of a concert by raising the most dollars per student through their Dollars for Scholars chapters. A series of videos was created and hosted on the College Planning Center website; 1,800 people attended the concerts. Tigirlily promoted the concerts and videos to their fans, which in turn increased College Planning Center website and Facebook traffic.

College-funding initiatives

College SAVE is the state-supported 529 plan. Children First grants are available to all newborns with the opening of an account by the time a child is one year old. The grant places $100 in each account. The North Dakota Matching Grant places $300 per year for up to three years into existing College SAVE accounts for qualifying North Dakota residents. In 2014, $90,000 in Children First grants and $520,000 in Matching Grants was distributed, helping our youngest residents get a head start on their college funding.

Dual credit programs allow high school students to get an early start on college classes. The College Planning Center pays for two college courses per school year for high school students who qualify for the Free or Reduced Price Lunch program. In 2014, 625 students got a head start on college with $225,000 in tuition support for dual credit courses from the College Planning Center.

"The College Planning Center is a trusted resource for parents, students and school professionals across the state. The assistance provided to residents allows them to achieve higher education goals, which directly benefits the state's economy."

- Wally Erhardt, Director, Student Loans of North Dakota / College Planning Center

GED (General Educational Development) testing allows residents who have not completed a high school diploma to certify they have the knowledge required to meet those standards. In 2014, the expenses for 242 exams were covered by the Center's GED reimbursment program.

North Dakota Dollars for Scholars is administered through the College Planning Center. Through it, $133,000 in scholarships was distributed statewide. This year, a new professional association scholarship was introduced in which BND partners with a professional association to double their scholarship dollars to students in their second, third and fourth year of college.

College preparation resources

Preparing for college isn't only about funding. Resources that inspire interest in college and provide guidance to parents and students are valuable tools for teachers, counselors and parents. Several are funded through the College Planning Center.

The College Planning Center website and app provide great advice to help families navigate the college preparation journey. The calendar app is available for free on all major app stores.

Paws in Jobland sparks career interests for kindergarten through fifth-grade children. It is an online tool that encourages college and early career exploration.

RUReady ND, another online tool funded by the College Planning Center, is directed at youth grades 6-12 and continues the college preparation journey.

Why Apply? is a website designed with Native American students as the target audience.

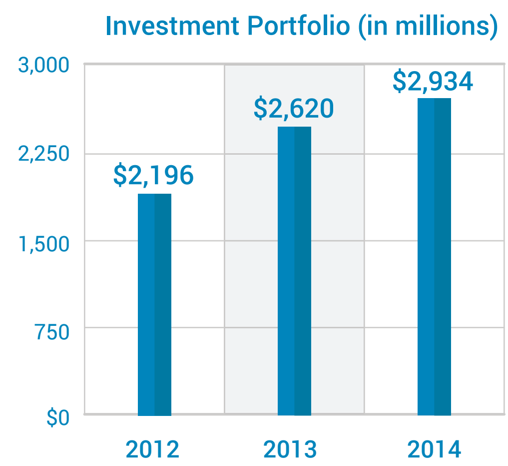
WORKING WITH OUR FINANCIAL PARTNERS

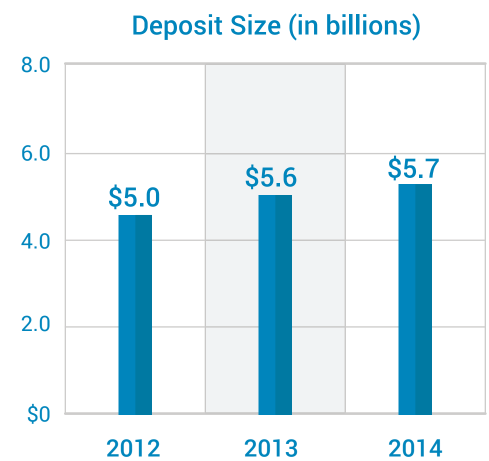
"BND demonstrates its commitment to ease the regulatory burden for our partners through new programs with practical applications to their daily work." Tim Porter, Senior Vice President and CFO

BND partners with financial institutions and state agencies, assisting them with managing their financial needs like liquidity, safekeeping, bond accounting and executive analytics. A daily market for the purchase and sale of funds helps entities enhance their liquidity, along with letters of credit for public deposits and repurchase agreements. Executive analytics is a new service added in 2014. It allows financial institutions to complete interest rate risk analysis on their securities held in Bond Accounting.

By utilizing BND's treasury and investment services this year, correspondent financial institutions obtained:

- More than $2 billion in public deposits through pledging services
- $181 million in large non-public deposits through repurchase agreement accounts
- $618 million of liquidity through BND's secured and unsecured federal funds lines
- More than $322 million of additional liquidity through the Letters of Credit for Public Deposits Program





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

2014 FINANCIAL STATEMENTS

FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

Bank of North Dakota

BANK OF NORTH DAKOTA

Table of Contents

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, 2014 and 2013, 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.

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, 2014 and 2013, 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
March 03, 2015

BANK OF NORTH DAKOTA
BALANCE SHEETS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Thousands)

	2014	2013
ASSETS		
Cash and due from banks	$ 362,985	$ 739,799
Federal funds sold	42,105	36,645
Cash and cash equivalents	405,090	776,444
Securities	2,933,570	2,584,169
Loans	3,852,155	3,476,946
Less allowance for loan losses	(58,346)	(51,770)
	3,793,809	3,425,176
Interest receivable	41,843	39,599
Bank premises, equipment, and software, net	11,678	11,197
Rebuilders loan program receivable	25,472	32,255
Other assets	4,225	4,569
Total assets	$ 7,215,687	$ 6,873,409
LIABILITIES AND EQUITY		
Deposits		
Non-interest bearing	$ 700,446	$ 798,559
Interest bearing	5,030,165	4,802,568
	5,730,611	5,601,127
Federal funds purchased and repurchase agreements	178,455	245,110
Short and long-term debt	645,126	465,961
Other liabilities	9,361	9,414
Total liabilities	6,563,553	6,321,612
Equity		
Capital	2,000	2,000
Capital surplus	72,000	72,000
Undivided profits	571,276	477,705
Accumulated other comprehensive income	6,858	92
Total equity	652,134	551,797
Total liabilities and equity	$ 7,215,687	$ 6,873,409

See Notes to Financial Statements

BANK OF NORTH DAKOTA
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Thousands)

	2014	2013
INTEREST INCOME		
Federal funds sold	**$ 214**	$ 211
Securities	**32,678**	19,985
Loans, including fees	**141,692**	132,986
Total interest income	**174,584**	153,182
INTEREST EXPENSE		
Deposits	**13,210**	13,517
Federal funds purchased and repurchase agreements	**269**	326
Short and long-term debt	**17,976**	16,374
Total interest expense	**31,455**	30,217
NET INTEREST INCOME	**143,129**	122,965
PROVISION FOR LOAN LOSSES	**8,000**	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	**135,129**	122,965
NONINTEREST INCOME		
Service fees and other	**7,555**	7,639
Net gain/(loss) on available-for-sale securities	**432**	(217)
Total noninterest income	**7,987**	7,422
NONINTEREST EXPENSE		
Salaries and benefits	**13,751**	13,121
Data processing	**4,636**	4,484
Occupancy and equipment	**795**	862
Long-term debt prepayment fee	**6,819**	9,382
Other operating expenses	**6,156**	8,323
Total noninterest expenses	**32,157**	36,172
NET INCOME	**$ 110,959**	$ 94,215

BANK OF NORTH DAKOTA
STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Thousands)

	2014	2013
Net income	**$ 110,959**	$ 94,215
Other comprehensive income		
Unrealized gain/(loss) on securities available for sale	**11,500**	(16,747)
Unrealized loss on interest rate swap	**(4,443)**	-
Reclassification adjustment for (gains)/losses realized in net income	**(291)**	23
Other comprehensive income	**6,766**	(16,724)
Comprehensive income	**$ 117,725**	$ 77,491

BANK OF NORTH DAKOTA
STATEMENTS OF EQUITY
YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Thousands)

	Capital	Capital Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
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
Net income			110,959		110,959
Unrealized gain on securities available for sale				11,500	11,500
Unrealized loss on interest rate swap				(4,443)	(4,443)
Reclassification adjustment for (gains) losses realized in net income				(291)	(291)
Transfers to other state funds			(17,388)		(17,388)
BALANCE, DECEMBER 31, 2014	$ 2,000	$ 72,000	$ 571,276	$ 6,858	$ 652,134

See Notes to Financial Statements

BANK OF NORTH DAKOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013
(In Thousands)

	2014	2013
OPERATING ACTIVITIES		
Net income	**$ 110,959**	$ 94,215
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	**771**	760
Provision for loan losses	**8,000**	-
Net accretion of securities	**(4,266)**	(6,894)
(Gain)/loss on available-for-sale securities	**(432)**	23
Impairment of other equity securities	**-**	199
Gain on sale of residential loans	**(99)**	(173)
Loss on retirement of equipment	**-**	1
(Gain)/loss on sale of foreclosed assets	**105**	(145)
(Increase)/decrease in interest receivable	**(2,244)**	503
(Increase)/decrease in other assets	**(841)**	471
Increase/(decrease) in other liabilities	**(4,539)**	3,691
NET CASH FROM OPERATING ACTIVITIES	**107,414**	92,651
INVESTING ACTIVITIES		
Securities available for sale transactions		
Purchase of securities	**(1,234,928)**	(801,775)
Proceeds from sales, maturities, and principal repayments	**909,559**	380,514
Purchase of Federal Home Loan Bank stock	**(24,857)**	(74,521)
Sale of Federal Home Loan Bank stock	**16,826**	73,014
Purchase of other equity securities	**(700)**	(259)
Sale of other equity securities	**606**	354
Proceeds from sales of loans	**8,352**	12,187
Net increase in loans	**(384,886)**	(210,090)
Purchases of premises and equipment	**(491)**	(322)
Advances to rebuilders loan program	**-**	(5,000)
Payments from rebuilders loan program	**6,783**	2,745
Proceeds from sale of foreclosed assets	**319**	2,302
NET CASH USED FOR INVESTING ACTIVITIES	**(703,417)**	(620,851)
FINANCING ACTIVITIES		
Net decrease in non-interest bearing deposits	**(98,113)**	(92,638)
Net increase in interest bearing deposits	**227,597**	690,203
Net decrease in federal funds purchased and repurchase agreements	**(66,655)**	(30,850)
Proceeds from issuance of short and long-term debt	**600,000**	1,795,000
Payment of short and long-term debt	**(420,835)**	(1,735,292)
Payment of transfers to other state funds	**(17,345)**	(19,399)
NET CASH FROM FINANCING ACTIVITIES	**224,649**	607,024
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(371,354)**	78,824
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**776,444**	697,620
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 405,090**	$ 776,444

(In Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Bank of North Dakota (BND) is owned and operated by the State of North Dakota under the supervision of the Industrial Commission as provided by Chapter 6-09 of the North Dakota Century Code. BND is a unique institution combining elements of banking, fiduciary, investment management services, and other financial services, and state government with a primary role in financing economic development. BND is a participation lender; the vast majority of its loans are purchased from financial institutions throughout the State of North Dakota. BND's primary deposit products are interest-bearing accounts for state and political subdivisions.

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. The Bank's loan portfolio is comprised of the following concentrations as of December 31, 2014 and 2013:

	2014	2013
Commercial loans, of which 3% and 3% are federally guaranteed	**41%**	40%
Student loans, of which 99% and 97% are guaranteed	**31%**	32%
Residential loans, of which 77% and 80% are federally guaranteed	**17%**	18%
Agricultural loans, of which 4% and 5% are federally guaranteed	**11%**	10%
	100%	100%

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Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all with original maturities of three months or less.

Securities

Securities that may be sold before maturity in response to changes in interest rates or prepayment risk, or due to liquidity needs or changes in funding sources or terms are classified as available for sale. These securities are recorded at fair value, with unrealized gains and losses reported in equity. The changes in unrealized gains and losses are excluded from earnings and reported in other comprehensive income. Securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost.

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

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

Nonmarketable equity securities represent venture capital equity securities that are not publicly traded. The Bank reviews these assets at least annually for possible other-than-temporary impairment. These securities do not have a readily determinable fair value and are stated at cost. The Bank reduces the asset value when it considers declines in value to be other than temporary. 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.

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Loans

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

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

Allowance for Credit Losses

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

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-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.

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

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

Loan Charge-Offs

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

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

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank Premises, Equipment, and Software

Bank premises, equipment, hardware and software are stated at cost less accumulated depreciation or amortization. Depreciation and amortization are provided over the estimated useful lives of the individual assets using the straight-line method.

Foreclosed Assets

Foreclosed assets, which are included in other assets, represent assets acquired through loan foreclosure or other proceedings. Foreclosed assets are recorded at the lower of the amount of the loan or fair market value of the assets. Any write-down to fair market value at the time of the transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and change in the valuation allowance are included in other operating expenses. Foreclosed assets totaled $400 and $824 as of December 31, 2014 and 2013, respectively.

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Derivatives and Hedging Activities

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

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

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

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

Defined Benefit Plan

The Bank funds amounts equal to pension costs accrued.

Income Taxes

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

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(In Thousands)

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

Federal Reserve Board regulations require the Bank to maintain reserve balances with the Federal Reserve Bank. The average required reserve balances maintained at the Federal Reserve Bank were approximately $67,693 in 2014 and $93,158 in 2013.

The Bank has depository relationships where it is a requirement of the other institution in order to have a business relationship. Deposits at these institutions are insured up to $250,000 with the Federal Deposit Insurance Corporation except for deposits with the Federal Reserve Bank and the Federal Home Loan Bank. The amount of cash deposits not covered by FDIC insurance was $102,321 and $446,141 as of December 31, 2014 and 2013, respectively. Of these amounts, $46,822 and $390,496 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, 2014 and 2013 consists of the following:

	2014	2013
Securities available for sale, at fair value	**$ 2,895,440**	$ 2,554,305
Federal Home Loan Bank stock, at cost	**34,027**	25,995
Other equity securities, at cost	**4,103**	3,869
	$ 2,933,570	$ 2,584,169

Continued on next page

(In Thousands)

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2014				
Securities available for sale				
Federal agency	**$ 1,803,205**	**$ 6,726**	**$ 1,279**	**$ 1,808,652**
Mortgage-backed	**1,027,475**	**8,016**	**2,296**	**1,033,195**
US treasuries	**39,449**	**142**	**-**	**39,591**
State and municipal	**14,010**	**1**	**9**	**14,002**
	$ 2,884,139	**$ 14,885**	**$ 3,584**	**$ 2,895,440**

	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

There were no securities pledged as of December 31, 2014 and 2013 for repurchase agreements or for other required pledging purposes. FHLB stock totaling $34,027 and $25,995 at December 31, 2014 and 2013, respectively are pledged on the FHLB advances (Note 9).

Continued on next page

(In Thousands)

The maturity distribution of debt securities at December 31, 2014, 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	$ 602,133	$ 603,901
Over one year through five years	2,101,601	2,107,744
Over five years through ten years	177,031	180,333
Over ten years	3,374	3,462
	$ 2,884,139	$ 2,895,440

For the year ended December 31, 2014, proceeds from the sale of securities available for sale were $59,299. Gross realized gains were $291 on these sales. 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.

Continued on next page

(In Thousands)

Information pertaining to securities with gross unrealized losses at December 31, 2014 and 2013 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, 2014	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available for sale				
Federal agency	**$ 729**	**$ 345,335**	**$ 550**	**$ 84,630**
Mortgage-backed	**465**	**218,904**	**1,831**	**152,564**
State and municipal	**9**	**6,481**	**-**	**-**
	$ 1,203	**$ 570,720**	**$ 2,381**	**$ 237,194**

	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

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. There were no such securities at December 31, 2014.

Continued on next page

(In Thousands)

At December 31, 2014, no securities were written down as other-than-temporary impairments. At December 31, 2013, two venture capital securities were written down as other-than-temporary impairments.

NOTE 4 - LOANS

The composition of the loan portfolio at December 31, 2014 and 2013 is as follows:

	2014	2013
Commercial	**$ 1,559,137**	$ 1,388,104
Student	**1,203,972**	1,097,155
Residential	**652,076**	629,931
Agricultural	**436,970**	361,756
	3,852,155	3,476,946
Allowance for loan losses	**58,346**	51,770
	$ 3,793,809	$ 3,425,176

Unamortized deferred student loan costs totaled $11,586 and $8,938 as of December 31, 2014 and 2013, respectively. Net unamortized loan premiums and discounts, including purchased servicing rights, on residential loans totaled $7,382 and $8,259 as of December 31, 2014 and 2013, respectively.

In the normal course of business, overdrafts of deposit accounts are reclassified as loans. There were no overdrafts of deposit accounts at December 31, 2014 and 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.

Continued on next page

(In Thousands)

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-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.

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 $58,346 adequate to cover loan losses inherent in the loan portfolio, at December 31, 2014. The following tables represent, by portfolio segment, the changes in the allowance for credit losses and the recorded investment in loans.

	2014				
	Commercial	**Agricultural**	**Residential**	**Student**	**TOTAL**
Beginning Balance:	**$ 43,059**	**$ 6,486**	**$ 655**	**$ 1,570**	**$ 51,770**
Charge-offs	**(1,962)**	**-**	**-**	**(172)**	**(2,134)**
Recoveries	**693**	**13**	**-**	**4**	**710**
Provision	**4,508**	**3,053**	**55**	**384**	**8,000**
Ending Balance	**$ 46,298**	**$ 9,552**	**$ 710**	**$ 1,786**	**$ 58,346**

	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

Continued on next page

(In Thousands)

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

2014

	Commercial	Agricultural	Residential	Student	TOTAL
Collectively evaluated	**$ 39,332**	**$ 9,493**	**$ 710**	**$ 1,786**	**$ 51,321**
Individually evaluated	**6,966**	**59**	**-**	**-**	**7,025**
Total	**$ 46,298**	**$ 9,552**	**$ 710**	**$ 1,786**	**$ 58,346**

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

The following tables disaggregate our loan portfolio by impairment methodology.

2014

	Commercial	Agricultural	Residential	Student	TOTAL
Collectively evaluated	**$1,390,426**	**$ 419,612**	**$ 651,644**	**$ 457,260**	**$2,918,942**
Individually evaluated	**39,945**	**582**	**373**	**-**	**40,900**
Loan types excluded from allowance	**128,766**	**16,775**	**60**	**746,712**	**892,313**
Total	**$1,559,137**	**$ 436,969**	**$ 652,077**	**$1,203,972**	**$3,852,155**

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

Continued on next page

The Bank's internally assigned ratings are as follows:

	Risk Code	Description
Exceptional	1	Loan considered prime on the basis of very substantial financial capacity with minimal risk of non payment.
Excellent	2	Loan considered sound on the basis of strong financial capacity with little or no apparent weakness and very limited risk of non payment. The probability of serious financial deterioration is highly unlikely.
Good	3	Loan may reveal weaknesses in some areas, however, not of a serious nature and the debt remains collectible in its entirety. The collateral may be characterized as being less marketable than that of a higher rated borrower.
Acceptable	4	Bank feels that the credit risk is acceptable, but may require above average officer attention. Credit in this class exhibit the earliest signs of potential problems. A greater reliance will be placed on the quality and marketability of the underlying collateral as the cash flow may be unproven or somewhat erratic.
Special 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.

Continued on next page

(In Thousands)

The following table represents credit exposures by internally assigned risk ratings for the years ended December 31, 2014 and 2013. 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.

	2014				
Risk Rating	Commercial Participations	Bank Stock	Business Loans (Including PACE)	Farm & Ranch	Farm Real Estate
No assigned risk rating	$ -	$ -	$ -	$ -	$ -
1	-	-	-	-	-
2	-	-	67,107	4,857	94
3	349,589	125,625	59,040	58,175	51,873
4	544,333	76,529	123,312	117,990	105,071
5	51,754	1,958	5,146	9,441	35,718
6	23,446	795	914	-	-
7	415	-	408	-	-
8	-	-	-	-	-
Loan types excluded from allowance	-	-	128,766	-	-
Total	$ 969,537	$ 204,907	$ 384,693	$ 190,463	$ 192,756

Risk Rating	All Other Farm Loans	Residential Real Estate	Student Loans	Total
No assigned risk rating	$ -	$ 652,017	$ 457,260	$ 1,109,277
1	241	-	-	241
2	811	-	-	72,869
3	10,601	-	-	654,903
4	16,986	-	-	984,221
5	8,204	-	-	112,221
6	117	-	-	25,272
7	16	-	-	839
8	-	-	-	-
Loan types excluded from allowance	16,775	59	746,712	892,312
Total	$ 53,751	$ 652,076	$ 1,203,972	$ 3,852,155

Continued on next page

(In Thousands)

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

Continued on next page

(In Thousands)

Following are tables which include an aging analysis of the recorded investment of past due financing receivables as of December 31, 2014 and 2013. 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.

	2014						
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	$ 861	$ -	$ 865	$ 1,726	$ 967,811	$ 969,537	$ 15
Bank Stock	-	-	-	-	204,907	204,907	-
All other Business Loans (Including PACE)	93	78	100	271	384,422	384,693	-
Farm & Ranch	239	-	-	239	190,224	190,463	-
Farm Real Estate	901	93	-	994	191,762	192,756	-
All other Farm loans	80	10	116	206	53,545	53,751	-
Residential Real Estate	14,771	2,200	2,612	19,583	632,493	652,076	2,612
Student Loans	23,060	8,527	51,539	83,126	1,120,846	1,203,972	51,441
Totals	$ 40,005	$ 10,908	$ 55,232	$ 106,145	$ 3,746,010	$3,852,155	$ 54,068

	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

Continued on next page

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

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

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

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

Continued on next page

(In Thousands)

	2014				
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	373	373	-	380	20
With an Allowance Recorded:					
Commercial Participations	$ 37,759	$ 37,759	$ 6,366	$ 41,604	$ 1,506
Bank Stock	1,610	1,610	180	1,747	67
All other Business Loans (Including PACE)	576	576	420	635	5
Farm & Ranch	-	-	-	-	-
Farm Real Estate	89	89	7	93	2
All other Farm loans	493	493	52	519	8
Residential Real Estate	-	-	-	-	-
Totals:					
Commercial Participations	$ 37,759	$ 37,759	$ 6,366	$ 41,604	$ 1,506
Bank Stock	1,610	1,610	180	1,747	67
All other Business Loans (Including PACE)	576	576	420	635	5
Farm & Ranch	-	-	-	-	-
Farm Real Estate	89	89	7	93	2
All other Farm loans	493	493	52	519	8
Residential Real Estate	373	373	-	380	20

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

Continued on next page

(In Thousands)

	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.

Continued on next page

(In Thousands)

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

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

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

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

On the following table are the financing receivables on nonaccrual status as of December 31, 2014 and 2013. The balances are presented by class of financing receivable.

	2014	2013
Commercial Participations	**$ 8,305**	$ 12,283
Bank Stock	**-**	-
All Other Business Loans (Including PACE)	**509**	1,601
Farm & Ranch	**-**	-
Farm Real Estate	**-**	-
All Other Farm Loans	**132**	-
Residential Real Estate	**-**	125
Student	**98**	88
TOTAL	**$ 9,044**	$ 14,097

Accruing loans 90 days or more past due include guaranteed student loans of $51,441 and $47,625 as of December 31, 2014 and 2013, 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 $2,612 and $3,783 as of December 31, 2014 and 2013, 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.

Continued on next page

(In Thousands)

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, 2014 and 2013. None of these loans subsequently defaulted after modification.

	2014		2013	
	Number of Modifications	**Recorded Investment**	Number of Modifications	Recorded Investment
Commercial Participations	**9**	**$ 13,419**	-	$ -
Bank Stock	**-**	**-**	-	-
All Other Business Loans (Including PACE)	**-**	**-**	3	179
Farm & Ranch	**-**	**-**	-	-
Farm Real Estate	**-**	**-**	-	-
All Other Farm Loans	**2**	**361**	-	-
Residential Real Estate	**4**	**373**	-	-
Student Loans	**-**	**-**	-	-
TOTAL	**15**	**$ 14,153**	3	$ 179

Continued on next page

(In Thousands)

The following table presents the unpaid principal of loans modified in a troubled debt restructuring during the years ended December 31, 2014 and 2013, by type of modification.

	2014			
	To Interest Only	**Below Market Rate**	**Other (1)**	**Total**
Commercial Participations	$ 7,608	$ -	$ 5,811	$ 13,419
Bank Stock	-	-	-	-
All Other Business Loans (Including PACE)	-	-	-	-
Farm & Ranch	-	-	-	-
Farm Real Estate	-	-	-	-
All Other Farm Loans	-	-	361	361
Residential Real Estate	-	-	373	373
Student Loans	-	-	-	-
TOTAL	$ 7,608	$ -	$ 6,545	$ 14,153

	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

(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, 2014 and 2013.

Continued on next page

(In Thousands)

NOTE 5 - LOAN SALES AND LOAN SERVICING

A summary of BND loan sales during 2014 and 2013 follows:

	2014	2013
Residential loans sold on the secondary market	**$ 8,253**	$ 12,014

BND recognized gains on sale of loans of $99 in 2014 and $173 in 2013 which is included in non-interest income on the Statements of Income.

BND has contracts to provide servicing of loans for others. These loans are not included in the accompanying balance sheets. The unpaid principal balances of loans serviced for others as of December 31, 2014 and 2013 were as follows:

	2014	2013
Student loans		
North Dakota Student Loan Trust	**$ 25,110**	$ 30,164
Residential loans		
Fannie Mae	**28,078**	22,777
Other state fund loans		
Western Area Water	**73,022**	60,000
Rebuilders Loan Program	**44,838**	43,008
Board of University and School Lands	**15,882**	20,099
Community Water Facility Loan Fund	**15,564**	15,809
Information Technology Department	**8,787**	8,756
Department of Human Services	**6,414**	6,809
State Water Commission	**706**	-
Workforce Safety	**161**	175
	$ 218,562	$ 207,597

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

Continued on next page

(In Thousands)

NOTE 6 - BANK PREMISES, EQUIPMENT, AND SOFTWARE

A summary of changes in bank premises, equipment, furniture, and software at December 31, 2014 and 2013 is as follows:

	Balance 2013	Additions	Retirements	Balance 2014
Land	$ 1,688	$ 761	$ -	$ 2,449
Building	10,212	-	-	10,212
Equipment	783	68	173	678
Furniture	691	7	-	698
Hardware	203	158	128	233
Software	4,787	258	-	5,045
	18,364	1,252	301	19,315
Less accumulated depreciation	7,167	771	301	7,637
	$ 11,197	$ 481	$ -	$ 11,678

	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

Depreciation and amortization expense on the above assets amounted to $771 and $760 in 2014 and 2013.

NOTE 7 - DEPOSITS

At December 31, 2014, the scheduled maturities of certificates of deposits are as follows:

One year or less	$ 3,325,025
One to three years	279,250
Over three years	113,203
	$ 3,717,478

Continued on next page

(In Thousands)

NOTE 8 - REPURCHASE AGREEMENTS

The Bank enters into agreements to repurchase the same securities that it previously sold. These agreements may have a fixed maturity or be open-ended, callable at any time. There were no repurchase agreements as of December 31, 2014 and 2013.

NOTE 9 - SHORT AND LONG-TERM DEBT

Short and long-term debt consists of:

	2014	2013
Federal Home Loan Bank advances - long-term	**$ 544,574**	$ 465,228
Federal Home Loan Bank advances - short-term	**100,000**	-
ND Public Finance Authority, 3%, matures from September 2015 through September 2021	**552**	733
	$ 645,126	$ 465,961

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

	Principal	Interest	Total
2015	$ 107,502	$ 17,128	$ 124,630
2016	7,720	16,878	24,598
2017	7,943	16,618	24,561
2018	88,149	14,942	103,091
2019	48,392	13,545	61,937
Later years	385,420	38,198	423,618
Totals	$ 645,126	$ 117,309	$ 762,435

The FHLB long-term advances outstanding at December 31, 2014, mature from January 2018 through October 2029. The FHLB long-term advances have fixed rate interest, ranging from 1.12% to 5.56%. All FHLB advances must be secured by minimum qualifying collateral maintenance levels. Residential loans and student loans with carrying values of $719,914 and $556,368 at December 31, 2014 and 2013, respectively, are currently being used as security to meet these minimum levels.

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

Continued on next page

(In Thousands)

NOTE 10 - OTHER LIABILITIES

Other liabilities consist of:

	2014	2013
Interest payable	**$ 1,103**	$ 1,002
Salary and benefits payable	**1,102**	1,083
Student loan related payables	**162**	245
Interest rate swap payable	**4,443**	-
Rebuilders loan program payable	**-**	3,791
Transfers payable	**45**	-
Accounts payable, accrued expenses and other liabilities	**2,506**	3,293
	$ 9,361	$ 9,414

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 7.12% of each participant's salary as the employer's share. In addition to the 7.12% employer contribution, the employer is required to contribute 1.14% of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal 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, 2014 and 2013 were approximately $1,168 and $997, 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, 2014, the Bank had disbursed the entire amount.

H.B. 1185, Section 3 – The Bank shall transfer up to $5,000 to the rebuilders loan program.

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 up to $28,000 from its current earnings and undivided profits to the partnership in assisting community expansion fund. As of December 31, 2014, the Bank had transferred $17,800.

S.B. 2014, Section 8 – The Bank shall transfer to $2,000 from its current earnings and undivided profits to the agriculture partnership in assisting community expansion fund. As of December 31, 2014, the Bank had transferred $1,900.

S.B. 2014, Section 9 – The Bank shall transfer up to $2,000 from its current earnings and undivided profits to the biofuels partnership in assisting community expansion fund. As of December 31, 2014, the Bank had transferred the entire amount.

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, 2014, the Bank had transferred $4,400.

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

Continued on next page

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. There were no guarantees outstanding as of December 31, 2014 and 2013. The Bank had no guarantee commitments outstanding as of December 31, 2014 and 2013 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, 2014 and 2013, the Bank has guarantees outstanding totaling $5,200 and $4,733, respectively, and had guarantee commitments outstanding of $394 and $47, respectively, included in commitments to extend credit.

NOTE 13 - RELATED PARTY TRANSACTIONS

The Bank, because of its unique relationship with the State of North Dakota, is a party in many business transactions with other entities of state government. All state funds and funds of all state penal, education, and industrial institutions must be deposited in the Bank under state law. These transactions are a normal part of bank business and, accordingly, are included in the Bank's financial statements.

Continued on next page

(In Thousands)

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 $739,851 and $545,723 at December 31, 2014 and 2013, 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, 2014 and 2013 amounted to $18,501 and $8,954, respectively. Deposits and short term borrowings held by the Bank were $44,174 and $68,494, 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, 2014 the Bank had a receivable form this program for $25,472. 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, 2014 and 2013, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2014	2013
Commitments to extend credit	**$ 1,036,020**	$ 804,130
Financial standby letters of credit	**353,296**	311,131
Guarantees provided	**5,594**	4,780

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.

Continued on next page

(In Thousands)

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 $266,825 and $258,285 at December 31, 2014 and 2013, respectively. These letters of credit are an authorized form of collateral for public deposits per North Dakota Century Code 21-04-09.

NOTE 15 - INTEREST RATE SWAP CONTRACTS

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

The Bank has an outstanding interest rate swap agreement with a notional amount totaling $50,000 to convert variable rate federal funds into fixed-rate instruments over the term of the contract. The agreement has a maturity of 14.4 years and has a fixed rate of 2.861%. The fair value of the interest swap was an unrealized loss of $4,443 at December 31, 2014. The Bank pledged $4,010 in cash under collateral arrangements at December 31, 2014, to satisfy the collateral requirement associated with this interest rate swap contract.

The following table summarizes the derivative financial instrument utilized at December 31, 2014:

			Estimated fair value	
	Balance sheet location	Notional amount	Gain	Loss
Cash flow hedge	Other liabilities	$ 50,000		$ (4,443)

The following table details the derivative financial instruments, the remaining maturities, and the interest rates being paid and received at December 31, 2014:

	Notional value	Maturity (years)	Fair value (loss)	Receive	Pay
Interest rate swap	$ 50,000	14.4	$ (4,443)	0.06%	2.86%

Continued on next page

NOTE 16 - 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.

Continued on next page

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.

Continued on next page

Non-Maturity Deposits

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

Deposits with Stated Maturities

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

Federal Funds Purchased and 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.

Interest Rate Swap Agreements

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

Continued on next page

(In Thousands)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2014 and 2013.

	2014			
	Total	**Quoted Prices in Active Markets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
ASSETS				
Available-for-sale debt securities				
Mortgage-backed securities				
Agency	**$ 507,691**	**$ 507,691**	**$ -**	**$ -**
Collateralized mortgage obligations				
Agency	**525,303**	**525,303**	**-**	**-**
Non-agency	**202**	**-**	**202**	**-**
Agency bonds	**1,808,651**	**1,808,651**	**-**	**-**
US treasuries	**39,591**	**39,591**	**-**	**-**
Municipal bonds	**14,002**	**-**	**14,002**	**-**
Totals	**$ 2,895,440**	**$2,881,236**	**$ 14,204**	**$ -**
LIABILITIES				
Interest rate swap	**$ 4,443**	**$ -**	**$ 4,443**	**$ -**
Totals	**$ 4,443**	**$ -**	**$ 4,443**	**$ -**

	2013			
	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets				
Available-for-sale debt securities				
Mortgage-backed securities				
Agency	$ 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	$ -

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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, 2014 and 2013.

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.

	2014		
	Quoted Prices in Active Markets Level 1	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Impaired loans	**$ -**	**$ -**	**$ 33,875**
Totals	**$ -**	**$ -**	**$ 33,875**

	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

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

The table below is a summary of fair value estimates as of December 31, 2014 and 2013, 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.

Continued on next page

(In Thousands)

The carrying amounts and estimated fair values of the Bank's financial instruments as of December 31, 2014 and 2013 were as follows:

	2014		2013	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	**$ 405,090**	**$ 405,090**	$ 776,444	$ 776,444
Securities	**2,933,570**	**2,933,570**	2,584,169	2,584,169
Interest receivable	**41,843**	**41,843**	39,599	39,599
Loans, net	**3,793,809**	**3,846,931**	3,425,176	3,453,448
Rebuilders loan receivable	**25,472**	**20,846**	32,255	23,670
Financial liabilities				
Non-maturity deposits	**$ 2,108,609**	**$2,108,609**	$ 1,979,125	$ 1,979,125
Deposits with stated maturities	**3,622,002**	**3,732,251**	3,622,002	3,636,147
Federal funds purchased and repurchase agreements	**178,455**	**178,455**	245,110	245,110
Short and long-term debt	**645,126**	**651,860**	465,961	475,840
Other liabilities	**9,361**	**9,361**	9,414	9,414
Unrecognized financial instruments				
Commitments to extend credit	**$ 1,036,020**	**$1,036,020**	$ 804,130	$ 804,130
Financial standby letters of credit	**353,296**	**353,296**	311,131	311,131
Guarantees provided	**5,594**	**5,594**	4,780	4,780

NOTE 17 - ACCUMULATED OTHER COMPREHENSIVE INCOME

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

Continued on next page

(In Thousands)

The changes in accumulated other comprehensive income by component for the years ended December 31, 2014 and 2013 follows:

	Unrealized gain and losses on available-for-sale securities	Gains and losses on cash flow hedges	Total
Year ended December 31, 2014			
Beginning balance	$ 92	$ -	$ 92
Other comprehensive income before reclassifications	11,500	(4,443)	7,057
Amount reclassified from accumulated other comprehensive income	(291)	-	(291)
Net current period other comprehensive income	11,209	(4,443)	6,766
Ending balance	$ 11,301	$ (4,443)	$ 6,858

	Unrealized gain and losses on available-for-sale securities	Gains and losses on cash flow hedges	Total
Year ended December 31, 2013			
Beginning balance	$ 16,816	$ -	$ 16,816
Other comprehensive income before reclassifications	(16,747)	-	(16,747)
Amount reclassified from accumulated other comprehensive income	23	-	23
Net current period other comprehensive income	(16,724)	-	(16,724)
Ending balance	$ 92	$ -	$ 92

Continued on next page

The line items in the statements of income affected by the reclassifications out of accumulated other comprehensive income for the years ended December 31, 2014 and 2013 is as follows:

2014

Details About Accumulated Other Comprehensive Income Components	**Amount Reclassified from Accumulated Other Comprehensive Income**	**Affected Line Item in the Statement where Net Income is Presented**
Unrealized gains and losses on available-for sale securities	**$ 291**	**Net gain/(loss) on available-for-sale securities**

2013

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement where Net Income is Presented
Unrealized gains and losses on available-for sale securities	$ (23)	Net gain/(loss) on available-for-sale securities

Continued on next page

(In Thousands)

NOTE 18 - SUPPLEMENTAL DISCLOSURES RELATED TO STATEMENTS OF CASH FLOWS

	2014	2013
Supplemental disclosures of cash flow information		
Cash payments for:		
Interest paid to customers	**$ 13,229**	$ 13,669
Interest paid on federal funds purchased and securities sold under repurchase agreements	**269**	326
Interest paid on short and long-term debt	**17,856**	16,376
Supplemental schedule of noncash investing and financing activities		
Transfers from undivided profits to other liabilities	**17,388**	19,356
Net change in unrealized gain (loss) on securities available for sale	**11,209**	(16,724)
Net change in unrealized gain (loss) on interest rate swap	**(4,443)**	-
Transfer from other assets to bank premises, equipment, and software, net	**761**	-
Other real estate and property owned acquired in exchange for loans	**-**	399
Amount required to be repaid by rebuilders loan program previously transferred from Bank equity	**-**	30,000

NOTE 19 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 3, 2015, which is the date these financial statements were available to be issued.

BANK OF NORTH DAKOTA
TEN YEAR SUMMARY

Bank of North Dakota experienced its eleventh consecutive year of record profits in 2014. The ten-year summary illustrates consistent growth across all bank portfolios.

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BANK OF NORTH DAKOTA
TEN YEAR SUMMARY

TEN YEAR SUMMARY	2014	2013	2012	2011
OPERATING RESULTS (in thousands)				
Interest income	$174,584	$153,182	$145,870	$137,459
Interest expense	31,455	30,217	35,349	39,541
Net interest income	143,129	122,965	110,521	97,918
Provision for loan losses	8,000	-	2,000	11,000
Net interest income after provision for loan losses	135,129	122,965	108,521	86,918
Non-interest income	7,987	7,422	4,659	4,911
Non-interest expense	32,157	36,172	31,586	21,494
Net income	**110,959**	**94,215**	**81,594**	**70,335**
Payments to general fund	-	-	-	-
Payments to other funds	17,388	19,356	28,997	2,815
BALANCE SHEET - YEAR END (in thousands) TOTAL ASSETS	**7,215,687**	**6,873,409**	**6,155,201**	**5,375,073**
FEDERAL FUNDS SOLD AND RESELL AGREEMENTS	42,105	36,645	24,050	18,315
SECURITIES	2,933,570	2,584,169	2,171,546	1,008,051
LOANS	**3,852,155**	**3,476,946**	**3,279,778**	**2,995,154**
Student	1,203,972	1,097,155	1,064,041	1,062,534
Commercial	1,559,137	1,388,104	1,278,403	1,068,598
Residential	652,076	629,931	594,508	575,020
Agriculture	436,970	361,756	342,826	289,002
DEPOSITS	**5,730,611**	**5,601,127**	**5,003,562**	**4,179,837**
Non-interest bearing	700,446	798,559	891,197	649,922
Interest bearing	5,030,165	4,802,568	4,112,365	3,529,915
FEDERAL FUNDS PURCHASED AND REPURCHASE AGREEMENTS	178,455	245,110	275,960	318,325
SHORT AND LONG-TERM DEBT	645,126	465,961	406,252	471,422
EQUITY	**652,134**	**551,797**	**463,662**	**399,903**
Capital	2,000	2,000	2,000	2,000
Capital surplus	72,000	72,000	42,000	42,000
Undivided profits	571,276	477,705	402,846	350,249
Accumulated other comprehensive income (loss)	6,858	92	16,816	5,654

BANK OF NORTH DAKOTA
TEN YEAR SUMMARY

2010	2009	2008	2007	2006	2005
$133,400	$132,277	$148,613	$152,416	$126,598	$98,086
45,188	50,994	71,801	87,090	71,284	51,623
88,212	81,283	76,812	65,326	55,314	46,463
12,100	10,300	8,900	3,100	3,400	2,400
76,112	70,983	67,912	62,226	51,914	44,063
6,113	6,206	7,617	6,673	7,748	9,332
20,374	19,106	18,485	17,813	16,808	17,038
61,851	**58,083**	**57,044**	**51,086**	**42,854**	**36,357**
-	30,000	30,000	30,000	30,000	30,000
5,088	-	46	46	43	43
4,029,927	**3,959,669**	**3,516,965**	**2,779,360**	**2,326,693**	**2,062,247**
33,100	24,190	75,675	277,565	129,135	195,370
537,157	397,370	331,416	235,551	219,412	157,623
2,814,548	**2,713,611**	**2,618,402**	**2,004,999**	**1,755,562**	**1,467,061**
1,044,442	932,323	776,473	643,297	561,178	459,287
1,022,002	1,038,589	1,064,811	689,150	564,946	431,068
471,411	475,124	509,052	419,700	388,043	342,786
276,693	267,575	268,066	252,852	241,395	233,920
3,058,726	**2,939,059**	**2,645,356**	**1,871,767**	**1,617,136**	**1,352,516**
387,040	442,867	313,900	317,949	230,993	205,854
2,671,686	2,496,192	2,331,456	1,553,818	1,386,143	1,146,662
240,725	337,627	304,020	434,061	249,145	248,932
397,365	405,005	315,604	245,070	257,209	275,926
327,297	**271,649**	**223,922**	**192,471**	**163,542**	**161,824**
2,000	2,000	2,000	2,000	2,000	2,000
42,000	42,000	42,000	42,000	42,000	42,000
282,729	225,966	182,883	145,843	119,894	119,894
568	1,683	(2,961)	2,628	(352)	(2,070)

Bank of North Dakota

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