BND

Bank of North Dakota

Achieve more.

INNOVATION-FOCUSED

ANNUAL REPORT 2017

Mission

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

Vision

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

Core Values

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

Culture Initiative

By creating a coaching culture, we will inspire curiosity, empower individuals and identify opportunities to collaborate.

President's Message

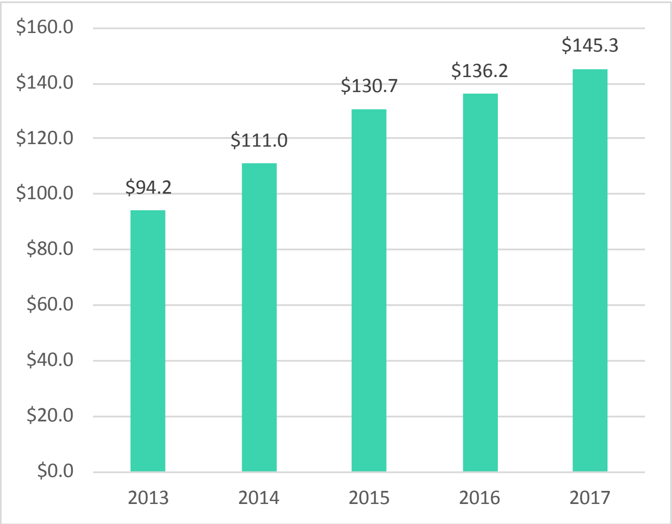
While business as usual has not been an acceptable practice at Bank of North Dakota (BND) for many years, 2017 was a year when we focused our efforts to become an even greater economic force for the residents of North Dakota. We made this progress because we encouraged our employees to be more curious, requesting they look at their work and ask the tough questions, "What if we tried _____?" and they filled in the blanks. While the dollar value of an innovative culture is not easily tallied, I'm pleased to share some early rewarding results.

The focus groups we held in 2016 led to updates in 2017 for our PACE, Flex PACE, Beginning Entrepreneur Loan Guarantee and BND Venture Capital Fund programs and the addition of the Accelerated Growth Loan Program. This new option assists well-established North Dakota-based companies with limited assets that are entering or anticipating a period of dynamic growth.

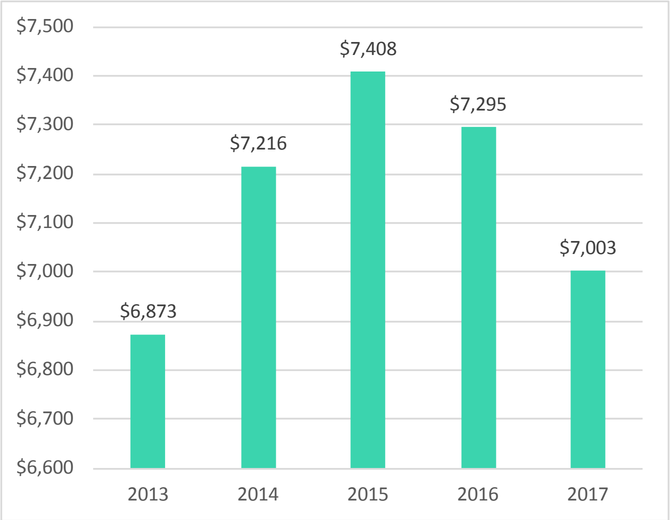
We worked closely with bankers across the state, the Office of the Governor and the Department of Agriculture to create disaster relief programs for ranchers in response to the drought that plagued much of the state. Fortunately, timely rains and cool conditions meant few ranchers needed the Feed Cost Program in 2017, but it, along with the Breeding Stock Rebuilding Program, will be available in 2018.

As the number of federal student loans in our student loan portfolio decreased, we made the decision to sell them to North Texas Higher Education Authority. This makes our Education Market staff more agile, and they are increasing efforts with borrowers for our BND-sponsored student loan programs that pay for college and refinance afterward.

Annual Income
(in millions)



BND Assets
(in millions)



We continue to advance technology solutions for many Bank processes. We worked with Sycorr, a Fargo-based software company, to create a streamlined PACE and Flex PACE application and monitoring process.

The reorganization of the lending and Credit Administration areas is complete. Now, business bankers are able to work more closely with our community bank partners because the credit analysis and underwriting functions are completed by Credit Administration.

One of our employees, Jonas Carlisle of the Treasury & Accounting division, created new efficiencies in processing safekeeping fees, saving the Bank more than $18,000 annually. For his efforts, he was recognized by the state's Employee Suggestion Incentive Program.

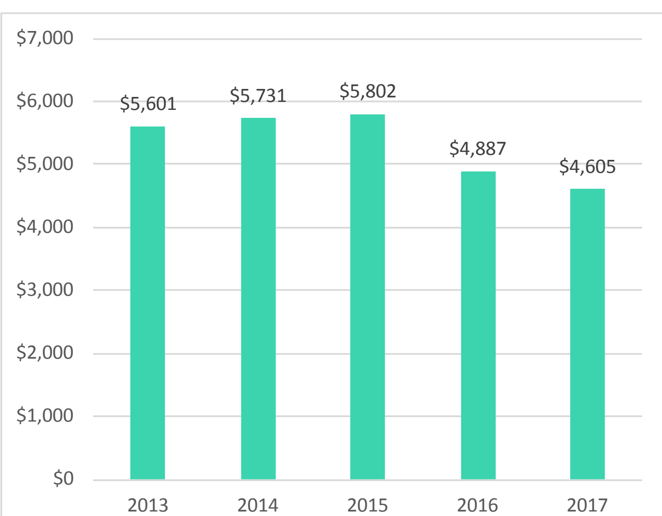
We carried the spirit of innovation with us as we led focus groups with economic developers, bankers, higher education partners, government officials and the Advisory Board. Their input played significantly in the 2018-2020 BND Strategic Plan.

These are a few examples of activities happening daily at Bank of North Dakota. Employees are energized at the prospect of creating efficiencies and improving service for our customers. We are committed to continue being curious and collaborating within the Bank across service areas and externally with bankers, state agencies, higher education and economic developers to fulfill our mission to support agriculture, commerce and industry in North Dakota.

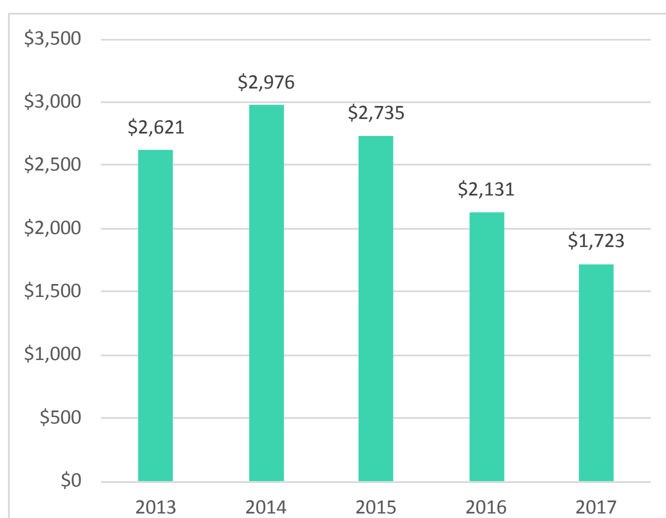
I'm pleased to report we posted our 14th consecutive year of record profits with more than $145 million in income. The state's return on its investment at the Bank was a healthy 17 percent. Thank you to our banking partners, economic developers, city and county leaders and legislators who continually strive to help their communities and clients achieve more. You play an important role in the Bank's success.

Eric Hardmeyer
President/CEO

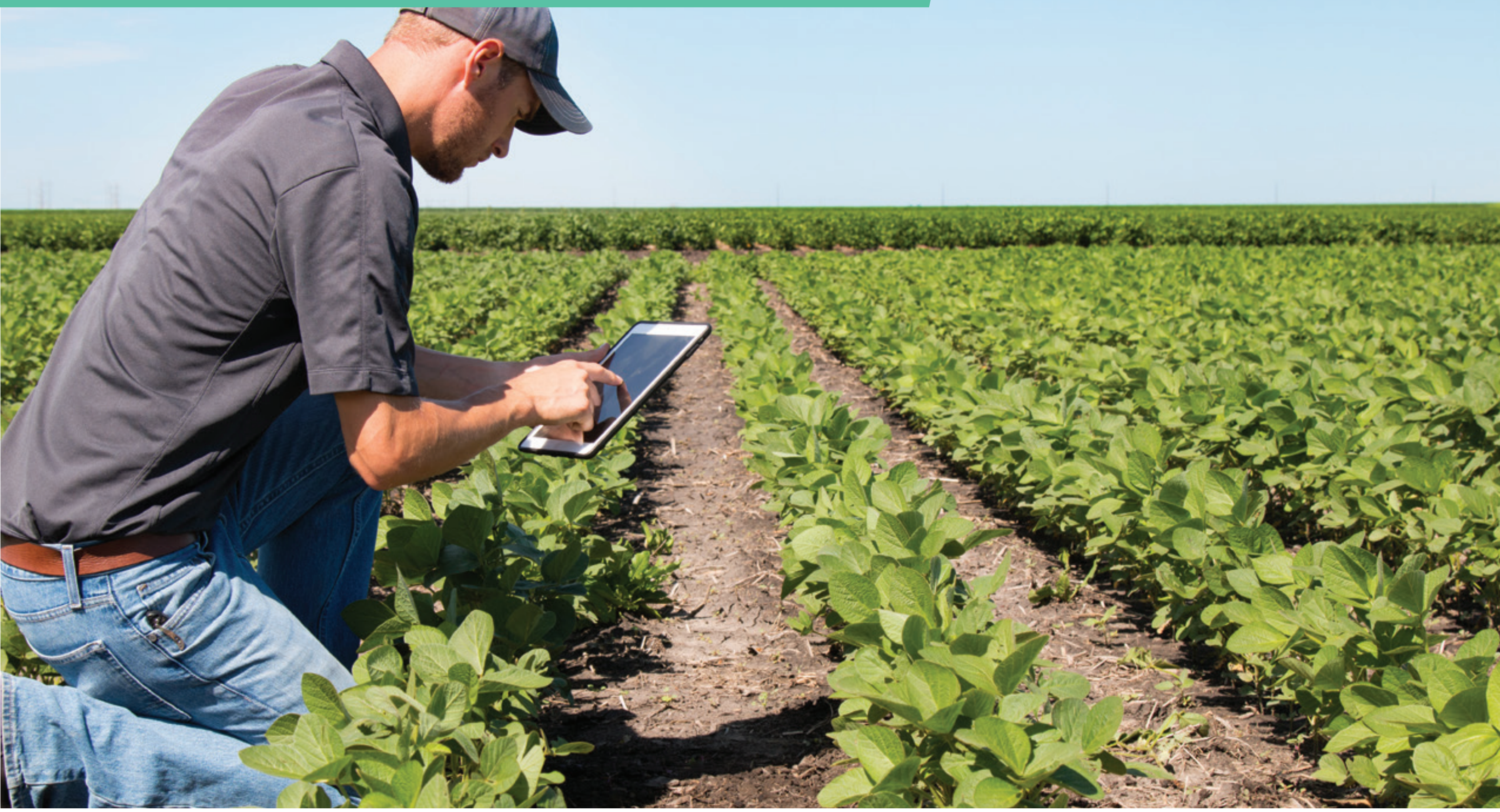
Deposit Size
(in millions)



Investment Portfolio
(in millions)



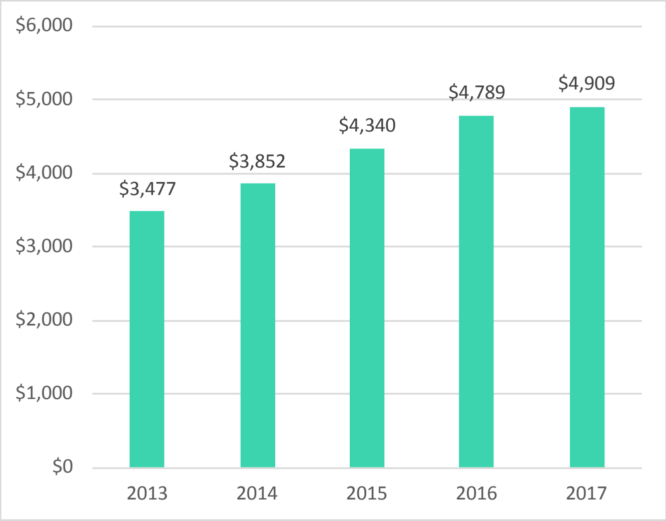
Lending Portfolio



Total Loan Portfolio

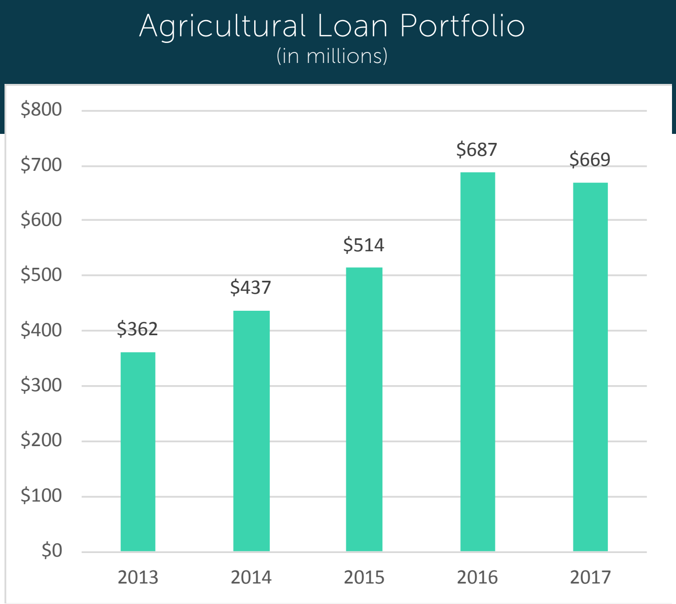
Bank of North Dakota had an excellent year in 2017 with 23,563 loans originated or renewed for a total of $1.72 billion. BND's total loan portfolio grew by $120 million, an overall loan growth of 2.5 percent. Business loans and student loans accounted for the largest growth.

Lending Total Loan Portfolio
(in millions)



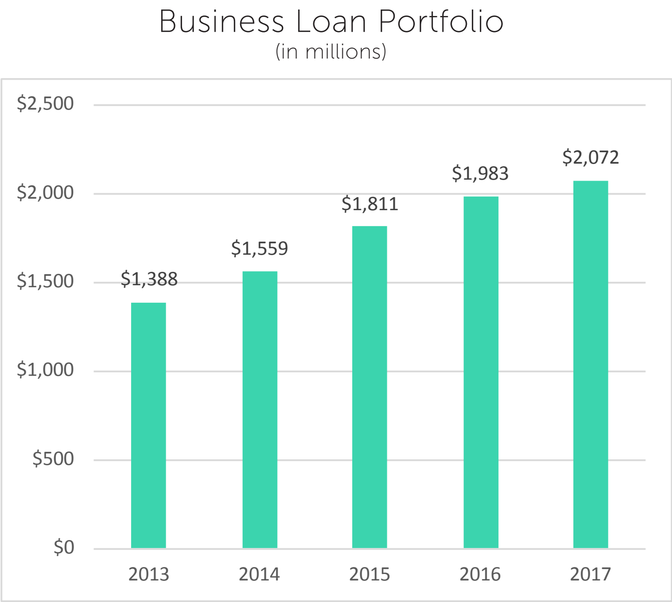
Agricultural Loan Portfolio

The ag loan portfolio decreased by $18 million during the year with BND funding and renewing $232 million of loans. Farm and Ranch Participation loans led the way with $171 million in loan volume.



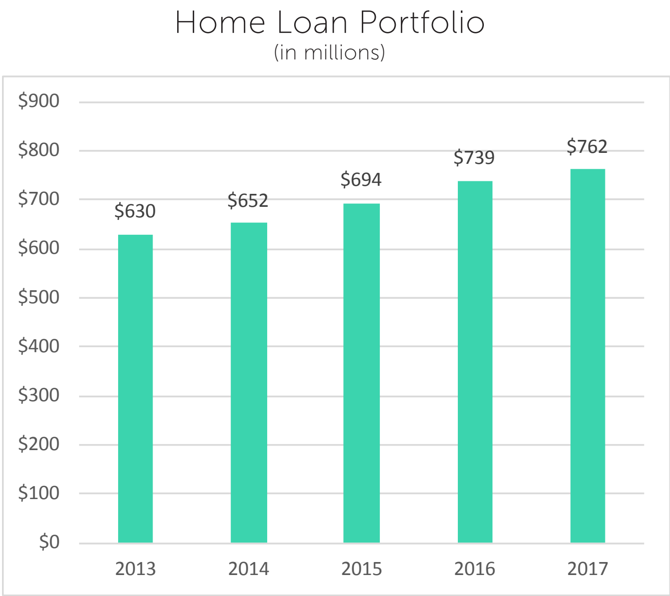
Business Loan Portfolio

The business loan portfolio increased by $89 million with BND funding and renewing $1.175 billion of loans during 2017. The largest area of growth was commercial participations with BND funding and renewing $683 million.



Home Loan Portfolio

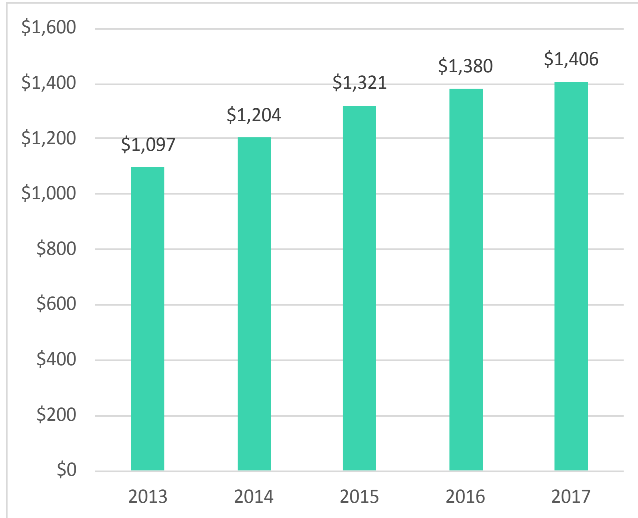
The home loan portfolio increased by $23 million with BND funding $122 million of home loans during 2017. Favorable interest rates and demand in the housing market are two factors that contributed to this growth.



Student Loan Portfolio

The student loan portfolio grew by $26 million with more than $192 million in loans disbursed. Of the total dollar amount of loans disbursed, 43 percent were student loans to refinance student loan debt and 45 percent were loans for higher education expenses. The remaining were DEAL Consolidation Loans that allowed current out-of-state customers to refinance their student loans. There were 10,277 borrowers who benefited from the Bank's student loan programs in 2017.

Student Loan Portfolio
(in millions)



Administered Loan Programs

BND administers several loan programs that are funded by other state or federal agencies or the Legislature. Examples of these programs include the Beginning Entrepreneur Loan Guarantee, USDA Community Water Loan Program, the Infrastructure Revolving Loan Fund and School Construction Loans. BND originated 133 loans totaling $95.4 million in 2017.

Credit Administration updates yield results

Administration and management of the Bank's loan portfolio are activities that don't make headlines but are essential to assure lending strategy is solid. By monitoring the credit risk of the portfolio, we identify industries that are suffering economically and areas where we need to diversify, either geographically or by industry.

The reorganization of the lending and Credit Administration areas has resulted in more robust and independent credit analysis while providing BND's business bankers more opportunities to work with lead financial institutions in understanding the market and needs of their banking customers. Credit analysis consists of analyzing all aspects of risk for a borrower and goes well beyond just a financial analysis of the credit. Credit analysis often includes scenario analysis, valuation analysis and stress testing based on varying potential factors that could impact a specific borrower.

This information is used to monitor changes that impact future lending activity, create better diversification of the portfolio and plan for loan loss reserve needs. It's an important role BND plays in managing and protecting the resources of the state of North Dakota.

Federal student loan sale

Bank of North Dakota entered into an agreement to sell the federal student loan portion of its student loan portfolio to North Texas Higher Education Authority (NTHEA). This allows BND to eliminate numerous regulatory burdens established by the U.S. Department of Education, increase its default prevention efforts and begin the process to update servicing technology. BND continues to own, offer and service its state-sponsored student loans that are used during college and to refinance afterward.

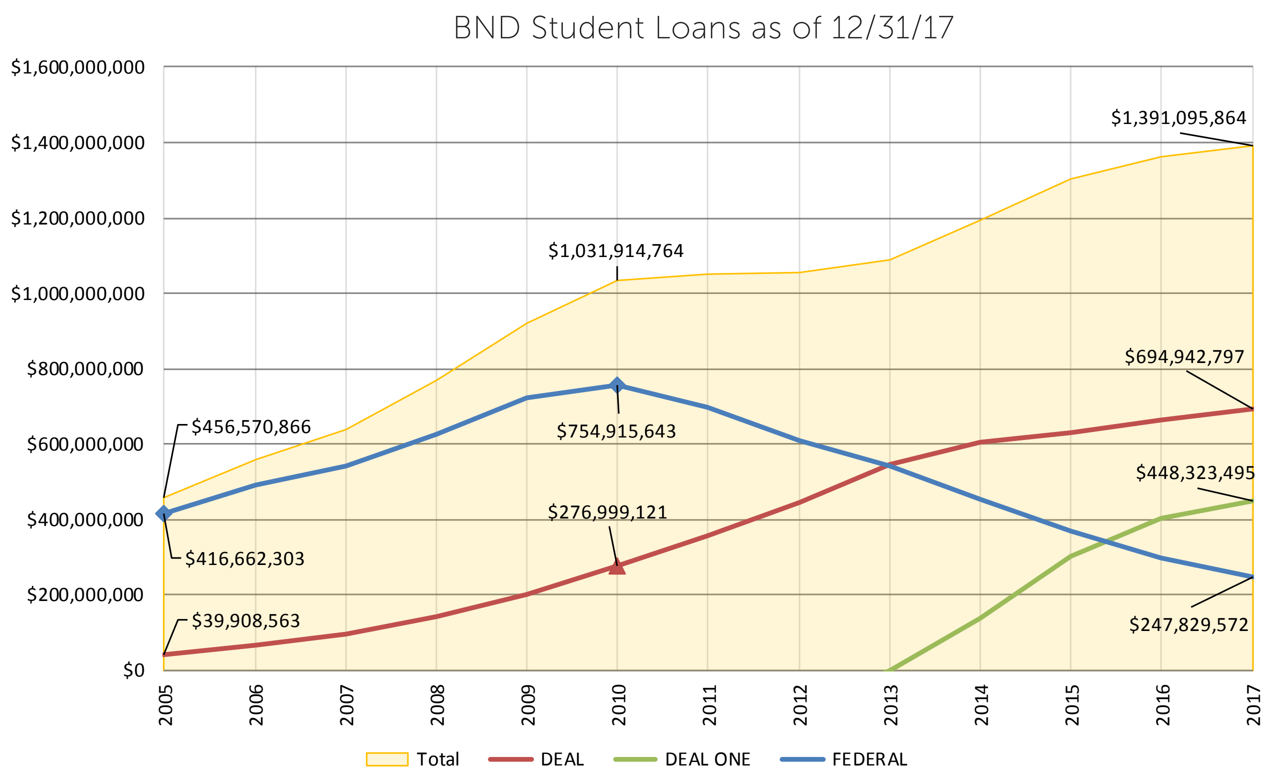
When the federal government recalled the federal student loan business in 2010, BND's portfolio had $755 million in federal student loans for 57,000 borrowers. By the time of the sale, that portion of the portfolio had shrunk considerably to $248 million for 19,000 borrowers. During the same period, our BND-sponsored student loan program grew from $277 million to $1.1 billion.

North Texas Higher Education Authority was selected after a bidding process and on-site visit from BND student loan staff members. The transferred loans are being serviced by Higher Education Servicing Corporation, a private nonprofit organization founded in 1978 whose mission is to service and administer federal student loans for NTHEA.

The transfer was completed January 2, 2018. A small number of the federal loans will remain in the portfolio until April 1, 2018.

Qualified North Dakota residents who had federal student loans may apply to refinance their student loans with Bank of North Dakota. If a North Dakota borrower does not qualify on their own, they may select a co-signer who meets credit criteria.

Staff members who worked with servicing federal student loans were assigned duties in the BND state-sponsored student loan area because of its increased volume.



Loan program updates

Focus groups spur changes to loan programs

In response to input from statewide focus groups held in 2016, BND updated the guidelines for its Beginning Entrepreneur Loan Guarantee, PACE, Flex PACE and BND New Venture Capital Fund programs and added a new loan program.

The Accelerated Growth Loan Program is a new option to assist North Dakota-based companies entering or anticipating a period of dynamic growth. These companies have a record of proven operations, experienced management and the ability to generate cash flow, but have limited assets for traditional bank financing.

BND updated the PACE eligibility guidelines requiring the borrower to be a primary sector business as defined by N.D.C.C. § 1-01-49 and to be certified by the North Dakota Department of Commerce. This change unifies the definition of a primary sector business across state agencies and eliminates confusion as to eligibility.

A significant change in the program was to modify how the buydown amount is determined. Now, a company can receive a PACE buydown based on either the actual job creation or the total investment in a new or business expansion project. In addition, the state buydown portion funded by BND was increased from a maximum of $300,000 to $500,000. PACE helps cities and towns expand their economic base by involving both the local lender and community in identifying their needs and providing financial support.

Flex PACE is an alternative program that works with communities which want to assist businesses, child care facilities and housing projects that do not meet the primary sector definition of PACE. The Flex PACE buydown provided by BND increased from $100,000 to $200,000 for a business project. Child care projects are eligible for up to $300,000 in buydown, and affordable housing projects can receive $500,000 in Flex PACE buydown from BND.

BND is enhancing support of entrepreneurs and early-stage startup companies through its New Venture Capital Fund. There is a new emphasis to invest in pre-revenue companies, support local community efforts to provide seed capital and enhance public-private partnerships to stimulate early-stage investing in North Dakota companies. The fund is managed by the North Dakota Department of Commerce.

Ag disaster relief programs initiated

Bank of North Dakota worked with ag lenders, the Office of the Governor and the North Dakota Department of Agriculture to ensure livestock producers in the state had adequate financial tools available to address drought-related concerns. At one point, more than 80 percent of the state was impacted by the drought with much of it classified as extreme or severe.

Two programs were developed. The Breeding Stock Rebuilding Program allowed the borrower to purchase and rebuild breeding stock to average levels pre-drought. The Feed Cost Program assisted with feed costs for livestock producers who demonstrated an expected shortfall in the amount of feed needed to sustain their existing breeding livestock and backgrounding livestock operation levels.

Late-season rains and unusually cool conditions accounted for low utilization of the Feed Cost Program in 2017. But the program is still available in 2018 to address ongoing feed issues for ranchers. It is expected the Breeding Stock Rebuilding Program will be used in 2018 as breeders increase herd levels to pre-drought capacity.

Meetings were held to discuss the needs of grain producers, and local lenders felt they could work with their clients to ensure their cash flow needs are met through current funding channels. Yields were often better than predicted, so it was decided not to extend a special program for them.

2018-2020 Strategic Plan

Five strategies with initiatives will focus the Bank's efforts through 2020.

Strategy 1: Drive economic growth and diversity

BND will build on its role in driving economic diversification by innovatively enhancing BND's financing solutions.

Initiatives:

1. Expand BND's leadership role as economic development financing experts, strengthen its ability to facilitate the financing of very large projects and provide programming that drives economic diversification.

2. Grow BND's role in financing municipal infrastructure projects.

3. Collaborate with relevant agencies to enhance the availability of affordable housing.

Strategy 2: Expand access to postsecondary education

BND will strive to be the preferred and trusted resource North Dakotans choose for planning and preparing for and financing postsecondary education.

Initiatives:

1. Explore funding needs of nontraditional students.
2. Determine how to help students achieve learning goals with reasonable debt levels.
3. Build education market partnerships.
4. Enhance marketing of College SAVE and student loan programs to use for workforce development.
5. Refine and enhance financial literacy efforts to engage students at an earlier age to help prepare them financially for the future.

Strategy 3: Utilize BND's unique competitive advantage

BND will utilize its unique competitive advantage as a statewide resource to provide relevant correspondent banking services that meet the current and emerging needs of our financial institution partners.

Initiatives:

1. Enhance relationships with banks and stay flexible to their needs with new lending programs and by including broader financing resources.
2. Deliver the full breadth of BND services to financial institutions, effectively using customer relationship management software for transparency and collaboration.
3. Build a capability (technology, operations, skills) to facilitate project syndication and sub-participations primarily with North Dakota banks.
4. Connect more electronically with bank clients through activities such as continued improvement of the loan application process by developing a loan application portal and certifications.

Strategy 4: Enhance innovation and agility to be a model of effective government

BND will effectively use innovation and collaboration to be more agile in partnering with other agencies and stakeholders to create solutions leading to more effective government.

Initiatives:

1. Review markets and business functions in terms of BND's mission, liquidity/capital requirements and staffing needs.

2. Initiate more collaboration and conversations with relevant state agencies to leverage more of BND's capabilities.

3. Develop a legislative process to help decide on priorities and use of human resources and capital.

4. Develop a longer-term strategy to capture more BND deposits.

5. Develop a total compensation philosophy for BND.

6. Develop BND's workforce and evolve to a more innovative culture to create an agile organization through training and coaching.

7. Review procurement processes to identify opportunities that could increase BND's agility.

8. Develop overall measurement scorecard to track initiative results.

Strategy 5: Optimize technology and the use of data

BND will extract maximum value from technology and leverage available data to serve customers and internal users.

Initiatives:

1. Acquire and implement a new student loan software system.

2. Enhance the use of technology to collaborate internally and to interact with clients.

3. Develop a payments strategy and implement solutions.

4. Analyze the impact of FinTech and emerging technology on BND and our financial institution clients.

5. Collaborate with the state to develop a data hub or data lake functionality and expand BND's data analysis capabilities.

6. Revise collection strategy for DEAL programs.

BND Leadership

North Dakota Industrial Commission


Doug Burgum
Governor


Doug Goehring
Ag Commissioner


Wayne Stenehjem
Attorney General

BND Advisory Board


Gary Petersen


Karl Bollingberg


Pat Clement


Dennis Johnson


Pat Mahar


Sue Morton


Christie Obenauer

BND Executive Committee


Eric Hardmeyer


Kirby Evanger


Joe Herslip


Lori Leingang


Tim Porter


Todd Steinwand


Jeff Weiler

Ending Balance Sheet

Bank of North Dakota
December 31, 2017 (Unaudited)

			(In thousands)
Assets			
Cash and due from banks	$		357,042
Federal funds sold			57,555
Securities			1,665,252
Loans			
Commercial		2,071,953	
Agricultural		668,904	
Residential		762,480	
Student		1,405,941	
Total Loans		4,909,278	
Less allowance for loan loss		(84,958)	
Total loans less allowance			4,824,320
Other assets			99,133
Total assets	$		7,003,302
Liabilities and Equity			
Deposits			
Noninterest bearing	$	555,020	
Interest bearing		4,049,938	
Total Deposits			$4,604,958
Federal funds purchased and repurchase agreements			299,775
Short- and long-term borrowings			1,263,569
Other liabilities			10,198
Total liabilities			6,178,500
Equity			824,802
Total liabilities and equity	$		7,003,302

Ending Income Statement

Bank of North Dakota
December 31, 2017 (Unaudited)

		(In thousands)
Interest Income	$ 219,700	
Interest Expense	(37,865)	
Net Interest Income		181,835
Provision for Loan Losses		(12,000)
Net Interest Income After Provision		169,835
Noninterest Income		6,335
Noninterest Expense		
Salaries and benefits	(16,608)	
Data processing	(5,157)	
Occupancy and equipment	(1,448)	
Other operating expense	(7,673)	
Total noninterest expense		(30,886)
Net Income		$ 145,284

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

Ten-Year Summary

Bank of North Dakota
December 31, 2017 (Unaudited)

	2017	2016	2015	2014
Operating Results (in thousands)				
Interest income	$219,700	$210,803	$194,298	$174,584
Interest expense	37,865	33,975	32,164	31,455
Net interest income	181,835	176,828	162,134	143,129
Provision for loan losses	12,000	16,000	12,500	8,000
Net interest income after provision for loan losses	169,835	160,828	149,634	135,129
Noninterest income	6,335	6,323	7,688	7,987
Noninterest expense	30,886	30,996	26,668	32,157
Net Income	**145,284**	**136,155**	**130,654**	**110,959**
Payments to general fund	170,000	-	-	-
Payments to other funds	16,932	19,989	28,645	17,345
Balance Sheet (in thousands)				
Total Assets - Year End	**7,003,302**	**7,295,268**	**7,407,942**	**7,215,687**
Federal funds sold and resell agreements	57,555	63,070	77,905	42,105
Securities	1,665,252	2,068,327	2,657,527	2,933,570
Loans	**4,909,278**	**4,789,553**	**4,339,618**	**3,852,155**
Agricultural	668,904	687,486	513,899	436,970
Commercial	2,071,953	1,982,625	1,811,259	1,559,137
Residential	762,480	739,412	693,712	652,076
Student	1,405,941	1,380,030	1,320,748	1,203,972
Deposits	**4,604,958**	**4,887,192**	**5,802,142**	**5,730,611**
Noninterest bearing	555,020	663,156	641,264	700,446
Interest bearing	4,049,938	4,224,036	5,160,878	5,030,165
Federal funds purchased and repurchased agreements	299,775	242,480	119,500	178,455
Short- and Long- Term Debt	**1,263,569**	**1,280,538**	**727,322**	**645,126**
Equity	**824,802**	**875,732**	**749,493**	**652,134**
Capital	2,000	2,000	2,000	2,000
Capital surplus	72,000	72,000	72,000	72,000
Undivided profits	747,848	789,496	673,330	571,276
Accumulated other comprehensive income (loss)	2,954	12,236	2,163	6,858

2013	2012	2011	2010	2009	2008
$153,182	$145,870	$137,459	$133,400	$132,277	$148,613
30,217	35,349	39,541	45,188	50,994	71,801
122,965	110,521	97,918	88,212	81,283	76,812
-	2,000	11,000	12,100	10,300	8,900
122,965	108,521	86,918	76,112	70,983	67,912
7,422	4,659	4,911	6,113	6,206	7,617
36,172	31,586	21,494	20,374	19,106	18,485
94,215	**81,594**	**70,335**	**61,851**	**58,083**	**57,044**
-	-	-	-	30,000	30,000
19,356	28,997	2,815	5,088	-	46
6,873,409	**6,155,201**	**5,375,073**	**4,029,927**	**3,959,669**	**3,516,965**
36,645	24,050	18,315	33,100	24,190	75,675
2,584,169	2,171,546	1,008,051	537,157	397,370	331,416
3,476,946	**3,279,778**	**2,995,154**	**2,814,548**	**2,713,611**	**2,618,402**
361,756	342,826	289,002	276,693	267,575	268,066
1,388,104	1,278,403	1,068,598	1,022,002	1,038,589	1,064,811
629,931	594,508	575,020	471,411	475,124	509,052
1,097,155	1,064,041	1,062,534	1,044,442	932,323	776,473
5,601,127	**5,003,562**	**4,179,837**	**3,058,726**	**2,939,059**	**2,645,356**
798,559	891,197	649,922	387,040	442,867	313,900
4,802,568	4,112,365	3,529,915	2,671,686	2,496,192	2,331,456
245,110	275,960	318,325	240,725	337,627	304,020
465,961	**406,252**	**471,422**	**397,365**	**405,005**	**315,604**
551,797	**463,662**	**399,903**	**327,297**	**271,649**	**223,922**
2,000	2,000	2,000	2,000	2,000	2,000
72,000	42,000	42,000	42,000	42,000	42,000
477,705	402,846	350,249	282,729	225,966	182,883
92	16,816	5,654	568	1,683	(2,961)

BND

Bank of North Dakota

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FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

BND

Bank of North Dakota

BANK OF NORTH DAKOTA

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Governor of North Dakota and
the Legislative Assembly
State of North Dakota
Bismarck, North Dakota

Report on the Financial Statements
We have audited the accompanying financial statements of Bank of North Dakota, which comprise the balance sheets as of December 31, 2017 and 2016 and the related statements of income, comprehensive income, equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

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

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles for Governmental Entities
As described in Note 1 of the financial statements, Bank of North Dakota is a governmental entity as defined by the Governmental Accounting Standards Board (GASB). Accordingly, the standards as promulgated by GASB are the appropriate accounting standards for Bank of North Dakota to follow. However, Bank of North Dakota has prepared its financial statements in accordance with accounting standards as promulgated by the Financial Accounting Standards Board (FASB) even though the entity meets the "governmental" criteria.

The effects on the financial statements of the variances between the accounting policies described in Note 1 and generally accepted accounting principles for governmental entities, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles for Governmental Entities
In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles for Governmental Entities," the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America for governmental entities, the financial position of Bank of North Dakota as of December 31, 2017 and 2016, or changes in financial position or cash flows thereof for the years then ended.

Opinion on Accounting Standards as Promulgated by the Financial Accounting Standards Board
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, 2017 and 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting standards as promulgated by FASB.

Eide Bailly LLP

Bismarck, North Dakota
February 14, 2018

BANK OF NORTH DAKOTA
BALANCE SHEETS
YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands)

	2017	2016
ASSETS		
Cash and due from banks	**$ 357,042**	$ 361,807
Federal funds sold	**57,555**	63,070
Cash and cash equivalents	**414,597**	424,877
Securities	**1,665,252**	2,068,327
Loans held for investment	**4,661,432**	4,789,553
Loans held for sale	**247,846**	-
Less allowance for loan losses	**(84,958)**	(78,747)
	4,824,320	4,710,806
Interest receivable	**53,525**	50,824
Bank premises, equipment, and software, net	**10,919**	11,942
Rebuilders loan program receivable	**13,682**	17,474
Other assets	**21,007**	11,018
Total assets	**$ 7,003,302**	$ 7,295,268
LIABILITIES AND EQUITY		
Deposits		
Non-interest bearing	**$ 555,020**	$ 663,156
Interest bearing	**4,049,938**	4,224,036
	4,604,958	4,887,192
Federal funds purchased and repurchase agreements	**299,775**	242,480
Short and long-term debt	**1,263,569**	1,280,538
Other liabilities	**10,198**	9,326
Total liabilities	**6,178,500**	6,419,536
Equity		
Capital	**2,000**	2,000
Capital surplus	**72,000**	72,000
Undivided profits	**747,848**	789,496
Accumulated other comprehensive income	**2,954**	12,236
Total equity	**824,802**	875,732
Total liabilities and equity	**$ 7,003,302**	$ 7,295,268

BANK OF NORTH DAKOTA
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands)

	2017	2016
INTEREST INCOME		
Federal funds sold	$ 569	$ 477
Securities	30,321	35,289
Loans, including fees	188,810	175,037
Total interest income	219,700	210,803
INTEREST EXPENSE		
Deposits	10,469	11,457
Federal funds purchased and repurchase agreements	2,818	861
Short and long-term debt	24,578	21,657
Total interest expense	37,865	33,975
NET INTEREST INCOME	181,835	176,828
PROVISION FOR LOAN LOSSES	12,000	16,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	169,835	160,828
NONINTEREST INCOME		
Service fees and other	6,335	6,323
Total noninterest income	6,335	6,323
NONINTEREST EXPENSE		
Salaries and benefits	16,608	16,151
Data processing	5,157	5,745
Long-term debt prepayment fee	-	1,343
Occupancy and equipment	1,448	843
Other operating expenses	7,673	6,914
Total noninterest expenses	30,886	30,997
NET INCOME	$ 145,284	$ 136,155

BANK OF NORTH DAKOTA
STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands)

	2017	2016
Net income	**$ 145,284**	$ 136,155
Other comprehensive income		
Unrealized gain/(loss) on securities available for sale	**(10,498)**	3,933
Unrealized gain on interest rate swap	**861**	6,009
Reclassification adjustment for losses realized in net income	**355**	131
Other comprehensive income	**(9,282)**	10,073
Comprehensive income	**$ 136,002**	$ 146,228

BANK OF NORTH DAKOTA
STATEMENTS OF EQUITY
YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands)

	Capital	Capital Surplus	Undivided Profits	Accumulated Other Comprehensive Income (Loss)	Total
BALANCE, DECEMBER 31, 2015	$ 2,000	$ 72,000	$ 673,330	$ 2,163	$ 749,493
Net income			136,155		136,155
Unrealized gain on securities available for sale				3,933	3,933
Unrealized gain on interest rate swap				6,009	6,009
Reclassification adjustment for losses realized in net income				131	131
Transfers to other state funds			(19,989)		(19,989)
BALANCE, DECEMBER 31, 2016	2,000	72,000	789,496	12,236	875,732
Net income			145,284		145,284
Unrealized loss on securities available for sale				(10,498)	(10,498)
Unrealized gain on interest rate swap				861	861
Reclassification adjustment for losses realized in net income				355	355
Transfers to other state funds			(186,932)		(186,932)
BALANCE, DECEMBER 31, 2017	$ 2,000	$ 72,000	$ 747,848	$ 2,954	$ 824,802

BANK OF NORTH DAKOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands)

	2017	2016
OPERATING ACTIVITIES		
Net income	$ 145,284	$ 136,155
Adjustments to reconcile net income to net cash from operating activities		
Depreciation and amortization	858	730
Provision for loan losses	12,000	16,000
Net amortization/(accretion) of securities	(7,455)	8,486
(Gain) loss on available-for-sale securities	55	(169)
Other than temporary impairment on equity securities	300	300
Gain on sale of residential loans	(108)	(193)
Write-off cost incurred for ND Financial Center	470	-
Loss on sale of foreclosed assets	43	103
Increase in interest receivable	(2,700)	(6,189)
Decrease (increase) in other assets	(5,756)	1,232
Increase in other liabilities	1,302	249
NET CASH FROM OPERATING ACTIVITIES	144,295	156,704
INVESTING ACTIVITIES		
Securities available for sale transactions		
Purchase of securities	(199,590)	-
Proceeds from sales, maturities, and principal repayments	599,311	607,683
Purchase of Federal Home Loan Bank stock	(140,600)	(119,231)
Sale of Federal Home Loan Bank stock	141,409	96,866
Purchase of other equity securities	(1,100)	(1,005)
Sale of other equity securities	602	334
Proceeds from sales of loans	7,561	12,862
Net increase in loans	(137,172)	(469,757)
Purchases of premises and equipment	(305)	(1,106)
Payments from rebuilders loan program	3,793	3,895
Proceeds from sale of foreclosed assets	357	116
NET CASH PROVIDED BY INVESTING ACTIVITIES	274,265	130,657
FINANCING ACTIVITIES		
Net increase (decrease) in non-interest bearing deposits	(108,136)	21,892
Net decrease in interest bearing deposits	(174,098)	(936,842)
Net increase in federal funds purchased and repurchase agreements	57,295	122,980
Proceeds from issuance of short and long-term debt	3,515,001	2,975,001
Payment of short and long-term debt	(3,531,969)	(2,421,785)
Payment of transfers to other state funds	(186,932)	(19,989)
NET CASH USED FOR FINANCING ACTIVITIES	(428,839)	(258,743)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,280)	28,618
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	424,877	396,259
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 414,597	$ 424,877

(In Thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Bank of North Dakota is included as part of the primary government in the State of North Dakota's reporting entity. As such, BND is required to follow the pronouncements of the Government Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing generally accepted accounting principles for governmental entities.

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

BND also prepares financial statements in accordance with GASB pronouncements.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determinations of the allowance for loan losses and the fair market value of interest rate swaps.

Significant Group Concentrations of Credit Risk

Most of the Bank's lending activities are with customers within the State of North Dakota. The Bank's loan portfolio is comprised of the following concentrations as of December 31, 2017 and 2016:

	2017	2016
Commercial loans, of which 2% and 3% are federally guaranteed	**43%**	41%
Student loans, of which 99% and 99% are guaranteed	**29%**	29%
Residential loans, of which 68% and 70% are federally guaranteed	**15%**	16%
Agricultural loans, of which 4% and 4% are federally guaranteed	**13%**	14%
	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. The Bank would recognize any estimated loss as a loss from equity securities in the line item net gain/(loss) on available for sale securities included in non-interest expense. Other-than-temporary write-downs totaled $300 and $300 as of December 31, 2017 and 2016, respectively.

Loans Held For Sale

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

During 2017, the Bank determined it would sell its Federal Family Education Loan (FFEL) Program portfolio. A purchase agreement has been executed with North Texas Higher Education Authority. The agreement calls for closing of this sale during the first quarter of 2018. As of December 31, 2017, these loans are recorded at the lower of cost or fair value, with any fair value adjustments recorded in earnings. Any gain or loss recognized on this sales transaction will be recorded in earnings in the year of closing. In addition, during 2017 the amortization of deferred loan origination fees associated with the FFEL Program was suspended; this balance will be recognized in earnings in the year of closing.

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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-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and amount of the shortfall in relation to the principal and interest owed.

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Impairment is measured on a loan-by-loan basis for commercial participations, bank stock, all other business loans, farm and ranch, farm real estate, all other farm loans, and residential real estate 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 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 \$4,700 and \$894 as of December 31, 2017 and 2016, 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 $52,979 in 2017 and $55,131 in 2016.

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 $96,317 and $117,333 as of December 31, 2017 and 2016, respectively. Of these amounts, $94,330 and $116,841 were deposited at the Federal Reserve Bank.

NOTE 3 - SECURITIES

Securities have been classified in the financial statements according to management's intent. The carrying value of securities as of December 31, 2017 and 2016 consists of the following:

	2017	2016
Securities available for sale, at fair value	**$ 1,600,296**	$ 2,003,060
Federal Home Loan Bank stock, at cost	**59,316**	60,124
Other equity securities, at cost	**5,640**	5,143
	$ 1,665,252	$ 2,068,327

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, 2017				
Securities available for sale				
Federal agency	**$ 1,005,369**	**$ 3,071**	**$ 3,202**	**$ 1,005,238**
Mortgage-backed	**573,664**	**1,921**	**1,495**	**574,090**
US treasuries	**19,978**	**-**	**10**	**19,968**
State and municipal	**1,000**	**-**	**-**	**1,000**
	$ 1,600,011	**$ 4,992**	**$ 4,707**	**$ 1,600,296**

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

There were no securities pledged as of December 31, 2017 and 2016 for repurchase agreements. There were $687,203 and $759,048 of securities pledged as of December 31, 2017 and 2016 for other required pledging purposes**.** FHLB stock totaling $59,316 and $60,124 at December 31, 2017 and 2016, respectively, are pledged on the FHLB advances (Note 9).

Continued on next page

(In Thousands)

The maturity distribution of debt securities at December 31, 2017, 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	$ 502,218	$ 502,525
Over one year through five years	842,440	841,352
Over five years through ten years	209,264	209,447
Over ten years	46,089	46,972
	$ 1,600,011	$ 1,600,296

For the year ended December 31, 2017, proceeds from the sale of securities available for sale were $308,830. Gross realized gains were $14 on these sales. Gross realized losses were $69 on these sales. For the year ended December 31, 2016, proceeds from the sale of securities available for sale were $90,037. Gross realized gains were $169 on these sales.

Continued on next page

(In Thousands)

Information pertaining to securities with gross unrealized losses at December 31, 2017 and 2016 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, 2017	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Securities available for sale				
Federal agency	**$ 2,543**	**$ 692,752**	**$ 659**	**$ 93,352**
Mortgage-backed	**700**	**293,686**	**795**	**112,447**
US treasuries	**10**	**19,968**	**-**	**-**
	$ 3,253	**$ 1,006,406**	**$ 1,454**	**$ 205,799**

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

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, 2017 and 2016, no available for sale securities were written down as other-than-temporary impairments. The unrealized loss position is primarily driven by changes in interest rates and not due to underlying credit losses. The Bank has evaluated and concluded that it does not intend to sell any of these securities, and that it is more likely than not that it will not be required to sell prior to recovery.

Continued on next page

(In Thousands)

NOTE 4 - LOANS

The composition of the loan portfolio at December 31, 2017 and 2016 is as follows:

	2017	2016
Commercial	**$ 2,071,953**	$ 1,982,625
Student	**1,405,941**	1,380,030
Residential	**762,480**	739,412
Agricultural	**668,904**	687,486
	4,909,278	4,789,553
Allowance for loan losses	**(84,958)**	(78,747)
	$ 4,824,320	$ 4,710,805

Unamortized deferred student loan costs totaled $14,788 and $17,543 as of December 31, 2017 and 2016, respectively. Net unamortized loan premiums and discounts, including purchased servicing rights, on residential loans totaled $1,421 and $5,122 as of December 31, 2017 and 2016, 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, 2017 and 2016.

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

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

Continued on next page

(In Thousands)

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

The total allowance reflects management's estimate of credit losses inherent in the loan portfolio at the balance sheet date. The Bank considers the allowance for credit losses of $84,958 adequate to cover loan losses inherent in the loan portfolio, at December 31, 2017. The following tables represent, by portfolio segment, the changes in the allowance for credit losses and the recorded investment in loans.

2017	**Commercial**	**Agricultural**	**Residential**	**Student**	**TOTAL**
Beginning Balance:	**$ 58,267**	**$ 17,070**	**$ 2,431**	**$ 979**	**$ 78,747**
Charge-offs	**(5,887)**	**-**	**(238)**	**(459)**	**(6,584)**
Recoveries	**787**	**7**	**-**	**1**	**795**
Provision	**12,545**	**(682)**	**297**	**(160)**	**12,000**
Ending Balance	**$ 65,712**	**$ 16,395**	**$ 2,490**	**$ 361**	**$ 84,958**

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

Continued on next page

(In Thousands)

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

	2017				
	Commercial	**Agricultural**	**Residential**	**Student**	**TOTAL**
Collectively evaluated	**$ 53,388**	**$ 16,058**	**$ 2,490**	**$ 361**	**$ 72,297**
Individually evaluated	**12,324**	**337**	**-**	**-**	**12,661**
Total	**$ 65,712**	**$ 16,395**	**$ 2,490**	**$ 361**	**$ 84,958**

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

The following tables disaggregate our loan portfolio by impairment methodology.

	2017				
	Commercial	**Agricultural**	**Residential**	**Student**	**TOTAL**
Collectively evaluated	**$1,815,189**	**$ 600,857**	**$ 758,406**	**$ 249,309**	**$3,423,761**
Individually evaluated	**63,094**	**43,608**	**4,027**	**-**	**110,729**
Loan types excluded from allowance	**193,670**	**24,439**	**47**	**1,156,632**	**1,374,788**
Total	**$2,071,953**	**$ 668,904**	**$ 762,480**	**$1,405,941**	**$4,909,278**

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

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, 2017 and 2016. 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.

	2017				
Risk Rating	**Commercial Participations**	**Bank Stock**	**Business Loans (Including PACE)**	**Farm & Ranch**	**Farm Real Estate**
No assigned risk rating	$ -	$ -	$ -	$ -	$ -
1	-	-	-	-	-
2	1,916	-	224,459	2,016	80
3	209,536	159,056	79,914	42,857	57,978
4	737,525	70,299	211,341	102,067	200,434
5	87,622	-	26,071	32,598	34,850
6	59,190	-	5,801	5,297	719
7	4,846	-	707	366	-
8	-	-	-	-	-
Loan types excluded from allowance	-	-	193,670	-	-
Total	$ 1,100,635	$ 229,355	$ 741,963	$ 185,201	$ 294,061

Risk Rating	**All Other Farm Loans**	**Residential Real Estate**	**Student Loans**	**Total**
No assigned risk rating	$ -	$ 762,433	$ 249,309	$ 1,011,742
1	-	-	-	-
2	741	-	-	229,212
3	16,040	-	-	565,381
4	86,999	-	-	1,408,665
5	51,892	-	-	233,033
6	9,184	-	-	80,191
7	347	-	-	6,266
8	-	-	-	-
Loan types excluded from allowance	24,439	47	1,156,632	1,374,788
Total	$ 189,642	$ 762,480	$ 1,405,941	$ 4,909,278

Continued on next page

(In Thousands)

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

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

Continued on next page

(In Thousands)

Following are tables which include an aging analysis of the recorded investment of past due financing receivables as of December 31, 2017 and 2016. 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.

	2017						
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	$ 3,473	$ -	$ 11,080	$ 14,553	$1,086,082	$1,100,635	$ 2,443
Bank Stock	-	-	-	-	229,355	229,355	-
All other Business Loans (Including PACE)	3,420	97	5,280	8,797	733,166	741,963	4,235
Farm & Ranch	2,002	-	366	2,368	182,833	185,201	-
Farm Real Estate	2,440	-	153	2,593	291,468	294,061	153
All other Farm loans	380	1,081	362	1,823	187,819	189,642	15
Residential Real Estate	20,308	6,307	14,246	40,861	721,619	762,480	14,246
Student Loans	16,942	5,903	23,133	45,978	1,359,963	1,405,941	23,076
Totals	$ 48,965	$ 13,388	$ 54,620	$ 116,973	$ 4,792,305	$ 4,909,278	$ 44,168

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

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)

	2017				
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	434	434	-	512	19
All other Business Loans (Including PACE)	-	-	-	-	-
Farm & Ranch	-	-	-	-	-
Farm Real Estate	2,514	2,514	-	2,521	100
All other Farm loans	-	-	-	-	-
Residential Real Estate	4,027	4,027	-	4,055	161
With an Allowance Recorded:					
Commercial Participations	$ 56,207	$ 60,083	$ 9,524	$ 62,302	$ 2,120
Bank Stock	-	-	-	-	-
All other Business Loans (Including PACE)	6,452	6,452	2,800	6,581	257
Farm & Ranch	13,176	13,176	210	13,587	638
Farm Real Estate	-	-	-	-	-
All other Farm loans	27,918	27,918	127	28,591	1,017
Residential Real Estate	-	-	-	-	-
Totals:					
Commercial Participations	$ 56,207	$ 60,083	$ 9,524	$ 62,302	$ 2,120
Bank Stock	434	434	-	512	19
All other Business Loans (Including PACE)	6,452	6,452	2,800	6,581	257
Farm & Ranch	13,176	13,176	210	13,587	638
Farm Real Estate	2,514	2,514	-	2,521	100
All other Farm loans	27,918	27,918	127	28,591	1,017
Residential Real Estate	4,027	4,027	-	4,055	161

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

Continued on next page

(In Thousands)

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

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

Continued on next page

(In Thousands)

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, 2017 and 2016. The balances are presented by class of financing receivable.

	2017	2016
Commercial Participations	**$ 12,782**	$ 13,560
Bank Stock	**-**	-
All Other Business Loans (Including PACE)	**1,404**	677
Farm & Ranch	**1,166**	1,029
Farm Real Estate	**-**	-
All Other Farm Loans	**347**	380
Residential Real Estate	**-**	-
Student Loans	**57**	70
TOTAL	**$ 15,756**	$ 15,716

Accruing loans 90 days or more past due include guaranteed student loans of $23,077 and $43,148 as of December 31, 2017 and 2016, respectively. The Bank is entitled to reimbursement from the guarantor 270 days after default in the case of a student loan payable in monthly installments and 330 days in the case of a student loan payable in less frequent installments.

Continued on next page

(In Thousands)

Residential loans of $14,246 and $15,673 as of December 31, 2017 and 2016, respectively, are also included in accruing loans 90 days or more past due. In the event of a foreclosure a residential loan guaranteed by the Federal Housing Administration will be paid in full and the property title is transferred to them with the exception of flooded properties. The Department of Veterans Affairs has the option of paying their guaranty percentage and the Bank keeps the foreclosed property as well as any gain or loss from the sale or they can pay the loan in full and title is transferred to them.

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

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

The following table presents information related to loans modified in a troubled debt restructuring during the years ended December 31, 2017 and 2016. Twelve of these loans subsequently defaulted after modification.

	2017		2016	
	Number of Modifications	**Recorded Investment**	Number of Modifications	Recorded Investment
Commercial Participations	**6**	**$ 10,329**	16	$ 18,511
Bank Stock	**-**	**-**	-	-
All Other Business Loans (Including PACE)	**6**	**5,102**	1	180
Farm & Ranch	**9**	**6,711**	4	735
Farm Real Estate	**1**	**1,286**	1	1,237
All Other Farm Loans	**6**	**2,744**	42	23,366
Residential Real Estate	**21**	**3,265**	3	423
Student Loans	**-**	**-**	-	-
TOTAL	**49**	**$ 29,437**	67	$ 44,452

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, 2017 and 2016, by type of modification.

	2017			
	To Interest Only	**Below Market Rate**	**Other (1)**	**Total**
Commercial Participations	**$ -**	**$ -**	**$ 10,329**	**$ 10,329**
Bank Stock	**-**	**-**	**-**	**-**
All Other Business Loans (Including PACE)	**169**	**-**	**4,933**	**5,102**
Farm & Ranch	**-**	**-**	**6,711**	**6,711**
Farm Real Estate	**-**	**-**	**1,286**	**1,286**
All Other Farm Loans	**-**	**-**	**2,744**	**2,744**
Residential Real Estate	**-**	**-**	**3,265**	**3,265**
Student Loans	**-**	**-**	**-**	**-**
TOTAL	**$ 169**	**$ -**	**$ 29,268**	**$ 29,437**

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

(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, 2017 and 2016.

Continued on next page

(In Thousands)

NOTE 5 - LOAN SALES AND LOAN SERVICING

A summary of BND loan sales during 2017 and 2016 follows:

	2017	2016
Residential loans sold on the secondary market	$ 7,453	$ 12,669

BND recognized gains on sale of loans of $108 in 2017 and $193 in 2016 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, 2017 and 2016 were as follows:

	2017	2016
Student loans		
North Dakota Student Loan Trust	$ 1,357	$ 16,556
Residential loans		
Fannie Mae	46,587	45,440
Other state fund loans		
School Construction Assistance Revolving Loan Fund	155,237	-
Western Area Water	74,500	99,500
Infrastructure Revolving Loan Fund	44,722	11,364
Medical Facility Infrastructure Loan Fund	43,847	37,384
Rebuilders Loan Program	31,567	35,783
State Water Commission	22,179	14,667
Community Water Facility Loan Fund	22,163	21,555
Board of University and School Lands	8,520	10,080
Information Technology Department	6,050	7,674
Department of Human Services	5,125	5,627
Addiction Counseling Internship Loan Program	114	82
Workforce Safety	112	126
	$ 462,080	$ 305,838

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, 2017 and 2016 is as follows:

	Balance 2016	Additions	Retirements	Balance 2017
Land	**$ 2,449**	**$ -**	**$ -**	**$ 2,449**
Building	**10,787**	**-**	**470**	**10,317**
Equipment	**754**	**-**	**18**	**736**
Furniture	**705**	**73**	**1**	**777**
Hardware	**173**	**-**	**-**	**173**
Software	**5,890**	**232**	**-**	**6,122**
	20,758	**305**	**489**	**20,574**
Less accumulated depreciation	**8,816**	**858**	**19**	**9,655**
	$ 11,942	**$ (553)**	**$ 470**	**$ 10,919**

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

Depreciation and amortization expense on the above assets amounted to $858 and $730 in 2017 and 2016.

NOTE 7 - DEPOSITS

At December 31, 2017, the scheduled maturities of certificates of deposits are as follows:

One year or less	$ 2,438,788
One to three years	56,800
Over three years	82,334
	$ 2,577,922

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, 2017 and 2016.

NOTE 9 - SHORT AND LONG-TERM DEBT

Short and long-term debt consists of:

	2017	2016
Federal Home Loan Bank advances - long-term	**$ 463,450**	$ 470,303
Federal Home Loan Bank advances - short-term	**800,000**	810,000
ND Public Finance Authority, 3%, matures from September 2018 through September 2021	**120**	235
	$ 1,263,569	$ 1,280,538

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

	Principal	Interest	Total
2018	$ 837,103	$ 14,000	$ 851,103
2019	47,326	13,386	60,712
2020	27,570	11,319	38,889
2021	100,823	9,630	110,453
2022	61,035	6,709	67,744
Later years	189,712	9,859	199,571
Totals	$ 1,263,569	$ 64,903	$ 1,328,472

The FHLB long-term advances outstanding at December 31, 2017, mature from February 2018 through October 2029. The FHLB long-term advances have fixed rate interest, ranging from 1.12% to 5.56%**.** All FHLB advances must be secured by minimum qualifying collateral maintenance levels. Residential, agriculture, and commercial loans with carrying values of $1,608,672 and $1,893,362 at December 31, 2017 and 2016, 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:

	2017	2016
Interest payable	$ 1,697	$ 874
Salary and benefits payable	1,270	1,199
Student loan related payables	-	119
Interest rate swap payable	4,227	4,656
Accounts payable, accrued expenses and other liabilities	3,004	2,478
	$ 10,198	$ 9,326

NOTE 11 - PENSION PLAN

Bank of North Dakota participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. Following is a brief description of the plan.

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

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

Employees are entitled to unreduced monthly pension benefits equal to 2.0% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). For employee with an effective employment date on and after January 1, 2016, pension benefits will begin when the sum of age and years of credited service equal or exceed 90, or at normal retirement age (65). The Plan permits early retirement at ages 55-64, with five or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 5% of the participant's salary be contributed to the Plan by either the employee or by the employer under a "salary reduction" agreement. Bank of North Dakota is required to contribute 7.12% of each participant's salary as the employer's share. In addition to the 7.12% employer contribution, the employer is required to contribute 1.14% of each participating employee's gross wage to a prefunded retiree health insurance program. The required contributions are determined using an entry age normal

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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, 2017 and 2016 were approximately $1,383 and $1,346, respectively, and are charged directly to operations. There were no surcharges paid by the Bank to the Plan in 2017 and 2016.

Specific plan assets and accumulated benefit information for the Bank's portion of the fund is not available. Under the Employee Retirement Income and Security Act of 1974 ("ERISA"), a contributor to a multi-employer pension plan may be liable in the event of complete or partial withdrawal for the benefit payments guaranteed under ERISA, but there is no intention to withdraw. NDPERS operates as a multi-employer plan for accounting purposes and as a multiple-employer plan under ERISA and the Internal Revenue Code. There are no collective bargaining agreements in place that require contributions to the Plan. As of December 31, 2017 and 2016, there were no funding improvement plans or rehabilitation plans implemented. The Plan is a single plan under Internal Revenue Code 413(c) and, as a result, all of the assets stand behind all of the liabilities. Accordingly, contributions made by a participating employer may be used to provide benefits to participants of other participating employers.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. The Bank's contributions to the Plan do not represent more than 5 percent of total contributions to the Plan as indicated in the Plan's most recently available annual report as of June 30, 2017. 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, 2017 and ending June 30, 2019. Following is a summary of legislative action and/or North Dakota Statute in effect:

S.B. 2014, Section 9 – The industrial commission shall transfer to the general fund $140,000 from the current earnings and the accumulated undivided profits of the Bank of North Dakota during the biennium beginning July 1, 2017, and ending June 30, 2019. The moneys must be transferred in the amounts and at the times requested by the director of the office of management and budget after consultation with the Bank of North Dakota president. As of December 31, 2017, the Bank had transferred $70,000.

S.B. 2014, Section 10 – The Bank shall transfer up to $16,000 from its current earnings and undivided profits to the Partnership in Assisting Community Expansion Fund. As of December 31, 2017, the Bank had transferred $0.

S.B. 2014, Section 11 – The Bank shall transfer up to $2,000 from its current earnings and undivided profits to the Agriculture Partnership in Assisting Community Expansion Fund. As of December 31, 2017, the Bank had transferred $0.

S.B. 2014, Section 12 – The Bank shall transfer up to $1,000 from its current earnings and undivided profits to the Biofuels Partnership in Assisting Community Expansion Fund. As of December 31, 2017, the Bank had transferred $0.

S.B. 2014, Section 13 – 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, 2017, the Bank had transferred $0.

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S.B. 2014, Section 14 – The Bank shall transfer up to $6,000 from its current earnings and undivided profits for interest rate buydowns on outstanding school construction loans. As of December 31, 2017, the Bank had transferred $1,036.

S.B. 2014, Section 22 – The Bank of North Dakota's budget approved during the 2015-2017 Session included $17,000 from the assets of the Bank of North Dakota which could be used for the purpose of constructing a North Dakota Financial Center on a site adjacent to the existing building on which the Bank is located. Legislation passed during that Session stated that the Bank may spend the funding only if the Bank's net income, reported in accordance with Financial Accounting Standards Board accounting standards, for calendar year 2015 exceeds $125,000. The Bank's net income exceeded this threshold as of December 31, 2015. During the 2017-2019 Session, language was modified to state that the funding appropriated for this purpose is available through June 30, 2021. Cost incurred through December 31, 2016 totaled $470. No additional costs were incurred through December 31, 2017.

S.B. 2014, Section 28 – In regards to the North Dakota financial center, Section 28 further states that the Bank of North Dakota may not construct a North Dakota financial center on a site adjacent to the existing building on which the Bank of North Dakota is located related to the funding provided in section 1 of chapter 14 of the 2015 Session Laws and identified in sections 2 and 26 of chapter 14 of the 2015 Session Laws until after June 30, 2019. No such construction took place during 2017.

H.B. 1015, Section 20 – The state treasurer and the director of the office of management and budget may, when the balance in the state general fund is insufficient to meet legislative appropriations, borrow from the Bank of North Dakota in an amount that at no time exceeds the total principal amount of $50,000 with principal maturity not to extend beyond the biennium in which the borrowing occurs. The state industrial commission may direct the Bank of North Dakota to make loans to the state general fund at such rates of interest as the industrial commission may prescribe. The state treasurer and the director of the office of management and budget shall establish a repayment plan for the repayment of the principal upon maturity and the interest when due. The office of management and budget shall report to the budget section of the legislative management regarding any loans obtained pursuant to this section. As of December 31, 2017, there was no outstanding loan balance.

H.B. 1018, Section 7 – Session Law from the 2015-2017 biennium (Section 6) states that the State Historical Society may obtain a loan from the Bank of North Dakota in an amount not to exceed $1,250, the sum of which is appropriated to the State Historical Society for the purpose of defraying the expenses of repairs to the Double Ditch historic site. The loan authorization and appropriation in this section is contingent on the State Historical Society being unable to obtain assistance from other sources. Section 6 of H.B. 1018 from 2017-2019 Session Law appropriated $500 from the state disaster relief fund and $500 from a grant from the parks and recreation department. As such, Section 7 of H.B. 1018 from 2017-2019 Session Law would modify the loan amount from $1,250 to $250. As of December 31, 2017, there was no outstanding loan balance.

H.B. 1020, Section 9 – The Bank of North Dakota shall consolidate the $40,000 loan to the western area water supply authority authorized in section 5 of chapter 20 of the 2013 Session Laws, the $50,000 loan to the western area water supply authority authorized in section 2 of chapter 500 of the 2011 Session Laws, and the $25,000 loan from the general fund to the western area water supply authority authorized in section 3 of chapter 500 of the 2011 Session Laws. The terms and conditions of the consolidation loan must be negotiated by the western area water supply authority and the Bank of North Dakota. The interest rate on the $10,000 loan to the western area water supply authority authorized in section 4 of chapter 500 of the 2011 Session Laws must be 2.5 percent on any outstanding balance remaining after the effective date of this Act. The consolidation and interest rate change, as noted above, were both completed during 2017.

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H.B. 1020, Section 20 – The Bank of North Dakota shall extend a line of credit not to exceed $75,000 at a rate of one and one-half percent over the three month London interbank offered rate, but may not exceed three percent to the state water commission. The state water commission shall repay the line of credit from funds available in the resources trust fund, water development trust fund, or other funds, as appropriated by the legislative assembly. The state water commission may access the line of credit, as necessary, to provide funding as authorized by the legislative assembly for water supply projects approved before June 30, 2019, and flood control projects that have approval for funding before June 30, 2019. As of December 31, 2017, there was no outstanding loan balance.

H.B. 1024, Section 3 – The office of the adjutant general may borrow the sum of $10,000, or so much of the sum as may be necessary, from the Bank of North Dakota, for law enforcement support costs that were incurred after June 30, 2015, related to unlawful activity associated with the construction of the Dakota access pipeline, for the period beginning with the effective date of this Act, and ending June 30, 2019. The proceeds of the loan authorized in this section are appropriated to the office of the adjutant general for the purpose of defraying expenses of law enforcement support which were incurred after June 30, 2015, related to unlawful activity associated with the construction of the Dakota access pipeline, for the period beginning with the effective date of this Act, and ending June 30, 2019. The department of emergency services shall include any amounts borrowed under this section in the request for reimbursement from the federal government related to the state's expenses incurred due to unlawful activity associated with the construction of the Dakota access pipeline. As of December 31, 2017, the outstanding balance was $10,000.

H.B. 1024, Section 7 – It is the intent of the sixty-fifth legislative assembly that the department of emergency services seek reimbursement from the federal government for the costs of responding to unlawful activity associated with the construction of the Dakota access pipeline. It is further the intent of the sixty-fifth legislative assembly that these reimbursements be used to repay the Bank of North Dakota loans authorized by the emergency commission and the legislative assembly, including loans of $17,000 previously authorized by the emergency commission; loans in Senate Bill No. 2174, as approved by the sixty-fifth legislative assembly; and loans authorized in section 3 of this Act, which were all obtained to provide the funding necessary to respond to the unlawful activity associated with the construction of the Dakota access pipeline. As of December 31, 2017, the federal government had reimbursed the State $10,000, all of which was applied to loans as described above.

S.B. 2174, Section 1 – The office of the adjutant general may borrow the sum of $8,000, or so much of the sum as may be necessary, from the Bank of North Dakota, for law enforcement support costs related to unlawful activity associated with the construction of the Dakota access pipeline, for the period beginning with the effective date of this Act and ending June 30, 2019. The proceeds of the loan authorized in this section are appropriated to the office of the adjutant general for the purpose of defraying expenses of law enforcement support related to unlawful activity associated with the construction of the Dakota access pipeline for the period beginning with the effective date of this Act and ending June 30, 2019. The office of the adjutant general shall request from the legislative assembly a deficiency appropriation sufficient for the repayment of the amount borrowed plus interest. As of December 31, 2017, the outstanding balance was $426.

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(In Thousands)

S.B. 2174, Section 2 – The office of the adjutant general may borrow the sum of $3,000, or so much of the sum as may be necessary, from the Bank of North Dakota, for the purpose of providing a grant to a county that has experienced an emergency related to protest activities, for the period beginning with the effective date of this Act and ending June 30, 2019. Notwithstanding any other provision of law, the proceeds of the loan authorized in this section are appropriated to the office of the adjutant general for the purpose of providing a grant to a county that has experienced an emergency related to protest activities, for the period beginning with the effective date of this Act and ending June 30, 2019. The grant funds must be used to reimburse the county for extraordinary personnel, equipment, and materials expenditures related to the protest activities which are not otherwise eligible for reimbursement by the state or federal government. The office of the adjutant general shall request from the legislative assembly a deficiency appropriation sufficient for the repayment of the amount borrowed plus interest. As of December 31, 2017, the outstanding balance was $1,810.

H.B. 1178, Section 7 – The information technology department may obtain a loan, subject to budget section approval, from the Bank of North Dakota in an amount not to exceed $15,000 the sum of which is appropriated to the information technology department, for the purpose of defraying the expenses of the statewide interoperable radio network for the biennium beginning July 1, 2017, and ending June 30, 2019. The term of the loan may not exceed six years. The loan authorized in this section must be repaid from funds available in the statewide interoperable radio network fund. As of December 31, 2017, there was no outstanding loan balance.

S.B. 2021, Section 10 – The state agencies named in this section may borrow from the Bank of North Dakota, the amounts listed below, or so much of the amounts as may be necessary, which are appropriated to the respective agency for the purpose of defraying the expenses of implementing a new electronic payment system for the biennium beginning July 1, 2017, and ending June 30, 2019.

	Borrowing Authority	Outstanding at 12/31/2017
Department of Transportation	$147	$0
Secretary of State's Office	93	$0
Parks and Recreation Dept.	42	$0
Game and Fish Dept.	36	$0
Workforce Safety and Insurance	36	$0
Highway Patrol	21	$0
Total	$375	$0

S.B. 2044, Section 1 – The Bank of North Dakota shall conduct dynamic revenue analysis of economic development tax incentives selected for review by the interim committee tasked with reviewing economic development tax incentives under section 54 - 35 - 26 and bills selected by the dynamic fiscal impact bill selection committee. During 2017, the Bank purchased software in the amount of $136 to aide in such analysis.

S.B. 2124, Section 1 – The Bank of North Dakota shall adopt rules to administer, manage, promote, and market the North Dakota achieving a better life experience plan. The Bank shall ensure the North Dakota achieving a better life experience plan is maintained in compliance with internal revenue service standards for qualified state disability expense programs. The Bank, as trustee of the North Dakota achieving a better life experience plan, may impose an annual administrative fee to recover expenses incurred in connection with operation of the plan. Administrative fees received by the Bank are appropriated to the Bank on a continuing basis to be used as provided under this section. Money and assets in North Dakota achieving a better life experience plan accounts or in qualified achieving a better life experience plan accounts in any state may not be considered for the purpose of determining eligibility to receive, or the amount of, any assistance or benefits from local or state means-tested programs.

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S.B. 2134, Section 3 – There is appropriated out of any moneys held in reserve in the strategic investment and improvements fund for mineral title disputes, not otherwise appropriated, the sum of $100,000, or so much of the sum as may be necessary, to the commissioner of university and school lands for the purpose of mineral revenue repayments, for the biennium beginning July 1, 2017, and ending June 30, 2019. Upon adoption of the final review findings by the industrial commission, the commissioner of university and school lands shall calculate the amount necessary for mineral revenue repayments based on the final review findings. As soon as a repayment amount for a known recipient is calculated but after the expenditure of the $100,000: (a) The commissioner of university and school lands shall request from the sixty-sixth legislative assembly additional funding sufficient for any remaining mineral revenue or other repayments. (b) If the $100,000 is expended before the repayment of all amounts calculated for known recipients and before additional funds are made available by the sixty-sixth legislative assembly, the Bank of North Dakota shall extend a line of credit, not to exceed $87,000, to the commissioner of university and school lands. The commissioner of university and school lands shall access the line of credit, to the extent necessary, the sum of which is appropriated, for the purpose of mineral revenue and other repayments under this Act for the biennium beginning July 1, 2017, and ending June 30, 2019. The commissioner of university and school lands shall repay the line of credit from funds available in the strategic investment and improvements fund as appropriated by the legislative assembly. As of December 31, 2017, there was no outstanding loan balance.

S.B. 2178, Section 1 – This bill is an amendment to Section 6-09-49 regarding the Infrastructure Revolving Loan Fund, and provide definition for “essential infrastructure projects”. No new funding was provided, and no other changes to the program were made. The infrastructure revolving loan fund is a special fund in the state treasury from which the Bank of North Dakota shall provide loans to political subdivisions for essential infrastructure projects. The Bank shall administer the infrastructure revolving loan fund. The maximum term of a loan made under this section is thirty years. A loan made from the fund under this section must have an interest rate that does not exceed two percent per year. For purposes of this section, "essential infrastructure projects" means capital construction projects for the following: (a) New or replacement of existing water treatment plants; (b) New or replacement of existing wastewater treatment plants; (c) New or replacement of existing sewer lines and water lines; and (d) New or replacement of existing storm water and transportation infrastructure, including curb and gutter construction. As of December 31, 2017, outstanding loans totaled $44,722.

S.B. 2272, Section 3 – In addition to any construction loans made available under section 15.1-36-02, the Bank of North Dakota may provide up to $250,000 to eligible school districts for school construction loans until June 30, 2017. After June 30, 2017, no new loans may be provided under this section. With the advice and consent of the Superintendent of Public Instruction, the Bank of North Dakota shall award the loans in accordance with a prioritization system that is based on a review of all applications filed during the twelve-month period preceding April 1st. The term of a loan under this section is twenty years, unless a shorter term is requested by the board of a school district in its application. The interest rate on a loan under this section may not exceed two percent, until July 1, 2025. Thereafter, the interest rate on the loan is subject to change. The maximum loan amount to which a school district is entitled under this section is $20,000. As of December 31, 2017, the outstanding balance was $99,246.

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S.B. 2272, Section 4 – Provides for the creation of the School Construction Assistance Revolving Loan Fund. The school construction assistance revolving loan fund is a special revolving loan fund administered by the Bank of North Dakota. The fund consists of all moneys appropriated or transferred to the fund by the legislative assembly and all interest or other earnings of the fund, and all repayments of loans made from the fund. Moneys in the fund, interest upon the moneys in the fund, and payments to the fund of principal and interest are appropriated to the Bank of North Dakota on a continuing basis for the purpose of providing low-interest school construction loans and for paying administrative costs, in accordance with this section. With the advice and consent of the Superintendent of Public Instruction, the Bank of North Dakota shall award the loans in accordance with a prioritization system that is based on a review of all applications filed during the twelve-month period preceding April 1st. The maximum loan amount for which a school district may qualify is $10,000. The term of the loan is twenty years, unless the board of the school district requests a shorter term in the written loan application. The interest rate of the loan may not exceed two percent per year. The Bank may adopt policies and establish guidelines to administer this loan program in accordance with this section. The Bank of North Dakota may use a portion of the interest paid on the outstanding loans as a servicing fee to pay for administration costs which may not exceed one - half of one percent of the amount of the interest payment. The Bank of North Dakota shall deposit principal and interest payments made by school districts for loans under this section in the school construction assistance revolving loan fund. The Bank of North Dakota shall arrange for the conduct of an annual audit of the school construction assistance revolving loan fund, the cost of which must be paid from the fund and which must be conducted by an independent accounting firm. As of December 31, 2017, outstanding loans in the School Construction Assistance Revolving Loan Fund totaled $155,237.

S.B. 2272, Section 13 – The office of management and budget shall transfer the sum of $75,000 from the foundation aid stabilization fund to the school construction assistance revolving loan fund during the period beginning with the effective date of this Act, and ending June 30, 2019. Of the $75,000 transferred to the school construction assistance revolving loan fund, up to $50,000 must be used to repay the Bank of North Dakota for the outstanding principal balance on a portion of the loans issued under section 15.1-36-06 for the purpose of transferring a portion of the loans issued under section 15.1-36-06 from the Bank of North Dakota to the school construction assistance revolving loan fund. The remaining amount transferred to the school construction assistance revolving loan fund is available for new school construction loans. As of December 31, 2017, the office of management and budget transferred $75,000 to the school construction assistance revolving loan fund. As of December 31, 2017 $19,474 of the $50,000 earmarked for Bank of North Dakota repayment has been used.

S.B. 2311, Section 1 – The Bank of North Dakota shall provide a letter of credit to a city, in the northwest corner of the state with a population over twenty thousand residents, which is constructing an airport and is subject to the bonding requirements under section 52-04-06.1. The letter of credit shall cover the length of the construction term not to exceed five years. The Bank of North Dakota shall charge a one-time fee of no more than three quarters of one percent of the total amount of the letter of credit. The city obtaining the letter of credit assumes all liability for the letter of credit, the fee to be paid to the Bank of North Dakota, and any other requirements under section 52-04-06.1. As of December 31, 2017, the letter of credit has been provided.

H.B. 1008, Section 4 – The Bank of North Dakota shall transfer from the Beginning Farmer Revolving Loan Fund to the Public Service Commission the sum of $900, or so much of the sum as may be necessary, included in the estimated income line item in section 1 of this Act to pay for costs associated with a rail rate complaint case. Transfers must be made during the biennium beginning July 1, 2017, and ending June 30, 2019, upon order of the Commission. If any amounts are spent pursuant to this section, the Public Service Commission shall reimburse the Beginning Farmer Revolving Loan Fund using amounts available from damages or proceeds received, net of legal fees, from a successful outcome of a rail complaint case. As of December 31, 2017, the Bank had transferred $0.

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S.B. 2379, Section 4 – During the North Dakota Special Legislative Session held in August 2016, Senate Bill 2379 was passed that states that if the Office of Management and Budget (OMB) determines the State General Fund will not have a projected positive June 30, 2017 balance, the Industrial Commission shall transfer $100,000, or so much of the sum as may be necessary, from the earnings and accumulated and undivided profits of BND to the State General Fund. The monies must be transferred in amounts and at such times as requested by OMB. The sum of the amounts transferred may not exceed the lesser of $100,000 or the amount necessary to provide for a positive June 30, 2017 General Fund Balance. During the 2017-2019 Regular Legislative Session, H.B. 1024, Section 9 amended this Special Session language to state the following: During the period beginning with the effective date of this Act and ending June 30, 2017, the Industrial Commission shall transfer $100,000 from the earnings and accumulated profits of the Bank of North Dakota to the State General Fund. The monies must be transferred in amounts and at such times as requested by the Director of the Office of Management and Budget. As of December 31, 2017, the Bank had transferred $100,000.

State Water Commission

Under chapter 61-02.1-04 of North Dakota Century Code, principal and interest on bonds issued are payable from transfers to be made and appropriated by the legislative assembly from the Water Development Trust Fund as provided in section 61-02.1-05, then from transfers to be made and appropriated by the legislative assembly from revenues in the Resources Trust Fund other than revenues from state taxes, then from appropriations of other available revenues in the then current biennium, and then from any other revenues the State Water Commission makes available during the then current biennium for that purpose, including any federal moneys received by the state for the construction of flood control or reduction projects to pay bonds issued for that project. If sufficient funds from these sources are not available, then from transfers to be made and appropriated by the legislative assembly from the first available current biennial earnings of the Bank of North Dakota not to exceed $6,500 per biennium prorated with any other bonds payable from transfers to be made and appropriated by the legislative assembly from the available current biennial earnings of the Bank of North Dakota, to be credited by the Trustee to the Fund established for paying principal and interest on the bonds under a trust indenture. If the Bank has to provide a transfer to the State Water Commission to make principal and interest payments on these bonds, the State Water Commission would then have to request from the next legislative assembly funding to repay the transfer made by the bank. As of December 31, 2017, the Bank has provided no such transfers.

Farm Real Estate Loan Guarantee Program

Chapter 6-09.7-09 provides that the Bank of North Dakota may guarantee the loan of money by banks, credit unions, lending institutions that are part of the farm credit system, and savings and loan associations in this state to eligible persons for the purchase of agricultural real estate or the restructuring of agricultural real estate loans, provided the transactions do not exceed a loan to value ratio of 80% and further provided that no single loan exceeds $400. The Bank may have no more than $8,000 in outstanding loan guarantees under this Program. The Bank may guarantee up to 75% of the amount of principal due the lender. The guarantee term may not exceed 5 years. As of December 31, 2017 and 2016, the Bank has guarantees outstanding totaling $827 and $806, respectively, and had no guarantee commitments outstanding, respectively, included in commitments to extend credit. The Bank has not recorded a contingent liability related to the guarantee loan program as of December 31, 2017 and 2016.

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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 $500. The term of the guarantee may not exceed five years. As of December 31, 2017 and 2016, the Bank has guarantees outstanding totaling $5,927 and $4,924, respectively, and had guarantee commitments outstanding of $674 and $120, respectively, included in commitments to extend credit. The Bank has not recorded a contingent liability related to the guarantee loan program as of December 31, 2017 and 2016.

NOTE 13 - RELATED PARTY TRANSACTIONS

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

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

Dakota Education Alternative Loans are fully guaranteed by the North Dakota Guaranteed Student Loan Program, which is administered by the Bank. The outstanding principal balance of these loans was $1,143,266 and $1,065,772 at December 31, 2017 and 2016, 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, 2017 and 2016 amounted to $25,131 and $26,959, respectively. Deposits and short term borrowings held by the Bank were $4,001 and $13,811, 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, 2017 the Bank had a receivable form this program for $13,682. At year end December 31, 2016 the Bank had a receivable from this program for $17,474.

NOTE 14 - OFF-BALANCE-SHEET ACTIVITIES

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, financial standby letters of credit, and guarantees related to loan programs as discussed in Note 12. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

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(In Thousands)

At December 31, 2017 and 2016, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2017	2016
Commitments to extend credit	**$ 812,606**	$ 1,001,295
Financial standby letters of credit	**389,664**	345,919
Guarantees provided	**7,428**	5,850

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained by the Bank upon extension of credit is based on management's credit evaluation of the customer. Collateral held may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties.

Financial standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank has segmented this category into three components: (1) letters of credit, (2) confirming letters of credit, and (3) letters of credit pledged for public deposits to North Dakota financial institutions.

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party which require this type of facility. The maturities for these letters of credit range from one month to ten years, and the likelihood of funding any of these letters of credit is considered to be remote. The Bank holds collateral supporting those commitments. The Bank also has letters of credit with the North Dakota Public Finance Authority (NDPFA) with maturities ranging from 17 months to 29 years. If the letters issued to the NDPFA were ever drawn upon, the NDPFA is legally obligated to reimburse the Bank from funds legally available, or from any appropriation made available from the Legislative Assembly after certification by the Industrial Commission. The likelihood of funding any of these letters of credit is also considered to be remote. Outstanding issued letters of credit as of December 31, 2017 and 2016 were $104,807 and $88,914, respectively.

Confirming letters of credit are issued to North Dakota financial institutions to support letters of credit they have issued but are still in need of backing from an institution with a long-term, high quality bond rating. In the event these letters were to be drawn upon, based on the terms of the agreement, the Bank would immediately withdraw funds from the institution's correspondent bank account held at the Bank to cover the amount drawn. These agreements generally have terms of 12 months or less. The likelihood of funding any of these confirming letters of credit is also considered to be remote. Outstanding issued confirming letters of credit as of December 31, 2017 and 2016 were $2,857 and $6,795, respectively.

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(In Thousands)

Letters of credit pledged for public deposits to North Dakota financial institutions are issued to support public borrowing arrangements. These letters are fully collateralized by a pool of loans pledged to the Bank. These agreements generally have terms of 12 months or less. Financial standby letters for public deposits by North Dakota banks totaled $282,000 and $250,210 at December 31, 2017 and 2016, respectively. The likelihood of funding any of these letters of credit is also considered to be remote. These letters of credit are an authorized form of collateral for public deposits per North Dakota Century Code 21-04-09.

The Bank has not recorded a contingent liability related to off-balance sheet activity as of December 31, 2017 and 2016.

NOTE 15 - INTEREST RATE SWAP CONTRACTS

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

The Bank has outstanding interest rate swap agreements with a notional amount totaling $250,000 as of December 31, 2017, and $150,000 as of December 31, 2016, to convert variable rate federal funds and variable rate LIBOR-indexed deposits into fixed-rate instruments over the term of the contracts. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and other terms of the individual interest rate swap agreements. These cash flow hedges were determined to be fully effective during all periods presented, and as such, no amount of ineffectiveness has been included in net income. Therefore, the aggregate fair value of the swaps is recorded in other assets or other liabilities with changes in fair value recorded in other comprehensive income (loss). In the event a hedge is no longer considered effective, the resulting impact would be reclassified to current year earnings. The Bank expects the hedges to remain fully effective during the remaining terms of the swaps.

The following table summarizes the derivative financial instrument utilized at December 31, 2017:

			Estimated fair value	
	Balance sheet location	Notional amount	Gain	Loss
Cash flow hedge	Other assets	$ **50,000**	$ **894**	
Cash flow hedge	Other assets	$ **50,000**	$ **5,222**	
Cash flow hedge	Other assets	$ **50,000**	$ **780**	
Cash flow hedge	Other liabilities	$ **50,000**		$ **4,101**
Cash flow hedge	Other liabilities	$ **50,000**		$ **126**

Continued on next page

(In Thousands)

The following table details the derivative financial instruments, the remaining maturities, and the interest rates being paid and received at December 31, 2017:

	Notional value	Maturity (years)	Fair value gain/(loss)	Receive	Pay
Interest rate swap	**$ 50,000**	**11.4**	**$ (4,101)**	**1.30%**	**2.86%**
Interest rate swap	**$ 50,000**	**12.3**	**$ 894**	**1.30%**	**1.92%**
Interest rate swap	**$ 50,000**	**13.7**	**$ 5,222**	**1.36%**	**1.48%**
Interest rate swap	**$ 50,000**	**14.3**	**$ (126)**	**1.36%**	**2.39%**
Interest rate swap	**$ 50,000**	**14.5**	**$ 780**	**1.30%**	**1.99%**

Amongst all swap counterparties for the transactions noted above, the Bank holds a net $2,600 in cash pledged under collateral arrangements related to the interest rate swaps at December 31, 2017, to satisfy the collateral requirements.

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

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

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

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

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

Interest expense recorded on these swap transactions totaled $2,210 and $2,178 as of December 31, 2017 and December 31, 2016, and is reported as a component of interest expense on short- and long-term debt.

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NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair Value Hierarchy

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

- Level 1 – Valuation is based upon quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 – Valuation is based upon quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Determination of Fair Value

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

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

Securities Available for Sale

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

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Loans

The carrying value of loans is described in Note 1, "Summary of Significant Accounting Policies". The Bank does 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, the Bank records nonrecurring fair value adjustments to loans to reflect (1) partial write-downs that are based on the observable market price or current appraised value of the collateral, or (2) the full charge-off of the loan carrying value.

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

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

Interest Rate Swap Agreements

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

Continued on next page

(In Thousands)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2017 and 2016.

	2017			
	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	$ 155,346	$ 1,382	$ 153,964	$ -
Collateralized mortgage obligations				
Agency	418,700	-	418,700	-
Non-agency	44	-	44	-
Agency bonds	1,005,239	1,005,239	-	-
US treasuries	19,968	19,968	-	-
Municipal bonds	1,000	-	1,000	-
Interest rate swaps	6,896	-	6,896	-
Totals	$ 1,607,193	$1,026,589	$ 580,604	$ -
LIABILITIES				
Interest rate swap	$ 4,227	$ -	$ 4,227	$ -
Totals	$ 4,227	$ -	$ 4,227	$ -

Continued on next page

(In Thousands)

	2016			
	Total	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets				
Available-for-sale debt securities				
Mortgage-backed securities				
Agency	$ 275,285	$ -	$ 275,285	$ -
Collateralized mortgage obligations				
Agency	437,393	-	437,393	-
Non-agency	75	-	75	-
Agency bonds	1,246,191	1,246,191	-	-
US Treasuries	39,976	39,976	-	-
Municipal bonds	4,140	-	4,140	-
Interest rate swap	6,464	-	6,464	-
Totals	$ 2,009,524	$ 1,286,167	$ 723,357	$ -
LIABILITIES				
Interest rate swap	$ 4,656	$ -	$ 4,656	$ -
Totals	$ 4,656	$ -	$ 4,656	$ -

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, 2017 and 2016.

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

Continued on next page

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

	2017		
	Quoted Prices in Active Markets Level 1	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**
Impaired loans	**$ -**	**$ -**	**$ 98,067**
Totals	**$ -**	**$ -**	**$ 98,067**

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

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, 2017 and 2016 follows:

	Unrealized gain and losses on available-for-sale securities	Gains and losses on cash flow hedges	Total
Year ended December 31, 2017			
Beginning balance	$ 10,429	$ 1,808	$ 12,236
Other comprehensive income (loss) before reclassifications	(10,498)	861	(9,637)
Amount reclassified from accumulated other comprehensive income	355	-	355
Net current period other comprehensive income	(10,143)	861	(9,282)
Ending balance	$ 286	$ 2,669	$ 2,954

	Unrealized gain and losses on available-for-sale securities	Gains and losses on cash flow hedges	Total
Year ended December 31, 2016			
Beginning balance	$ 6,364	$ (4,201)	$ 2,163
Other comprehensive income before reclassifications	3,933	6,009	9,942
Amount reclassified from accumulated other comprehensive income	131	-	131
Net current period other comprehensive income	4,065	6,009	10,073
Ending balance	$ 10,429	$ 1,808	$ 12,236

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The line items in the statements of income affected by the reclassifications out of accumulated other comprehensive income for the years ended December 31, 2017 and 2016 is as follows:

2017

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	**$ (355)**	**Other operating expenses**

2016

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

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(In Thousands)

NOTE 18 - SUPPLEMENTAL DISCLOSURES RELATED TO STATEMENTS OF CASH FLOWS

	2017	2016
Supplemental disclosures of cash flow information		
Cash payments for:		
Interest paid to customers	**$ 10,355**	$ 11,601
Interest paid on federal funds purchased and securities sold under repurchase agreements	**2,785**	849
Interest paid on short and long-term debt	**23,901**	21,616
Supplemental schedule of noncash investing and financing activities		
Transfers from undivided profits to other liabilities	**186,932**	19,989
Net change in unrealized gain (loss) on securities available for sale	**(10,143)**	4,065
Net change in unrealized gain (loss) on interest rate swap	**861**	6,009
Other real estate and property owned acquired in exchange for loans	**4,205**	606

NOTE 19 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2018, which is the date these financial statements were available to be issued. As discussed in Note 1, during 2017, the Bank determined it would sell its Federal Family Education Loan (FFEL) Program portfolio, and a purchase agreement was executed with North Texas Higher Education Authority. On January 2, 2018, of the $247,846 of Federal loans classified as held for sale at year-end, the parties agreed to and settled $241,698. The remaining balance will be agreed to and settled on or before June 30, 2018.