

MDU RESOURCES GROUP INC
Form DEF 14A
March 24, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant
Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

MDU Resources Group, Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

- Fee paid previously with preliminary materials

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2)Form, Schedule or Registration Statement No.:

3)Filing Party:

4)Date Filed:

March 24, 2017

Fellow Stockholders:

I invite you to join me, our board of directors, and members of our senior management team at our Annual Meeting of Stockholders at 11 a.m., Central Daylight Saving Time, on May 9, 2017, at 909 Airport Road in Bismarck, North Dakota.

In addition to the business that will be conducted at the meeting, I will explain some of the significant, positive changes we made at MDU Resources Group in 2016. During the year, we streamlined our operations into two lines of business: regulated energy delivery and construction materials and services. We reduced our exposure to commodity price volatility by completing the sale of our oil and natural gas exploration and production assets and by selling our interests in a diesel refinery and in a natural gas processing plant both located in North Dakota.

With a business presence in 48 states, we remain committed to Building a Strong America.[®] Our continuing businesses performed well in 2016, providing a 32 percent increase in earnings per share. We delivered a total stockholder return of 62 percent for the year, including increasing our dividend for the 26th consecutive year.

Another positive change we made this year is to our proxy statement. We simplified the proxy statement to what we believe is an easier-to-read format, while still adhering to regulations that outline what information we must provide to stockholders. Our goal is to make it easier for you to understand MDU Resources Group's governance and how we tie the company's results to executive compensation. We also hope the proxy statement more clearly describes the business we will conduct at our annual meeting.

We have streamlined our annual report and proxy statement delivery process this year as well, moving to a notice-and-access model of providing the report. You likely received notice in the mail that you can vote your shares and view our annual report and proxy statement online, along with instructions on how to request a printed copy if you would like one.

I look forward to you joining us on May 9. Even if you are not able to attend the annual meeting, your vote is important to us. Please follow the instructions on your proxy card to vote and make sure your shares are represented.

We appreciate your continued investment in MDU Resources Group.

Sincerely yours,

David L. Goodin
President and Chief Executive Officer

MDU Resources Group, Inc. Proxy Statement

Proxy Statement

MDU RESOURCES GROUP, INC.

1200 West Century Avenue

Mailing Address:

P.O. Box 5650

Bismarck, North Dakota 58506-5650

(701) 530-1000

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 9, 2017

Important Notice Regarding the Availability of Proxy Materials for the
Stockholder Meeting to be Held on May 9, 2017

The 2017 Notice of Annual Meeting and Proxy Statement and 2016 Annual Report
to Stockholders are available at www.mdu.com/proxymaterials.

March 24, 2017

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of MDU Resources Group, Inc. will be held
at 909 Airport Road, Bismarck, North Dakota, on Tuesday, May 9, 2017, at 11:00 a.m., Central Daylight Saving
Time, for the following purposes:

(1) Election of directors;

(2) Advisory vote to approve the frequency of the vote to approve the compensation paid to the company's named
executive officers;

(3) Advisory vote to approve the compensation paid to the company's named executive officers;

(4) Ratification of the appointment of Deloitte & Touche LLP as the company's independent registered public
accounting firm for 2017;

(5) Advisory vote to approve an amendment to the company's bylaws to adopt an exclusive forum for internal
corporate claims; and

(6) Transaction of any other business that may properly come before the meeting or any adjournment(s) thereof.

The board of directors has set the close of business on March 10, 2017, as the record date for the determination of
common stockholders who will be entitled to notice of, and to vote at, the meeting and any adjournment(s) thereof.
We expect to begin mailing the Notice of Availability of Proxy Materials (Notice) on or about March 24, 2017. The
Notice will contain basic information about the annual meeting and instructions on how to view our proxy materials,
and vote electronically, on the Internet. Stockholders who do not receive the Notice will receive a paper copy of our
proxy materials, which will be sent on or about March 30, 2017.

All stockholders as of the record date of March 10, 2017, are cordially invited and urged to attend the meeting in
person. Registered stockholders who receive a full set of proxy materials will receive a request for admission ticket(s)
with their proxy card that can be completed and returned to us postage-free. Registered stockholders who receive a
notice regarding the availability of proxy materials and stockholders whose shares are held in the name of a bank or
broker will not receive a request for admission ticket(s). They should, instead: (1) call (701) 530-1000 to request an
admission ticket(s); (2) if shares are held in the name of a bank or broker, obtain a statement from their bank or broker
showing proof of stock ownership as of March 10, 2017; and (3) present their admission ticket(s), the stock ownership
statement, and photo identification, such as a driver's license, at the annual meeting.

By order of the Board of Directors,

Daniel S. Kuntz

Secretary

Proxy Statement

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MDU Resources Group, Inc. Proxy Statement

Proxy Statement

PROXY
STATEMENT
SUMMARY

To assist you in reviewing the company's 2016 performance and voting your shares, we call your attention to key elements of our 2017 Proxy Statement and our 2016 Annual Report to Stockholders. The following is only a summary and does not contain all of the information you should consider. You should read the entire Proxy Statement carefully before voting. For more complete information about these topics, please review the complete Proxy Statement and our 2016 Annual Report to Stockholders.

Summary of Stockholder
Meeting
Information

Time and Voting Matters Date:	Board Vote Recommendation	See Page
Item 1 - Election of 11:00 Directors a.m. Advisory Vote Central to Approve the Daylight Frequency of Saving the Vote to Time Approve the (CDI) Item 2 - Compensation FOR ONE YEAR Tuesday Paid to the May Company's 9, Named 2017 Executive Officers	FOR each nominee	<u>6</u>
Place: Advisory Vote MDU to Approve the Service Compensation Center Paid to the 909 Item 3 - Company's FOR Airport Named Road Executive Bismarck, Officers ND Ratification of the Appointment of Deloitte & Touche LLP as the Company's Item 4 - Independent FOR Registered Public Accounting Firm for 2017	FOR	<u>23</u>
Item 5 -	FOR	<u>51</u>

Advisory Vote
to Approve an
Amendment to
the Company's
Bylaws to
Adopt an
Exclusive
Forum for
Internal
Corporate
Claims

Corporate Governance

Highlights

MDU Resources Group, Inc. is committed to strong corporate governance practices. The following highlights our corporate governance practices and policies. See the sections entitled "Corporate Governance" and "Executive Compensation" for more information on the following:

Annual Election ü of All Directors	ü All Three Standing Committees Consist of Independent Directors
ü Majority Voting for Directors	ü Active Investor Outreach Program Stock Ownership Requirements for Directors and Executives
ü Separate Chairman and CEO	ü
Executive Sessions of Independent ü Directors at Every Regularly Scheduled Meeting	ü Anti-Hedging and Anti-Pledging Policies
ü Annual Board and Committee Self-Evaluations	ü Compensation Recovery/Clawback Policy Code of Business Conduct and Ethics
ü Risk Oversight by Full Board and Committees	ü for Directors, Officers, and Employees
ü All Directors are Independent Other Than our CEO	ü Annual Advisory Approval on Executive Compensation

MDU Resources Group, Inc. Proxy Statement 1

Proxy Statement

Business
Performance
Highlights
Our overall
performance in
2016 was
consistent with
our long-term
strategy as we
executed on
priorities to
reduce our risk to
oil and natural
gas commodity
price fluctuations
and focus on our
regulated energy
delivery and
construction
materials and
services business
segments. In
2016, we
accomplished:

The sale of
Dakota Prairie
Refining, LLC
in June, the
completion of
the sale of our
oil and gas
exploration and
production
business assets
in April, and the
sale of our
interest in the
Pronghorn
natural gas
processing plant
in January 2017
reduced the
company's risk
by decreasing
its exposure to
commodity
price

fluctuations.

Our construction materials & contracting segment achieved record earnings, and its backlog at December 31, 2016, was \$538 million compared to \$491 million a year earlier.

Earnings from our construction services segment were up 43%, to \$33.9 million, on 16% revenue growth.

We acquired the Thunder Spirit wind farm providing an additional 107.5 megawatts of renewable generation. We also signed an agreement in 2016 to purchase power from an expansion of the Thunder Spirit wind farm which includes an option to buy the expansion at the completion of construction. This will bring the total capacity of the Thunder Spirit wind farm to 150 megawatts which will

increase the
company's
nameplate
electric
renewable
generation
portfolio to
27%.

Our electric &
natural gas
distribution
segment
achieved
regulatory relief
of an additional
\$32.7 million in
final
implemented
rates in 2016
through
February 2017.

We, along with
a partner, began
construction of
approximately
160-miles of
345 kilovolt
electric
transmission
line which will
facilitate
delivery of
renewable wind
energy from
North Dakota to
eastern markets.

Our pipeline &
midstream
segment secured
sufficient
capacity
commitments
and started
survey work on
a 38-mile
transmission
pipeline that
will deliver
natural gas
supply to
eastern North

Dakota and far
western
Minnesota.

Following
receipt of
necessary
permits and
regulatory
approvals,
construction is
expected to start
in early 2018
and be complete
late that year.

This segment
also signed
agreements for
and completed
construction of
other natural gas
transmission
pipeline
projects.

Our
construction
services
segment
constructed and
sold a large
scale solar
project in
Nevada. This
segment also
completed a
135-mile
345-kilovolt
electric
transmission
line project
which was the
largest
transmission
construction
project ever
completed by
the construction
services
segment.

Our pipeline &
midstream
segment

experienced a
59% increase in
natural gas
storage levels.

With our
accomplishments
in 2016, we are
optimistic about
the company's
future financial
performance. The
charts below
show our
progress over the
last five years.

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Proxy Statement

2016 Financial

Performance

Highlights

Strong year-over-year performance from continuing operations resulted in an increase in earnings per share from continuing operations to \$1.19 per share compared to \$0.90 per share in 2015, an increase of 32%

Electric & natural gas distribution segment earnings increased by 16%

Pipeline & midstream segment earnings increased by 77%

Construction materials & contracting segment earnings increased by 15%

Construction services segment earnings increased by 43%

Return of stockholder value through the dividend

Increased dividend for 26th straight year
Paid uninterrupted dividend for 79th straight

year

Improved credit rating
outlook from Standard &
Poor's (S&P) from negative to
stable

BBB+ credit

ratings with

stable

outlooks from

both S&P and

Fitch Ratings

Stock price increased from

\$18.32 per share on

December 31, 2015, to

\$28.77 per share on

December 31, 2016,

reflecting appreciation of

57%

One year total stockholder

return of 62% including our

dividends

* The calculation of Total Annual Stockholder Return assumes the reinvestment of dividends in additional shares of common stock.

MDU Resources Group, Inc. Proxy Statement 3

Proxy Statement

26 Years	Dividends Paid	79 Years
of Consecutive	\$692 Million	of Uninterrupted
Dividend Increases	Over the Last 5 Years	Dividend Payments

Compensation Highlights
Executive compensation at the company is focused on performance. Our compensation program is structured to strongly align compensation with the company's performance with a substantial portion of our executive compensation based upon performance incentive awards.

Over 76% of our chief executive officer's target compensation and 61% of our other named executive officers' target compensation is performance based.

100% of annual incentive compensation and 100% of long-term incentive compensation are tied to performance against pre-established, specific, measurable financial and operational goals.

We require all executive

officers to own
a significant
amount of
company stock
based upon a
multiple of their
base salary.

2016 Named Executive Officer Target Pay Mix

With the
exception of
the president
of our
construction
materials &
contracting
segment,
which
achieved
record
earnings in
2015, base
salaries for
our named
executive
officers were
frozen in
2016
following a
challenging
year in 2015
as a result of
impairments
at our
exploration
& production
segment,
which has
since been
sold.
Annual
incentive
award
payout to our
CEO for
2016, which
was based
upon the
strong
performance
at all four of

our business units, was 139.8% of his annual incentive target. Long-term incentive award payouts in 2017 for the 2014-2016 performance cycle were at 68% of target based upon total stockholder return at the 40th percentile of our peers over the performance cycle reflecting a challenging operating environment in 2014 and 2015.

Proxy Statement

Key Features of our Executive Compensation Program

What We Do

þ Pay for Performance - All annual and long-term incentives are performance-based and tied to performance measures set by the compensation committee.

þ Independent Compensation Committee - All members of the compensation committee meet the independence standards under the New York Stock Exchange listing standards and the Securities and Exchange Commission rules.

þ Independent Compensation Consultant - The compensation committee retains an independent compensation consultant to evaluate executive compensation plans and practices.

þ Competitive Compensation - Executive compensation reflects the executive's performance, experience, relative value compared to other positions within the company, relationship to competitive market value compensation, and the economic environment of the executive's business segment.

þ Annual Compensation Risk Analysis - We regularly analyze the risks related to our compensation programs and conduct a broad risk assessment annually.

þ Stock Ownership & Retention Requirements - Executive officers are required to own, within five years of appointment or promotion, company common stock equal to a multiple of their base salary. The executive officers must retain at least 50% of the net after tax shares of stock vested through the long-term incentive plan for the earlier of two years or until termination of employment.

þ Clawback Policy - If the company's audited financial statements are restated, the compensation committee may, or shall if required, demand repayment of some or all incentives paid to company executive officers within the last three years.

What We Don't Do

ý Stock Options - The company does not use stock options as a form of incentive compensation.

ý Perquisites - Executives do not receive perquisites which materially differ from those available to employees in general.

ý Tax Gross-ups - Executive officers do not receive tax gross-ups on any compensation.

ý Hedge or Pledge Stock - Executives and directors are not allowed to hedge or pledge company securities.

ý No Time Based Awards - All long-term incentives are performance-based and vest only upon the achievement of specific performance measures.

Proxy Statement

BOARD OF
DIRECTORS

ITEM 1. ELECTION OF DIRECTORS

The nominating and governance committee of the board, reflecting the criteria for election to the board, identifies and reviews possible candidates for the board and recommends the nominees for directors to the board for approval. The committee considers and evaluates suggestions from many sources, including stockholders, regarding possible candidates for directors. Additional information on our board composition and director nomination process is further discussed in our Proxy Statement under “Nominating and Governance Committee” in the section entitled “Corporate Governance.”

All nominees for director are nominated to serve one-year terms until the annual meeting of stockholders in 2018 and their respective successors are elected and qualified, or until their earlier resignation, removal from office, or death. We have provided information below about our nominees, all of whom are incumbent directors, including their ages, years of service as directors, business experience, and service on other boards of directors, including any other directorships on boards of public companies. We have also included information about each nominee’s specific experience, qualifications, attributes, or skills that led the board to conclude that he or she should serve as a director of MDU Resources Group, Inc. at the time we file our Proxy Statement, in light of our business and structure. Unless we specifically note below, no corporation or organization referred to below is a subsidiary or other affiliate of MDU Resources Group, Inc.

Director Nominees

Thomas Everist Independent Director Since 1995 Other Current Public Boards:

Age 67 Compensation Committee --Raven Industries, Inc.

Mr. Everist has more than 43 years of business experience in the construction materials and aggregate mining industry. He has business leadership and management experience serving as president and chairman of his companies for over 29 years. Mr. Everist also has experience serving as a director and chairman of another public company, which enhances his contributions to our board.

Career Highlights

President and chairman of The Everist Company, Sioux Falls, South Dakota, an investment and land development company, since April 2002. Prior to January 2017, The Everist Company was engaged in aggregate, concrete, and asphalt production.

Managing member of South Maryland Creek Ranch, LLC, a land development company; president of SMCR, Inc., an investment company, since June 2006; and managing member of MCR Builders, LLC, which provides residential building services to South Maryland Creek Ranch, LLC, since November 2014.

Director and chairman of the board of Everist Health, Inc., Ann Arbor, Michigan, which provides solutions for personalized medicines, since 2002, and chief executive officer from August 2012 to December 2012.

President and chairman of L.G. Everist, Inc., Sioux Falls, South Dakota, an aggregate production company, from 1987 to April 2002.

Other Leadership Experience

Director of publicly traded Raven Industries, Inc., Sioux Falls, South Dakota, a general manufacturer of electronics, flow controls, and engineered films, since 1996, and chairman of the board since April 2009.

Director of Showplace Wood Products, Sioux Falls, South Dakota, a custom cabinets manufacturer, since January 2000.

Director of Bell, Inc., Sioux Falls, South Dakota, a manufacturer of folding cartons and packages, since April 2011.

Director of Angiologix Inc., Mountain View, California, a medical diagnostic device company, from July 2010 through October 2011 when it was acquired by Everist Genomics, Inc.

Member of the South Dakota Investment Council, the state agency responsible for prudently investing state funds, from July 2001 to June 2006.

Education

Bachelor's degree in mechanical engineering and a master's degree in construction management from Stanford University.

Proxy Statement

Karen B. Fagg Independent Director Since 2005

Age 63 Compensation Committee
Nominating and Governance Committee

Ms. Fagg brings experience to our board in construction and engineering, energy, and the responsible development of natural resources, which are all important aspects of our business. In addition to her industry experience, Ms. Fagg has over 20 years of business leadership and management experience, including over eight years as president, chief executive officer, and chairman of her own company, as well as knowledge and experience acquired through her service on a number of Montana state and community boards.

Career Highlights

Vice president of DOWL LLC, d/b/a DOWL HKM, an engineering and design firm, from April 2008 until her retirement on December 31, 2011.

President of HKM Engineering, Inc., Billings, Montana, an engineering and physical science services firm, from April 1, 1995 to June 2000, and chairman, chief executive officer, and majority owner from June 2000 through March 2008. HKM Engineering, Inc. merged with DOWL LLC on April 1, 2008.

Employed with MSE, Inc., Butte, Montana, an energy research and development company, from 1976 through 1988, and vice president of operations and corporate development director from 1993 to April 1995.

Director of the Montana Department of Natural Resources and Conservation, Helena, Montana, the state agency charged with promoting stewardship of Montana's water, soil, energy, and rangeland resources; regulating oil and gas exploration and production; and administering several grant and loan programs, for a four-year term from 1989 through 1992.

Other Leadership Experience

Board member of St. Vincent's Healthcare since January 2016 and previously from October 2003 until October 2009, including a term as chair.

Former member of several state and community boards, including the First Interstate BancSystem Foundation, from June 2013 to 2016; the Montana Justice Foundation, whose mission is to achieve equal access to justice for all Montanans through effective funding and leadership, from 2013 into 2015; Board of Trustees of Carroll College from 2005 through 2010; Montana Board of Investments, the state agency responsible for prudently investing state funds, from 2002 through

2006; Montana State University's Advanced Technology Park from 2001 to 2005; and Deaconess Billings Clinic Health System from 1994 to 2002.

Education

Bachelor's degree in mathematics from Carroll College in Helena, Montana.

David L. Goodin Director Since 2013

Age 55 President and Chief Executive Officer

As chief executive officer of MDU Resources Group, Inc., Mr. Goodin is the only officer of the company that serves on our board. With over 33 years of significant, hands-on experience at our company, Mr. Goodin's long history and deep knowledge and understanding of MDU Resources Group, Inc., its operating companies, and its lines of business bring continuity to the board.

Career Highlights

President and chief executive officer and a director of the company since January 4, 2013.

Prior to January 4, 2013, served as chief executive officer and president of Intermountain Gas Company, Cascade Natural Gas Corporation, Montana-Dakota Utilities Co., and Great Plains Natural Gas Co.

Began his career in 1983 at Montana-Dakota Utilities Co. as a division electrical engineer and served in positions of increasing responsibility until 2007 when he was named president of Cascade Natural Gas Corporation; positions included division electric superintendent, electric systems manager, vice president-operations, and executive vice president-operations and acquisitions.

Other Leadership Experience

Member of the U.S. Bancorp Western North Dakota Advisory Board since January 2013.

Director of Sanford Bismarck, an integrated health system dedicated to the work of health and healing, and Sanford Living Center, since January 2011.

Former board member of several industry associations, including the American Gas Association, the Edison Electric Institute, the North Central Electric Association, the Midwest ENERGY Association, and the North Dakota Lignite Energy Council.

Education

Bachelor of science degree in electrical and electronics engineering from North Dakota State University.

Masters in business administration from the University of North Dakota.

The Advanced Management Program at Harvard School of Business.

Registered professional engineer in North Dakota.

Proxy Statement

Mark A. Hellerstein Independent Director Since 2013
Age 64 Audit Committee

Mr. Hellerstein has extensive business experience in the energy industry as a result of his 17 years of senior management experience and service as board chairman of St. Mary Land & Exploration Company (now SM Energy Company). As a certified public accountant, on inactive status, with extensive financial experience as a result of his employment as chief financial officer with several companies, including public companies, Mr. Hellerstein contributes significant finance and accounting knowledge to our board and audit committee.

Career Highlights

Chief executive officer of St. Mary Land & Exploration Company (now SM Energy Company), an energy company engaged in the acquisition, exploration, development, and production of crude oil, natural gas, and natural gas liquids, from 1995 until February 2007; president from 1992 until June 2006; and executive vice president and chief financial officer from 1991 until 1992. He was first elected to the board of St. Mary in 1992 and served as chairman of the board from 2002 until May 2009.

Several positions prior to joining St. Mary in 1991, including chief financial officer of CoCa Mines Inc., which mined and extracted minerals from lands previously held by the public through the Bureau of Land Management; American Golf Corporation, which manages and owns golf courses in the United States; and Worldwide Energy Corporation, an oil and gas acquisition, exploration, development, and production company with operations in the United States and Canada.

Other Leadership Experience

Director of Transocean Inc., a leading provider of offshore drilling services for oil and gas wells, from December 2006 to November 2007.

Director of the Denver Children's Advocacy Center, whose mission is to provide a continuum of care for traumatized children and their families, from August 2006 until December 2011, including chairman for the last three years.

Education and Professional

Bachelor's degree in accounting from the University of Colorado.

Certified public accountant, on inactive status.

A. Bart Holaday Independent Director Since 2008

Age 74

Audit Committee

Nominating and Governance Committee

Mr. Holaday has extensive business knowledge and experience in the energy and financial management industries. Mr. Holaday brings to the board extensive finance and investment experience, as well as business development skills, through his senior management experience with investment funds and energy companies. Mr. Holaday is also a chartered financial analyst.

Career Highlights

President and owner of Dakota Renewable Energy Fund, LLC, which invests in small companies in North Dakota, since August 2007.

Head of the Private Markets Group of UBS Asset Management and its predecessor entities, managing more than \$19 billion in investments, from December 1985 until retirement in 2001.

Vice president and principal of the InnoVen Venture Capital Group, a venture capital investment firm, from 1983 through 1985.

Founder and president of Tenax Oil and Gas Corporation, an onshore Gulf Coast exploration and production company, from 1980 through 1982.

Four years of senior management experience with Gulf Oil Corporation, a global energy and petrochemical company.

Eight years of senior management experience with the federal government, including the Department of Defense, Department of the Interior, and the Federal Energy Administration.

Other Leadership Experience

Member of the investment advisory board of Commons Capital LLC, a venture capital firm, since 1999.

Director of Hull Investments, LLC, a private entity firm that combines nonprofit activities and investments, since August 2011; Alerus Financial, a financial services company, since September 2007; and Adams Street Partners, LLC, a private equity investment firm, from January 2001 to March 2017.

Former member of the U.S. Securities and Exchange Commission advisory committee on the regulation of capital markets.

Education and Professional

Bachelor's degree in engineering sciences from the U.S. Air Force Academy.

Rhodes Scholar, earning a bachelor's degree and a master's degree in politics, philosophy, and economics from Oxford University.

Law degree from George Washington Law School.

Honorary Doctor of Letters from the University of North
Dakota.
Chartered Financial Analyst.

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Proxy Statement

Dennis W. Johnson Independent Director Since 2001
Age 67 Audit Committee

Mr. Johnson brings to our board over 42 years of experience in business management, manufacturing, and finance, holding positions as chairman, president, and chief executive officer of TMI Corporation for 34 years, as well as through his prior service as a director of the Federal Reserve Bank of Minneapolis. As a result of his service on a number of state and local organizations in North Dakota, Mr. Johnson has significant knowledge of local, state, and regional issues involving North Dakota, a state where we have significant operations and assets.

Career Highlights

Chairman, president, and chief executive officer of TMI Corporation and chairman and chief executive officer of TMI Transport Corporation (as well as TMI Systems Design Corporation and TMI Storage Systems Corporation before they merged into TMI Corporation the end of 2015), manufacturers of casework and architectural woodwork in Dickinson, North Dakota; employed since 1974 and serving as president or chief executive officer since 1982.

Other Leadership Experience

President of the Dickinson City Commission from July 2000 through October 2015.

Director of the Federal Reserve Bank of Minneapolis for six years from 1993 through 1998.

Served on numerous industry, state, and community boards, including the North Dakota Workforce Development Council (chair); the Decorative Laminate Products Association; the North Dakota Technology Corporation; and the business advisory council of the Steffes Corporation, a metal manufacturing and engineering firm.

Served on North Dakota Governor Sinner's Education Action Commission; the North Dakota Job Service Advisory Council; the North Dakota State University President's Advisory Council; North Dakota Governor Schafer's Transition Team; and chaired North Dakota Governor Hoeven's Transition Team.

Education

Bachelor of science in electrical and electronics engineering and master of science in industrial engineering from North Dakota State University.

William E. McCracken Independent Director Since 2013
Age 74

Compensation Committee
Nominating and Governance Committee

Mr. McCracken is experienced in information technology and cybersecurity through his tenure at CA, Inc. and International Business Machines Corporation (IBM). This experience coupled with his service as the chair or a member of the board of other public companies and the National Association of Corporate Directors (NACD) enables him to provide insight into the operations, challenges, and complex issues our company is facing in today's environment and to make significant contributions to the board's oversight of operational risk management functions and corporate governance.

Career Highlights

President of Executive Consulting Group, LLC, a general business consulting firm, from 2002 to present.

Chief executive officer of CA, Inc., one of the world's largest information technology management software companies, from January 2010 until January 7, 2013, after which he served as executive adviser to the new chief executive officer until March 31, 2013, and as a consultant to the company until December 31, 2013; also as director of CA, Inc. from May 2005 until January 7, 2013, serving as non-executive chairman of the board from June 2007 to September 2009, interim executive chairman from September 2009 to January 2010, and executive chairman from January 2010 to May 2010.

Several executive positions during his 36-year career with IBM, including serving on its Chairman's Worldwide Management Council, a group of the top 30 executives at IBM, from 1995 to 2001.

Other Leadership Experience

Director of the NACD, a nonprofit membership organization for corporate board members, since 2010, and named by the NACD as one of the top 100 most influential people in the boardroom in 2009; served on that organization's 2009 blue ribbon commission on risk governance, co-chaired its blue ribbon commission on board diversity in 2012, and co-chaired its blue ribbon commission on the board and long-term value creation in 2015.

Director of IKON Office Solutions, Inc., a provider of document management systems and services, from 2003 to 2008, where he served on its audit committee, compensation committee, and strategy committee.

Chair of the advisory board of the Millstein Center for Global Markets and Corporate Ownership at Columbia University and member since 2013, and the New York chairman of the Chairmen's Forum since 2011.

Education

Bachelor of science in physics and mathematics from Shippensburg University.

Proxy Statement

Patricia L. Moss Independent Director Since 2003
 Age 63 Compensation Committee
 Nominating and Governance Committee

Other Current Public Boards:
 --Cascade Bancorp
 --Aquila Tax Free Trust of Oregon

Ms. Moss has business experience and knowledge of the Pacific Northwest economy and state, local, and region issues where a significant portion of our operations are located. Ms. Moss provides our board with experience in finance and banking, as well as experience in business development through her work at Cascade Bancorp and Bank of the Cascades, and on the Oregon Investment Fund Advisory Council, the Oregon Business Council, and the Oregon Growth Board. Ms. Moss also has experience as a certified senior professional in human resources.

Career Highlights

President and chief executive officer of Cascade Bancorp, a financial holding company, Bend, Oregon, from 1998 to January 3, 2012; chief executive officer of Cascade Bancorp's principal subsidiary, Bank of the Cascades, from 1998 to January 3, 2012, serving also as president from 1998 to 2003; and chief operating officer, chief financial officer and secretary of Cascade Bancorp from 1987 to 1998.

Other Leadership Experience

Director of Cascade Bancorp and Bank of the Cascades since 1993, and vice chair of both boards since January 3, 2012.

Chair of the Bank of the Cascades Foundation Inc. since 2014; co-chair of the Oregon Growth Board, a state board created to improve access to capital and create private-public partnerships, since May 2012; and member of the Board of Trustees for the Aquila Tax Free Trust of Oregon, a mutual fund created especially for the benefit of Oregon residents, since June 2015 and January 2002 to May 2005.

Former director of the Oregon Investment Fund Advisory Council, a state-sponsored program to encourage the growth of small businesses in Oregon; the Oregon Business Council, with a mission to mobilize business leaders to contribute to Oregon's quality of life and economic prosperity; the North Pacific Group, Inc., a wholesale distributor of building materials, industrial, and hardwood products; Clear Choice Health Plans Inc., a multi-state insurance company; and City of Bend's Juniper Ridge management advisory board.

Education

Bachelor of science in business administration from Linfield College in Oregon and master's studies at Portland State University.

Commercial banking school certification at the ABA Commercial Banking School at the University of Oklahoma.

Harry J. Pearce Independent Director Since 1997
 Age 74 Chairman of the Board

Mr. Pearce provides our board with public company leadership with his multinational business management experience and proven leadership skills through his position as vice chairman at General Motors Corporation, as well as through his extensive service on the boards of large public companies, including Marriott International, Inc., Hughes Electronics Corporation, where he was chairman, and Nortel

Networks Corporation, where he also was chairman. He also brings to our board his long experience as a practicing attorney. In addition, Mr. Pearce has focused on corporate governance issues and was the founding chair of Yale University's Chairmen's Forum, an organization comprised of non-executive chairmen of publicly traded companies.

Career Highlights

Chairman of the board of the company effective August 17, 2006; lead director from February 15, 2001 until August 17, 2006; and vice chairman of the board from November 16, 2000 until February 15, 2001.

Vice chairman and director of General Motors Corporation from January 1, 1996 to May 31, 2001; general counsel from 1987 to 1994.

Senior partner in the Pearce & Durick law firm in Bismarck, North Dakota, prior to joining General Motors in 1987.

Other Leadership Experience

Director of Hughes Electronics Corporation, a General Motors Corporation subsidiary and provider of digital television entertainment, broadband satellite network, and global video and data broadcasting, from 1992 to December 2003, and retiring as chairman in 2003.

Director of Marriott International, Inc., a major hotel chain, from 1995 to May 2015, and served on the audit, finance, compensation, and excellence committees.

Director of Nortel Networks Corporation, a global telecommunications company, from January 2005 to August 2009, also served as chairman of the board from June 2005.

Fellow of the American College of Trial Lawyers, and a member of the International Society of Barristers.

Founding chair of the Yale University's Chairmen's Forum; former member of the President's Council on Sustainable Development, and co-chair of the President's Commission on the United States Postal Service.

Education

Bachelor's degree in engineering sciences from the U.S. Air Force Academy.

Juris doctor degree from Northwestern University's School of Law.

Proxy Statement

John K. Wilson Independent Director Since 2003

Age 62 Audit Committee

Mr. Wilson has an extensive background in finance and accounting, as well as experience with mergers and acquisitions, through his education and work experience at a major accounting firm and his later public utility experience in his positions as controller and vice president of Great Plains Natural Gas Co., president of Great Plains Energy Corp., and president, chief financial officer, and treasurer for Durham Resources, LLC, and all Durham Resources entities.

Career Highlights

President of Durham Resources, LLC, a privately held financial management company, in Omaha, Nebraska, from 1994 to December 31, 2008; president of Great Plains Energy Corp., a public utility holding company and an affiliate of Durham Resources, LLC, from 1994 to July 1, 2000; and vice president of Great Plains Natural Gas Co., an affiliate company of Durham Resources, LLC, until July 1, 2000.

Executive director of the Robert B. Daugherty Foundation in Omaha, Nebraska, since January 2010.

Held positions of audit manager at Peat, Marwick, Mitchell (now known as KPMG), controller for Great Plains Natural Gas Co., and chief financial officer and treasurer for all Durham Resources entities.

Other Leadership Experience

Director of HDR, Inc., an international architecture and engineering firm, since December 2008, and director of Tetrad Corporation, a privately held investment company, since April 2010, both located in Omaha, Nebraska.

Former director of Bridges Investment Fund, Inc., a mutual fund, from April 2003 to April 2008; director of the Greater Omaha Chamber of Commerce from January 2001 through December 2008; member of the advisory board of U.S. Bank NA Omaha from January 2000 to July 2010; and the advisory board of Duncan Aviation, an aircraft service provider, headquartered in Lincoln, Nebraska, from January 2010 to

February 2016.

Education and Professional

Bachelor's degree in business administration, cum laude, from the University of Nebraska – Omaha.

Certified public accountant, on inactive status.

The board of directors

recommends

a vote “for”

each

nominee.

A majority of votes cast is required to elect a director in an uncontested election. A majority of votes cast means the number of votes cast “for” a director's election must exceed the number of votes cast “against” the director's election. “Abstentions” and “broker non-votes” do not count as votes cast “for” or “against” the director's election. In a contested election, which is an election in which the number of nominees for director exceeds the number of directors to be elected and which we do not anticipate, directors will be elected by a plurality of the votes cast.

Unless you specify otherwise when you submit your proxy, the proxies will vote your shares of common stock “for” all directors nominated by the board of directors. If a nominee becomes unavailable for any reason or if a vacancy should occur before the election, which we do not anticipate, the proxies will vote your shares in their discretion for another person nominated by the board.

Our policy on majority voting for directors contained in our corporate governance guidelines requires any proposed nominee for re-election as a director to tender to the board, prior to nomination, his or her irrevocable resignation from the board that will be effective, in an uncontested election of directors only, upon:

receipt of a greater number of votes “against” than votes “for” election at our annual meeting of stockholders; and acceptance of such resignation by the board of directors.

Following certification of the stockholder vote, the nominating and governance committee will promptly recommend to the board whether or not to accept the tendered resignation. The board will act on the nominating and governance committee's recommendation no later than 90 days following the date of the annual meeting.

Brokers may not vote your shares on the election of directors if you have not given your broker specific instructions on how to vote. Please be sure to give specific voting instructions to your broker so your vote can be counted.

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CORPORATE
GOVERNANCE
AND THE
BOARD OF
DIRECTORS

Director Independence

The board of directors has adopted guidelines on director independence that are included in our corporate governance guidelines. The board of directors has determined that, except for Mr. Goodin, all current directors have no material relationship with us and are independent in accordance with our corporate governance guidelines and the New York Stock Exchange listing standards.

In determining director independence, the board of directors reviewed and considered information about any transactions, relationships, and arrangements between the non-employee directors and their immediate family members and affiliated entities on the one hand, and the company and its affiliates on the other, and in particular the following transactions, relationships, and arrangements:

Charitable contributions by the MDU Resources Foundation (Foundation) to the following nonprofit organizations, where a director, or a director's spouse, serves or has served as a director, chair, or vice chair of the board of trustees, trustee or member of the organization or related entity: Charitable contributions by the Foundation to Sanford Health Foundation, Billings Catholic Schools Foundation, Community Resources Inc., the University of North Dakota Foundation, and the University of Jamestown and its foundation. None of the contributions made to any of these nonprofit entities during the last three fiscal years exceeded in any single year the greater of \$1 million or 2% of the relevant entity's consolidated gross revenues.

Stockholder Engagement

The company has an active stockholder outreach program. We believe in providing transparent and timely information to our investors. Each year we routinely engage directly or indirectly with our stockholders, including our top institutional stockholders. During 2016, the company held meetings, conference calls, and webcasts with a diverse mix of stockholders. Throughout the year, we held meetings with nine of the actively managed institutional investors included in our year-end top 30 stockholders. We engage periodically with our index fund investors, however, no direct meetings were held with this investor class in 2016. In our meetings, we discussed a variety of topics with stockholders including longer-term company strategy and our capital expenditure forecast, shorter-term operational and financial updates, and previously announced strategic initiatives. The company also met with proxy advisory firms to discuss corporate governance and executive compensation practices.

Board Leadership Structure

The board separated the positions of chairman of the board and chief executive officer in 2006, and our bylaws and corporate governance guidelines currently require that our chairman be independent. The board believes this structure provides balance and is currently in the best interest of the company and its stockholders. Separating these positions allows the chief executive officer to focus on the full-time job of running our business, while allowing the chairman of the board to lead the board in its fundamental role of providing advice to and independent oversight of management. The chairman consults with the chief executive officer regarding the board meeting agendas, the quality and flow of information provided to the board, and the effectiveness of the board meeting process. The board believes this split structure recognizes the time, effort, and energy the chief executive officer is required to devote to the position in the current business environment, as well as the commitment required to serve as the chairman, particularly as the board's oversight responsibilities continue to grow and demand more time and attention. The fundamental role of the board of directors is to provide oversight of the management of the company in good faith and in the best interests of the company and its stockholders. Having an independent chairman is a means to ensure the chief executive officer is accountable for managing the company in close alignment with the interests of stockholders, including with respect to risk management as discussed below. An independent chairman is in a position to encourage frank and lively

discussions and to assure that the company has adequately assessed all appropriate business risks before adopting its final business plans and strategies. The board believes that having separate positions and having an independent outside director serve as chairman is the appropriate leadership structure for the company at this time and demonstrates our commitment to good corporate governance.

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Board's Role in Risk Oversight

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including economic risks, environmental and regulatory risks, the impact of competition, weather conditions, limitations on our ability to pay dividends, pension plan obligations, cyberattacks or acts of terrorism, and third party liabilities. Management is responsible for the day-to-day management of risks the company faces, while the board, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the board of directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed.

The board believes establishing the right "tone at the top" and full and open communication between management and the board of directors are essential for effective risk management and oversight. Our chairman meets regularly with our president and chief executive officer and other senior officers to discuss strategy and risks facing the company. Senior management attends the quarterly board meetings and is available to address any questions or concerns raised by the board on risk management-related and any other matters. Each quarter, the board of directors receives presentations from senior management on strategic matters involving our operations. At least annually, the board holds strategic planning sessions with senior management to discuss strategies, key challenges, and risks and opportunities for the company.

While the board is ultimately responsible for risk oversight at our company, our three standing board committees assist the board in fulfilling its oversight responsibilities in certain areas of risk. The audit committee assists the board in fulfilling its oversight responsibilities with respect to risk management in a general manner and specifically in the areas of financial reporting, internal controls and compliance with legal and regulatory requirements, and, in accordance with New York Stock Exchange requirements, discusses policies with respect to risk assessment and risk management and their adequacy and effectiveness. Risk assessment reports are regularly provided by management to the audit committee or the full board. This opens the opportunity for discussions about areas where the company may have material risk exposure, steps taken to manage such exposure, and the company's risk tolerance in relation to company strategy. The audit committee reports regularly to the board of directors on the company's management of risks in the audit committee's areas of responsibility. The compensation committee assists the board in fulfilling its oversight responsibilities with respect to the management of risks arising from our compensation policies and programs. The nominating and governance committee assists the board in fulfilling its oversight responsibilities with respect to the management of risks associated with board organization, membership and structure, succession planning for our directors and executive officers, and corporate governance.

Board Meetings and Committees

During 2016, the board of directors held four regular meetings and three special meetings. Each director attended at least 75% of the combined total meetings of the board and the committees on which the director served during 2016. Director attendance at our annual meeting of stockholders is encouraged. All directors attended our 2016 Annual Meeting of Stockholders.

Harry J. Pearce was elected non-employee chairman of the board on August 17, 2006, and previously served as lead director from February 15, 2001 to August 17, 2006. He presides at the executive session of the non-employee directors held in connection with each regularly scheduled quarterly board of directors meeting. The non-employee directors also meet in executive session both with and without the chief executive officer at each regularly scheduled quarterly board of directors meeting. All of our non-employee directors are independent, as defined in our corporate governance guidelines and New York Stock Exchange listing standards.

The board has a standing audit committee, compensation committee, and nominating and governance committee. These committees are composed entirely of independent directors.

Nominating and Governance Committee

The nominating and governance committee met four times during 2016. The committee members are Karen B. Fagg, chair, A. Bart Holaday, William E. McCracken, and Patricia L. Moss.

The nominating and governance committee provides recommendations to the board with respect to:

board organization, membership, and function;
committee structure and membership;
succession planning for our executive management and directors; and
our corporate governance guidelines.

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The nominating and governance committee assists the board in overseeing the management of risks in the committee's areas of responsibility.

The committee identifies individuals qualified to become directors and recommends to the board the nominees for director for the next annual meeting of stockholders. The committee also identifies and recommends to the board individuals qualified to become our principal officers and the nominees for membership on each board committee. The committee oversees the evaluation of the board and management.

In identifying nominees for director, the committee consults with board members, our management, consultants, and other individuals likely to possess an understanding of our business and knowledge concerning suitable director candidates.

Our corporate governance guidelines include our policy on consideration of director candidates recommended to us. We will consider candidates that our stockholders recommend in the same manner we consider other nominees. Stockholders who wish to recommend a director candidate may submit recommendations, along with the information set forth in the guidelines, to the nominating and governance committee chair in care of the secretary at MDU Resources Group, Inc., P.O. Box 5650, Bismarck, ND 58506-5650.

Stockholders who wish to nominate persons for election to our board at an annual meeting of stockholders must follow the procedures set forth in section 2.08 of our bylaws. Our bylaws are available on our website. See "Stockholder Proposals, Director Nominations, and Other Items of Business for 2018 Annual Meeting" in the section entitled "Information about the Annual Meeting" for further details.

In evaluating director candidates, the committee, in accordance with our corporate governance guidelines, considers an individual's:

- background, character, and experience, including experience relative to our company's lines of business;
- skills and experience which complement the skills and experience of current board members;
- success in the individual's chosen field of endeavor;
- skill in the areas of accounting and financial management, banking, business management, human resources, marketing, operations, public affairs, law, technology, risk management, governance, and operations abroad;
- background in publicly traded companies including service on other public company boards of directors;
- geographic area of residence;
- diversity of business and professional experience, skills, gender, and ethnic background, as appropriate in light of the current composition and needs of the board;
- independence, including any affiliation or relationship with other groups, organizations, or entities; and
- compliance with applicable law and applicable corporate governance, code of conduct and ethics, conflict of interest, corporate opportunities, confidentiality, stock ownership and trading policies, and our other policies and guidelines of the company.

In addition, our bylaws contain requirements that a person must meet to qualify for service as a director.

The nominating and governance committee assesses the effectiveness of this policy annually in connection with the nomination of directors for election at the annual meeting of stockholders. The composition of the current board reflects diversity in business and professional experience, skills, and gender.

Audit Committee

The audit committee is a separately-designated committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934.

The audit committee met eight times during 2016. The audit committee members are Dennis W. Johnson, chair, Mark A. Hellerstein, A. Bart Holaday, and John K. Wilson. The board of directors has determined that Messrs. Johnson, Hellerstein, Holaday, and Wilson are "audit committee financial experts" as defined by Securities and Exchange Commission rules and are financially literate within meaning of the listing standards of the New York Stock Exchange. They also meet the independence standard for audit committee members under our director independence guidelines, the New York Stock Exchange listing standards, and Securities and Exchange Commission rules.

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The audit committee assists the board of directors in fulfilling its oversight responsibilities to the stockholders and serves as a communication link among the board, management, the independent registered public accounting firm, and the internal auditors. The audit committee:

assists the board's oversight of

the integrity of our financial statements and system of internal controls;

the company's compliance with legal and regulatory requirements;

the independent registered public accounting firm's qualifications and independence;

the performance of our internal audit function and independent registered public accounting firm; and

management of risk in the audit committee's areas of responsibility; and

arranges for the preparation of and approves the report that Securities and Exchange Commission rules require we include in our annual proxy statement. See the section entitled "[Audit Committee Report](#)" for further information.

Compensation Committee

During 2016, the compensation committee met five times. The compensation committee consists entirely of independent directors within the meaning of the company's corporate governance guidelines and the New York Stock Exchange listing standards and who meet the definitions of outside or non-employee directors for purposes of Section 162(m) of the Internal Revenue Code and Rule 16-b under the Exchange Act. Members of the compensation committee are Thomas Everist, chair, Karen B. Fagg, William E. McCracken, and Patricia L. Moss.

The compensation committee assists the board of directors in fulfilling its responsibilities relating to the company's compensation policy and programs. It has the direct responsibility for determining compensation for our Section 16 officers and for overseeing the company's management of risk in its areas of responsibility. In addition, the compensation committee reviews and recommends any changes to director compensation policies to the board of directors. The authority and responsibility of the compensation committee is outlined in the compensation committee's charter.

The compensation committee uses the analysis and recommendations from outside consultants, the chief executive officer, and the human resources department in making its compensation decisions. The chief executive officer, the vice president-human resources, and the general counsel regularly attend compensation committee meetings. The committee meets in executive session as needed. The processes and procedures for consideration and determination of compensation of the Section 16 officers, as well as the role of our executive officers, are discussed in the Compensation Discussion and Analysis.

The compensation committee has sole authority to retain compensation consultants, legal counsel, or other advisers to assist in consideration of the compensation of the chief executive officer, the other Section 16 officers, and the board of directors, and the committee is directly responsible for the appointment, compensation, and oversight of the work of such advisers. The committee's practice has been to retain a compensation consultant every other year to conduct a competitive analysis on executive compensation. The competitive analysis is conducted internally by the human resources department in the other years. Prior to retaining an adviser, the committee will consider all factors relevant to ensure the adviser's independence from management. Annually the compensation committee conducts a potential conflicts of interest assessment raised by the work of any compensation consultant and how such conflicts, if any, should be addressed. The compensation committee requested and received information from its compensation consultant, Willis Towers Watson, to assist in its potential conflicts of interest assessment. Based on its review and analysis, the compensation committee did not identify any conflicts of interest with respect to Willis Towers Watson. The board of directors determines compensation for our non-employee directors based upon recommendations from the compensation committee. The compensation committee's practice has been to retain a compensation consultant every other year to conduct a competitive analysis on director compensation. The compensation committee employed a compensation consultant for an analysis of director compensation in 2015 but not in 2016 as the study was performed by the human resources department.

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Narrative Disclosure of our Compensation Policies and Practices as They Relate to Risk Management

The human resources department has conducted an assessment of the risks arising from our compensation policies and practices for all employees and concluded that none of these risks is reasonably likely to have a material adverse effect on the company. Based on the human resources department's assessment and taking into account information received from the risk identification process, senior management and our management policy committee concluded that risks arising from our compensation policies and practices for all employees are not reasonably likely to have a material adverse effect on the company. After review and discussion with senior management, the compensation committee concurred with this assessment.

As part of its assessment of the risks arising from our compensation policies and practices for all employees, the human resources department identified the principal areas of risk faced by the company that may be affected by our compensation policies and practices for all employees, including any risks resulting from our operating businesses' compensation policies and practices. In assessing the risks arising from our compensation policies and practices, the human resources department identified the following practices designed to prevent excessive risk taking:

Business management and governance practices:

risk management is a specific performance competency included in the annual performance assessment of Section 16 officers;

board oversight on capital expenditure and operating plans that promotes careful consideration of financial assumptions;

limitation on business acquisitions without board approval;

employee integrity training programs and anonymous reporting systems;

quarterly risk assessment reports at audit committee meetings; and

prohibitions on holding company stock in an account that is subject to a margin call, pledging company stock as collateral for a loan, and hedging of company stock by Section 16 officers and directors.

Executive compensation practices:

active compensation committee review of executive compensation, including comparison of executive compensation to total stockholder return ratio to the ratio for the company's peer group;

the initial determination of a position's salary grade to be at or near the 50th percentile of base salaries paid to similar positions at peer group companies and/or relevant industry companies;

consideration of peer group and/or relevant industry practices to establish appropriate compensation target amounts;

a balanced compensation mix of fixed salary and annual and long-term incentives tied to the company's financial performance;

use of interpolation for annual and long-term incentive awards to avoid payout cliffs;

negative discretion to adjust any annual or long-term incentive award payment downward;

use of caps on annual incentive awards (maximum of 250% of target) and long-term incentive stock grant awards (200% target);

clawback availability on incentive payments in the event of a financial restatement;

use of performance shares, rather than stock options or stock appreciation rights, as the equity component of incentive compensation;

use of performance shares with a relative total stockholder return performance measure and mandatory reduction in award if total stockholder return over the performance period is negative;

use of three-year performance periods to discourage short-term risk-taking;

substantive incentive goals measured primarily by return on invested capital, earnings, and earnings per share criteria, which encourage balanced performance and are important to stockholders;

use of financial performance metrics that are readily monitored and reviewed;

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regular review of the appropriateness of the companies in the peer group;
stock ownership requirements for the board and for executives receiving long-term incentive awards under the MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan;
mandatory holding periods for 50% of any net after-tax shares earned under long-term incentive awards; and
use of independent consultants in establishing pay targets at least biennially.

Stockholder Communications with the Board

Stockholders and other interested parties who wish to contact the board of directors or any individual director, including our non-employee chairman or non-employee directors as a group, should address a communication in care of the secretary at MDU Resources Group, Inc., P.O. Box 5650, Bismarck, ND 58506-5650. The secretary will forward all communications.

Additional Governance Features

Board and Committee Evaluations

Our corporate governance guidelines provide that the board of directors, in coordination with the nominating and governance committee, will annually review and evaluate the performance and functioning of the board and its committees. The self-evaluations are intended to facilitate a candid assessment and discussion by the board and each committee of its effectiveness as a group in fulfilling its responsibilities, its performance as measured against the corporate governance guidelines, and areas for improvement. The board and committee members are provided with a questionnaire to facilitate discussion. The results of the evaluations are reviewed and discussed in executive sessions of the committees and the board of directors.

Director Resignation Upon Change of Job Responsibility

Our corporate governance guidelines require a director to tender his or her resignation after a material change in job responsibility. In 2017, Mr. Everist submitted his resignation in connection with the sale by The Everist Company of its aggregate, concrete, and asphalt production interests. After considering his background, experience on the board, skills and character, and contribution to the company in light of the company's business and structure, the board determined Mr. Everist's resignation should not be accepted.

Majority Voting in Uncontested Director Elections

Our corporate governance guidelines require that in uncontested elections (those where the number of nominees does not exceed the number of directors to be elected), director nominees must receive the affirmative vote of a majority of the votes cast to be elected to our board of directors. Contested director elections (those where the number of director nominees exceeds the number of directors to be elected) are governed by a plurality of the vote of shares present in person or represented by proxy at the meeting.

The board has adopted a director resignation policy for incumbent directors in uncontested elections. Any proposed nominee for re-election as a director shall, before he or she is nominated to serve on the board, tender to the board his or her irrevocable resignation that will be effective, in an uncontested election of directors only, upon (i) such nominee's receipt of a greater number of votes "against" election than votes "for" election at our annual meeting of stockholders; and (ii) acceptance of such resignation by the board of directors.

Director Overboarding Policy

Our bylaws and corporate governance guidelines state that a director may not serve on more than three public company boards, including the company's board. Currently, all of our directors are in compliance of this policy.

Board Refreshment

The company regularly evaluates the need for board refreshment. The nominating and governance committee and the board are focused on identifying individuals whose skills and experiences will enable them to make meaningful contributions to shaping the company's business strategy. As part of its consideration of director succession, the nominating and governance committee from time to time reviews, including when considering potential candidates, the appropriate skills and characteristics required of board members. The board believes it is important to consider diversity of skills, expertise, race, ethnicity, gender, age, education, cultural background, and professional experiences in evaluating board candidates for expected contributions to an effective board. Independent directors may not serve

on the board beyond the next annual meeting of stockholders after attaining the age of 76. In connection with our mandatory retirement for directors, three of our current directors are expected to retire within the next two years.

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Prohibitions on Hedging/Pledging Company Stock

The director compensation policy prohibits directors from hedging their ownership of common stock, pledging company stock as collateral for a loan, or holding company stock in an account that is subject to a margin call.

Code of Conduct

We have a code of conduct and ethics, which we refer to as the Leading With Integrity Guide. It applies to all directors, officers, and employees.

We intend to satisfy our disclosure obligations regarding amendments to, or waivers of, any provision of the code of conduct that applies to our principal executive officer, principal financial officer, and principal accounting officer and that relates to any element of the code of ethics definition in Regulation S-K, Item 406(b), and waivers of the code of conduct for our directors or executive officers, as required by New York Stock Exchange listing standards, by posting such information on our website.

Corporate Governance Materials

Stockholders can see our bylaws, corporate governance guidelines, board committee charters, and Leading With Integrity Guide on our website.

- Audit, compensation, and nominating and governance committees' charters are available at <http://www.mdu.com/integrity/governance/board-charters-and-committees>.

- Bylaws and corporate governance guidelines are available at <http://www.mdu.com/integrity/governance/guidelines-and-bylaws>.

- Leading With Integrity Guide is available at <http://www.mdu.com/docs/default-source/governance/leadingwithintegrity.pdf>.

Related Person Transaction Disclosure

The board of directors' policy for the review of related person transactions is contained in our corporate governance guidelines. The policy provides that the audit committee review any transaction, arrangement or relationship, or series thereof:

- in which we are or will be a participant;
- the amount involved exceeds \$120,000; and
- a related person has or will have a direct or indirect material interest.

The purpose of this review is to determine whether this transaction is in the best interests of the company.

Related persons are directors, director nominees, executive officers, holders of 5% or more of our voting stock, and their immediate family members. Related persons are required promptly to report to our general counsel all proposed or existing related person transactions in which they are involved.

If our general counsel determines that the transaction is required to be disclosed under the Securities and Exchange Commission's rules, the general counsel furnishes the information to the chairman of the audit committee. After its review, the committee makes a determination or a recommendation to the board and officers of the company with respect to the related person transaction. Upon receipt of the committee's recommendation, the board of directors or officers, as the case may be, take such action as they deem appropriate in light of their responsibilities under applicable laws and regulations.

We had no related person transactions in 2016.

Proxy Statement

COMPENSATION
OF
NON-EMPLOYEE
DIRECTORS

Director Compensation for 2016

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) ¹	All Other Compensation (\$) ²	Total (\$)
Thomas Everist	75,000	110,000	83	185,083
Karen Bagg	75,000	110,000	83	185,083
Mark A. Hellerstein	65,000	110,000	83	175,083
William Holaday	65,000	110,000	83	175,083
Dennis Johnson	80,000	110,000	83	190,083
William E. McCracken	65,000	110,000	83	175,083
Patricia Moss	65,000	110,000	83	175,083
Harry J. Pearce	155,000	110,000	83	265,083
John Wilson	65,000	³ 110,000	83	175,083

The annual retainer of \$110,000 in company common stock is awarded pursuant to the MDU Resources Group, Inc. Non-Employee Director Stock Compensation Plan. The amount shown for each director represents the aggregate grant date fair value of 3,886 shares of MDU Resources Group, Inc. common stock measured in accordance with Financial Accounting Standards Board (FASB) generally accepted accounting principles for stock-based

¹ compensation in FASB Accounting Standards Codification Topic 718. The grant date fair value is based on the purchase price of our common stock on the grant date of November 21, 2016, which was \$28.30 per share. The \$10.66 in cash paid to each director in lieu of fractional shares is included in the amount reported in the stock awards column to this table. As of December 31, 2016, there are no outstanding stock awards or options associated with the Non-Employee Director Stock Compensation Plan.

² Group life insurance premium.

³ Mr. Wilson elected to receive shares of our common stock in lieu of his cash retainer pursuant to the Non-Employee Director Stock Compensation Plan. The amount shown includes 2,244 shares of our common stock purchased on

December 7, 2016, at \$28.96 per share.

The following table shows the cash and stock retainers payable to our non-employee directors.

Base Retainer	\$ 65,000
Additional Retainers:	
Non-Executive Chair	90,000
Lead Director if any	33,000
Audit Committee Chair	51,000
Compensation Committee Chair	10,000
Nominating and Governance Committee Chair	10,000
Annual Stock Grant ¹	10,000

The annual stock grant¹ is a grant of shares equal in value to \$110,000.

There are no meeting fees paid to directors.

In addition to liability insurance, we maintain group life insurance in the amount of \$100,000 on each non-employee director for the benefit of each director's beneficiaries during the time each director serves on the board. The annual cost per director is \$82.80.

Directors may defer all or any portion of the annual cash retainer and any other cash compensation paid for service as a director pursuant to the Deferred Compensation Plan for Directors. Deferred amounts are held as phantom stock with dividend accruals and are paid out in cash over a five-year period after the director leaves the board.

Directors are reimbursed for all reasonable travel expenses, including spousal expenses in connection with attendance at meetings of the board and its committees. All reimbursable expense amounts, together with any other perquisites, were below the disclosure threshold for 2016.

Proxy Statement

Our post-retirement income plan for directors was terminated in May 2001 for current and future directors. The net present value of each director's benefit was calculated and converted into phantom stock. Payment is deferred pursuant to the Deferred Compensation Plan for Directors and will be made in cash over a five-year period after the director's retirement from the board.

Our director stock ownership policy contained in our corporate governance guidelines requires each director to own our common stock equal in value to five times the director's annual cash base retainer. Shares acquired through purchases on the open market and participation in our director stock plans are considered in ownership calculations as is ownership of our common stock by a spouse. A director is allowed five years commencing January 1 of the year following the year of that director's initial election to the board to meet the requirements. The level of common stock ownership is monitored with an annual report made to the compensation committee of the board. All directors are in compliance with the stock ownership policy. For stock ownership, see the section below.

SECURITY

OWNERSHIP

Security Ownership Table

The table below sets forth the number of shares of our capital stock that each director and each nominee for director, each named executive officer, and all directors and executive officers as a group owned beneficially as of February 28, 2017. Unless otherwise indicated, each person has sole investment and voting power (or share such power with his or her spouse) of the shares noted.

Common Shares Beneficially Owned	Percent of Class	Deferred Director Fees Held as Phantom Stock ¹
David C. 12,055	2.3 *	
Barney Thomas Everist 853,458	*	32,977
Karen B. 61,164	*	
Fagg Martin A. —	*	
Fritz David L. 101,788	2 *	
Goodin Mark A. 15,766	*	8,637
Hellerstein A. Bar 60,911	*	8,637
Holaday Dennis W. 80,330	4 *	
Johnson		

William E. 15,766 McCracken	*		
Patricia L. 75,418 Moss	*		
Harry J. 235,885 Pearce	*	54,221	
Doran N. 54,897 Schwartz	2,5 *		
Jeffrey S. 7,149 Thiede	2 *		
John K. 118,916 Wilson	*		
All directors and executive officers as 1,853,142 a group (20 in number)	0.95	%	104,472

* Less than one percent of the class. Percent of class is calculated based on 195,304,376 outstanding shares as of February 28, 2017.

These shares are not included in the “Common Shares Beneficially Owned” column. Directors may defer all or a portion of their cash compensation pursuant to the ¹ Deferred Compensation Plan for Directors. Deferred amounts are held as phantom stock with dividend accruals and are paid out in cash over a five-year period after the director leaves the board.

² Includes full shares allocated to the officer’s account in our 401(k) retirement plan.

³ The total includes 687 shares owned by Mr. Barney’s spouse.

⁴ Mr. Johnson disclaims all beneficial ownership of the 163 shares owned by his spouse.

⁵ The total includes 1,300 shares owned by Mr. Schwartz’s spouse.

We prohibit our directors and executive officers from hedging their ownership of company common stock. They may not enter into transactions that allow them to benefit from devaluation of our stock or otherwise own stock technically but without the full benefits and risks of such ownership.

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Proxy Statement

Directors, executive officers, and related persons are prohibited from holding our common stock in a margin account, with certain exceptions, or pledging company securities as collateral for a loan. Company common stock may be held in a margin brokerage account only if the stock is explicitly excluded from any margin, pledge, or security provisions of the customer agreement. Company common stock may be held in a cash account, which is a brokerage account that does not allow any extension of credit on securities. "Related person" means an executive officer's or director's spouse, minor child, and any person (other than a tenant or domestic employee) sharing the household of a director or executive officer, as well as any entities over which a director or executive officer exercises control.

The table below sets forth information with respect to any person we know to be the beneficial owner of more than five percent of any class of our voting securities.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common Stock	BlackRock, Inc. 55 East 52nd Street New York, NY 10055	15,934,262	¹ 8. 20
Common Stock	State Street Corporation State Street Financial Center One Lincoln Street Boston, MA 02111	13,420,759	² 6. 87
Common Stock	The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	20,142,541	³ 10. 21
Common Stock	Parnassus Investments 1 Market Street, Suite 1600 San Francisco, CA 94105	13,875,527	⁴ 7. 10

¹ Based solely on the Schedule 13G, Amendment No. 7, filed on January 25, 2017, BlackRock, Inc. reported sole voting power with respect to 15,053,491 shares and sole dispositive power with respect to 15,934,262 shares as the parent holding company or control person of BlackRock (Luxembourg) S.A., BlackRock (Netherlands) B.V., BlackRock Advisors (UK) Limited, BlackRock Advisors, LLC, BlackRock Asset Management Canada Limited, BlackRock Asset Management Ireland Limited, BlackRock Asset Management North Asia Limited, BlackRock Asset Management Schweiz AG, BlackRock Capital Management, BlackRock Financial Management, Inc., BlackRock Fund Advisors, BlackRock Fund Managers Ltd, BlackRock Institutional Trust Company, N.A., BlackRock

Investment Management (Australia) Limited, BlackRock Investment Management (UK) Ltd, BlackRock Investment Management, LLC, and BlackRock Life Limited.

Based solely on the Schedule 13G, filed on February 9, 2017, State Street Corporation reported shared voting and dispositive power with respect to all shares as the parent holding company or control person of State Street Bank and Trust Company, SSGA² Funds Management, Inc., State Street Global Advisors, Ltd, State Street Global Advisors, Australia, Limited, State Street Global Advisors (Asia) Limited, and State Street Global Advisors France, S.A.

Based solely on the Schedule 13G, Amendment No. 5, filed on February 10, 2017, The Vanguard Group reported sole dispositive power with respect to 20,014,996 shares, shared dispositive power with respect to 127,545 shares, sole voting power with respect to 115,860 shares, and shared voting power with respect to 21,119 shares. These shares includes 106,426 shares³ beneficially owned by Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of The Vanguard Group, Inc., as a result of its serving as investment manager of collective trust accounts, and 30,553 shares beneficially owned by Vanguard Investments Australia, Ltd., a wholly-owned subsidiary of The Vanguard Group, Inc., as a result of its serving as investment manager of Australian investment offerings.

Based solely on the Schedule 13G, Amendment No. 2, filed on⁴ February 14, 2017, Parnassus Investments reported sole voting and dispositive power with respect to all shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16 of the Securities Exchange Act of 1934, as amended, requires that officers, directors, and holders of more than 10% of our common stock file reports of their trading in our equity securities with the Securities and Exchange Commission. Based solely on a review of Forms 3, 4, and 5 and any amendments to these forms furnished to us during and with respect to 2016 or written representations that no Forms 5 were required, we believe that all such reports were timely filed, except that in May 2016, Mr. Daniel S. Kuntz filed an amended Form 3 to report beneficial ownership of 631 additional shares that were omitted from his original Form 3 filed in January 2016. Mr. Kuntz disclaims beneficial ownership of these additional shares.

Proxy Statement

EXECUTIVE
COMPENSATION

ITEM 2. ADVISORY VOTE TO APPROVE THE FREQUENCY OF THE VOTE TO APPROVE THE
COMPENSATION PAID TO THE COMPANY'S NAMED EXECUTIVE OFFICERS

In accordance with Section 14A of the Securities Exchange Act of 1934 and Rule 14a-21(b), we are asking our stockholders to indicate, on an advisory basis, whether future advisory votes to approve the compensation paid to our named executive officers should be held every year, every two years, or every three years.

Our board of directors has determined that our stockholders should have the opportunity to vote on the compensation of our named executive officers every year. The board of directors believes that giving our stockholders the right to cast an advisory vote every year on the compensation of our named executive officers is a good corporate governance practice and is in the best interests of our stockholders. Annual advisory votes provide the highest level of accountability and direct communication with our stockholders.

By voting on this Item 2, stockholders are not approving or disapproving the board of directors' recommendation, but rather are indicating whether they prefer an advisory vote on named executive officer compensation be held every year, every two years, or every three years. Stockholders may also abstain from voting.

Although the board of directors intends to carefully consider the voting results of this proposal, it is an advisory vote and the results will not be binding on the board of directors or the company, and the board of directors may decide that it is in the best interests of our stockholders and the company to hold an advisory vote on executive compensation more or less frequently than the option selected by our stockholders. We will provide our stockholders with the opportunity to vote on the frequency of advisory votes on our named executive officer compensation at our annual meetings at least once every six calendar years.

The board of
directors
recommends
that an
advisory vote
on
compensation
paid to our
named
executive
officers be
held every
year.

The frequency of every year, every two years, or every three years that receives the most votes of our common stock present in person or represented by proxy at the meeting and entitled to vote on the proposal will be the frequency for the advisory vote on executive compensation that has been recommended by our stockholders. Abstentions will not count as votes for or against any frequency. Broker non-votes are not counted as voting power present and, therefore, are not counted in the vote.

Proxy Statement

ITEM 3. ADVISORY VOTE TO APPROVE THE COMPENSATION PAID TO THE COMPANY'S NAMED EXECUTIVE OFFICERS

In accordance with Section 14A of the Securities Exchange Act of 1934 and Rule 14a-21(a), we are asking our stockholders to approve, in a separate advisory vote, the compensation of our named executive officers as disclosed in this Proxy Statement pursuant to Item 402 of Regulation S-K. As discussed in the Compensation Discussion and Analysis, our compensation committee and board of directors believe that our current executive compensation program directly links compensation of our named executive officers to our financial performance and aligns the interests of our named executive officers with those of our stockholders. Our compensation committee and board of directors also believe that our executive compensation program provides our named executive officers with a balanced compensation package that includes an appropriate base salary along with competitive annual and long-term incentive compensation targets. These incentive programs are designed to reward our named executive officers on both an annual and long-term basis if they attain specified goals.

Our overall compensation program and philosophy is built on a foundation of these guiding principles:

- we pay for performance, with over 60% of our 2016 total target direct compensation for our named executive officers in the form of performance-based incentive compensation;
- we review competitive compensation data for our named executive officers, to the extent available, and incorporate internal equity in the final determination of target compensation levels;
- we align executive compensation and performance by using annual performance incentives based on criteria that are important to stockholder value, including earnings, earnings per share, and return on invested capital; and
- we align executive compensation and performance by using long-term performance incentives based on total stockholder return relative to our peer group.

We are asking our stockholders to indicate their approval of our named executive officer compensation as disclosed in this Proxy Statement, including the Compensation Discussion and Analysis, the executive compensation tables, and narrative discussion. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers for 2016. Accordingly, the following resolution is submitted for stockholder vote at the 2017 annual meeting:

“RESOLVED, that the compensation paid to the company’s named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables, and narrative discussion of this proxy statement, is hereby approved.”

As this is an advisory vote, the results will not be binding on the company, the board of directors, or the compensation committee and will not require us to take any action. The final decision on the compensation of our named executive officers remains with our compensation committee and our board of directors, although our board and compensation committee will consider the outcome of this vote when making future compensation decisions. In a separate vote, we are also providing our stockholders with the opportunity to vote, on an advisory basis, on whether the vote on our named executive officer compensation should occur every year, every two years, or every three years.

The board of directors recommends a vote “for” the approval, on a non-binding advisory basis, of the compensation of the company’s named

executive
officers,
as disclosed in
this Proxy
Statement.

Approval of the compensation of our named executive officers requires the affirmative vote of a majority of our common stock present in person or represented by proxy at the meeting and entitled to vote on the proposal. Abstentions will count as votes against this proposal. Broker non-vote shares are not entitled to vote on this proposal and, therefore, are not counted in the vote.

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Proxy Statement

INFORMATION CONCERNING EXECUTIVE OFFICERS

At the first annual meeting of the board after the annual meeting of stockholders, our board of directors elects our executive officers, who serve until their successors are chosen and qualify. A majority of our board of directors may remove any executive officer at any time. Information concerning our executive officers, including their ages as of December 31, 2016, present corporate positions, and business experience during the past five years, is as follows:

Name	Age	Present Corporate Position and Business Experience
David L. Goodin	55	Mr. Goodin was elected president and chief executive officer of the company and a director effective January 4, 2013. For more information about Mr. Goodin, see the section entitled " <u>Item 1. Election of Directors.</u> "
David C. Barney	61	Mr. Barney was elected president and chief executive officer of Knife River Corporation effective April 30, 2013, and president effective January 1, 2012.
Martin A. Fritz	52	Mr. Fritz was elected president and chief executive officer of WBI Holdings, Inc. effective July 20, 2015. Prior to joining WBI Holdings, Inc., he had his own energy consulting firm, Fritz Consulting, from February 2014 to July 2015, where he provided strategy, operations, business development, and business brokerage services. Prior to that, Mr. Fritz was employed by EQT Corporation, a petroleum and natural gas exploration and pipeline company, in positions of increasing responsibility, most recently serving as its executive vice president midstream operations, land and construction from 2013 through January 2014 and vice president EQT and president EQT midstream operations from 2008 to 2013.
Dennis L. Haider	64	Mr. Haider was elected executive vice president-business development effective June 1, 2013. Prior to that, he was executive vice president-business development and gas supply of Montana-Dakota Utilities Co., Great Plains Natural Gas Co., Cascade Natural Gas Corporation, and Intermountain Gas Company from January 1, 2012 to May 31, 2013.
Anne M. Jones	53	Ms. Jones was elected vice president-human resources effective January 1, 2016. Prior to that, she was vice president-human resources, customer service, and safety at Montana-Dakota Utilities Co., Great Plains Natural Gas Co., Cascade Natural Gas Corporation, and Intermountain Gas Company effective July 1, 2013, and director of human resources for Montana-Dakota Utilities Co. and Great Plains Natural Gas Co. effective June 2008.
Nicole A. Kivisto	43	Ms. Kivisto was elected president and chief executive officer of Montana-Dakota Utilities Co., Great Plains Natural Gas Co., Cascade Natural Gas Corporation, and Intermountain Gas Company effective January 9, 2015. Prior to that, she was vice president of operations for Montana-Dakota Utilities Co. and Great Plains Natural Gas Co. effective January 3, 2014, and vice president, controller and chief accounting officer for the company effective February 17, 2010.
Daniel S. Kuntz	63	Mr. Kuntz was elected vice president, general counsel and secretary effective January 1, 2017. Prior to that, he was general counsel and secretary effective January 9, 2016, associate general counsel effective April 1, 2007, and assistant secretary effective August 17, 2007.
Margaret (Peggy) A. Link	50	Ms. Link was elected chief information officer effective January 1, 2016. Prior to that, she was assistant vice president-technology and cybersecurity officer effective January 1, 2015, and director shared IT services effective June 2, 2009.
Doran N. Schwartz	47	Mr. Schwartz was elected vice president and chief financial officer effective February 17, 2010.
Jeffrey S. Thiede	54	Mr. Thiede was elected president and chief executive officer of MDU Construction Services Group, Inc. effective April 30, 2013, and president effective January 1, 2012.
Jason L. Vollmer	39	Mr. Vollmer was elected vice president, chief accounting officer and treasurer effective March 19, 2016. Prior to that, he was treasurer and director of cash and risk management effective November 29, 2014, assistant treasurer of Centennial Energy Holdings, Inc. and manager of treasury services and risk management effective June 30, 2014, and manager of treasury services,

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cash and risk management effective April 11, 2011.

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Proxy Statement

COMPENSATION DISCUSSION AND ANALYSIS

The Compensation Discussion and Analysis describes how our named executive officers were compensated for 2016 and how their 2016 compensation aligns with our pay for performance philosophy. It also describes the oversight of the compensation committee and the rationale and processes used to determine the 2016 compensation of our executive officers including the objectives and specific elements of our compensation program.

The Compensation Discussion and Analysis may contain statements regarding corporate performance targets and goals. The targets and goals are disclosed in the limited context of our compensation programs and should not be understood to be statements of management's expectations or estimates of results or other guidance. We specifically caution investors not to apply these statements to other contexts.

Our Named Executive Officers for 2016 were:

David L. Goodin President and Chief Executive Officer (CEO)

Doran N. Schwartz Vice President and Chief Financial Officer (CFO)

David C. Barney President and Chief Executive Officer - Construction Materials & Contracting Segment

Jeffrey S. Thiede President and Chief Executive Officer - Construction Services Segment

Martin A. Fritz President and Chief Executive Officer - Pipeline & Midstream Segment

Executive Summary

Pay for Performance

To ensure management's interests are aligned with those of our stockholders and the performance of the company, over 76% of the CEO's target compensation and 61% of the other named executive officers' target compensation is dependent on the achievement of company performance targets. The charts below show the target pay mix for the CEO and average target pay mix of the other named executive officers, including base salary and the annual and long-term at-risk performance incentives.

Annual incentive opportunities for our executive officers are linked to performance by tying them to the achievement of specific business and financial goals. The 2016 annual incentive opportunities for business segment executives are based on the achievement of specific performance measures selected by the compensation committee. The performance measures included targets specific to the business segment and one performance measure tied to the success of the company as a whole. This incentivized our business segment executives to focus on the success and performance of their business segment while keeping the overall success of the company in mind.

For corporate executives (including our CEO and CFO), annual incentive opportunities are based on the business segments' achievement of their performance measures. The business segment performance measures are then weighted by its average invested capital. The sum of the weighted business unit achieved performance measures results in the annual incentive payout for corporate executives. This incentivizes the corporate executives to assist the business segments in their success and performance.

Proxy Statement

Construction Materials & Contracting Segment	Construction Services Segment	Pipeline & Midstream Segment	Electric & Natural Gas Distribution Segment
ê	ê	ê	ê
Business Segment Targets	Business Segment Targets	Business Segment Targets	Business Segment Targets
Company Target	Company Target	Company Target	Company Target
ê	ê	ê	ê

MDU Resources Corporate Executives (including our CEO and CFO)

Achievement of Business Segment Measures x Business Segment Average Invested Capital

The following chart shows the annual incentive payout of target realized by our CEO with a comparison to earnings per share from continuing operations for the last five years and demonstrates the alignment between our financial performance and realized annual incentive compensation.

See “Annual Incentives” in this section for further details on our company’s annual incentive program.

Vesting of long-term incentives is based on our company’s total stockholder return in comparison to that of our peers measured over a three year period. The following chart depicts the actual vesting percentage for the last five performance cycles and demonstrates the alignment between total return to our stockholders and our realized long-term incentive compensation.

Proxy Statement

See “Long-Term Incentives” in this section for further details on the company’s long-term incentive program. With the majority of our executive officer’s compensation dependent on the achievement of performance measures set by the compensation committee, we believe there is substantial alignment between executive pay and the company’s performance.

Stockholder Advisory Vote (“Say on Pay”)

At our 2016 Annual Meeting of Stockholders, 85.2% of the votes cast on the “Say on Pay” proposal approved the compensation of our named executive officers. Although the compensation committee viewed the 2016 vote as a strong expression of the stockholders general satisfaction with the company’s executive compensation programs, the 85.2% approval is lower than the results of our 88.2% “Say on Pay” vote at the 2015 Annual Meeting of Stockholders. The compensation committee believes the lower approval vote was largely attributable to a negative recommendation of a proxy advisor largely caused by comparative analysis to a peer group that was not reflective of the company’s business mix and an analysis that gave inadequate recognition to the distinction between target incentive award opportunities and realized incentive compensation. The compensation committee reviewed and considered the 2016 vote on “Say on Pay” in setting compensation for 2017.

Total Realized Pay

Total Realized Pay reflects the compensation actually paid to our executive officers based on performance, which can differ substantially from compensation as presented in the Summary Compensation Table. For example, total compensation presented in the Summary Compensation Table contains estimated values of performance share grants based on multiple assumptions which may or may not be achieved and can only be realized at the end of a three-year performance period. In addition, the Summary Compensation Table may show an increase in pension value based on valuation assumptions and discount rates used to calculate present value; however, any change in the pension value is not realized until the future period when the executive actually retires. We believe presenting information on Total Realized Pay provides additional perspective on the remuneration actually received by an executive in a given year.

We define 2016 Total Realized Pay to include:

• Base salary for 2016;

• Annual incentive earned for 2016;

• Performance shares (long-term incentive) plus dividend equivalents vesting as of December 31, 2016 and paid in 2017; and

• Other compensation which includes company contributions to the 401(k) plan and company paid life insurance premiums.

Proxy Statement

2016 Base Salary (\$)	2016 Annual Incentive Earned (\$)	Vested and Paid Performance Shares ¹ (\$)	2016 Other Compensation (\$)	2016 Total Realized Pay (\$)	Summary Compensation Table Total Compensation (\$)
David L.755,000	1,055,490	654,368	40,246	2,505,104	3,510,991
Goodin Doran N380,000	351,481	171,936	35,772	939,189	1,134,629
Schwartz David C406,800	593,114	145,190	22,905	1,168,009	1,376,616
Barney Jeffrey S.425,000	489,600	152,848	22,708	1,090,156	1,325,906
Thiede Martin A400,000	416,000	—	21,670	837,670	1,243,248
Fritz					

Performance shares and dividend equivalents for the 2014-2016 performance cycle vested on December 31, 2016¹ and were approved in February 2017. The performance share value is based on our stock price on February 16, 2017, which was \$26.37 per share.

Compensation Practices

Our practices and policies ensure alignment between the interests of our stockholders and our executives as well as effective compensation governance.

What We Do

Pay for Performance - All annual and long-term incentives are performance-based and tied to performance measures set by the compensation committee.

Independent Compensation Committee - All members of the compensation committee meet the independence standards under the New York Stock Exchange listing standards and the Securities and Exchange Commission rules.

Independent Compensation Consultant - The compensation committee retains an independent compensation consultant to evaluate executive compensation plans and practices.

Competitive Compensation - Executive compensation reflects the executive's performance, experience, relative value compared to other positions within the company, relationship to competitive market value compensation, and the economic environment of the executive's business segment.

Annual Compensation Risk Analysis - We regularly analyze the risks related to our compensation programs and conduct a broad risk assessment annually.

Stock Ownership & Retention Requirements - Executive officers are required to own, within five years of appointment or promotion, company common stock equal to a multiple of their base salary. The executive officers must retain at least 50% of the net after tax shares of stock vested through the long-term incentive plan for the earlier of two years or until termination of employment.

Clawback Policy - If the company's audited financial statements are restated, the compensation committee may, or shall if required, demand repayment of some or all incentives paid to company executive officers within the last three years.

What We Don't Do

- ý Stock Options - The company does not use stock options as a form of incentive compensation.
- ý Perquisites - Executives do not receive perquisites which materially differ from those available to employees in general.
- ý Tax Gross-ups - Executive officers do not receive tax gross-ups on any compensation.
- ý Hedge or Pledge Stock - Executives and directors are not allowed to hedge or pledge company securities.
- ý No Time Based Awards - All long-term incentives are performance-based and vest only upon the achievement of specific performance measures.

Proxy Statement

2016 Compensation Framework

Objectives of our Compensation Program

We have a written executive compensation policy for our executive officers, including all our named executive officers. Our policy's stated objectives are to:

- recruit, motivate, reward, and retain high performing executive talent required to create superior long-term total stockholder return in comparison to our peer group;
- reward executives for short-term performance, as well as for growth in enterprise value over the long-term;
- provide a competitive compensation package relative to industry-specific and general industry comparisons and internal equity;
- ensure effective utilization and development of talent by working in concert with other management processes - for example, performance appraisal, succession planning, and management development; and
- ensure that compensation programs do not encourage or reward excessive or imprudent risk taking.

Compensation Decision Process for 2016

For 2016, the compensation committee made recommendations to the board of directors regarding compensation of all executive officers, and the board of directors then approved the recommendations. The CEO's role in the process includes the assessment of executive officer performance and recommending base salaries for the executive officers other than himself. The CEO attended all the compensation committee meetings but was not present during discussions of his compensation. The compensation committee established and approved base salaries and performance measures for the annual and long-term incentive compensation for 2016. They also certified the achievement of performance measures associated with annual and long-term incentive compensation.

At least every two years, the compensation committee hires an independent consulting firm to assess competitive pay levels including base salaries and incentive compensation associated with executive officer positions. Typically the consulting firm conducts its analysis in even numbered years. In odd numbered years, the assessment is performed by the company's human resources department using a variety of industry specific sources. In 2015, the human resources department prepared the analysis for 2016 compensation.

Components of Compensation

The components of our executive officer's compensation are selected to drive financial and operational results as well as align the executive officer's interests with those of our stockholders. The components of our executive compensation include:

Component	Payments	Purpose	How Determined	How it Links to Performance
Base Salary	Assured	Provides executives with sufficient, regularly paid income to recruit and retain executives with knowledge, skills, and abilities necessary to successfully execute their job responsibilities.	Compared to peer company and industry compensation information.	Base salary is a means to attract and retain talented executives capable of driving success and performance.
Annual Cash Incentive	Performance Based At Risk	Provides an opportunity to earn annual incentive compensation to be competitive from a total remuneration standpoint and to ensure focus on annual financial and operating results.	Annual incentives calculated as a percentage of base salary based on the achievement of performance measures established by the compensation committee.	Annual incentive performance measures are tied to the achievement of financial and operational goals aimed to drive the success of the company.
Performance Shares	Performance Based	Provides an opportunity to earn long-term compensation to be	Performance share award opportunities are calculated as a	Fosters ownership in company stock and

At Risk	competitive from a total remuneration standpoint and to ensure focus on stockholder return.	percentage of base salary and pay out is based on the company's total stockholder return over a three-year period in comparison to the company's peer group.	aligns the executive's interests with those of the stockholder in increasing stockholder value.
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Allocation of Total Target Compensation for 2016

Total target compensation consists of base salary plus target annual and long-term incentive compensation.

Performance-based compensation accounts for over 76% of our CEO's and on average approximately 61% of our other named executive officers' total target

Proxy Statement

compensation. Incentive compensation, which consists of annual cash incentive and three-year performance share award opportunities, comprises the largest portion of our named executive officers' total target compensation because: our named executive officers are in positions to drive, and therefore bear high levels of responsibility for our corporate performance;

incentive compensation is dependent upon our performance;

incentive compensation helps ensure focus on performance measures that are aligned with our overall strategy; and the interests of the named executive officers are aligned with those of stockholders by making a significant portion of their target compensation contingent upon results beneficial to stockholders.

To foster and reward long-term growth, the compensation committee generally allocates a higher percentage of total target compensation to the target long-term incentive than to the target annual incentive for our higher level executives because they are in a better position to influence our long-term performance. The long-term incentive awards, if earned by achieving performance measures, are paid in company common stock. These awards, combined with our stock retention requirements and our stock ownership policy, promote ownership of our stock by the executive officers. The compensation committee believes, as stockholders, the executive officers will be motivated to deliver financial results that build value for all stockholders over the long term.

Peer Group

The compensation committee evaluates the company's compensation plan and its performance relative to a group of peer companies in determining compensation and the vesting of long-term incentive compensation. The companies included in our peer group are evaluated every year and are selected to be representative of the industries in which we operate. During 2015, as we decided to exit the oil and gas exploration and production business, we re-evaluated our peer group and removed the remaining exploration and production companies, which were Bill Barrett Corporation and SM Energy Company from the peer group. To more closely reflect our regulated energy delivery and construction materials and services businesses, we added IDACORP, Inc., NorthWestern Corporation, U.S. Concrete, Inc., IES Holdings, Inc., and MYR Group, Inc. to our peer group. MarkWest Energy Partners L.P., which was added as a peer company in 2015, merged with another company and was removed from our 2015 peer group. Likewise, Questar Corporation merged with another company in 2016 and was removed from our 2016 peer group. The following chart depicts the companies included in our 2016 peer group.

2016 Peer Companies

<p>Regulated Energy Delivery</p> <p>Utility</p> <p>ALLETE, Inc.</p> <p>Alliant Energy Corporation</p> <p>Avista Corporation</p> <p>Black Hills Corporation</p> <p>Northwest Natural Gas Company</p> <p>Vectren Corporation</p> <p>IDACORP, Inc.</p> <p>NorthWestern Corporation</p>	<p>ê</p>	<p>ê</p> <p>ê</p> <p>ê</p> <p>ê</p> <p>ê</p> <p>ê</p> <p>ê</p> <p>ê</p> <p>ê</p>	<p>Construction Materials and Services</p> <p>Construction Materials & Contracting</p> <p>Granite Construction Incorporated</p> <p>Martin Marietta Materials, Inc.</p> <p>Sterling Construction Company, Inc.</p> <p>Vulcan Materials Company</p> <p>U.S. Concrete, Inc.</p>	<p>ê</p> <p>ê</p> <p>ê</p> <p>ê</p> <p>ê</p> <p>ê</p> <p>ê</p> <p>ê</p> <p>ê</p>	<p>Construction Services</p> <p>EMCOR Group, Inc.</p> <p>Quanta Services, Inc.</p> <p>IES Holdings, Inc.</p> <p>MYR Group, Inc.</p>
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2016 Compensation for Our Named Executive Officers
2016 Salary and Incentive Targets

For 2016, Mr. Goodin considered the 2015 financial results as well as the economic challenges facing the company and recommended a base salary freeze for the named executive officers during 2016, with the exception of Mr. Barney where he recommended a 3% increase based on the outstanding performance of the construction materials & contracting segment in achieving record earnings and exceeding its risk adjusted capital cost in 2015. The compensation committee approved the salary recommendations of the CEO. The compensation committee reviewed and determined to freeze Mr. Goodin's base salary for 2016 consistent with the freeze of other named executive officers.

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The following is information related to each named executive officer's base salary, target annual incentive, target long-term incentive, and total direct compensation:

	2016 (\$)	% Increase from Prior Year	Compensation Component as a % of Base Salary
David L. Goodin			
Base Salary	755,000	0%	n/a
Target Annual Incentive Opportunity	755,000	0%	100 %
Target Long-Term Incentive Opportunity	1,698,750	0%	225 %
Target Total Potential Direct Compensation	3,208,750	0%	425 %
Doran N. Schwartz			
Base Salary	380,000	0%	n/a
Target Annual Incentive Opportunity	247,000	0%	65 %
Target Long-Term Incentive Opportunity	342,000	0%	90 %
Target Total Potential Direct Compensation	969,000	0%	255 %
David C. Barney			
Base Salary	406,800	3	% n/a
Target Annual Incentive Opportunity	305,100	(3))% 75
Target Long-Term Incentive Opportunity	325,440	18	% 80
Target Total Potential Direct Compensation	1,037,340	5	% 255
Jeffrey S. Thiede			
Base Salary	425,000	0	% n/a
Target Annual Incentive Opportunity	318,750	(6))% 75
Target Long-Term Incentive Opportunity	340,000	14	% 80
Target Total Potential Direct Compensation	1,083,750	2	% 255
Martin A. Fritz			
Base Salary	400,000	0	% n/a
Target Annual Incentive Opportunity	260,000	0	% 65
Target Long-Term Incentive Opportunity	360,000	0	% 90
Target Total Potential Direct Compensation	1,020,000	0	% 255

Mr. Barney continues to transition from an all annual incentive target to a combination of annual and long-term incentive targets in connection with his promotion in 2013. Mr. Barney's annual incentive target as a percent of base salary decreased from 80% in 2015 to 75% for 2016, while his long-term incentive target as a percent of base salary increased from 70% in 2015 to 80% for 2016.

Mr. Thiede continues to transition from an all annual incentive target to a combination of annual and long-term incentive targets in connection with his promotion in 2013. Mr. Thiede's annual incentive target as a percent of base salary decreased from 80% in 2015 to 75% for 2016, while his long-term incentive target as a percent of base salary increased from 70% in 2015 to 80% for 2016.

Annual Incentives

Annual incentive opportunities are determined for business segment executives by the achievement of specific performance measures selected by the compensation committee. For corporate executives, annual incentive opportunities are determined by the average of the business segments' achievement of their performance measures weighted by its average invested capital. Through this, our business segment executives are incentivized to primarily focus on the success and performance of their business segment while corporate executives focus on the success and performance of all lines of business.

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The compensation committee developed and reviewed financial and other corporate performance measures to ensure compensation to the executives reflect the success of their respective business segments and the company, as well as the value provided to our stockholders. Each business segment's performance measures are weighted with a corporate earnings per share performance measure representing 20% of the target award opportunity and the business segment specific performance measures representing 80% of the award opportunity. The following incentive plan performance measures for 2016 were established by the compensation committee for the business segment presidents (exclusive of the MDU Resources corporate executive officers) at the February 2016 meeting:

Measure	Applies to	Purpose	Measurement	Target	Weight	Why Measure Selected
MDU Resources Diluted Adjusted Earnings per Share (EPS)	All the business segments	EPS is a generally accepted accounting principle (GAAP) measurement and is a key driver of stockholder return. This goal applies to the presidents of all business segments to engage them in the earnings of the company as a whole.	GAAP EPS less discontinued operations (as reported as discontinued on or prior to December 31, 2015) and adjusted to exclude:	\$1.02	20%	Reflects anticipated EPS performance within the range of EPS guidance for 2016.
			- effects of intersegment eliminations, - noncash gains/losses resulting from hedge accounting, - losses on asset sales/dispositions approved by the board, and - assessed withdrawal liabilities relating to multiemployer pension plans.			
Return on Invested Capital (ROIC)	Electric & Natural Gas Distribution Segment	Provides a measure of how effective the business segment uses its capital and generates a return from its capital. These segments are primarily regulated entities requiring significant capital investment. ROIC is important in providing a return to our stockholders.	Business segment earnings, without regard to after tax interest expense and preferred stock dividends divided by the business segment's average capitalization for the calendar year.	4.4%	40%	Reflects anticipated returns considering additional capital investments made in 2015.
	Pipeline & Midstream Segment		5.9%	28%	Reflects anticipated returns considering additional capital investments made in 2015.	
Business Segment Earnings	Electric & Natural Gas Distribution Segment	Provides a measure of financial performance.	GAAP business segment earnings adjusted to exclude:	\$68.0 million	40%	Reflects anticipated earnings associated with the business segment.
	Pipeline & Midstream		- effects of intersegment eliminations, - noncash gains/losses resulting from hedge			

Segment		accounting, - losses on asset sales/dispositions approved by the board, and			earnings associated with the business segment. Reflects earnings necessary to meet or exceed the business segment's risk adjusted capital cost.
Construction Materials & Contracting Segment		- assessed withdrawal liabilities relating to multiemployer pension plans.	\$62.8 million	80%	Reflects earnings necessary to meet or exceed the business segment's risk adjusted capital cost.
Construction Services Segment			\$26.4 million	80%	Reflects earnings necessary to meet or exceed the business segment's risk adjusted capital cost. Reflects plant production based on the plant design with consideration for planned maintenance outages.
Optimum Refining Production	Refining Segment	Promotes the achievement of plant reliability based on optimum production.	Barrels of diesel produced in 2016.	5,865 bbls	24%

Actual performance results are compared to the target performance measure to arrive at a percent of target achieved. The percent of target achieved is then translated into a payout percentage of the target award opportunity. Generally, to receive a payout requires achievement of 85% of the target performance measure which results in a payout of 25% of the award opportunity. Maximum payouts vary by business segment. For the regulated energy delivery companies, maximum payout of 200% of the award opportunity is received if the percent of target achieved is 115% or greater. For the construction materials and services companies, maximum payout is 250% of the award opportunity if the percent of target achieved is 167.2% of target for the construction materials & contracting segment and 210% of target for the construction services segment. Results achieved between the threshold, target, and maximum levels are calculated using linear interpolation. The following tables show the 2016 performance measure results and the relative award opportunity payout:

Proxy Statement

Business Segment	Performance Measure	Result	Percent of Performance Measure Achieved	Percent of Award Opportunity Payout	Weight	Weighted Award Opportunity Payout %	
All Business Segments	Earnings per Share	\$1.08	105.9	% 139.2	% 20	% 27.8	%
Electric & Natural Gas Distribution Segment	Earnings	\$69.3 million	101.9	% 112.7	% 40	% 45.1	%
	ROIC	4.5	% 102.3	% 115.1	% 40	% 46.0	%
Pipeline & Midstream and Refining Segments	Earnings	\$24.9 million	134.6	% 200.0	% 28	% 56.0	%
	ROIC	7.5	% 127.1	% 200.0	% 28	% 56.0	%
	Optimum Refining Production ¹	2,796 bbls	82.9	% 84.0	% 24	% 20.2	%
Construction Materials & Contracting Segment	Earnings	\$96.0 million	152.9	% 208.3	% 80	% 166.6	%
Construction Services Segment	Earnings	\$33.9 million	128.6	% 157.2	% 80	% 125.8	%

The compensation committee determined the economic conditions that led to the sale of Dakota Prairie Refining, LLC in June 2016, as well as the sale itself, were unforeseen changes and significant factors beyond the control of management that substantially affected the ability of the refining segment to achieve the specified annual production performance measure at Dakota Prairie Refining, LLC. Due to these unforeseen circumstances, the compensation committee determined the annual production performance measure at the refining segment was achieved for Mr. Fritz at the same percentage as the annual production rate at Dakota Prairie Refining, LLC was being achieved during 2016 prior to the sale.

For the MDU Resources Group, Inc. corporate named executive officers, namely Messrs. Goodin and Schwartz, the compensation committee continued to base the payment of the annual incentive on the achievement of performance measures at the business segments weighted by each business segment's weighted average invested capital. The compensation committee's rationale for this approach was to provide alignment between the MDU Resources Group, Inc. executives and business segment performance. The compensation committee determined achievement of the optimum refining production performance measure for Mr. Schwartz's award opportunity payout in the same manner as it determined the achievement of the performance measure for Mr. Fritz. The compensation committee did not modify Mr. Goodin's award opportunity payout for the effects of the optimum refining production performance measure. As a result, Messrs. Goodin's and Schwartz's 2016 annual incentives were earned at 139.8% and 142.3% of the target award opportunity, respectively, based on the following weighted average of annual business segment incentives achieved:

Business Segment	Column A Business Segment Award Opportunity Payout		Column B Percentage of Invested Capital	Column A x Column B		
	Mr. Goodin	Mr. Schwartz		Mr. Goodin	Mr. Schwartz	
Construction Materials & Contracting Segment ¹	187.8	% 187.8	% 22.2	% 41.7	% 41.7	%
Construction Services Segment	153.6	% 153.6	% 8.8	% 13.5	% 13.5	%
Pipeline & Midstream and Refining Segments	139.8	% 160.0	% 12.4	% 17.3	% 19.8	%
	118.9	% 118.9	% 56.6	% 67.3	% 67.3	%

Electric & Natural Gas Distribution
Segment

Total Payout Percentage 139.8 % 142.3 %

For purposes of calculating the incentive award opportunities for Messrs. Goodin and Schwartz, the award opportunity payout associated with the earnings performance measure for the construction materials & contracting segment was limited to 200%, which resulted in a weighted construction materials & contracting segment award opportunity payout percentage of 187.8% versus the 194.4% for the business segment.

Based on the achievement of the performance targets, the named executive officers received the following annual incentive compensation:

2016 Annual Incentives Earned

Name	Target Annual Incentive (\$)	Annual Incentive Earned	
		(%)	(\$)
David L. Goodin	755,000	139.8	1,055,490
Doran N. Schwartz	247,000	142.3	351,481
David C. Barney	305,100	194.4	593,114
Jeffrey S. Thiede	318,750	153.6	489,600
Martin A. Fritz	260,000	160.0	416,000

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Long-Term Incentives

We use the Long-Term Performance-Based Incentive Plan, which has been approved by our stockholders, for long-term incentive compensation. As in the past, the compensation committee used performance shares as the form of long-term incentive compensation for 2016 and established the company's total stockholder return in comparison to the total stockholder return for the peer group companies over a three-year period as the performance measure for vesting of long-term incentive compensation.

Total stockholder return is the percentage change in the value of an investment in the common stock of a company from the closing price on the last trading day in the calendar year preceding the beginning of the performance period through the last trading day in the final year of the performance period. It is assumed that dividends are reinvested in additional shares of common stock at the frequency paid during the performance period. The compensation committee selected total stockholder return as the performance measure because long-term executive incentive compensation should align with our long-term performance in stockholder return as compared to other public companies in our industries.

Depending on our total three-year stockholder return compared to the total three-year stockholder returns of our peer group companies, performance share award opportunities for our named executive officers may or may not vest. Vesting of performance shares can range from 0% to 200% of the target award. Vesting of the performance share opportunities will be a function of our rank over the performance period against our peer group companies as delineated in the following table:

The Company's Peer TSR Percentile Rank	Vesting Percentage of Award Target
75th or higher	200%
50th	100%
25th	20%
Less than 25th	0%

Vesting for percentile ranks falling between the intervals will be interpolated. If our total stockholder return is negative, the shares and dividend equivalents otherwise earned based on the payout percentages above, if any, will be reduced in accordance with the following table:

Total Stockholder Return Reduction in Vesting

0% through -5%	50%
-5.01% through -10%	60%
-10.01% through -15%	70%
-15.01% through -20%	80%
-20.01% through -25%	90%
-25.01% or below	100%

Dividend equivalents are paid in cash based on the number of shares actually vested for the performance period. No dividend equivalents are paid on unvested performance shares.

Actual vesting of performance share awards under the plan have varied over the last five years as shown below:

Performance Period Vesting Percentage

2014-2016	68%
2013-2015	31%
2012-2014	0%
2011-2013	193%
2010-2012	0%

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Results of 2014-2016 Performance Period

We awarded performance share opportunities to our named executive officers on February 14, 2014 for the 2014-2016 performance period. Our total stockholder return for the three-year performance period was 1.15% which corresponded to a percentile ranking of 40% with our 2014 peer group companies, and resulted in 68% vesting of performance shares and dividend equivalents. The named executive officers received the following for the 2014-2016 performance period:

Name	Target Performance Shares (#)	Performance Shares Vested (#)	Dividend Equivalents (\$)	Value of Vested Shares and Dividend Equivalents at 2/16/17 (\$) ¹
David L. Goodin	33,677	22,900	50,495	654,368
Doran N. Schwartz	8,849	6,017	13,267	171,936
David C. Barney	7,472	5,081	11,204	145,190
Jeffrey S. Thiede	7,866	5,349	11,795	152,848
Martin A. Fritz	None ²	—	—	—

¹ Closing share price at February 16, 2017 was \$26.37.

² Mr. Fritz joined the company in 2015, therefore was not eligible for award for the 2014-2016 performance period.

2016-2018 Performance Period

On February 11, 2016, for the 2016-2018 performance period, the compensation committee determined the target number of performance shares for each named executive officer by multiplying the named executive officer's base salary by his target long-term incentive percentage and then dividing by the average of the closing prices of our stock from January 1 through January 22, 2016, which was \$17.20 per share. Based on this price, the board of directors, upon recommendation of the compensation committee, awarded the following performance share opportunities to the named executive officers:

Name	Base Salary to Determine Target (\$)	Target Long-Term Incentive % (%)	Long-Term Incentive Target (\$)	Resulting Number of Performance Share Opportunities (#)
David L. Goodin	755,000	225	1,698,750	98,764
Doran N. Schwartz	380,000	90	342,000	19,883
David C. Barney	406,800	80	325,440	18,920
Jeffrey S. Thiede	425,000	80	340,000	19,767
Martin A. Fritz	400,000	90	360,000	20,930

The named executive officers must retain 50% of the net after-tax performance shares vested pursuant to the long-term incentive award until the earlier of two years from the date the vested shares are issued or the executive's termination of employment. The compensation committee may also require the executive officer to retain performance shares net of taxes if the executive has not met the stock ownership requirements under the company's stock ownership policy for executives.

Other Benefits

The company provides post employment benefit plans and programs in which our named executive officers may be participants. We believe it is important to provide post-employment benefits which approximate retirement benefits paid by other employers to executives in similar positions. The compensation committee periodically reviews the benefits provided to maintain a market based benefits package. Our named executive officers participated in the following plans during 2016 which are described below:

Plans	David L. Goodin	Doran N. Schwartz	David C. Barney	Jeffrey S. Thiede	Martin A. Fritz

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401(k)	Yes	Yes	Yes	Yes	Yes
Pension	Yes	Yes	No	No	No
Supplemental Income Security Plan	Yes	Yes	Yes	No	No
Non-Qualified Defined Contribution Plan	No	No	No	Yes	Yes

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401(k) Retirement Plan

The named executive officers as well as all employees working a minimum of 1,000 hours per year are eligible to participate in the 401(k) Plan and defer annual income up to the IRS limit. The company provides a match up to 3% of the employee's elected deferral rate. Contributions and the company match are invested in various funds including company common stock.

In 2010, the company began offering increased company contributions to our 401(k) plan in lieu of pension plan contributions. For non-bargaining unit employees hired after 2006, the added retirement contribution is 5% of plan eligible compensation. For participants hired prior to 2006, the added retirement contributions are based on the participant's age as of December 31, 2009. The retirement contribution is 11.5% for Mr. Goodin, 10.5% for Mr. Schwartz, and 5% for Messrs. Barney, Thiede, and Fritz. These amounts may be reduced in accordance with the provisions of the 401(k) plan to meet IRS limits.

Pension Plans

Effective in 2006, the defined benefit pension plans were closed to new non-bargaining unit employees and as of December 31, 2009, the defined benefit plans were frozen. For further details regarding the company's pension plans, please refer to the section entitled "Pension Benefits for 2016."

Supplemental Income Security Plan

We offer certain key managers and executives benefits under a nonqualified retirement plan, referred to as the Supplemental Income Security Plan (SISP). The SISP provides participants with additional retirement income and death benefits. Effective February 11, 2016, the SISP was amended so no new participants will be added to the plan and current benefit levels are frozen for existing participants. For further details regarding the company's SISP, please refer to the section entitled "Pension Benefits for 2016." Named executive officers participating in the SISP are Messrs. Goodin, Schwartz, and Barney.

The following table reflects our named executive officers' SISP benefits as of December 31, 2016:

Name	SISP Benefits	
	Annual Death Benefit (\$)	Annual Retirement Benefit (\$)
David L. Goodin	552,960	276,480
Doran N. Schwartz	262,464	131,232
David C. Barney	262,464	131,232
Jeffrey S. Thiede	—	—
Martin A. Fritz	—	—

Nonqualified Defined Contribution Plan

The company adopted the Nonqualified Defined Contribution Plan (NQDCP) effective January 1, 2012, to provide retirement and deferred compensation for a select group of management or highly compensated employees. The compensation committee, upon recommendation from the CEO, determines which employees will participate in the NQDCP and the amount of contributions for any year. After satisfying a vesting requirement for each contribution, distributions will be made to the executive in accordance with the terms of the plan commencing upon the later of separation from service or age 65. For further details regarding the company's NQDCP, please refer to the section entitled "Nonqualified Deferred Compensation for 2016."

For 2016, the compensation committee selected and approved contributions of \$100,000 each to Mr. Thiede and Mr. Fritz. The contribution awarded to Mr. Thiede represents 23.5% of his base salary at December 31, 2015 and recognized his strong leadership at the construction services segment, which delivered a favorable return on invested capital in comparison to the median return on invested capital of similar companies in the peer group. The contribution awarded to Mr. Fritz represents 25% of his base salary at December 31, 2015 and recognized his performance in revitalizing the pipeline & midstream segment, pursuing new opportunities, and steps taken to control costs and align the operations of the refinery in 2015.

Compensation Governance

Impact of Tax and Accounting Treatment

The compensation committee may consider the impact of tax and/or accounting treatment in determining compensation.

Section 162(m) of the Internal Revenue Code limits the deductibility of certain compensation to \$1 million paid to certain officers as a business expense in any tax year unless the compensation qualifies as performance-based compensation under Section 162(m). Generally,

Proxy Statement

long-term incentive compensation and annual incentive awards for our CEO and those executive officers whose overall compensation is likely to exceed \$1 million are structured to be deductible for purposes of Section 162(m). All incentive compensation in excess of \$1 million paid to our named executive officers in 2016 satisfied the requirements for deductibility.

The compensation committee also considers the accounting and cash flow implications of various forms of executive compensation. We expense salaries and annual incentive compensation as earned. For our equity awards, we record the accounting expense in accordance with Financial Accounting Standards Board 718, which is generally expensed over the vesting period.

Stock Ownership Requirements

Executives participating in our Long-Term Performance-Based Incentive Plan are required within five years of appointment or promotion into an executive level to own our common stock equal to a multiple of their base salary as outlined in the stock ownership policy. Stock owned through our 401(k) plan or by a spouse is considered in ownership calculations. Unvested performance shares are not considered in ownership calculations. The level of stock ownership compared to the ownership requirements is determined based on the closing sale price of our stock on the last trading day of the year and base salary at December 31 of the same year. The table shows the named executive officers' holdings as a multiple of their base salary as of December 31, 2016:

Name	Ownership Policy Multiple of Base Salary within 5 Years	Actual Holdings as a Multiple of Base Salary as of 12/31/2016	Ownership requirement must be met by:
David L. Goodin	4X	3.26	1/1/2018
Doran N. Schwartz	3X	3.81	Ownership requirement met
David C. Barney	3X	0.61	1/1/2019
Jeffrey S. Thiede	3X	0.20	1/1/2019
Martin A. Fritz	3X	—	1/1/2020

Deferral of Annual Incentive Compensation

We provide executives the opportunity to defer receipt of earned annual incentives. If an executive chooses to defer an annual incentive, we credit the deferral with interest at a rate determined by the compensation committee. For 2016, the committee chose to use an interest rate of 4.5% based on an average of the Moody's U.S. Long-Term Corporate Bond Yield Average for "A" and "Baa" rated companies. The compensation committee's reasons for using this interest rate recognized incentive deferrals are a low-cost source of capital for the company and are unsecured obligations and, therefore, carry a higher risk to the executives.

Clawback

In February 2016, we amended our Long-Term Incentive Plan and Executive Incentive Compensation Plan sections regarding the repayment of incentive compensation due to accounting restatements, commonly referred to as a clawback policy. The compensation committee may, or shall if required, take action to recover incentive-based compensation from specific executives in the event the company is required to restate its financial statements due to material noncompliance with any financial reporting requirements under the securities laws.

Policy Regarding Hedging Stock Ownership

Our executive compensation policy prohibits executive officers, which includes our named executive officers, from hedging their ownership of company common stock. Executives may not enter into transactions that allow the executive to benefit from devaluation of our stock or otherwise own stock technically but without the full benefits and risks of such ownership. See the section entitled "Security Ownership" for our policy on margin accounts and pledging of our stock.

COMPENSATION COMMITTEE REPORT

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis required by Regulation S-K,

Item 402(b), with management. Based on the review and discussions referred to in the preceding sentence, the compensation committee recommended to the board of directors that the Compensation Discussion and Analysis be included in our Proxy Statement on Schedule 14A.

Thomas Everist, Chairman

Karen B. Fagg

William E. McCracken

Patricia L. Moss

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EXECUTIVE COMPENSATION TABLES

Summary Compensation Table for 2016

Name and Year Principal Position (a)	Salary (\$) (b)	Bonus (\$) (d) ¹	Stock Awards (\$) (e) ²	Option Awards (\$) (f)	Non-Equity Incentive Plan Compensation (\$) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) (h)	All Other Compensation (\$) (i)	Total (\$) (j)
David Goodin President and CEO of Knife River Corporation	2016 1,755,000—	—	1,441,954	—	1,055,490	218,301	³ 40,246	⁴ 3,510,991
2015 1,755,000—	—	1,386,992	—	376,745	—	—	39,411	2,558,148
2014 685,000—	—	1,385,135	—	830,915	631,901	631,901	38,686	3,571,637
Doran Schwartz Vice President and CFO	2016 380,000	6,175	290,292	—	345,306	77,084	³ 35,772	⁴ 1,134,629
2015 380,000—	—	279,228	—	123,253	—	—	35,571	818,052
2014 360,000—	—	363,959	—	163,080	273,974	273,974	34,956	1,195,969
David Barney President and CEO of Knife River Corporation	2016 406,800—	—	276,232	—	593,114	77,565	³ 22,905	⁴ 1,376,616
2015 395,000—	—	225,739	—	637,588	9,530	9,530	22,556	1,290,413
2014 —	—	—	—	—	—	—	—	—
Jeffrey Thiede President and CEO of Knife River Corporation	2016 425,000—	—	288,598	—	489,600	—	122,708	⁴ 1,325,906
2015 425,000—	—	242,902	—	161,857	—	—	172,506	1,002,265
2014 400,000—	—	323,529	—	730,150	—	—	96,481	1,550,160

MDU
Construction
Services
Group,
Inc.

Martin	2016	400,000	52,520	305,578	—	363,480	—	121,670	⁴ 1,243,248
Fritz									
President									
and	2015								
CEO									
of									
WBI									
Energy,	2014								
Inc.									

Amounts shown represent the incentive compensation determined by the compensation committee for the optimum refining production performance measure for 2016 due to the unforeseen economic conditions which lead to the sale of Dakota Prairie Refining, LLC. See “Annual Incentives” in the section entitled “Compensation Discussion and Analysis” for further information.

Amounts in this column represent the aggregate grant date fair value of performance share award opportunities at target calculated in accordance with Financial Accounting Standards Board (FASB) generally accepted accounting principles for stock-based compensation in FASB Accounting Standards Codification Topic 718. This column was prepared assuming none of the awards were or will be forfeited. The amounts were calculated using the Monte Carlo simulation, as described in Note 10 of our audited financial statements in our Annual Report on Form 10-K for the year ended December 31, 2016. For 2016, the total aggregate grant date fair value of performance share award opportunities assuming the highest level of payout would be as follows:

Name	Aggregate grant date fair value at highest payout (\$)
David L. Goodin	2,883,909
Doran N. Schwartz	580,584
David C. Barney	552,464
Jeffrey S. Thiede	577,196
Martin A. Fritz	611,156

Amounts shown for 2016 represent the change in the actuarial present value for the named executive officers’ accumulated benefits under the pension plan, SISF, and Excess SISF, collectively referred to as the “accumulated pension change,” plus above-market earnings on deferred annual incentives as of December 31, 2016.

Name	Accumulated Pension Change (\$)	Above Market Interest (\$)
David L. Goodin	215,917	2,384
Doran N. Schwartz	77,084	—
David C. Barney	77,565	—

Proxy Statement

⁴ All Other Compensation is comprised of:

Name	401(k) Life Insurance Premium (\$) ^a	Matching (\$)	Charitable Contributions (\$)	Nonqualified Defined Contribution Plan (\$)	Total (\$)	
David	L38,425	621	1,200	—	40,246	
Goodin	Doran	N35,000	472	300	—	35,772
Schwartz	David	C21,200	505	1,200	—	22,905
Barney	Jeffrey	S.21,200	528	980	100,000	122,708
Thiede	Martin	A21,173	497	—	100,000	121,670
Fritz						

^a Represents company contributions to the 401(k) plan, which includes matching contributions and retirement contributions made after the pension plans were frozen at December 31, 2009.

Grants of Plan-Based Awards in 2016

Grant Name	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			Grant Date Fair Value of Stock and Option Awards (\$)	
	Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	
David	L2/11/2016 ¹	188,750	755,000	1,510,000	—	—	—	
Goodin	2/11/2016 ²	—	—	—	19,753	98,764	197,528	1,441,954
Doran	N2/11/2016 ³	61,750	247,000	494,000	—	—	—	
Schwartz	2/11/2016 ²	—	—	—	3,977	19,883	39,766	290,292
David	C2/11/2016 ¹	76,275	305,100	732,240	—	—	—	
Barney	2/11/2016 ²	—	—	—	3,784	18,920	37,840	276,232
Jeffrey	S2/11/2016 ¹	79,688	318,750	765,000	—	—	—	
Thiede	2/11/2016 ²	—	—	—	3,953	19,767	39,534	288,598
Martin	A2/11/2016 ³	65,000	260,000	520,000	—	—	—	
Fritz								

2/11/2016 ²	—	—	—	4,186	20,930	41,860	305,578
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- ¹ Annual incentive for 2016 granted pursuant to the MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan.
- ² Performance shares for the 2016-2018 performance period granted pursuant to the MDU Resources Group, Inc. Long-Term Performance-Based Incentive Plan.
- ³ Annual incentive for 2016 granted pursuant to the MDU Resources Group, Inc. Executive Incentive Compensation Plan.

Narrative Discussion Relating to the Summary Compensation Table
and Grants of Plan-Based Awards Table

Annual Incentive

The compensation committee recommended the 2016 annual incentive award opportunities for our named executive officers and the board approved these opportunities at its meeting on February 11, 2016. The award opportunities at threshold, target, and maximum are reflected in columns (c), (d), and (e), respectively, of the Grants of Plan-Based Awards table. The actual amount paid with respect to 2016 performance is reflected in column (g) of the Summary Compensation Table.

As described in “Annual Incentives” in the section entitled “Compensation Discussion and Analysis,” payment of annual award opportunities is dependent upon achievement of performance measures; actual payout may range from 0% to 200% of the target except for the construction materials & contracting and construction services segments which may range from 0% to 250% for achievement of certain performance measures.

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Messrs. Goodin, Barney, and Thiede received their 2016 annual incentive award opportunities pursuant to the Long-Term Performance-Based Incentive Plan. To be eligible to receive a payment, they must remain employed by the company through December 31, 2016. The performance measures associated with their annual incentive may not be adjusted if the adjustment would increase their annual incentive award payment, unless the compensation committee determined and established the adjustment in writing within 90 days of the beginning of the performance period. The compensation committee may at its sole discretion use negative discretion based on subjective or objective measures and adjust any annual incentive award payment downward.

Messrs. Schwartz and Fritz were awarded their annual incentive opportunities pursuant to the MDU Resources Group, Inc. Executive Incentive Compensation Plan. Under the Executive Incentive Compensation Plan, executives who retire during the year at age 65 remain eligible to receive an award, but executives who terminate employment for other reasons are not eligible for an award. The committee generally does not modify the performance measures; however, if major unforeseen changes in economic and environmental conditions or other significant factors beyond the control of management substantially affected management's ability to achieve the specified performance measures, the committee, in consultation with the CEO, may modify the performance measures. The compensation committee has full discretion to determine the extent to which goals have been achieved, the payment level, and whether to adjust payment of awards downward based upon individual performance. For further discussion of the specific 2016 incentive plan performance measures and results, see "Annual Incentives" in the section entitled "Compensation Discussion and Analysis."

Long-Term Incentive

The compensation committee recommended long-term incentive award opportunities for the named executive officers in the form of performance shares, and the board approved the award opportunities at its meeting on February 11, 2016. The long-term incentive opportunities are presented as the number of performance shares at threshold, target, and maximum in columns (f), (g), and (h) of the Grants of Plan-Based Awards table. The value of the long-term performance-based incentive opportunities is based on the aggregate grant date fair value and is reflected in column (e) of the Summary Compensation Table and column (l) of the Grant of Plan-Based Awards table.

Depending on our 2016-2018 total stockholder return compared to the total three-year stockholder returns of our peer group companies, executives will receive from 0% to 200% of the target awards in February 2019. We also will pay dividend equivalents in cash on the number of shares actually vested for the performance period. The dividend equivalents will be paid in 2019 at the same time as the performance share awards vest. In the event the company's 2016-2018 total stockholder return is negative, the number of shares that would otherwise vest for the performance period will be reduced from 50% to 100%. For further discussion of the specific long-term incentive plan, see "Long-Term Incentives" in the section entitled "Compensation Discussion and Analysis."

Nonqualified Defined Contribution Plan

The compensation committee selects participants and approves contributions to the Nonqualified Defined Contribution Plan based on recommendations from the CEO. The purpose of the plan is to recognize outstanding performance coupled with enhanced retention as the Nonqualified Defined Contribution Plan requires a vesting period. The amount shown in column (i) - All Other Compensation of the Summary Compensation Table includes contributions of \$100,000 each for Messrs. Thiede and Fritz. For further information, see the section entitled "Nonqualified Deferred Compensation for 2016."

Salary and Bonus in Proportion to Total Compensation

The following table shows the proportion of salary and bonus to total compensation:

Name	Salary (\$)	Bonus (\$)	Total Compensation (\$)	Salary and Bonus as a % of Total Compensation
David L. Goodin	755,000	—	3,510,991	21.5 %

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Doran N. Schwartz	380,000	6,175	1,134,629	34.0	%
David C. Barney	406,800	—	1,376,616	29.6	%
Jeffrey S. Thiede	425,000	—	1,325,906	32.1	%
Martin A. Fritz	400,000	52,520	1,243,248	36.4	%

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Proxy Statement

Outstanding Equity Awards at Fiscal Year-End 2016

Name (a)	Stock Awards		Equity Incentive Plan	Equity Incentive Plan
	Number of Shares or Units of Stock That Have Not Vested (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (h)	Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) (i) ¹	Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) (j) ²
David L. Goodin	—	—	375,533	10,804,084
Doran N. Schwartz	—	—	77,671	2,234,595
David C. Barney	—	—	68,802	1,979,434
Jeffrey S. Thiede	—	—	72,676	2,090,889
Martin A. Fritz	—	—	70,742	2,035,247

¹ Below is a breakdown by year of the outstanding performance share plan awards:

Performance Period End	2014 Award 12/31/2016	2015 Award 12/31/2017	2016 Award 12/31/2018	Total
David L. Goodin	33,677	144,328	197,528	375,533
Doran N. Schwartz	8,849	29,056	39,766	77,671
David C. Barney	7,472	23,490	37,840	68,802
Jeffrey S. Thiede	7,866	25,276	39,534	72,676
Martin A. Fritz	—	28,882	41,860	70,742

Shares for the 2014 award are shown at the target level (100%) based on results for the 2014-2016 performance cycle between threshold and target.

Shares for the 2015 award are shown at the maximum level (200%) based on results for the first two years of the 2015-2017 performance cycle above target.

Shares for the 2016 award are shown at the maximum level (200%) based on results for the first year of the 2016-2018 performance cycle above target.

² Value based on the number of performance shares reflected in column (i) multiplied by \$28.77, the year-end per share closing stock price for 2016.

While for purposes of the Outstanding Equity Awards at Fiscal Year End 2016 table, the number of shares and value shown for the 2014-2016 performance cycle is at 100% of target, the actual results for the performance period certified by the compensation committee and approved by the board of directors on February 16, 2017 resulted in vesting at 68% of target. For further information, see “Long-Term Incentives” in the section entitled “Compensation Discussion and Analysis.”

Option Exercises and Stock Vested During 2016

Stock Awards	
Number of Shares Acquired on Vesting (a)(#) (d) ¹	Value Realized on Vesting (\$) (e) ²
David L. 13,264 Goodin	244,787

Doran	
N. 3,661	67,564
Schwartz	
David	
C. —	—
Barney	
Jeffrey	
S. —	—
Thiede	
Martin	
A. —	—
Fritz	

1 Reflects performance shares for the 2013-2015 performance period that vested on December 31, 2015, and were approved February 11, 2016.

2 Reflects the value of vested performance shares based on the closing stock price of \$16.31 per share on February 11, 2016, and the dividend equivalents paid on the vested shares.

Proxy Statement

Pension Benefits for 2016

Plan Name Name (a) (b)	Number of Years Credited Service (#) (c) ¹	Present Value of Accumulated Benefit (\$) (d)	Payments During Last Fiscal Year (\$) (e)
David L. Pension	26	1,107,307	—
Goodin Basic SISP ²	10	2,285,113	—
Excess SISP ³	26	36,888	—
Doran N. Pension	4	110,012	—
Schwartz Basic SISP ²	9	821,142	—
Excess SISP ³	n/a	—	—
David C. Pension ³	n/a	—	—
Barney Basic SISP ²	10	1,383,697	—
Excess SISP ³	n/a	—	—
Jeffrey S. Pension ³	n/a	—	—
Thiede Basic SISP ³	n/a	—	—
Excess SISP ³	n/a	—	—
Martin A. Pension ³	n/a	—	—
Fritz Basic SISP ³	n/a	—	—
Excess SISP ³	n/a	—	—

Years of credited service related to the pension plan reflects the years of participation in the plan as of December 31, 2009, when the pension plan was frozen. Years of credited service ¹ related to the Basic SISP reflects the years toward full vesting of the benefit which is 10 years. Years of credited service related to Excess SISP reflects the same number of credited years of services as the pension plan.

² The present value of accumulated benefits for the Basic SISP assumes the named executive officer would be fully vested in the benefit on the benefit commencement date; therefore, no

reduction was made to reflect actual vesting levels.

Messrs. Barney, Thiede, and Fritz are not eligible to participate in the pension plans. Messrs. Thiede and Fritz do not participate in the SISP. Mr. Goodin is the only named executive officer eligible to participate in the Excess SISP

The amounts shown for the pension plan, Basic SISP, and Excess SISP represent the actuarial present values of the executives' accumulated benefits accrued as of December 31, 2016, calculated using:

- 3.54% discount rate for the Basic SISP and Excess SISP;
- 3.80% discount rate for the pension plan;
- the Society of Actuaries RP-2014 Adjusted to 2006 Total Dataset Mortality with Scale MP-2016 for post-retirement mortality; and
- no recognition of future salary increases or pre-retirement mortality.

The actuary assumed a retirement age of 60 for the pension, Basic SISP, and Excess SISP benefits and assumed retirement benefits commence at age 60 for the pension and 65 for Basic and Excess SISP benefits.

Pension Plan

The MDU Resources Group, Inc. Pension Plan for Non-Bargaining Unit Employees (pension plan) applies to employees hired before 2006 and was amended to cease benefit accruals as of December 31, 2009. The benefits under the pension plan are based on a participant's average annual salary over the 60 consecutive month period where the participant received the highest annual salary between 1999 and 2009. Benefits are paid as straight life annuities for single participants and as actuarially reduced annuities with a survivor benefit for married participants unless they choose otherwise.

Supplemental Income Security Plan

The Supplemental Income Security Plan (SISP), a defined benefit nonqualified retirement plan, is offered to select key managers and executives. SISP benefits are determined by reference to levels defined within the plan. Our compensation committee, after receiving recommendations from our CEO, determined each participant's level within the plan. On February 11, 2016, the SISP plan was amended so no new participants would be added to the plan and current benefit levels were frozen for existing participants.

Proxy Statement

Basic SISP Benefits

Basic SISP is a supplemental retirement benefit intended to augment the retirement income provided under the pension plans. The Basic SISP benefits are subject to the following ten-year vesting schedule:

- 0% vesting for less than three years of participation;
- 20% vesting for three years of participation;
- 40% vesting for four years of participation; and
- an additional 10% vesting for each additional year of participation up to 100% vesting for ten years of participation.

Participants can elect to receive the Basic SISP as:

- monthly retirement benefits only;
- monthly death benefits paid to a beneficiary only; or
- a combination of retirement and death benefits, where each benefit is reduced proportionately.

Regardless of the election, if the participant dies before the SISP retirement benefit commences, only the SISP death benefit is provided.

Basic SISP benefits vested as of December 31, 2004, are grandfathered under Section 409A of the Internal Revenue Code (Section 409A) and are subject to the SISP provisions then in effect. Typically, the grandfathered Section 409A SISP benefits are paid over 15 years, with benefits commencing when the participant attains age 65 or when the participant retires if they work beyond age 65. Basic SISP benefits vesting after December 31, 2004 are governed by amended provisions in the plan intended to comply with Section 409A. The SISP benefits for key employees as defined by Section 409A commence six months after the participant attains age 65 or when the participant retires if they work beyond age 65. The benefits are paid over a 173 month period where the first payment includes the equivalent of six-months of payments plus interest equal to one-half of the annual prime interest rate on the participant's last date of employment.

The following are Messrs. Goodin and Barney's benefits under the grandfathered provision and those subject to Section 409A.

	Grandfathered	Subject to §409A	Total
	(\$)	(\$)	(\$)
David L. Goodin	247,951	2,037,162	2,285,113
David C. Barney	339,092	1,044,605	1,383,697

Excess SISP Benefits

Excess SISP is an excess retirement benefit relating to Internal Revenue Code limitations on retirement benefits provided under the pension plans. Excess SISP benefits are equal to the difference between the monthly retirement benefits that would have been payable to the participant under the pension plans absent the limitations under the Internal Revenue Code and the actual benefits payable to the participant under the pension plans. Participants are only eligible for the Excess SISP benefits if the participant is fully vested under the pension plan, their employment terminates prior to age 65, and benefits under the pension plan are reduced due to limitations under the Internal Revenue Code on plan compensation.

In 2009, the SISP was amended to limit eligibility for the Excess SISP benefit. Mr. Goodin is the only named executive officer eligible for the Excess SISP benefit and must remain employed with the company until age 60 in order to receive the benefit. Benefits generally commence six months after the participant's employment terminates and continue to age 65 or until the death of the participant, if prior to age 65.

Both Basic and Excess SISP benefits are forfeited if the participant's employment is terminated for cause.

Proxy Statement

Nonqualified Deferred Compensation for 2016

Deferred Annual Incentive Compensation

Executives participating in the annual incentive compensation plans may elect to defer up to 100% of their annual incentive awards. Deferred amounts accrue interest at a rate determined annually by the compensation committee. The interest rate in effect for 2016 was 4.5% based on an average of the Moody's U.S. Long-Term Corporate Bond Yield Average for "A" and "Baa" rated companies. The deferred amount will be paid in accordance with the participant's election, following termination of employment or beginning in the fifth year following the year the award was earned. The amounts are paid in accordance with the participant's election in either a lump sum or in monthly installments not to exceed 120 months. In the event of a change of control, all amounts deferred would immediately become payable.

For purposes of deferred annual incentive compensation, a change of control is defined as:

- an acquisition during an 12-month period of 30% or more of the total voting power of our stock;
- an acquisition of our stock that, together with stock already held by the acquirer, constitutes more than 50% of the total fair market value or total voting power of our stock;
- replacement of a majority of the members of our board of directors during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of our board of directors; or
- acquisition of our assets having a gross fair market value at least equal to 40% of the gross fair market value of all of our assets.

Nonqualified Defined Contribution Plan

The company adopted the Nonqualified Defined Contribution Plan, effective January 1, 2012, to provide deferred compensation for a select group of employees. The compensation committee determines the amount of employer contributions under the Nonqualified Defined Contribution Plan and the obligations under the plan constitute an unsecured promise of the company to make such payments. The company credits contributions to plan accounts which capture the hypothetical investment experience based on the participant's elections which individually vest four years after each contribution in accordance with the terms of the plan. Amounts shown as aggregate earnings in the table below for Messrs. Thiede and Fritz reflect the change in investment value at market rates. Participants may elect to receive their vested contributions and investment earnings either in a lump sum upon separation from service with the company or in annual installments over a period of years upon the later of (i) separation from service and (ii) age 65. Plan benefits become fully vested if the participant dies while actively employed. Benefits are forfeited if the participant's employment is terminated for cause.

The table below includes individual contributions from deferrals of annual incentive compensation and company contributions under the Nonqualified Defined Contribution Plan:

Executive Name	Registrant Contributions in Last FY	Aggregate Earnings in Last FY	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last FYE
(a)	(\$)	(\$)	(\$)	(\$)
(b)	(c)	(d)	(e)	(f)
David L.	188,373	7,305	—	195,677 ¹
Goodin				
Doran				
N.	—	—	—	—
Schwartz				
David C.	—	—	—	—
Barney Jeffrey	100,000	28,044	—	396,929 ²
S.				

Thiede				
Martin				
A. —	100,000	13,936	—	211,748 ²
Fritz				

¹ Mr. Goodin deferred 50% of his 2015 annual incentive compensation which was \$376,745 as reported in the Summary Compensation Table for 2015. Messrs. Thiede and Fritz each received \$100,000 under the Nonqualified Defined Contribution Plan for 2016. Mr. Thiede's balance also includes ² contributions of \$150,000 for 2015, \$75,000 for 2014, and \$33,000 for 2013. Mr. Fritz's balance includes contributions of \$100,000 for 2015. Each of these amounts is reported in column (i) of the Summary Compensation Table in the Proxy Statement for its respective year, where applicable.

Proxy Statement

Potential Payments upon Termination or Change of Control

The Potential Payments upon Termination or Change of Control table shows the payments and benefits our named executive officers would receive in connection with a variety of employment termination scenarios or upon a change of control. For the named executive officers, the information assumes the terminations or the change of control occurred on December 31, 2016.

The table excludes compensation and benefits that our named executive officers would have already earned during their employment with us whether or not a termination or change of control event had occurred or provided under plans or arrangements that do not discriminate in favor of the named executive officers and that are generally available to all salaried employees, such as benefits under our qualified defined benefit pension plan (for employees hired before 2006), accrued vacation pay, continuation of health care benefits, and life insurance benefits. The tables also do not include nonqualified defined contribution or deferred annual compensation amounts which are shown and explained in the Nonqualified Deferred Compensation for 2016 table.

Compensation

Upon a change of control, annual incentives granted under our Long-Term Performance-Based Incentive Plan (LTIP) would vest at target and be paid in cash. Messrs. Goodin, Barney, and Thiede were awarded their annual incentives for 2016 under the LTIP and would receive the value of their annual incentive compensation at the target amount under the change of control scenarios. No amounts are shown for annual incentives in the tables for Messrs. Goodin, Barney, and Thiede under termination scenarios, as they would be eligible to receive their annual incentives at the level of performance measures were achieved for the performance period regardless of termination scenarios occurring on December 31, 2016.

Messrs. Schwartz and Fritz were granted their annual incentive awards under the Executive Incentive Compensation Plan (EICP) which has no change of control provision in regards to annual incentive compensation other than for deferred compensation and requires participants to remain employed with the company through the service year to be eligible for a payout. No amounts are shown for annual incentives in the tables for Messrs. Schwartz and Fritz, as they would be eligible to receive their annual incentive at the level performance measures were achieved for the performance period regardless of termination or change of control scenarios occurring on December 31, 2016.

Upon a change of control, performance share awards under the LTIP would be deemed fully earned and vest at their target levels for all named executive officers. For this purpose, the term “change of control” is defined in the LTIP as:

- the acquisition by an individual, entity, or group of 20% or more of our outstanding common stock;
- a majority of our board of directors whose election or nomination was not approved by a majority of the incumbent board members;
- consummation of a merger or similar transaction or sale of all or substantially all of our assets, unless our stockholders immediately prior to the transaction beneficially own more than 60% of the outstanding common stock and voting power of the resulting corporation in substantially the same proportions as before the merger, no person owns 20% or more of the resulting corporation’s outstanding common stock or voting power except for any such ownership that existed before the merger and at least a majority of the board of the resulting corporation is comprised of our directors; or
- stockholder approval of our liquidation or dissolution.

For termination scenarios, performance share awards are forfeited if the participant’s employment terminates for any reason before the participant has reached age 55 and completed 10 years of service. If a participant’s employment is terminated other than for cause after reaching age 55 and completing 10 years of service, performance shares are prorated as follows:

- termination of employment during the first year of the performance period = shares are forfeited;
- termination of employment during the second year of the performance period = performance shares earned are prorated based on the number of months employed during the performance period; and

• termination of employment during the third year of the performance period = full amount of any performance shares earned are received.

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Based on the above criteria, the named executive officers would earn performance shares upon termination or a change of control as follows:

	David L. Goodin	Doran N. Schwartz	David C. Barney	Jeffrey S. Thiede	Martin A. Fritz
As of December 31, 2016, has the participant reached age 55 and have 10 years of service?	Yes	No	Yes	No	No
Performance Share Cycle 2014-2016	Fully Earned	Forfeited	Fully Earned	Forfeited	Forfeited
Performance Share Cycle 2015-2017	Prorated	Forfeited	Prorated	Forfeited	Forfeited
Performance Share Cycle 2016-2018	Forfeited	Forfeited	Forfeited	Forfeited	Forfeited

For purposes of calculating the performance share value, the number of vesting shares was multiplied by the closing stock price for the last market day of the year, which was December 30, 2016. Dividend equivalents based on the number of vesting shares are also included in the amounts presented.

Benefits and Perquisites

Basic SISP benefits presented in the table represent the present value of vested Basic SISP as of December 31, 2016 commencing at age 65 and payable for 15 years. Only Messrs. Goodin, Schwartz, and Barney are eligible for Basic SISP benefits. Present value was determined using a 3.54% discount rate. The terms of the Basic SISP benefit are described following the Pension Benefits for 2016 table. In the event of death, Messrs. Goodin, Schwartz, and Barney's beneficiaries would receive monthly death benefit payments for 15 years.

The monthly SISP retirement and death benefits used in the present value calculations were:

	Monthly SISP Retirement Payment (\$)	Monthly SISP Death Payment (\$)
David L. Goodin	23,040	46,080
Doran N. Schwartz	8,744	21,872
David C. Barney	9,125	21,872

The Basic SISP amounts under a disability scenario as shown for Messrs. Schwartz and Barney reflect credit for an additional year of vesting of their 2014 SISP upgrades which would result in full vesting of the upgrade.

We provide disability benefits to some of our salaried employees equal to 60% of their base salary, subject to a salary limit of \$200,000 for officers and \$100,000 for other salaried employees when calculating benefits. For all eligible employees, disability payments continue until age 65 if disability occurs at or before age 60 and for five years if disability occurs between the ages of 60 and 65. Disability benefits are reduced for amounts paid as retirement benefits. The disability amounts in the table reflect the present value of the disability benefits attributable to the additional \$100,000 of base salary recognized for executives under our disability program, subject to the 60% limitation, after reduction for amounts that would be paid as retirement benefits. For Messrs. Goodin and Schwartz, who participate in the pension plan, the amount represents the present value of the disability benefit after reduction for retirement benefits using a discount rate of 3.8%. Because Mr. Goodin's retirement benefit is greater than the disability benefit, the amount shown is zero. For Messrs. Barney, Thiede, and Fritz, who do not participate in the pension plan, the amount represents the present value of the disability benefit without reduction for retirement benefits using the discount rate of 3.54% which is associated with the SISP plan which is considered a reasonable rate for purposes of the calculation.

Severance

The compensation committee generally considers providing severance benefits on a case-by-case basis. Because severance payments are at the discretion of the compensation committee, no amounts are presented in the tables with the exception of Mr. Fritz. Mr. Fritz's offer letter provided for a lump sum payment if his employment terminates during the two years after his date of hire as a result of: (1) a change of control of the company; (2) the company divests WBI Holdings, Inc. or a significant portion of its assets; (3) a material diminution of his authority or job duties and/or a change to whom he reports; or (4) a reduction in his base salary other than a reduction in base salary imposed on all senior officers.

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Potential Payments upon Termination or Change of Control Table

Executive Benefits and Payments Upon Termination or Change of Control	Voluntary Termination (\$)	Not for Cause Termination (\$)	Death (\$)	Disability (\$)	Change of Control (With Termination) (\$)	Change of Control (Without Termination) (\$)
David L. Goodin						
Compensation:						
Annual Incentive	—	—	—	—	755,000	755,000
Performance Shares	2,498,923	2,498,923	2,498,923	2,498,923	6,142,835	6,142,835
Benefits and Perquisites:						
Basic SISP	2,283,801	2,283,801	—	2,283,801	2,283,801	—
SISP Death Benefits	—	—	6,447,100	—	—	—
Disability Benefits	—	—	—	—	—	—
Total	4,782,724	4,782,724	8,946,023	4,782,724	9,181,636	6,897,835
Doran N. Schwartz						
Compensation:						
Annual Incentive	—	—	—	—	—	—
Performance Shares	—	—	—	—	1,300,761	1,300,761
Benefits and Perquisites:						
Basic SISP	659,072	659,072	—	824,254	659,072	—
SISP Death Benefits	—	—	3,060,134	—	—	—
Disability Benefits	—	—	—	713,381	—	—
Total	659,072	659,072	3,060,134	1,537,635	1,959,833	1,300,761
David C. Barney						
Compensation:						
Annual Incentive	—	—	—	—	305,100	305,100
Performance Shares	468,381	468,381	468,381	468,381	1,145,462	1,145,462
Benefits and Perquisites:						
Basic SISP	1,141,490	1,141,490	—	1,368,036	1,141,490	—
SISP Death Benefits	—	—	3,060,134	—	—	—
Disability Benefits	—	—	—	275,389	—	—
Total	1,609,871	1,609,871	3,528,515	2,111,806	2,592,052	1,450,562
Jeffrey S. Thiede						
Compensation:						
Annual Incentive	—	—	—	—	318,750	318,750
Performance Shares	—	—	—	—	1,209,696	1,209,696
Benefits and Perquisites:						
Disability Benefits	—	—	—	506,165	—	—
Total	—	—	—	506,165	1,528,446	1,528,446
Martin A. Fritz						
Compensation:						
Annual Incentive	—	—	—	—	—	—

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Performance Shares	—	—	—	—	1,054,943	1,054,943
Benefits and Perquisites:						
Disability Benefits	—	—	—	600,673	—	—
Severance	—	500,000	—	—	500,000	—
Total	—	500,000	—	600,673	1,554,943	1,054,943

MDU Resources Group, Inc. Proxy Statement 47

Proxy Statement

AUDIT MATTERS

ITEM 4: RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2017

The audit committee at its February 2017 meeting appointed Deloitte & Touche LLP as our independent registered public accounting firm for fiscal year 2017. The board of directors concurred with the audit committee's decision. Deloitte & Touche LLP has served as our independent registered public accounting firm since fiscal year 2002. Although your ratification vote will not affect the appointment or retention of Deloitte & Touche LLP for 2017, the audit committee will consider your vote in determining its appointment of our independent registered public accounting firm for the next fiscal year. The audit committee, in appointing our independent registered public accounting firm, reserves the right, in its sole discretion, to change an appointment at any time during a fiscal year if it determines that such a change would be in our best interests.

A representative of Deloitte & Touche LLP will be present at the annual meeting and will be available to respond to appropriate questions. We do not anticipate that the representative will make a prepared statement at the annual meeting; however, he or she will be free to do so if he or she chooses.

The board of directors recommends a vote "for" the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for fiscal year 2017.

Ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2017 requires the affirmative vote of a majority of our common stock present in person or represented by proxy at the annual meeting and entitled to vote on the proposal. Abstentions will count as votes against this proposal.

Annual Evaluation and Selection of Deloitte & Touche LLP

The audit committee annually evaluates the performance of its independent registered public accounting firm, including the senior audit engagement team, and determines whether to re-engage the current independent accounting firm or consider other firms. Factors considered by the audit committee in deciding whether to retain the current independent accounting firm include:

- Deloitte & Touche LLP's capabilities considering the complexity of our business and the resulting demands placed on Deloitte & Touche LLP in terms of technical expertise and knowledge of our industry and business;
- the quality and candor of Deloitte & Touche LLP's communications with the audit committee and management;
- Deloitte & Touche LLP's independence;
- the quality and efficiency of the services provided by Deloitte & Touche LLP, including input from management on Deloitte & Touche LLP's performance and how effectively Deloitte & Touche LLP demonstrated its independent judgment, objectivity, and professional skepticism;

external data on audit quality and performance, including recent Public Company Accounting Oversight Board reports on Deloitte & Touche LLP and its peer firms; and the appropriateness of Deloitte & Touche LLP's fees, tenure as our independent auditor, including the benefits of a longer tenure, and the controls and processes in place that help ensure Deloitte & Touche LLP's continued independence.

Based on this evaluation, the audit committee and the board believe that retaining Deloitte & Touche LLP to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2017, is in the best interests of our company and its stockholders.

The audit committee also oversees the process for, and ultimately approves, the selection of our independent registered public accounting firm's lead engagement partner at the five-year mandatory rotation period. Prior to the mandatory rotation period in 2017, at the audit committee's instruction, Deloitte & Touche LLP selected candidates to be considered for the lead engagement partner role, who were then interviewed by members of our company's senior management. After considering the candidates recommended by Deloitte & Touche LLP,

Proxy Statement

senior management made a recommendation to the audit committee regarding the new engagement partner. After discussing the qualifications of the proposed lead engagement partner with the current lead engagement partner, the audit committee chair interviewed the leading candidate, and the audit committee then considered the appointment and voted as an audit committee on the selection. The change in lead engagement partner after the current five-year rotation period occurred in February 2017.

Audit Fees and Non-Audit Fees

The following table summarizes the aggregate fees that our independent registered public accounting firm, Deloitte & Touche LLP, billed or is expected to bill us for professional services rendered for 2016 and 2015:

	2016	2015
Audit Fees ^a	\$2,526,900	\$2,755,400
Audit-Related Fees ^b	16,610	437,979
Tax Fees ^c		36,400
All Other Fees ^d	1087	47,569
Total Fees ^e	\$2,546,697	\$3,277,348

Ratio of Tax and All Other Fees to Audit and Audit-Related Fees

Ratio of Tax and All Other Fees to Audit and Audit-Related Fees	% 2.6	%
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Audit fees for 2016 and 2015 consisted of fees for services rendered for the audit of our annual financial statements, reviews of quarterly financial statements, subsidiary, statutory and regulatory audits, filing a Form S-8 Registration Statement (2016), and discontinued operations for Dakota Prairie Refining, LLC (DPR) (2016).

Audit-related fees for 2016 and 2015 are associated with accounting research assistance, Intermountain Gas Company public utility review (2016), agreed upon procedures associated report for Knife River Corporation's JTL Group, Inc. (Wyoming) (2015), and due diligence work associated with a potential acquisition (2015).

Tax fees for 2015 include the preparation of federal and state tax returns for DPR. The fees associated with DPR were paid by DPR, but are included in this table because DPR was considered a variable interest entity with respect to MDU Resources Group, Inc. and is consolidated in its financial statements.

All other fees for 2016 are associated with a pollution control project at Big Stone electric generating facility. All other fees for 2015 are associated with a cost segregation study and research on R&D credits, in each case for DPR.

The fees associated with DPR were paid by DPR, but are included in this table because DPR was considered a variable interest entity with respect to MDU Resources Group, Inc. and consolidated in its financial statements.

Total fees reported above include out-of-pocket expenses related to the services provided of \$350,000 for 2016 and \$382,965 for 2015.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of the Independent Registered Public Accounting Firm

The audit committee pre-approved all services Deloitte & Touche LLP performed in 2016 in accordance with the pre-approval policy and procedures the audit committee adopted in 2003. This policy is designed to achieve the continued independence of Deloitte & Touche LLP and to assist in our compliance with Sections 201 and 202 of the Sarbanes-Oxley Act of 2002 and related rules of the Securities and Exchange Commission.

The policy defines the permitted services in each of the audit, audit-related, tax, and all other services categories, as well as prohibited services. The pre-approval policy requires management to submit annually for approval to the audit committee a service plan describing the scope of work and anticipated cost associated with each category of service. At each regular audit committee meeting, management reports on services performed by Deloitte & Touche LLP and the fees paid or accrued through the end of the quarter preceding the meeting. Management may submit requests for additional permitted services before the next scheduled audit committee meeting to the designated member of the audit committee, Dennis W. Johnson, for approval. The designated member updates the audit committee at the next regularly scheduled meeting regarding any services approved during the interim period. At each regular audit committee meeting, management may submit to the audit committee for approval a supplement to the service plan containing any request for additional permitted services.

In addition, prior to approving any request for audit-related, tax, or all other services of more than \$50,000, Deloitte & Touche LLP will provide a statement setting forth the reasons why rendering of the proposed services does not compromise Deloitte & Touche LLP's independence. This description and statement by Deloitte & Touche LLP may be incorporated into the service plan or included as an exhibit thereto or may be delivered in a separate written statement.

Proxy Statement

AUDIT COMMITTEE REPORT

In connection with our financial statements for the year ended December 31, 2016, the audit committee has (1) reviewed and discussed the audited financial statements with management; (2) discussed with the independent registered public accounting firm (the “Auditors”) the matters required to be discussed by Public Company Accounting Oversight Board Auditing Standard No. 1301, Communications with Audit Committees; and (3) received the written disclosures and the letter from the Auditors required by applicable requirements of the Public Company Accounting Oversight Board regarding the Auditors’ communications with the audit committee concerning independence, and has discussed with the Auditors their independence.

Based on the review and discussions referred to above, the audit committee recommended to the board of directors that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2016, for filing with the Securities and Exchange Commission.

Dennis W. Johnson, Chairman

Mark A. Hellerstein

A. Bart Holaday

John K. Wilson

Proxy Statement

OTHER MATTERS

ITEM 5. ADVISORY VOTE TO APPROVE AN AMENDMENT TO THE COMPANY'S BYLAWS TO ADOPT AN EXCLUSIVE FORUM FOR INTERNAL CORPORATE CLAIMS

Description of the Amendment

On November 17, 2016, the board approved an amendment (the "Amendment") to the company's bylaws adding a new Section 7.09 which provides that Internal Corporate Claims (as defined in the Amendment) may only be brought in Delaware courts. Stockholder ratification of the Amendment is not required under Delaware law, our bylaws, or otherwise. The board believes, however, that a stockholder vote on this matter is appropriate because of the importance of this issue. For the reasons described below, the board recommends that stockholders vote in favor of the proposal to ratify the Amendment. Broker non-vote shares are not entitled to vote on this item and, therefore, are not counted in the vote. The full text of the Amendment is set forth below and on Exhibit A to this Proxy Statement.

7.09 Forum Selection.

(a) Forum Selection. Unless the Corporation consents in writing to the selection of an alternative forum, to the fullest extent permitted by law, all Internal Corporate Claims shall be brought solely and exclusively in the Court of Chancery of the State of Delaware (or, if the Court of Chancery of the State of Delaware does not have jurisdiction, another state court located within the State of Delaware or, if no state court located within the State of Delaware has jurisdiction, the United States District Court for the District of Delaware). "Internal Corporate Claims" means claims, including claims in the right of the Corporation, (i) that are based upon a violation of a duty by a current or former director or officer or stockholder in such capacity or (ii) as to which the General Corporation Law of the State of Delaware confers jurisdiction upon the Court of Chancery of the State of Delaware.

(b) Personal Jurisdiction. If any action the subject matter of which is within the scope of Section 7.09(a) is filed in a court other than a court located within the State of Delaware (a "Foreign Action") by or in the name of any stockholder (including in the right of the Corporation), such stockholder shall be deemed to have consented to (i) the personal jurisdiction of the state and federal courts located within the State of Delaware in connection with any action brought in any such court to enforce Section 7.09(a) and (ii) having service of process made upon such stockholder in any such action by service upon such stockholder's counsel in the Foreign Action as agent for such stockholder.

Purposes of the Amendment

The Amendment's requirement to bring internal litigation claims in Delaware avoids the waste of corporate assets that would arise from litigation of the same claims in multiple jurisdictions.

Public companies, particularly if involved in merger and acquisition transactions, are often targeted in litigation brought purportedly on behalf of stockholders in multiple jurisdictions with respect to similar, if not identical, corporate claims. The company has historically entered into a number of merger and acquisition transactions to foster growth at its business segments. Although the company has not yet faced internal corporate claims arising from these transactions, a forum selection bylaw would avoid such multi-jurisdiction litigation and the waste of corporate assets and diversion of management time that results from litigating essentially duplicative cases in multiple jurisdictions. By requiring internal corporate claims to be brought in a single jurisdiction, a forum selection bylaw serves the interests of stockholders in resolving claims efficiently and without the waste of financial and other resources that are better devoted to the company's business.

The Delaware Courts designated by the Amendment can provide the most authoritative and efficient resolution of internal corporate claims.

Because the company, like many public companies, is incorporated in Delaware, the law applicable to any internal corporate claims would be the Delaware General Corporation Law. By requiring corporate claims to be brought in Delaware courts, a forum selection bylaw avoids the risk that Delaware General Corporation Law will be misapplied by a court in another jurisdiction, a risk that would be compounded if internal corporate claims were pending in multiple jurisdictions outside Delaware which could reach inconsistent interpretations. Additionally, Delaware offers a system of specialized chancery courts to deal with corporate law questions, with streamlined procedures and processes that help provide relatively quick decisions. This serves the interests of all stockholders in limiting the time,

cost, and uncertainty of protracted litigation.

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Proxy Statement

Approval of the Amendment at this time will discourage potentially harmful litigation practices in the future. The board believes it is in the best interests of the company's stockholders to approve the amendment at this time. Following a series of Delaware court decisions upholding similar corporate provisions, the Delaware legislature in June 2015 enacted a law explicitly authorizing Delaware corporations to adopt bylaw provisions designating Delaware courts as the exclusive forum for resolving internal corporate claims. By adopting the forum selection bylaw at this time as authorized by the Delaware courts and the 2015 legislation, and subject to an advisory vote of the stockholders at the 2017 annual meeting, the company can discourage future litigation that is brought in a particular jurisdiction on the basis of tactical maneuvering rather than efficiency and predictable and authoritative outcomes. For the foregoing reasons, the board of directors believes the Amendment is in the best interests of the company and its stockholders and recommends that stockholders vote in favor of the proposal to ratify the Amendment.

The board of
directors
recommends
a vote "for" the
advisory vote
to approve an
amendment
to
the
company's
bylaws to
adopt an
exclusive
forum for
internal
corporate
claims.

If ratification of the bylaws is not approved by a majority of the shares of common stock represented at the annual meeting and entitled to vote on this item, the board intends to rescind the Amendment. Abstentions will count as votes against the Amendment.

Proxy Statement

INFORMATION
ABOUT THE
ANNUAL
MEETING

Who can Vote?	<p>Stockholders of record at the close of business on March 10, 2017, are entitled to vote each share they owned on that date on each matter presented at the meeting and any adjournment(s) thereof. As of March 10, 2017, we had 195,304,376 shares of common stock outstanding entitled to one vote per share.</p>
Distribution of our Proxy Materials using Notice and Access	<p>We distributed proxy materials to certain of our stockholders via the Internet under the Securities and Exchange Commission’s “Notice and Access” rules to reduce our costs and decrease the environmental impact of our proxy materials. Using this method of distribution, on or about March 24, 2017, we mailed a Notice Regarding the Availability of Proxy Materials (Notice) that contains basic information about our 2017 annual meeting and instructions on how to view all proxy materials, and vote electronically, on the Internet. If you received the Notice and prefer to receive a paper copy of the proxy materials, follow the instructions in the Notice for making this request and the materials will be sent promptly to you via the preferred method. Stockholders who do not receive the Notice will receive a paper copy of our proxy materials, which will be sent on or about March 30, 2017.</p>
How to Vote	<p>You are encouraged to vote in advance of the meeting using one of the following voting methods, even if you are planning to attend the 2017 Annual Meeting of Stockholders.</p> <p>Registered Stockholders: Stockholders of record who hold their shares directly with our stock registrar can vote any one of four ways:</p> <p>Via the Internet: Go to www.proxypush.com/mdu and follow the instructions on the website.</p> <p>By Telephone: Call 877-536-3553 and follow the instructions given by the voice prompts. Voting via the Internet or by telephone authorizes the named proxies to vote your shares in the same manner as if you marked, signed, dated, and returned a Proxy Card by mail. Your voting instructions may be transmitted up until 11:59 p.m. CDT on May 8, 2017.</p> <p>By Mail: If you received paper copies of the Proxy Statement, Annual Report, and Proxy Card, mark, sign, date, and return the Proxy Card in the postage-paid envelope provided.</p> <p>In Person: Attend the annual meeting, or send a personal representative with an appropriate proxy, to vote by ballot at the meeting. (See “Notice of Annual Meeting” and “Annual Meeting Admission.”)</p> <p>Beneficial Stockholders: Stockholders whose shares are held beneficially in the name of a bank, broker, or other holder of record (sometimes referred to as holding shares “in street name”), will receive voting instructions from said bank, broker, or other holder of record. If you wish to vote in person at the meeting, you must obtain a legal proxy from your bank, broker, or other holder of record of your shares and present it at the meeting.</p> <p>See discussion below in the MDU Resources Group, Inc. 401(k) Plan for voting instructions for shares held under our 401(k) plans.</p>
Revoking Your Proxy or Changing Your Vote	<p>You may change your vote at any time before the proxy is exercised.</p> <p>Registered Stockholders:</p> <p>If you voted by mail: you may revoke your proxy by executing and delivering a timely and valid later dated proxy, by voting by ballot at the meeting, or by giving written notice of revocation to the corporate secretary.</p> <p>If you voted via the Internet or by telephone: you may change your vote with a timely and valid later Internet or telephone vote, as the case may be, or by voting by ballot at the</p>

meeting.

Attendance at the meeting will not have the effect of revoking a proxy unless (1) you give proper written notice of revocation to the corporate secretary before the proxy is exercised, or (2) you vote by ballot at the meeting.

Beneficial Stockholders: Follow the specific directions provided by your bank, broker, or other holder of record to change or revoke any voting instructions you have already provided. Alternatively, you may vote your shares by ballot at the meeting if you obtain a legal proxy from your bank, broker, or other holder of record and present it at the meeting.

Proxy Statement

Discretionary Voting Authority If you complete and submit your proxy voting instructions, the individuals named as proxies will follow your instructions. If you are a stockholder of record and you submit proxy voting instructions but do not direct how to vote on each item, the individuals named as proxies will vote as the board recommends on each proposal. The individuals named as proxies will vote on any other matters properly presented at the annual meeting in accordance with their discretion. Our bylaws set forth requirements for advance notice of any nominations or agenda

items to be brought up for voting at the annual meeting, and we have not received timely notice of any such matters, other than the items from the board of directors described in this Proxy Statement.

Voting Standards

A majority of outstanding shares of stock entitled to vote must be present in person or represented by proxy to hold the meeting. A majority of votes cast is required to elect a director in an uncontested election. A majority of votes cast means the number of votes cast "for" a director's election must exceed the number of votes cast "against" the director's election. "Abstentions" and "broker non-votes" do not count as votes cast "for"

or “against” the director’s election. In a contested election, which is an election in which the number of nominees for director exceeds the number of directors to be elected, directors will be elected by a plurality of the votes cast. Approval of each of the other matters on the agenda, other than Item 2, requires the affirmative vote of a majority of the shares of common stock present or represented by proxy during the meeting. For each of these proposals, abstentions have the same effect as “against” votes. For Item 2, the frequency that receives the most votes will be the frequency deemed recommended by our

stockholders.
Abstentions
have no effect
on Item 2. If
you are a
beneficial
holder and do
not provide
specific voting
instruction to
your broker,
the
organization
that holds your
shares will not
be authorized
to vote your
shares, which
would result in
“broker
non-votes,” on
proposals
other than the
ratification of
the selection
of our
independent
registered
public
accounting
firm for 2017.
Abstentions
and broker
non-votes are
counted for
purposes of
determining
whether a
quorum is
present at the
annual
meeting.
The following
chart describes
the proposals
to be
considered at
the annual
meeting, the
vote required
to elect

directors and to adopt each other proposal, and the manner in which votes will be counted:

Item No.	Proposal	Voting Options	Vote Required to Adopt the Proposal	Effect of Abstentions	Effect of "Broker Non-Votes"
1	Election of Directors	For, against, or abstain on each nominee	A nominee for director will be elected if the votes cast for such nominee exceed the votes cast against such nominee	No effect	No effect
2	Advisory Vote To Approve the Frequency of the Vote to Approve the Compensation Paid to the Company's Named Executive Officers	One year, two years, three years, or abstain	The frequency that receives the most votes will be deemed the frequency recommended by our stockholders	No effect	No effect
3	Advisory Vote to Approve the Compensation Paid to the Company's Named Executive Officers	For, against, or abstain	The affirmative vote of a majority of the shares of common stock represented at the annual meeting and entitled to vote thereon	Same effect as votes against	No effect
4	Ratification of the Appointment of Deloitte & Touche LLP as the Company's Independent Registered Public Accounting Firm for 2017	For, against, or abstain	The affirmative vote of a majority of the shares of common stock represented at the annual meeting and entitled to vote thereon	Same effect as votes against	Brokers have discretion to vote
5	Advisory Vote to Approve an Amendment to the Company's Bylaws to Adopt an Exclusive Forum for Internal Corporate Claims	For, against, or abstain	The affirmative vote of a majority of the shares of common stock represented at the annual meeting and entitled to vote thereon	Same effect as votes against	No effect

Proxy Statement

Proxy Solicitation The board of directors is furnishing proxy materials to solicit proxies for use at the Annual Meeting of Stockholders on May 9, 2017 and any adjournment(s) thereof. Proxies are solicited principally by mail, but directors, officers, and employees of MDU Resources Group, Inc. or its subsidiaries may solicit proxies personally, by telephone, or by electronic media, without compensation other than their regular compensation. Okapi Partners, LLC additionally will solicit proxies for approximately \$8,000 plus out-of-pocket expenses. We will pay the cost of soliciting proxies and will reimburse brokers and others for forwarding proxy materials to stockholders. For stockholders receiving proxy materials by mail, you can elect to receive an email in the future that will provide electronic links to these documents. Opting to receive your proxy materials online will save the company the cost of producing and mailing documents to your home or business and will also give you an electronic link to the proxy voting site.

Electronic Delivery of Proxy Statement and Annual Report Documents Registered Stockholders: If you vote on the Internet at www.proxypush.com/mdu, simply follow the prompts for enrolling in the electronic proxy delivery service. You may enroll in the electronic proxy delivery service at any time in the future by going directly to www.shareowneronline.com or by calling Wells Fargo Stockholder Services at 877-536-3553 to request electronic delivery. You may also revoke an electronic delivery election at this site at any time.

Beneficial Stockholders: If you hold your shares in a brokerage account, you may also have the opportunity to receive copies of the proxy materials electronically. Please check the information provided in the proxy materials mailed to you by your bank or broker regarding the availability of this service or contact your bank or broker to request electronic delivery.

Householding of Proxy Materials In accordance with a Notice sent to eligible stockholders who share a single address, we are sending only one Annual Report to Stockholders and one Proxy Statement to that address unless we received instructions to the contrary from any stockholder at that address. This practice, known as “householding,” is designed to reduce our printing and postage costs. However, if a stockholder of record wishes to receive a separate Annual Report to Stockholders and Proxy Statement in the future, he or she may contact the Office of the Treasurer at MDU Resources Group, Inc., P.O. Box 5650, Bismarck, ND 58506-5650, Telephone Number: (701) 530-1000. Eligible stockholders of record who receive multiple copies of our Annual Report to Stockholders and Proxy Statement can request householding by contacting us in the same manner. Stockholders who own shares through a bank, broker, or other nominee can request householding by contacting the nominee. We will promptly deliver, upon written or oral request, a separate copy of the Annual Report to Stockholders and Proxy Statement to a stockholder at a shared address to which a single copy of the document was delivered.

MDU Resources Group, Inc. 401(k) Plan This Proxy Statement is being used to solicit voting instructions from participants in the MDU Resources Group, Inc. 401(k) Plan with respect to shares of our common stock that are held by the trustee of the plan for the benefit of plan participants. If you are a plan participant and also own other shares as a registered stockholder or beneficial owner, you will separately receive a Notice or proxy materials to vote those other shares you hold outside of the MDU Resources Group, Inc. 401(k) Plan. If you are a plan participant, you must instruct the plan trustee to vote your shares by utilizing one of the methods described on the voting instruction form that you receive in connection with shares held in the plan. If you do not give voting instructions, the trustee generally will vote the shares allocated to your personal account in accordance with the recommendations of the board of directors.

Annual Meeting Admission All stockholders as of the record date of March 10, 2017, are cordially invited and urged to attend the meeting in person. Registered stockholders who receive a full set of proxy materials will receive a request for admission ticket(s) with their proxy card that can be completed and returned to us postage-free. Registered stockholders who receive a Notice and stockholders whose shares

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are held in the name of a bank or broker will not receive a request for admission ticket(s). They should instead: (1) call (701) 530-1000 to request an admission ticket(s), (2) if shares are held in the name of a bank or broker, obtain a statement from their bank or broker showing proof of stock ownership as of March 10, 2017, and (3) present their admission tickets(s), the stock ownership statement, and photo identification, such as a driver's license, at the annual meeting.

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Proxy Statement

Conduct of the Meeting

Stockholder Proposals, Director Nominations, and Other Items of Business for 2018 Annual Meeting

Neither the board of directors nor management intends to bring before the meeting any business other than the matters referred to in the Notice of Annual Meeting and this Proxy Statement. We have not been informed that any other matter will be presented at the meeting by others. However, if any other matters are properly brought before the annual meeting, or any adjournment(s) thereof, your proxies include discretionary authority for the persons named in the proxy to vote or act on such matters in their discretion.

Stockholder Proposals for Inclusion in Next Year's Proxy Statement. To be included in the proxy materials for our 2018 annual meeting, a stockholder proposal must be received by the corporate secretary no later than November 24, 2017, and must comply with all applicable requirements of Rule 14a-18 under the Securities and Exchange Act of 1934.

Director Nominations and Other Stockholder Proposals Raised From the Floor at the 2018 Annual Meeting of Stockholders. Under our bylaws, if a stockholder intends to nominate a person as a director, or present other items of business at an annual meeting, the stockholder must provide written notice of the director nomination or stockholder proposal at least 90 days prior to the anniversary of the most recent annual meeting. Notice of director nominations or stockholder proposals for our 2018 annual meeting must be received by February 9, 2018, and meet all the requirements and contain all the information, including the completed questionnaire for director nominations, provided by our bylaws. The requirements for such notice can be found in our bylaws, a copy of which is on our website, at <http://www.mdu.com/integrity/governance/guidelines>

We will make available to our stockholders to whom we furnish this Proxy Statement a copy of our Annual Report on Form 10-K, excluding exhibits, for the year ended December 31, 2016, which is required to be filed with the Securities and Exchange Commission. You may obtain a copy, without charge, upon written or oral request to the Office of the Treasurer of MDU Resources Group, Inc., 1200 West Century Avenue, Mailing Address: P.O. Box

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5650, Bismarck, ND 58506-5650, Telephone Number: (701) 530-1000. You may also access our Annual Report on Form 10-K through our website at www.mdu.com.

By order of the Board of Directors,

Daniel S. Kuntz
Secretary
March 24, 2017

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Proxy Statement

EXHIBIT A

AMENDMENT TO THE BYLAWS
OF
MDU RESOURCES GROUP, INC.

7.09 Forum Selection.

(a) Forum Selection. Unless the Corporation consents in writing to the selection of an alternative forum, to the fullest extent permitted by law, all Internal Corporate Claims shall be brought solely and exclusively in the Court of Chancery of the State of Delaware (or, if the Court of Chancery of the State of Delaware does not have jurisdiction, another state court located within the State of Delaware or, if no state court located within the State of Delaware has jurisdiction, the United States District Court for the District of Delaware). “Internal Corporate Claims” means claims, including claims in the right of the Corporation, (i) that are based upon a violation of a duty by a current or former director or officer or stockholder in such capacity or (ii) as to which the General Corporation Law of the State of Delaware confers jurisdiction upon the Court of Chancery of the State of Delaware.

(b) Personal Jurisdiction. If any action the subject matter of which is within the scope of Section 7.09(a) is filed in a court other than a court located within the State of Delaware (a “Foreign Action”) by or in the name of any stockholder (including in the right of the Corporation), such stockholder shall be deemed to have consented to (i) the personal jurisdiction of the state and federal courts located within the State of Delaware in connection with any action brought in any such court to enforce Section 7.09(a) and (ii) having service of process made upon such stockholder in any such action by service upon such stockholder’s counsel in the Foreign Action as agent for such stockholder.

MDU RESOURCES GROUP, INC.

ANNUAL MEETING OF STOCKHOLDERS

Tuesday, May 9, 2017
11:00 a.m. Central Daylight Saving Time

909 Airport Road
Bismarck, ND

1200 West Century Avenue
Mailing Address:
P. O. Box 5650
Bismarck, ND 58506-5650 proxy
(701) 530-1000

This proxy is solicited on behalf of the Board of Directors for the Annual Meeting of Stockholders on May 9, 2017.

This proxy will also be used to provide voting instructions to John Hancock Trust Company LLC, as Trustee of the MDU Resources Group, Inc. 401(k) Retirement Plan, for any shares of Company common stock held in the plan. The undersigned hereby appoints Harry J. Pearce and Daniel S. Kuntz and each of them, proxies, with full power of substitution, to vote all Common Stock of the undersigned at the Annual Meeting of Stockholders to be held at 11:00 a.m., Central Daylight Saving Time, May 9, 2017, at the MDU Service Center, 909 Airport Road, Bismarck, ND, and at any adjournment(s) thereof, upon all subjects that may properly come before the meeting, including the matters described in the Proxy Statement furnished herewith, subject to any directions indicated on the reverse side. Your vote is important! Ensure that your shares are represented at the meeting. Either (1) submit your proxy by touch-tone telephone, (2) submit your proxy by Internet, or (3) mark, date, sign, and return this proxy card in the envelope provided (no postage is necessary if mailed in the United States). If no directions are given, the proxies will vote in accordance with the Directors' recommendation on all matters listed on this proxy, and at their discretion on any other matters that may properly come before the meeting.

Vote by Internet, Telephone, or Mail
24 Hours a Day, 7 Days a Week

Your telephone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed, and returned your proxy card.

INTERNET	TELEPHONE	MAIL
www.proxy	1-877-536-3668	Mark, sign,
Use	Use a	and date
the	touch-tone	your
Internet	telephone to	

to vote your proxy until 11:59 p.m. (CDT) on Monday, May 8, 2017.	vote your proxy until 11:59 p.m. (CDT) on Monday, May 8, 2017.	proxy card and return it in the postage-paid envelope provided, or return it to MDU Resources Group, Inc., c/o Shareowner Services, P.O. Box 64873, St. Paul, MN 55164-0873.
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If you vote by telephone or internet, please do not mail your Proxy Card.

Shareowner Services
 P.O. Box 64945
 St. Paul, MN 55164-0945
 Address Change? Mark
 box, sign, and indicate
 changes below:

TO VOTE
 BY
 INTERNET
 OR
 TELEPHONE
 SEE
 REVERSE
 SIDE OF
 THIS
 PROXY
 CARD.

The Board of Directors Recommends a Vote "FOR" All Nominees.

1. Election of Directors:	FOR	AGAINST	ABSTAIN	FOR	AGAINST	ABSTAIN
01 Thomas Everist				06 Dennis W. Johnson		
02 Karen B. Fagg				07 William E. McCracken		
03 David L. Goodin				08 Patricia L. Moss		
04 Mark A. Hellerstein				09 Harry J. Pearce		
05 A. Bart Holaday				10 John K. Wilson		

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The Board of Directors Recommends a Vote "FOR 1 YEAR" in Item 2.

2. Advisory vote to approve the frequency of the vote to approve the compensation paid to the company's named executive officers.	1 Year	2 Years	3 Years	Abstain
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The Board of Directors Recommends a Vote "FOR" Items 3, 4, and 5.

3. Advisory vote to approve the compensation paid to the company's named executive officers.	For	Against	Abstain
4. Ratification of the appointment of Deloitte & Touche LLP as the company's independent registered public accounting firm for 2017.	For	Against	Abstain
5. Advisory vote to approve an amendment to the company's bylaws to adopt an exclusive forum for internal corporate claims.	For	Against	Abstain

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, WILL BE VOTED FOR ALL NOMINEES IN ITEM 1, FOR 1 YEAR IN ITEM 2, AND FOR ITEMS 3, 4, AND 5.

Date Signature(s) in
 Box

Please sign exactly as your name(s) appears on Proxy. If held in joint tenancy, all persons should sign. Trustees, administrators, etc., should include title and authority. Corporations should provide full name of corporation and title of authorized officer signing the Proxy.

nt>On January 5, 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities, which impacts the accounting for equity investments, financial liabilities under the fair value option, and disclosure requirements for financial instruments. The ASU shall be applied prospectively and is effective for annual periods, and interim periods therein, beginning after December 15, 2017. Early application is not permitted. We are in the process of assessing what impact this ASU will have on the Company.

3. Acquisitions and Divestitures

Woodstar Portfolio Acquisition

During the three months ended December 31, 2015, we acquired 18 of the 32 affordable housing communities which comprise our “Woodstar Portfolio.” The Woodstar Portfolio in its entirety is comprised of 8,948 units concentrated primarily in the Tampa, Orlando and West Palm Beach metropolitan areas and are 98% occupied.

The 18 affordable housing communities acquired during 2015 comprise 5,238 units for an aggregate acquisition price of \$324.0 million. Financing of \$257.6 million was utilized to fund these acquisitions which includes third party debt of \$248.6 million and assumed state sponsored financing of \$9.0 million. Refer to Note 10 for further discussion of these facilities.

For the period from their respective acquisition dates through December 31, 2015, we have recognized revenues of \$6.2 million and a net loss of \$4.2 million related to the Woodstar Portfolio. Such net loss includes (i) one-time acquisition-related costs, such as legal and due diligence costs, of approximately \$3.2 million, and (ii) depreciation and amortization expense of \$4.5 million. No goodwill was recognized in connection with the Woodstar Portfolio acquisition as the purchase price equaled the fair value of the net assets acquired.

Of the remaining 14 properties in the Woodstar Portfolio not acquired during 2015, 12 properties were acquired prior to February 25, 2016, with the remaining two properties expected to close during the first quarter of 2016, subject to customary closing conditions. As of February 25, 2016, the initial accounting for acquisitions occurring after December 31, 2015 was not sufficiently complete to allow for inclusion of the ASC 805 disclosures herein. Refer to Note 25 for further discussion.

Investing and Servicing Segment Property Portfolio

During the year ended December 31, 2015, our Investing and Servicing Segment acquired 14 U.S. commercial real estate properties from CMBS trusts for \$138.7 million (the "REO Portfolio"), two of which, totaling \$13.6 million, were acquired as non-performing loans and subsequently converted to properties through foreclosure. When these properties are acquired from CMBS trusts that are consolidated as VIEs on our balance sheet, these acquisitions are reflected as repayment of debt of consolidated VIEs in our consolidated statement of cash flows.

For the period from their respective acquisition dates through December 31, 2015, we have recognized revenues of \$4.9 million and a net loss of \$1.6 million related to the REO Portfolio. Such net loss includes (i) one-time acquisition-related costs, such as legal and due diligence costs, of approximately \$1.6 million, and (ii) depreciation and amortization expense of \$2.1 million. No goodwill was recognized in connection with the REO Portfolio acquisitions as the purchase price equaled the fair value of the net assets acquired.

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Ireland Portfolio Acquisition

In May 2015, we acquired 11 net leased fully occupied office properties and one multi-family property all located in Dublin, Ireland. In July 2015, we acquired one additional fully occupied net leased office property also located in Dublin. Collectively, these 13 properties comprise our “Ireland Portfolio”.

The aggregate cash purchase price for the Ireland Portfolio, which collectively comprises approximately 600,000 square feet, was \$217.7 million. In connection with the acquisition, we extinguished \$283.0 million of debt assumed, and obtained new financings totaling \$328.6 million from the Ireland Portfolio Mortgage (as defined in Note 10). All properties within the Ireland Portfolio were acquired from entities controlled by the same third party investment fund.

For the period from their respective acquisition dates through December 31, 2015, we have recognized revenues of \$19.2 million and net income of \$2.4 million related to the Ireland Portfolio. Such net income includes (i) one-time acquisition-related costs, such as legal and due diligence costs, of approximately \$3.4 million, (ii) depreciation and amortization expense of \$10.6 million and (iii) net derivative gains of \$5.1 million associated with our currency and debt interest rate hedging activities. No goodwill was recognized in connection with the Ireland Portfolio acquisition as the purchase price equaled the fair value of the net assets acquired.

LNR Acquisition

On April 19, 2013, we acquired the equity of LNR for \$730.5 million. The resulting purchase price allocation was finalized as of December 31, 2013 and resulted in goodwill recognized of \$140.4 million.

Purchase Price Allocations of Acquisitions

We applied the provisions of ASC 805, Business Combinations, in accounting for our acquisitions of the Woodstar Portfolio, the REO Portfolio, the Ireland Portfolio and LNR. In doing so, we have recorded all identifiable assets acquired and liabilities assumed at fair value as of the respective acquisition dates. These amounts for the Woodstar Portfolio, REO Portfolio and Ireland Portfolio are provisional and may be adjusted during the measurement period, which expires no later than one year from the acquisition dates, if new information is obtained that, if known, would have affected the amounts recognized as of the acquisition dates.

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The following table summarizes the identified assets acquired and liabilities assumed at the respective acquisition dates (amounts in thousands):

	2015			2013
	Woodstar Portfolio	REO Portfolio	Ireland Portfolio	LNR
Assets acquired:				
Cash and cash equivalents	\$ —	\$ —	\$ —	\$ 143,771
Restricted cash	—	—	10,829	24,413
Loans held-for-investment	—	—	—	8,015
Loans held-for-sale	—	—	—	256,502
Investment securities	—	—	—	314,471
Properties	339,040	128,218	445,369	—
Intangible assets	11,337	19,381	59,529	276,989
Investment in unconsolidated entities	—	—	—	63,297
Derivative assets	—	—	—	3,103
Accrued interest receivable	—	—	—	1,315
Other assets	652	4,973	2,508	60,484
Total assets acquired	351,029	152,572	518,235	1,152,360
Liabilities assumed:				
Accounts payable, accrued expenses and other liabilities	18,030	6,998	17,552	123,548
Derivative liabilities	—	—	—	354
Secured financing agreements	8,982	—	283,010	438,377
Total liabilities assumed	27,012	6,998	300,562	562,279
Non-controlling interests	—	6,904	—	—
Net assets acquired	\$ 324,017	\$ 138,670	\$ 217,673	\$ 590,081

Goodwill represents the excess of the purchase price over the fair value of the underlying net tangible and identifiable intangible assets acquired and liabilities assumed. This determination of goodwill is as follows (amounts in thousands):

	Woodstar Portfolio	REO Portfolio	Ireland Portfolio	LNR
Purchase price	\$ 324,017	\$ 138,670(1)	\$ 217,673	\$ 730,518
Fair value of net assets acquired	324,017	138,670	217,673	590,081
Goodwill	\$ —	\$ —	\$ —	\$ 140,437

(1) Includes \$125.3 million purchased from consolidated CMBS trusts which is reflected as repayment of debt of consolidated VIEs in our consolidated statement of cash flows.

Pro-Forma Operating Data (Unaudited)

The unaudited pro-forma revenues and net income attributable to the Company for the years ended December 31, 2015 and 2014, assuming the 18 properties acquired within the Woodstar Portfolio and all the properties within the REO Portfolio and the Ireland Portfolio were acquired on January 1, 2014, are as follows (amounts in thousands, except per share amounts):

(Unaudited)	For the year ended	
	December 31,	
	2015	2014
Revenues	\$ 802,763	\$ 801,536
Net income attributable to STWD	457,891	472,170
Net income per share - Basic	1.95	2.17
Net income per share - Diluted	1.94	2.13

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Pro-forma net income was adjusted to include the following estimated incremental management fees the combined entity would have incurred (amounts in thousands):

(Unaudited)	For the year ended	
	December 31,	
	2015	2014
Management fee expense addition	\$ 3,990	\$ 6,975

SFR Spin-off

On January 31, 2014, we completed the spin-off of our former SFR segment to our stockholders. The real estate investment trust, Starwood Waypoint Residential Trust (“SWAY”), was listed on the New York Stock Exchange (“NYSE”) and traded under the ticker symbol “SWAY” following the spin-off until its merger with Colony American Homes in January 2016. Our stockholders received one common share of SWAY for every five shares of our common stock held at the close of business on January 24, 2014. As part of the spin-off, we contributed \$100 million to the unlevered balance sheet of SWAY to fund its growth and operations. As of January 31, 2014, SWAY held net assets of \$1.1 billion. The net assets of SWAY consisted of approximately 7,200 units of single-family homes and residential non-performing mortgage loans as of January 31, 2014. In connection with the spin-off, 40.1 million shares of SWAY were issued. The results of operations for the SFR segment are presented within discontinued operations in our consolidated statements of operations for the years ended December 31, 2014 and 2013. We have no continuing involvement with the SFR segment following the spin-off. Subsequent to the spin-off, SWAY entered into a management agreement with an affiliate of our Manager. The following table presents the summarized consolidated results of discontinued operations prior to the spin-off (amounts in thousands):

	For the year ended		
	December 31,		
	2015	2014	2013
Total revenues	\$ —	\$ 3,876	\$ 16,200
Total costs and expenses	—	6,369	49,681 (1)
Loss before other income and income taxes	—	(2,493)	(33,481)
Total other income	—	942	13,882
Loss before income taxes	—	(1,551)	(19,599)
Income tax provision	—	—	(195)
Net loss	\$ —	\$ (1,551)	\$ (19,794)

- (1) Costs and expenses for the year ended December 31, 2013 include interest expense of \$6.5 million and management fees of \$5.2 million included within corporate overhead in our presentation of segment data in Note 23.

4. Restricted Cash

A summary of our restricted cash as of December 31, 2015 and 2014 is as follows (amounts in thousands):

	For the year ended December 31,	
	2015	2014
Cash collateral for derivative financial instruments	\$ 16,497	\$ 34,397
Cash collateral for performance obligations	—	4,431
Funds held on behalf of borrowers and tenants	3,786	9,486
Other restricted cash	2,786	390
	\$ 23,069	\$ 48,704

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5. Loans

Our loans held for investment are accounted for at amortized cost and our loans held for sale are accounted for at the lower of cost or fair value, unless we have elected the fair value option. The following tables summarize our investments in mortgages and loans by subordination class as of December 31, 2015 and 2014 (amounts in thousands):

	Carrying Value	Face Amount	Weighted Average Coupon		Weighted Average Life ("WAL") (years)(3)
December 31, 2015					
First mortgages (1)	\$ 4,723,852	\$ 4,776,576	6.0	%	2.7
Subordinated mortgages (2)	392,563	416,713	8.5	%	3.4
Mezzanine loans (1)	862,693	850,024	9.9	%	2.5
Total loans held-for-investment	5,979,108	6,043,313			
Loans held-for-sale, fair value option elected	203,865	203,710	4.9	%	9.8
Loans transferred as secured borrowings	86,573	88,000	6.1	%	2.4
Total gross loans	6,269,546	6,335,023			
Loan loss allowance (loans held-for-investment)	(6,029)	—			
Total net loans	\$ 6,263,517	\$ 6,335,023			
December 31, 2014					
First mortgages (1)	\$ 4,538,961	\$ 4,609,526	6.2	%	3.5
Subordinated mortgages (2)	345,091	374,859	8.1	%	3.9
Mezzanine loans (1)	901,217	889,948	10.4	%	2.6
Total loans held-for-investment	5,785,269	5,874,333			
Loans held-for-sale, fair value option elected	391,620	390,342	4.5	%	8.3
Loans transferred as secured borrowings	129,427	129,570	5.4	%	2.5
Total gross loans	6,306,316	6,394,245			
Loan loss allowance (loans held-for-investment)	(6,031)	—			
Total net loans	\$ 6,300,285	\$ 6,394,245			

-
- (1) First mortgages include first mortgage loans and any contiguous mezzanine loan components because as a whole, the expected credit quality of these loans is more similar to that of a first mortgage loan. The application of this methodology resulted in mezzanine loans with carrying values of \$930.0 million and \$704.2 million being classified as first mortgages as of December 31, 2015 and 2014, respectively.
- (2) Subordinated mortgages include B-Notes and junior participation in first mortgages where we do not own the senior A-note or senior participation. If we own both the A-Note and B-Note, we categorize the loan as a first mortgage loan.
- (3) Represents the WAL of each respective group of loans as of the respective balance sheet date. The WAL of each individual loan is calculated using amounts and timing of future principal payments, as projected at origination.

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As of December 31, 2015, approximately \$5.1 billion, or 84.5%, of our loans held for-investment were variable rate and paid interest principally at LIBOR plus a weighted average spread of 6.0%. The following table summarizes our investments in floating rate loans (amounts in thousands):

Index	December 31, 2015			December 31, 2014		
	Base Rate		Carrying Value	Base Rate		Carrying Value
One-month LIBOR USD	0.4295	%	\$ 438,641	0.1713	%	\$ 138,576
Three-month LIBOR GBP	0.5904	%	375,467	0.5640	%	440,222
LIBOR floor	0.15 - 3.00	% (1)	4,237,947	0.15 - 3.00	% (1)	3,889,412
Total			\$ 5,052,055			\$ 4,468,210

(1) The weighted average LIBOR floor was 0.31% and 0.35% as of December 31, 2015 and 2014, respectively.

Our loans are typically collateralized by real estate. As a result, we regularly evaluate the extent and impact of any credit deterioration associated with the performance and/or value of the underlying collateral property, as well as the financial and operating capability of the borrower. Specifically, a property's operating results and any cash reserves are analyzed and used to assess (i) whether cash flow from operations is sufficient to cover the debt service requirements currently and into the future, (ii) the ability of the borrower to refinance the loan at maturity, and/or (iii) the property's liquidation value. We also evaluate the financial wherewithal of any loan guarantors as well as the borrower's competency in managing and operating the properties. In addition, we consider the overall economic environment, real estate sector, and geographic sub market in which the borrower operates. Such impairment analyses are completed and reviewed by asset management and finance personnel who utilize various data sources, including (i) periodic financial data such as property operating statements, occupancy, tenant profile, rental rates, operating expenses, the borrower's exit plan, and capitalization and discount rates, (ii) site inspections, and (iii) current credit spreads and discussions with market participants.

Our evaluation process as described above produces an internal risk rating between 1 and 5, which is a weighted average of the numerical ratings in the following categories: (i) sponsor capability and financial condition, (ii) loan and collateral performance relative to underwriting, (iii) quality and stability of collateral cash flows, and (iv) loan structure. We utilize the overall risk ratings as a concise means to monitor any credit migration on a loan as well as on the whole portfolio. While the overall risk rating is generally not the sole factor we use in determining whether a loan is impaired, a loan with a higher overall risk rating would tend to have more adverse indicators of impairment, and therefore would be more likely to experience a credit loss.

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The rating categories generally include the characteristics described below, but these are utilized as guidelines and therefore not every loan will have all of the characteristics described in each category:

Rating	Characteristics
1	<p>Sponsor capability and financial condition—Sponsor is highly rated or investment grade or, if private, the equivalent thereof with significant management experience.</p> <p>Loan collateral and performance relative to underwriting—The collateral has surpassed underwritten expectations.</p> <p>Quality and stability of collateral cash flows—Occupancy is stabilized, the property has had a history of consistently high occupancy, and the property has a diverse and high quality tenant mix.</p> <p>Loan structure—LTV does not exceed 65%. The loan has structural features that enhance the credit profile.</p>
2	<p>Sponsor capability and financial condition—Strong sponsorship with experienced management team and a responsibly leveraged portfolio.</p> <p>Loan collateral and performance relative to underwriting—Collateral performance equals or exceeds underwritten expectations and covenants and performance criteria are being met or exceeded.</p> <p>Quality and stability of collateral cash flows—Occupancy is stabilized with a diverse tenant mix.</p> <p>Loan structure—LTV does not exceed 70% and unique property risks are mitigated by structural features.</p>
3	<p>Sponsor capability and financial condition—Sponsor has historically met its credit obligations, routinely pays off loans at maturity, and has a capable management team.</p> <p>Loan collateral and performance relative to underwriting—Property performance is consistent with underwritten expectations.</p> <p>Quality and stability of collateral cash flows—Occupancy is stabilized, near stabilized, or is on track with underwriting.</p> <p>Loan structure—LTV does not exceed 80%.</p>
4	<p>Sponsor capability and financial condition—Sponsor credit history includes missed payments, past due payment, and maturity extensions. Management team is capable but thin.</p> <p>Loan collateral and performance relative to underwriting—Property performance lags behind underwritten expectations. Performance criteria and loan covenants have required occasional waivers. A sale of the property may be necessary in order for the borrower to pay off the loan at maturity.</p> <p>Quality and stability of collateral cash flows—Occupancy is not stabilized and the property has a large amount of rollover.</p> <p>Loan structure—LTV is 80% to 90%.</p>
5	<p>Sponsor capability and financial condition—Credit history includes defaults, deeds in lieu, foreclosures, and/or bankruptcies.</p> <p>Loan collateral and performance relative to underwriting—Property performance is significantly worse than underwritten expectations. The loan is not in compliance with loan covenants and performance criteria and may be in default. Sale proceeds would not be sufficient to pay off the loan at maturity.</p> <p>Quality and stability of collateral cash flows—The property has material vacancy and significant rollover of remaining tenants.</p> <p>Loan structure—LTV exceeds 90%.</p>

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As of December 31, 2015, the risk ratings for loans subject to our rating system, which excludes loans on the cost recovery method and loans for which the fair value option has been elected, by class of loan were as follows (amounts in thousands):

Risk Rating Category	Balance Sheet Classification Loans Held-For-Investment			Cost		Loans Transferred		% of	
	First Mortgages	Subordinated Mortgages	Mezzanine Loans	Recovery Loans	Loans Held-For-Sale	As Secured Borrowings	Total	Total Loans	
1	\$ 664	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 664	—	%
2	496,372	88,857	90,449	—	—	—	675,678	10.8	%
3	3,979,247	270,435	651,204	—	—	86,573	4,987,459	79.6	%
4	247,569	33,271	121,040	—	—	—	401,880	6.4	%
5	—	—	—	—	—	—	—	—	%
N/A	—	—	—	—	203,865	—	203,865	3.2	%
	\$ 4,723,852	\$ 392,563	\$ 862,693	\$ —	\$ 203,865	\$ 86,573	\$ 6,269,546	100.0	%

As of December 31, 2014, the risk ratings for loans subject to our rating system by class of loan were as follows (amounts in thousands):

Risk Rating Category	Balance Sheet Classification Loans Held-For-Investment			Cost		Loans Transferred		% of	
	First Mortgages	Subordinated Mortgages	Mezzanine Loans	Recovery Loans	Loans Held-For-Sale	As Secured Borrowings	Total	Total Loans	
1	\$ 822	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 822	—	%
2	258,822	116,168	148,582	—	—	—	523,572	8.3	%
3	4,120,562	196,476	645,778	—	—	129,427	5,092,243	80.7	%
4	109,489	32,447	106,857	—	—	—	248,793	4.0	%
5	45,974	—	—	—	—	—	45,974	0.7	%
N/A	—	—	—	3,292	391,620	—	394,912	6.3	%
	\$ 4,535,669	\$ 345,091	\$ 901,217	\$ 3,292	\$ 391,620	\$ 129,427	\$ 6,306,316	100.0	%

The Lending Segment held a \$63.2 million mezzanine loan on a luxury condominium project located in New York, of which \$30.9 million was greater than 90 days past due as of December 31, 2015. In January 2016, the mezzanine loan was amended resulting in (i) the borrower providing additional capital, (ii) increased fees charged to the borrower and (iii) a 12-month extension of the maturity date. After completing our impairment evaluation process, we concluded that no impairment charges were required on this loan or any other individual loans held-for-investment as of December 31, 2015 or 2014, as we expect to collect all outstanding principal and interest. During the year ended December 31, 2015, the Investing and Servicing Segment received full repayments of its basis in the two remaining loans held-for-investment which were greater than 90 days past due and were acquired as part of the acquisition of

LNR in April 2013. None of our held-for-sale loans where we have elected the fair value option were 90 days or greater past due.

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In accordance with our policies, we record an allowance for loan losses equal to (i) 1.5% of the aggregate carrying amount of loans rated as a “4,” plus (ii) 5% of the aggregate carrying amount of loans rated as a “5.” The following table presents the activity in our allowance for loan losses (amounts in thousands):

	For the year ended December 31,		
	2015	2014	2013
Allowance for loan losses at January 1	\$ 6,031	\$ 3,984	\$ 2,061
Provision for loan losses	(2)	2,047	1,923
Charge-offs	—	—	—
Recoveries	—	—	—
Allowance for loan losses at December 31	\$ 6,029	\$ 6,031	\$ 3,984
Recorded investment in loans related to the allowance for loan loss	\$ 401,880	\$ 294,767	\$ 265,640

The activity in our loan portfolio was as follows (amounts in thousands):

	For the year ended December 31,		
	2015	2014	2013
Balance at January 1	\$ 6,300,285	\$ 4,750,804	\$ 3,000,335
Acquisitions/originations/additional funding	4,223,178	4,820,464	4,161,368
Capitalized interest (1)	70,675	49,611	19,599
Basis of loans sold (2)	(2,732,501)	(2,171,300)	(1,762,778)
Loan maturities/principal repayments	(1,647,852)	(1,244,445)	(770,313)
Discount accretion/premium amortization	36,862	21,287	44,643
Changes in fair value	64,320	70,420	43,849
Unrealized foreign currency remeasurement loss	(51,278)	(47,392)	17,541
Change in loan loss allowance, net	2	(2,047)	(1,923)
Capitalized cost written off	—	—	(1,517)
Transfer to/from other asset classifications	(174)	52,883	—
Balance at December 31	\$ 6,263,517	\$ 6,300,285	\$ 4,750,804

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- (1) Represents accrued interest income on loans whose terms do not require current payment of interest.
(2) See Note 12 for additional disclosure on these transactions.

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6. Investment Securities

Investment securities were comprised of the following as of December 31, 2015 and 2014 (amounts in thousands):

	Carrying Value as of	
	December 31, 2015	2014
RMBS, available-for-sale	\$ 176,224	\$ 207,053
Single-borrower CMBS, available-for-sale	—	100,349
CMBS, fair value option (1)	1,038,200	753,553
Held-to-maturity (“HTM”) securities	321,244	441,995
Equity security, fair value option	14,498	15,120
Subtotal—Investment securities	1,550,166	1,518,070
VIE eliminations (1)	(825,219)	(519,822)
Total investment securities	\$ 724,947	\$ 998,248

(1) Certain fair value option CMBS are eliminated in consolidation against VIE liabilities pursuant to ASC 810.

Purchases, sales and principal collections for all investment securities were as follows (amounts in thousands):

	Available-for-sale		CMBS, fair value option	HTM Securities	Equity Security	Total
	RMBS	CMBS				
Year Ended December 31, 2015						
Purchases	\$ —	\$ —	\$ 14,653	\$ 167,365	\$ —	\$ 182,018
Sales	—	—	6,410	—	—	6,410
Principal collections	35,244	92,018	8,720	292,587	—	428,569
Year Ended December 31, 2014						
Purchases	\$ —	\$ —	\$ 120,122	\$ 69,300	\$ —	\$ 189,422
Sales	68,134	—	32,032	—	—	100,166
Principal collections	53,126	1,121	3	45	—	54,295
Year Ended December 31, 2013						
Purchases	\$ 20,090	\$ 1,889	\$ 90,518	\$ 367,346	\$ —	\$ 479,843
Sales	30,964	413,323	12,372	—	6,769	463,428
Principal collections	59,957	10,460	—	—	—	70,417

RMBS and Single-borrower CMBS, Available for Sale

The Company classified all of its RMBS and any CMBS investments where the fair value option has not been elected, or that are not HTM, as available for sale as of December 31, 2015 and 2014. These RMBS and CMBS are reported at fair value in the balance sheet with changes in fair value recorded in AOCI.

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The tables below summarize various attributes of our investments in available for sale RMBS and single-borrower CMBS where the fair value option has not been elected as of December 31, 2015 and 2014 (amounts in thousands):

	Purchase Amortized Cost	Credit OTTI	Recorded Amortized Cost	Unrealized Gains or (Losses) Recognized in AOCI			Net Fair Value Adjustment	Fair Value
				Non-Credit OTTI	Gross Unrealized Gains	Gross Unrealized Losses		
December 31, 2015								
RMBS	\$ 149,102	\$ (10,185)	\$ 138,917	\$ (340)	\$ 37,647	\$ —	\$ 37,307	\$ 176,224
Single-borrower CMBS	—	—	—	—	—	—	—	—
Total	\$ 149,102	\$ (10,185)	\$ 138,917	\$ (340)	\$ 37,647	\$ —	\$ 37,307	\$ 176,224
December 31, 2014								
RMBS	\$ 163,733	\$ (10,197)	\$ 153,536	\$ (197)	\$ 53,714	\$ —	\$ 53,517	\$ 207,053
Single-borrower CMBS	93,685	—	93,685	—	6,664	—	6,664	100,349
Total	\$ 257,418	\$ (10,197)	\$ 247,221	\$ (197)	\$ 60,378	\$ —	\$ 60,181	\$ 307,402

	Weighted Average Coupon (1)	Weighted Average Rating	WAL (Years) (2)
December 31, 2015			
RMBS	1.3	% B-	6.2
Single-borrower CMBS	—	% —	—
December 31, 2014			
RMBS	1.1	% B-	5.8
Single-borrower CMBS	11.6	% BB+	3.2

(1) Calculated using the December 31, 2015 and 2014 one-month LIBOR rate of 0.430% and 0.171%, respectively, for floating rate securities.

(2) Represents the WAL of each respective group of securities as of the respective balance sheet date. The WAL of each individual security is calculated using projected amounts and projected timing of future principal payments. As of December 31, 2015, there were no variable rate single-borrower CMBS. As of December 31, 2014, \$0.2 million, or 0.2%, of the single-borrower CMBS were variable rate. As of December 31, 2015, \$122.7 million, or 69.7%, of RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 0.43%. As of December 31, 2014, approximately \$140.1 million, or 67.7%, of RMBS were variable rate and paid interest at LIBOR plus a weighted average spread of 0.44%. We purchased all of the RMBS at a discount that will be accreted into income over the expected remaining life of the security. The majority of the income from this strategy is earned from

the accretion of these discounts.

The following table contains a reconciliation of aggregate principal balance to amortized cost for our RMBS and single-borrower CMBS as of December 31, 2015 and 2014, excluding CMBS where we have elected the fair value option (amounts in thousands):

	December 31, 2015		December 31, 2014	
	RMBS	CMBS	RMBS	CMBS
Principal balance	\$ 233,976	\$ —	\$ 270,783	\$ 93,685
Accretable yield	(68,345)	—	(85,495)	—
Non-accretable difference	(26,714)	—	(31,752)	—
Total discount	(95,059)	—	(117,247)	—
Amortized cost	\$ 138,917	\$ —	\$ 153,536	\$ 93,685

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The principal balance of credit deteriorated RMBS was \$199.0 million and \$222.9 million as of December 31, 2015 and 2014, respectively. Accretible yield related to these securities totaled \$57.7 million and \$66.6 million as of December 31, 2015 and 2014, respectively.

The following table discloses the changes to accretible yield and non accretible difference for our RMBS during the years ended December 31, 2015 and 2014 (amounts in thousands):

	Accretible Yield	Non-Accretible Difference
Balance as of January 1, 2014	\$ 101,046	\$ 70,196
Accretion of discount	(20,582)	—
Principal write-downs	—	(1,644)
Purchases	—	—
Sales	(13,091)	(18,937)
OTTI	259	—
Transfer to/from non-accretible difference	17,863	(17,863)
Balance as of December 31, 2014	85,495	31,752
Accretion of discount	(20,625)	—
Principal write-downs	—	(1,563)
Purchases	—	—
Sales	—	—
OTTI	—	—
Transfer to/from non-accretible difference	3,475	(3,475)
Balance as of December 31, 2015	\$ 68,345	\$ 26,714

Subject to certain limitations on durations, we have allocated an amount to invest in RMBS that cannot exceed 10% of our total assets excluding the Investing and Servicing VIEs. We have engaged a third party manager who specializes in RMBS to execute the trading of RMBS, the cost of which was \$0.9 million, \$1.9 million and \$2.4 million for the years ended December 31, 2015, 2014 and 2013, respectively, which has been recorded as management fees in the accompanying consolidated statements of operations.

The following table presents the gross unrealized losses and estimated fair value of any available for sale securities that were in an unrealized loss position as of December 31, 2015 and 2014, and for which OTTI's (full or partial) have not been recognized in earnings (amounts in thousands):

	Estimated Fair Value		Unrealized Losses	
	Securities with a loss less than 12 months	Securities with a loss greater than 12 months	Securities with a loss less than 12 months	Securities with a loss greater than 12 months
As of December 31, 2015				

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RMBS	\$ 17,026	\$ 653	\$ (180)	\$ (160)
Single-borrower CMBS	—	—	—	—
Total	\$ 17,026	\$ 653	\$ (180)	\$ (160)

As of December 31, 2014

RMBS	\$ —	\$ 682	\$ —	\$ (197)
Single-borrower CMBS	—	—	—	—
Total	\$ —	\$ 682	\$ —	\$ (197)

As of December 31, 2015 and 2014, there were five securities and one security, respectively, with unrealized losses reflected in the table above. After evaluating these securities and recording adjustments for credit-related other-than-temporary impairment, we concluded that the remaining unrealized losses reflected above were noncredit-related and would be recovered from the securities' estimated future cash flows. We considered a number of factors in reaching this conclusion, including that we did not intend to sell the securities, it was not considered more likely than not that we would be forced to sell the securities prior to recovering our amortized cost, and there were no material credit events that would have caused us to otherwise conclude that we would not recover our cost. Credit losses, which represent most of

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the other-than-temporary impairments we record on securities, are calculated by comparing (i) the estimated future cash flows of each security discounted at the yield determined as of the initial acquisition date or, if since revised, as of the last date previously revised, to (ii) our amortized cost basis. Significant judgment is used in projecting cash flows for our non-agency RMBS. As a result, actual income and/or impairments could be materially different from what is currently projected and/or reported.

CMBS, Fair Value Option

As discussed in the “Fair Value Option” section of Note 2 herein, we elect the fair value option for the Investing and Servicing Segment’s CMBS in an effort to eliminate accounting mismatches resulting from the current or potential consolidation of securitization VIEs. As of December 31, 2015, the fair value and unpaid principal balance of CMBS where we have elected the fair value option, before consolidation of securitization VIEs, were \$1.0 billion and \$4.7 billion, respectively. The \$1.0 billion fair value balance represents our economic interests in these assets. However, as a result of our consolidation of securitization VIEs, the vast majority of this fair value (\$825.2 million at December 31, 2015) is eliminated against VIE liabilities before arriving at our GAAP balance for fair value option CMBS. During the year ended December 31, 2015, we purchased \$354.2 million of CMBS for which we elected the fair value option. Due to our consolidation of securitization VIEs, \$339.5 million of this amount is eliminated and reflected primarily as repayment of debt of consolidated VIEs in our consolidated statement of cash flows.

As of December 31, 2015, none of our CMBS where we have elected the fair value option were variable rate. The table below summarizes various attributes of our investment in fair value option CMBS as of December 31, 2015 and 2014 (amounts in thousands):

	Weighted Average Coupon	Weighted Average Rating (1)	WAL (Years) (2)
December 31, 2015 CMBS, fair value option	3.9	% CCC+	7.4
December 31, 2014 CMBS, fair value option	3.9	% CCC-	7.7

(1) As of December 31, 2015 and 2014, excludes \$51.3 million and \$41.7 million, respectively, in fair value option CMBS that are not rated.

(2) The WAL of each security is calculated based on the period of time over which we expect to receive principal cash flows. Expected principal cash flows are based on contractual payments net of expected losses.

HTM Securities

The table below summarizes unrealized gains and losses of our investments in HTM securities as of December 31, 2015 and 2014 (amounts in thousands):

	Net Carrying Amount (Amortized Cost)	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
December 31, 2015				
Preferred interests	\$ 19,386	\$ —	\$ (595)	\$ 18,791
CMBS	301,858	257	(5,651)	296,464
Total	\$ 321,244	\$ 257	\$ (6,246)	\$ 315,255
December 31, 2014				
Preferred interests	\$ 307,465	\$ —	\$ (1,366)	\$ 306,099
CMBS	134,530	—	—	134,530
Total	\$ 441,995	\$ —	\$ (1,366)	\$ 440,629

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The table below summarizes the maturities of our HTM preferred equity interests in limited liability companies that own commercial real estate and our HTM CMBS as of December 31, 2015 (amounts in thousands):

	Preferred Interests	CMBS	Total
Less than one year	\$ —	\$ 134,264	\$ 134,264
One to three years	—	167,594	167,594
Three to five years	—	—	—
Thereafter	19,386	—	19,386
Total	\$ 19,386	\$ 301,858	\$ 321,244

Equity Security, Fair Value Option

During 2012, we acquired 9,140,000 ordinary shares from a related-party in Starwood European Real Estate Finance Limited (“SEREF”), a debt fund that is externally managed by an affiliate of our Manager and is listed on the London Stock Exchange. We have elected to report the investment using the fair value option because the shares are listed on an exchange, which allows us to determine the fair value using a quoted price from an active market, and also due to potential lags in reporting resulting from differences in the respective regulatory requirements. The fair value of the investment remeasured in USD was \$14.5 million and \$15.1 million as of December 31, 2015 and 2014. As of December 31, 2015, our shares represent an approximate 3% interest in SEREF.

7. Properties

Our properties include the Woodstar Portfolio, REO Portfolio and Ireland Portfolio as discussed in Note 3. The below table summarizes our properties held as of December 31, 2015 and December 31, 2014 (dollar amounts in thousands):

Property Segment	Depreciable Life	December 31,	
		2015	2014
Land	—	\$ 236,545	\$ —
Land improvements	5 – 7 years	11,044	—
Buildings	30 – 40 years	516,117	—
Furniture & fixtures	3 – 5 years	11,980	—
Investing and Servicing Segment			
Land	—	39,103	8,225
Buildings	20 – 40 years	110,815	30,637
Building improvements	5 – 10 years	1,709	—
Furniture & fixtures	3 – 5 years	680	1,635
Tenant improvements	3 – 5 years	67	—
Properties, cost		928,060	40,497
Less: accumulated depreciation		(8,835)	(643)
Properties, net		\$ 919,225	\$ 39,854

In March 2015, the Investing and Servicing Segment sold an operating property that we had previously acquired from a CMBS trust. The sale resulted in a \$17.8 million gain, which is included in gain on sale of investments and other assets in our consolidated statement of operations for the year ended December 31, 2015.

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8. Investment in Unconsolidated Entities

The below table summarizes our investments in unconsolidated entities as of December 31, 2015 and 2014 (dollar amounts in thousands):

	Participation / Ownership % (1)	Carrying value as of December 31,	
		2015	2014
Equity method:			
Retail Fund (see Note 16)	33%	\$ 122,454	\$ 129,475
Investor entity which owns equity in an online real estate auction company	50%	23,972	21,534
Equity interests in commercial real estate (2)	16% - 43%	28,230	—
Bridge loan venture (3)	N/A	—	8,417
Various	25% - 50%	6,376	16,933
		181,032	176,359
Cost method:			
Investment funds which own equity in a loan servicer and other real estate assets	4% - 6%	9,225	9,225
Various	0% - 3%	8,944	8,399
		18,169	17,624
		\$ 199,201	\$ 193,983

(1) None of these investments are publicly traded and therefore quoted market prices are not available.

(2) During the year ended December 31, 2015, we acquired \$28.0 million of equity interests in limited liability companies that own 10 office and student housing properties throughout the U.S.

(3) During the year ended December 31, 2015, we sold our interest in the bridge loan venture at par.

There were no differences between the carrying value of our investment in unconsolidated entities and the underlying equity in the net assets of the investees as of December 31, 2015.

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9. Goodwill and Intangibles

Goodwill

Goodwill at December 31, 2015 and 2014 represents the excess of consideration transferred over the fair value of net assets of LNR acquired on April 19, 2013. The goodwill recognized is attributable to value embedded in LNR's existing platform, which includes an international network of commercial real estate asset managers, work out specialists, underwriters and administrative support professionals as well as proprietary historical performance data on commercial real estate assets. The tax deductible component of our goodwill as of April 19, 2013 was \$149.9 million and is deductible over 15 years. As discussed in Note 2, goodwill is tested for impairment at least annually. Based on our qualitative assessment during the fourth quarter of 2015, we determined that it is not more likely than not that the fair value of the Investing and Servicing Segment reporting unit to which the goodwill is attributed is less than its carrying value including goodwill. Therefore, we concluded goodwill was not impaired.

Intangible Assets

Servicing Rights Intangibles

In connection with the LNR acquisition, we identified domestic and European servicing rights that existed at the purchase date, based upon the expected future cash flows of the associated servicing contracts. All of our servicing fees are specified by these Pooling and Servicing Agreements. At December 31, 2015 and 2014, the balance of the domestic servicing intangible was net of \$11.8 million and \$46.1 million, respectively, that was eliminated in consolidation pursuant to ASC 810 against VIE assets in connection with our consolidation of securitization VIEs. Before VIE consolidation, as of December 31, 2015 and 2014, the domestic servicing intangible had a balance of \$131.5 million and \$178.4 million, respectively, which represents our economic interest in this asset.

Lease Intangibles

In connection with our acquisitions of commercial real estate, we recognized in-place lease intangible assets and favorable lease intangible assets associated with certain noncancelable operating leases of the acquired properties. The weighted-average amortization periods for the in-place lease intangible assets and the favorable lease intangible assets for the Ireland Portfolio at acquisition were 10.0 years and 11.2 years, respectively. The weighted-average amortization period for the in-place lease intangible assets for the Woodstar Portfolio at acquisition was 0.5 years.

The following table summarizes our intangible assets, which are comprised of servicing rights intangibles and lease intangibles, as of December 31, 2015 and 2014 (amounts in thousands):

	As of December 31, 2015			As of December 31, 2014		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Domestic servicing rights,	\$ 119,698	\$ —	\$ 119,698	\$ 132,303	\$ —	\$ 132,303
at						

fair value

European servicing rights (1)	31,593	(28,967)	2,626	33,392	(21,543)	11,849
In-place lease intangible assets	74,983	(8,898)	66,085	—	—	—
Favorable lease intangible assets	14,103	(942)	13,161	—	—	—
Total net intangible assets	\$ 240,377	\$ (38,807)	\$ 201,570	\$ 165,695	\$ (21,543)	\$ 144,152

(1) The fair value as of December 31, 2015 and 2014 was \$5.3 million and \$12.7 million, respectively.

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The following table summarizes the activity within intangible assets for the year ended December 31, 2015 (amounts in thousands):

	Domestic Servicing Rights	European Servicing Rights	In-place Lease Intangible Assets	Favorable Lease Intangible Assets	Total
Balance as of January 1, 2015	\$ 132,303	\$ 11,849	\$ —	\$ —	\$ 144,152
Acquisition of Ireland Portfolio	—	—	47,999	11,530	59,529
Acquisition of Woodstar Portfolio	—	—	11,337	—	11,337
Acquisition of REO Portfolio (1)	—	—	16,610	2,771	19,381
Amortization	—	(8,893)	(9,027)	(960)	(18,880)
Foreign exchange loss	—	(330)	(834)	(180)	(1,344)
Changes in fair value due to changes in inputs and assumptions	(12,605)	—	—	—	(12,605)
Balance as of December 31, 2015	\$ 119,698	\$ 2,626	\$ 66,085	\$ 13,161	\$ 201,570

(1) Includes loans acquired from CMBS trusts that were subsequently foreclosed on.

The following table summarizes the activity within intangible assets for the year ended December 31, 2014 (amounts in thousands):

	Domestic Servicing Rights	European Servicing Rights	In-place Lease Intangible Assets	Favorable Lease Intangible Assets	Total
Balance as of January 1, 2014	\$ 150,149	\$ 27,024	\$ —	\$ —	\$ 177,173
Amortization	—	(13,648)	—	—	(13,648)
Foreign exchange loss	—	(731)	—	—	(731)
Changes in fair value due to changes in inputs and assumptions	(16,787)	—	—	—	(16,787)
OTTI	—	(796)	—	—	(796)
Other	(1,059)	—	—	—	(1,059)
Balance as of December 31, 2014	\$ 132,303	\$ 11,849	\$ —	\$ —	\$ 144,152

The following table sets forth the estimated aggregate amortization of our European servicing rights, in-place lease intangible assets and favorable lease intangible assets for the next five years and thereafter (amounts in thousands):

2016	\$ 22,125
2017	10,243
2018	8,775
2019	7,488
2020	5,917
Thereafter	27,324
Total	\$ 81,872

Lease Liabilities

In connection with our acquisition of certain properties within our Ireland Portfolio, we recognized aggregate unfavorable lease liabilities of \$3.4 million with weighted average lives of 3.1 years at acquisition.

In connection with our acquisition of LNR in 2013, we recognized an unfavorable lease liability of \$15.3 million related to an assumed operating lease for our offices in Miami Beach, Florida, which expires in 2021. This liability is being amortized over the remaining six years of the underlying lease term at a rate of approximately \$1.9 million per year. The liability balance was \$10.2 million and \$12.1 million as of December 31, 2015 and 2014, respectively.

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10. Secured Financing Agreements

The following table is a summary of our secured financing agreements in place as of December 31, 2015 and 2014 (in thousands):

	Current	Extended		Pledged Asset Carrying Value	Maximum Facility Size	Carrying value at December 31,	
	Maturity	Maturity(a)	Pricing			2015	2014
Lender 1 Repo 1	(b)	(b)	LIBOR + 1.85% to 5.25%	\$ 1,427,281	\$ 1,600,000	\$ 975,735	\$ 875,111
Lender 2 Repo 1	Oct 2017	Oct 2020	LIBOR + 1.75% to 2.75%	326,292	500,000	233,705	240,188
Lender 3 Repo 1	May 2017	May 2019	LIBOR + 2.50% to 2.85%	185,917	131,997	131,997	124,250
Lender 4 Repo 1	Oct 2016	Oct 2017	LIBOR + 2.00%	394,945	309,498	309,498	327,117
Lender 4 Repo 2	Dec 2018	Dec 2020	LIBOR + 2.50%	—	1,000,000(c)	—	—
Lender 6 Repo 1	Aug 2018	N/A	LIBOR + 2.50% to 3.00%	708,071	500,000	491,263	296,967
Lender 7 Secured Financing	Jul 2018	Jul 2019	LIBOR + 2.75% (d)	157,716	650,000 (e)	38,055	189,871
Conduit Repo 1	Sep 2016	N/A	LIBOR + 1.95% to 3.35%	107,580	150,000	80,741	94,727
Conduit Repo 2	Nov 2016	N/A	LIBOR + 2.10%	—	150,000	—	113,636
Conduit Repo 3	Feb 2018	Feb 2019	LIBOR + 2.10%	88,266	150,000	66,041	—
CMBS Repo 1	(f)	(f)	LIBOR + 1.90%	—	—	—	—
CMBS Repo 2	Dec 2016	N/A	LIBOR + 2.35% to 2.70%	159,111	120,850	120,850	39,024
CMBS Repo 3	(g)	(g)	LIBOR + 1.40% to 1.85%	341,422	243,434	243,434	—
CMBS Repo 4	(h)	N/A	N/A	—	—	—	58,079
	(i)	N/A		180,192	125,000	2,000	101,886

RMBS Repo			LIBOR +					
1			1.90%					
Investing and Servicing Segment								
Property	June 2018							
Mortgages	to Dec 2025	N/A	Various	153,356	90,055	82,964	14,000	
Ireland Portfolio			EURIBOR					
Mortgage	May 2020	N/A	+ 1.69%	506,500	319,322	319,322	—	
Woodstar Portfolio			3.72% to					
Mortgages	Nov 2025	N/A	3.81%	327,967	248,630	248,630	—	
Woodstar Portfolio								
Government Financing	Mar 2026	N/A	3.00%	99,007	8,982	8,982	—	
	to Dec 2043		LIBOR +					
Term Loan	Apr 2020	N/A	2.75% (d)	3,254,640	658,270	656,568 (j)	662,933 (j)	
FHLB Advances	Nov 2016	N/A	LIBOR + 0.37%	10,832	9,250	9,250	—	
				\$ 8,429,095	\$ 6,965,288	\$ 4,019,035	\$ 3,137,789	

(a) Subject to certain conditions as defined in the respective facility agreement.

(b) Maturity date for borrowings collateralized by loans of January 2017 before extension options and January 2019 assuming initial extension options. Borrowings collateralized by loans existing at maturity may remain outstanding until such loan collateral matures, subject to certain specified conditions and not to exceed January 2023.

(c) The initial maximum facility size of \$600.0 million may be increased to \$1.0 billion at our option, subject to certain conditions.

(d) Subject to borrower's option to choose alternative benchmark based rates pursuant to the terms of the credit agreement. The term loan is also subject to a 75 basis point floor.

(e) The initial maximum facility size of \$450.0 million may be increased to \$650.0 million at our option, subject to certain conditions.

(f) Facility carries a rolling 11 month term which may reset monthly with the lender's consent. This facility carries no maximum facility size. Amount herein reflects the zero outstanding balance as of December 31, 2015.

(g) Facility carries a rolling 12 month term which may reset monthly with the lender's consent. Current maturity is December 2016. This facility carries no maximum facility size. Amount herein reflects the outstanding balance as of December 31, 2015.

(h) Facility was terminated at our option in March 2015.

(i) The date that is 180 days after the buyer delivers notice to seller, subject to a maximum date of March 2017.

(j) Term loan outstanding balance is net of \$1.7 million and \$2.1 million of unamortized discount as of December 31, 2015 and 2014, respectively.

In the normal course of business, the Company is in discussions with its lenders to extend or amend any financing facilities which contain near term expirations.

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In February 2015, we executed a \$150.0 million repurchase facility (“Conduit Repo 3”) for our Investing and Servicing Segment’s conduit platform. The facility carries a three year initial term with a one year extension option and an annual interest rate of LIBOR +2.10%.

In March 2015, we executed a repurchase facility (“CMBS Repo 3”) with a new lender to finance certain CMBS holdings, including CMBS holdings previously financed under the CMBS Repo 4 facility which was terminated at our option in March 2015. There is no maximum facility size specified under the facility as the lender will evaluate all eligible collateral on an individual basis. The facility carries a rolling 12 month term which may reset monthly with the lender’s consent and an annual interest rate of LIBOR +1.40% to LIBOR +1.85% depending on the CMBS collateral.

In April 2015, we amended the Lender 4 Repo 1 facility to reduce pricing. In July 2015, we exercised a one-year extension option on the Lender 4 Repo 1 facility, extending the maturity from October 2015 to October 2016.

In May 2015, we executed a €294.0 million mortgage facility (“Ireland Portfolio Mortgage”) to finance the acquisition of the Ireland Portfolio. The facility carries a five year term, an annual interest rate of EURIBOR + 1.69% and was fully funded as of December 31, 2015. Refer to Note 3 for further discussion of this acquisition. During the year ended December 31, 2015, we incurred deferred financing costs of \$5.7 million associated with this facility.

In July 2015, we exercised a one-year extension option on the Lender 6 Repo 1 facility, extending the maturity from August 2017 to August 2018.

In July 2015, we amended the Lender 7 Secured Financing facility to (i) permanently upsize available borrowings from \$250.0 million to \$450.0 million; (ii) extend the maturity date to July 2019 assuming exercise of a one-year extension option; and (iii) reduce pricing. The maximum facility size of \$450.0 million may be increased to \$650.0 million at our option, subject to certain conditions.

In August 2015, we amended the Lender 1 Repo 1 facility to upsize available borrowings from \$1.25 billion to \$1.6 billion.

In September 2015, we were admitted as a member of the Federal Home Loan Bank (“FHLB”) of Des Moines through a captive insurance subsidiary. On January 20, 2016, the FHLB system amended its membership rules to exclude captive insurers from membership. Therefore, effective January 20, 2016, we may no longer receive FHLB advances and are obligated to repay our \$9.3 million of outstanding FHLB advances within one year from the effective date of the amendment.

In October 2015, we amended the Lender 2 Repo 1 facility to upsize available borrowings from \$325.0 million to \$500.0 million and extend the maturity from October 2018 to October 2020, assuming exercise of available extension options.

In October 2015, we exercised a one-year extension option on the Conduit Repo 2 facility extending the maturity from November 2015 to November 2016.

In November 2015, we executed a repurchase facility (“CMBS Repo 1”) to finance certain CMBS holdings. There is no maximum facility size specified under the facility as the lender will evaluate all eligible collateral on an individual basis. The facility carries a rolling 11 month term which may reset monthly with the lender’s consent and an annual interest rate of LIBOR + 1.90%.

In December 2015, we executed a \$600.0 million repurchase facility (“Lender 4 Repo 2”) that carries a three year initial term with two one-year extension options and an annual interest rate of LIBOR +2.50%. Subject to certain conditions defined in the facility agreement, the maximum facility size may be increased to \$1.0 billion at our option.

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During the year ended December 31, 2015, we executed seven mortgage facilities with aggregate borrowings of \$69.0 million to finance commercial real estate acquired by our Investing and Servicing Segment. As of December 31, 2015, these facilities carry a remaining weighted average term of 6.9 years. Four of the facilities carry floating annual interest rates ranging from LIBOR + 1.80% to 2.50% while three of the facilities carry fixed annual interest rates ranging from 4.52% to 4.91%.

During the quarter ended December 31, 2015, we executed 18 mortgage facilities (“Woodstar Portfolio Mortgages”), all with a new lender to finance each of the 18 properties acquired in our Woodstar Portfolio. These facilities have 10 year terms and carry fixed annual interest rates ranging from 3.72% to 3.81%.

During the quarter ended December 31, 2015, we assumed five state sponsored mortgage facilities (“Woodstar Portfolio Government Financing”) associated with certain properties acquired in our Woodstar Portfolio with aggregate outstanding balances of \$9.0 million as of the acquisition dates. The Woodstar Portfolio Government Financing was originated by the Florida Housing Finance Corporation, a state sponsored finance company, and carries fixed 3.0% interest rates with initial maturities ranging from March 2026 to December 2043.

Our secured financing agreements contain certain financial tests and covenants. Should we breach certain of these covenants it may restrict our ability to pay dividends in the future. As of December 31, 2015, we were in compliance with all such covenants.

The following table sets forth our five year principal repayments schedule for secured financings assuming no defaults and excluding loans transferred as secured borrowings. Our credit facilities generally require principal to be paid down prior to the facilities’ respective maturities if and when we receive principal payments on, or sell, the investment collateral that we have pledged. The amount reflected in each period includes principal repayments on our credit facilities that would be required if (i) we received the repayments that we expect to receive on the investments that have been pledged as collateral under the credit facilities, as applicable, and (ii) the credit facilities that are expected to have amounts outstanding at their current maturity dates are extended where extension options are available to us (amounts in thousands):

	Repurchase Agreements	Other Secured Financing	Total
2016	\$ 790,577	\$ 54,351	\$ 844,928
2017	581,395	7,058	588,453
2018	536,547	24,752	561,299
2019	545,599	7,257	552,856
2020	121,553	961,198 (1)	1,082,751
Thereafter	79,593	310,858	390,451
Total	\$ 2,655,264	\$ 1,365,474	\$ 4,020,738

(1) Principal paydown of the term loan through 2020 excludes \$1.7 million of unamortized discount. Secured financing maturities for 2016 primarily relate to \$243.4 million on the CMBS Repo 3 facility, \$225.5 million on the Lender 6 Repo 1 facility and \$120.8 million on the CMBS Repo 2 facility.

As of December 31, 2015 and 2014, we had approximately \$38.3 million and \$26.5 million, respectively, of deferred financing costs from secured financing agreements, net of amortization, which is included in other assets on our consolidated balance sheets. For the years ended December 31, 2015, 2014 and 2013, approximately \$14.2 million, \$11.3 million and \$9.9 million, respectively, of amortization was included in interest expense on our consolidated statements of operations.

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As of December 31, 2015 and 2014, the outstanding balance of our repurchase agreements related to the following asset collateral classes (amounts in thousands):

Class of Collateral	December 31, 2015	December 31, 2014
Loans held-for-investment	\$ 2,142,198	\$ 1,863,633
Loans held-for-sale	146,782	208,363
Investment securities	366,284	198,989
	\$ 2,655,264	\$ 2,270,985

We seek to mitigate risks associated with our repurchase agreements by managing risk related to the credit quality of our assets, interest rates, liquidity, prepayment speeds and market value. The margin call provisions under the majority of our repurchase facilities, consisting of 61% of these agreements, do not permit valuation adjustments based on capital markets activity. Instead, margin calls on these facilities are limited to collateral-specific credit marks. To monitor credit risk associated with the performance and value of our loans and investments, our asset management team regularly reviews our investment portfolios and is in regular contact with our borrowers, monitoring performance of the collateral and enforcing our rights as necessary. For repurchase agreements containing margin call provisions for general capital markets activity, approximately 23% of these pertain to our loans held-for-sale, for which we manage credit risk through the purchase of credit index instruments. We further seek to manage risks associated with our repurchase agreements by matching the maturities and interest rate characteristics of our loans with the related repurchase agreements.

11. Convertible Senior Notes

On October 8, 2014, we issued \$431.3 million of 3.75% Convertible Senior Notes due 2017 (the “2017 Notes”). On February 15, 2013, we issued \$600.0 million of 4.55% Convertible Senior Notes due 2018 (the “2018 Notes”). On July 3, 2013, we issued \$460.0 million of 4.00% Convertible Senior Notes due 2019 (the “2019 Notes”). We recognized interest expense of \$58.0 million, \$49.4 million and \$33.0 million during the years ended December 31, 2015, 2014 and 2013, respectively, from our unsecured convertible senior notes (collectively, the “Convertible Notes”). The following summarizes our Convertible Notes outstanding as of December 31, 2015 (amounts in thousands, except rates):

	Principal Amount	Coupon Rate	Effective Rate(1)	Conversion Rate(2)	Maturity Date	Remaining Period of Amortization
2017 Notes	\$ 431,250	3.75	% 5.87	% 41.7397	10/15/2017	1.8 years
2018 Notes	\$ 599,981	4.55	% 6.10	% 46.1565	3/1/2018	2.2 years
2019 Notes	\$ 341,363	4.00	% 5.37	% 48.9439	1/15/2019	3.0 years

	As of December 31,	
	2015	2014
Total principal	\$ 1,372,594	\$ 1,491,228
Net unamortized discount	(47,351)	(73,206)
Carrying amount of debt components	\$ 1,325,243	\$ 1,418,022
Carrying amount of conversion option equity components recorded in additional paid-in capital	\$ 46,343	\$ 64,070

- (1) Effective rate includes the effects of underwriter purchase discount and the adjustment for the conversion option, the value of which reduced the initial liability and was recorded in additional paid in capital.
- (2) The conversion rate represents the number of shares of common stock issuable per \$1,000 principal amount of Convertible Notes converted, as adjusted in accordance with the indentures governing the Convertible Notes (including the applicable supplemental indentures) as a result of the spin-off of the SFR segment and cash dividend payments.

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The if-converted value of the 2019 Notes exceeded their principal amount by \$2.2 million at December 31, 2015 since the closing market price of the Company's common stock of \$20.56 per share exceeded the implicit conversion price of \$20.43 per share. The if converted value of the 2017 Notes and 2018 Notes were less than their principal amounts by \$61.2 million and \$30.7 million at December 31, 2015, respectively, since the closing market price of the Company's common stock of \$20.56 per share was less than the implicit conversion prices of \$23.96 and \$21.67, respectively. The Company has asserted its intent and ability to settle the principal amount of the Convertible Notes in cash. As a result, conversion of this principal amount, totaling 62.3 million shares, was not included in the computation of diluted EPS. However, the conversion spread value for the 2019 Notes, representing 0.1 million shares, was included in the computation of diluted EPS as the notes were "in-the-money". No dilution related to the 2017 Notes and 2018 Notes was included in the computation of diluted EPS for the year ended December 31, 2015 as these notes were not "in-the-money". See further discussion in Note 18.

Under the repurchase program approved by our board of directors (refer to Note 17), we repurchased \$118.6 million aggregate principal amount of our 2019 Notes during the year ended December 31, 2015 for \$136.3 million plus transaction expenses of \$0.1 million. The repurchase price was allocated between the fair value of the liability component and the fair value of the equity component of the convertible security. The portion of the repurchase price attributable to the equity component totaled \$17.7 million and was recognized as a reduction of additional paid-in capital during the year ended December 31, 2015. The remaining repurchase price was attributable to the liability component. The difference between this amount and the net carrying amount of the liability and debt issuance costs was reflected as a loss on extinguishment of debt in our consolidated statement of operations. For the year ended December 31, 2015, the loss on extinguishment of debt totaled \$5.9 million, consisting principally of the write-off of unamortized debt discount.

As of December 31, 2015 and 2014, we had approximately \$1.4 million and \$2.3 million, respectively, of deferred financing costs from our Convertible Notes, net of amortization, which is included in other assets on our consolidated balance sheet.

Conditions for Conversion

Prior to April 15, 2017 for the 2017 Notes, September 1, 2017 for the 2018 Notes and July 15, 2018 for the 2019 Notes, the Convertible Notes will be convertible only upon satisfaction of one or more of the following conditions: (1) the closing market price of the Company's common stock is at least 110%, in the case of the 2017 Notes, or 130%, in the case of the 2018 Notes and the 2019 Notes, of the conversion price of the respective Convertible Notes for at least 20 out of 30 trading days prior to the end of the preceding fiscal quarter, (2) the trading price of the Convertible Notes is less than 98% of the product of (i) the conversion rate and (ii) the closing price of the Company's common stock during any five consecutive trading day period, (3) the Company issues certain equity instruments at less than the 10 day average closing market price of its common stock or the per share value of certain distributions exceeds the market price of the Company's common stock by more than 10% or (4) other specified corporate events (significant consolidation, sale, merger, share exchange, fundamental change, etc.) occur.

On or after April 15, 2017, in the case of the 2017 Notes, September 1, 2017, in the case of the 2018 Notes, and July 15, 2018, in the case of the 2019 Notes, holders may convert each of their Convertible Notes at the applicable conversion rate at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date.

Impact of Spin-off on Convertible Senior Notes

As described in Note 3, on January 31, 2014, the Company distributed all of its interest in the SFR segment to the Company's stockholders of record as of January 24, 2014. As the per-share value of the distribution was expected to exceed 10% of the last reported market price of the Company's common stock on the trading day prior to the announcement for such distribution, holders of the Convertible Notes were eligible to surrender their Convertible Notes for conversion at any time during the period beginning November 26, 2013 (the 45th trading day immediately prior to the scheduled ex-dividend date for the distribution) and ending on the close of the business day immediately preceding February 3, 2014, the ex-dividend date for such distribution. During this period, the Company received notices of

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conversion totaling \$19 thousand and \$3 thousand in principal for the 2018 Notes and 2019 Notes, respectively. The cash settlement of these conversions occurred in April 2014.

Due to the distribution, the quarterly dividend threshold amounts for the Convertible Notes were adjusted to \$0.3548 and \$0.3710 (from \$0.44 and \$0.46) per share of common stock, in the case of the 2018 Notes and 2019 Notes, respectively, effective February 3, 2014.

12. Loan Securitization/Sale Activities

As described below, we regularly sell loans and notes under various strategies. We evaluate such sales as to whether they meet the criteria for treatment as a sale—legal isolation, ability of transferee to pledge or exchange the transferred assets without constraint, and transfer of control.

Within the Investing and Servicing Segment, we originate commercial mortgage loans with the intent to sell these mortgage loans to VIEs for the purposes of securitization. These VIEs then issue CMBS that are collateralized in part by these assets, as well as other assets transferred to the VIE. In certain instances, we retain a subordinated interest in the VIE and serve as special servicer for the VIE. The following summarizes the fair value and par value of loans sold from our conduit platform, as well as the amount of sale proceeds used in part to repay the outstanding balance of the repurchase agreements associated with these loans for the years ended December 31, 2015, 2014 and 2013 (amounts in thousands):

	For the Year Ended December 31,		
	2015	2014	2013
Fair value of loans sold	\$ 2,100,216	\$ 1,670,522	\$ 1,326,602
Par value of loans sold	2,034,773	1,603,807	1,263,914
Repayment of repurchase agreements	1,548,111	1,196,778	947,351

Within the Lending Segment, we originate or acquire loans and then subsequently sell a portion, which can be in various forms including first mortgages, A Notes, senior participations and mezzanine loans. Typically, our motivation for entering into these transactions is to effectively create leverage on the subordinated position that we will retain and hold for investment. In certain instances, we continue to service the loan following its sale. The following table summarizes our loans sold and loans transferred as secured borrowings by the Lending Segment net of expenses (amounts in thousands):

For the Year Ended December 31,	Loan Transfers Accounted for as Sales		Loan Transfers Accounted for as Secured Borrowings	
	Face Amount	Proceeds	Face Amount	Proceeds

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2015	\$ 645,425	\$ 637,124	\$ 38,925	\$ 38,925
2014	510,539	501,988	—	—
2013	435,933	435,818	95,000	95,000

During the years ended December 31, 2015 and 2014, the Lending Segment recognized gains on sales of loans of \$4.8 million and \$1.2 million within gain on sale of investments and other assets in our consolidated statements of operations. During the year ended December 31, 2013, the Lending Segment recognized losses on sales of loans of \$1.1 million also recognized within gain on sale of investments and other assets in our consolidated statements of operations.

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13. Derivatives and Hedging Activity

Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, foreign exchange, liquidity, and credit risk primarily by managing the amount, sources, and duration of our debt funding and the use of derivative financial instruments. Specifically, we enter into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates, credit spreads, and foreign exchange rates. Our derivative financial instruments are used to manage differences in the amount, timing, and duration of the known or expected cash receipts and known or expected cash payments principally related to our investments, anticipated level of loan sales, and borrowings.

Designated Hedges

Our objective in using interest rate derivatives is to manage our exposure to interest rate movements. To accomplish this objective, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for us making fixed rate payments over the life of the agreements without exchange of the underlying notional amount.

In connection with our repurchase agreements, we have entered into seven outstanding interest rate swaps that have been designated as cash flow hedges of the interest rate risk associated with forecasted interest payments. As of December 31, 2015, the aggregate notional amount of our interest rate swaps designated as cash flow hedges of interest rate risk totaled \$76.8 million. Under these agreements, we will pay fixed monthly coupons at fixed rates ranging from 0.56% to 1.52% of the notional amount to the counterparty and receive floating rate LIBOR. Our interest rate swaps designated as cash flow hedges of interest rate risk have maturities ranging from March 2016 to May 2021.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in AOCI and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings. During the years ended December 31, 2015, 2014 and 2013, we did not recognize any hedge ineffectiveness in earnings.

Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on the associated variable rate debt. Over the next 12 months, we estimate that an additional \$0.2 million will be reclassified as an increase to interest expense. We are hedging our exposure to the variability in future cash flows for forecasted transactions over a maximum period of 65 months.

Non designated Hedges

Derivatives not designated as hedges are derivatives that do not meet the criteria for hedge accounting under GAAP or which we have not elected to designate as hedges. We do not use these derivatives for speculative purposes but instead they are used to manage our exposure to foreign exchange rates, interest rate changes, and certain credit spreads. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in gain (loss) on derivative financial instruments in the consolidated statements of operations.

We have entered into a series of forward contracts whereby we agreed to sell an amount of foreign currency for an agreed upon amount of USD at various dates through June 2020. These forward contracts were executed to

economically fix the USD amounts of foreign denominated cash flows expected to be received by us related to foreign denominated loan investments and properties.

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The following table summarizes our non-designated foreign exchange ("Fx") forwards, interest rate swaps, interest rate caps and credit index instruments as of December 31, 2015 (notional amounts in thousands):

Type of Derivative	Number of Contracts	Aggregate Notional Amount	Notional Currency	Maturity
Fx contracts – Sell Euros ("EUR") (1)	83	346,666	EUR	February 2016 – June 2020
Fx contracts – Sell Pounds Sterling ("GBP")	64	217,756	GBP	January 2016 – March 2018
Fx contracts – Sell Swedish Krona ("SEK")	1	7,032	SEK	December 2016
Fx contracts – Sell Norwegian Krone ("NOK")	1	878	NOK	December 2016
Fx contracts – Sell Danish Krone ("DKK")	1	6,251	DKK	December 2016
Interest rate swaps – Paying fixed rates	31	325,048	USD	July 2016 – December 2025
Interest rate swaps – Receiving fixed rates	1	8,000	USD	July 2017
Interest rate caps	2	294,000	EUR	May 2020
Interest rate caps	4	34,635	USD	June 2018 – October 2020
Credit index instruments	11	40,000	USD	January 2047
Total	199			

(1) Includes 54 Fx contracts executed to hedge our Euro currency exposure created by our acquisition of the Ireland Portfolio. As of December 31, 2015, these contracts have an aggregate notional amount of €253.3 million and varying maturities through June 2020.

The table below presents the fair value of our derivative financial instruments as well as their classification on the consolidated balance sheets as of December 31, 2015 and 2014 (amounts in thousands):

	Fair Value of Derivatives in an Asset Position (1) as of December 31,		Fair Value of Derivatives in a Liability Position (2) as of December 31,	
	2015	2014	2015	2014
Derivatives designated as hedging instruments:				
Interest rate swaps	\$ 57	\$ 138	\$ 122	\$ 235
Total derivatives designated as hedging instruments	57	138	122	235
Derivatives not designated as hedging instruments:				
Interest rate swaps and caps	2,360	1,128	4,970	5,216
Foreign exchange contracts	41,137	24,388	104	15
Credit index instruments	1,537	974	—	10
Total derivatives not designated as hedging instruments	45,034	26,490	5,074	5,241
Total derivatives	\$ 45,091	\$ 26,628	\$ 5,196	\$ 5,476

- (1) Classified as derivative assets in our consolidated balance sheets.
- (2) Classified as derivative liabilities in our consolidated balance sheets.

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The tables below present the effect of our derivative financial instruments on the consolidated statements of operations and of comprehensive income for the years ended December 31, 2015, 2014 and 2013 (amounts in thousands):

Derivatives Designated as Hedging Instruments	Gain (Loss) Recognized	Gain (Loss) Reclassified from AOCI	Gain (Loss) Recognized	Location of Gain (Loss) Recognized in Income
	in OCI (effective portion)	into Income (effective portion)	in Income (ineffective portion)	
For the Year Ended December 31, 2015	\$ (709)	\$ (741)	\$ —	Interest expense
2014	\$ (865)	\$ (1,372)	\$ —	Interest expense
2013	\$ 334	\$ (1,633)	\$ —	Interest expense

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income for the Year Ended December 31,		
		2015	2014	2013
Interest rate swaps and caps	Gain (loss) on derivative financial instruments	\$ (22,675)	\$ (15,662)	\$ 3,549
Foreign exchange contracts	Gain (loss) on derivative financial instruments	44,089	37,207	(13,160)
Credit index instruments	Gain (loss) on derivative financial instruments	184	(1,094)	(1,559)
		\$ 21,598	\$ 20,451	\$ (11,170)

14. Offsetting Assets and Liabilities

The following tables present the potential effects of netting arrangements on our financial position for financial assets and liabilities within the scope of ASC 210-20, Balance Sheet—Offsetting, which for us are derivative assets and liabilities as well as repurchase agreement liabilities (amounts in thousands):

(ii)	(iii) = (i) - (ii)	(iv) Gross Amounts Not Offset in the Statement of Financial Position
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	(i) Gross Amounts Recognized	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received / Pledged	(v) = (iii) - (iv) Net Amount
As of December 31, 2015						
Derivative assets	\$ 45,091	\$ —	\$ 45,091	\$ 243	\$ —	\$ 44,848
Derivative liabilities	\$ 5,196	\$ —	\$ 5,196	\$ 243	\$ 4,953	\$ —
Repurchase agreements	2,655,264	—	2,655,264	2,655,264	—	—
	\$ 2,660,460	\$ —	\$ 2,660,460	\$ 2,655,507	\$ 4,953	\$ —
As of December 31, 2014						
Derivative assets	\$ 26,628	\$ —	\$ 26,628	\$ 2,016	\$ —	\$ 24,612
Derivative liabilities	\$ 5,476	\$ —	\$ 5,476	\$ 2,016	\$ 3,460	\$ —
Repurchase agreements	2,270,985	—	2,270,985	2,270,985	—	—
	\$ 2,276,461	\$ —	\$ 2,276,461	\$ 2,273,001	\$ 3,460	\$ —

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15. Variable Interest Entities

Investment Securities

As discussed in Note 2, we evaluate all of our investments and other interests in entities for consolidation, including our investments in CMBS and our retained interests in securitization transactions we initiated, all of which are generally considered to be variable interests in VIEs.

The VIEs consolidated in accordance with ASC 810 are structured as pass through entities that receive principal and interest on the underlying collateral and distribute those payments to the certificate holders. The assets and other instruments held by these securitization entities are restricted and can only be used to fulfill the obligations of the entity. Additionally, the obligations of the securitization entities do not have any recourse to the general credit of any other consolidated entities, nor to us as the primary beneficiary. The VIE liabilities initially represent investment securities on our balance sheet (pre consolidation). Upon consolidation of these VIEs, our associated investment securities are eliminated, as is the interest income related to those securities. Similarly, the fees we earn in our roles as special servicer of the bonds issued by the consolidated VIEs or as collateral administrator of the consolidated VIEs are also eliminated. Finally, an allocable portion of the identified servicing intangible associated with the eliminated fee streams is eliminated in consolidation.

VIEs in which we are the Primary Beneficiary

The inclusion of the assets and liabilities of VIEs in which we are deemed the primary beneficiary has no economic effect on us. Our exposure to the obligations of VIEs is generally limited to our investment in these entities. We are not obligated to provide, nor have we provided, any financial support for any of these consolidated structures.

VIEs in which we are not the Primary Beneficiary

In certain instances, we hold a variable interest in a VIE in the form of CMBS, but either (i) we are not appointed, or do not serve as, special servicer or (ii) an unrelated third party has the rights to unilaterally remove us as special servicer. In these instances, we do not have the power to direct activities that most significantly impact the VIE's economic performance. In other cases, the variable interest we hold does not obligate us to absorb losses or provide us with the right to receive benefits from the VIE which could potentially be significant. For these structures, we are not deemed to be the primary beneficiary of the VIE, and we do not consolidate these VIEs.

As of December 31, 2015, one of our CDO structures was in default, which pursuant to the underlying indentures, changes the rights of the variable interest holders. Upon default of a CDO, the trustee or senior note holders are allowed to exercise certain rights, including liquidation of the collateral, which at that time, is the activity which would most significantly impact the CDO's economic performance. Further, when the CDO is in default, the collateral administrator no longer has the option to purchase securities from the CDO. In cases where the CDO is in default and we do not have the ability to exercise rights which would most significantly impact the CDO's economic performance, we do not consolidate the VIE. As of December 31, 2015, this CDO structure was not consolidated. During the three months ended March 31, 2014, one of our CDOs, which was previously in default as of December 31, 2013, ceased to be in default. This event triggered the initial consolidation of the CDO and its underlying assets during the three months ended March 31, 2014.

As noted above, we are not obligated to provide, nor have we provided, any financial support for any of our securitization VIEs, whether or not we are deemed to be the primary beneficiary. As such, the risk associated with our involvement in these VIEs is limited to the carrying value of our investment in the entity. As of December 31, 2015, our maximum risk of loss related to VIEs in which we were not the primary beneficiary was \$213.0 million on a fair

value basis.

As of December 31, 2015, the securitization VIEs which we do not consolidate had debt obligations to beneficial interest holders with unpaid principal balances of \$40.6 billion. The corresponding assets are comprised primarily of commercial mortgage loans with unpaid principal balances corresponding to the amounts of the outstanding debt obligations.

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16. Related Party Transactions

Management Agreement

We are party to a management agreement (the “Management Agreement”) with our Manager. Under the Management Agreement, our Manager, subject to the oversight of our board of directors, is required to manage our day to day activities, for which our Manager receives a base management fee and is eligible for an incentive fee and stock awards. Our Manager’s personnel perform certain due diligence, legal, management and other services that outside professionals or consultants would otherwise perform. As such, in accordance with the terms of our Management Agreement, our Manager is paid or reimbursed for the documented costs of performing such tasks, provided that such costs and reimbursements are in amounts no greater than those which would be payable to outside professionals or consultants engaged to perform such services pursuant to agreements negotiated on an arm’s-length basis.

Base Management Fee. The base management fee is 1.5% of our stockholders’ equity per annum and calculated and payable quarterly in arrears in cash. For purposes of calculating the management fee, our stockholders’ equity means: (a) the sum of (1) the net proceeds from all issuances of our equity securities since inception (allocated on

a pro rata daily basis for such issuances during the fiscal quarter of any such issuance), plus (2) our retained earnings at the end of the most recently completed calendar quarter (without taking into account any non cash equity compensation expense incurred in current or prior periods), less (b) any amount that we pay to repurchase our common stock since inception. It also excludes (1) any unrealized gains and losses and other non cash items that have impacted stockholders’ equity as reported in our financial statements prepared in accordance with GAAP, and (2) one time events pursuant to changes in GAAP, and certain non cash items not otherwise described above, in each case after discussions between our Manager and our independent directors and approval by a majority of our independent directors. As a result, our stockholders’ equity, for purposes of calculating the management fee, could be greater or less than the amount of stockholders’ equity shown in our consolidated financial statements.

For the years ended December 31, 2015, 2014 and 2013, approximately \$59.2 million, \$54.5 million and \$51.5 million, respectively, was incurred for base management fees. As of December 31, 2015 and 2014, there were \$15.2 million and \$13.9 million, respectively, of unpaid base management fees included in the related-party payable in our consolidated balance sheets.

Incentive Fee. Our Manager is entitled to be paid the incentive fee described below with respect to each calendar quarter if (1) our Core Earnings (as defined below) for the previous 12 month period exceeds an 8% threshold, and (2) our Core Earnings for the 12 most recently completed calendar quarters is greater than zero.

On December 4, 2014, our board of directors authorized an amendment to our Management Agreement to adjust the calculation of the incentive fee for the spin-off of SWAY (the “Amendment”). The Amendment provides that on and after January 31, 2014, the date of the SWAY spin-off, the computation of the weighted average issue price per share of the common stock shall be decreased to give effect to the book value per share on January 31, 2014 of the assets of SWAY, and the computation of the average number of shares of common stock outstanding shall be decreased by the weighted-average number of shares of SWAY distributed in the spin-off. The Amendment results in an increase to the incentive fee of \$18.0 million for the year ended December 31, 2014, which is recognized within management fee expense in our consolidated statement of operations.

After giving effect to the Amendment, the incentive fee is calculated as follows: an amount, not less than zero, equal to the difference between (1) the product of (x) 20% and (y) the difference between (i) our Core Earnings for the

previous 12 month period, and (ii) the product of (A) the weighted average of the issue price per share of our common stock of all of our public offerings as decreased for the spin-off of SWAY multiplied by the weighted average number of all shares of common stock outstanding (including any RSUs, any RSAs and other shares of common stock underlying awards granted under our equity incentive plans) in such previous 12 month period as decreased for the spin-off of SWAY, and (B) 8%, and (2) the sum of any incentive fee paid to our Manager with respect to the first three calendar quarters of such previous 12 month period. One half of each quarterly installment of the incentive fee is payable in shares of our common stock so long as the ownership of such additional number of shares by our Manager would not violate the 9.8% stock ownership limit set forth in our charter, after giving effect to any waiver from such limit that our board of directors may grant in the future. The remainder of the incentive fee is payable in cash. The number of shares to be issued to our Manager is equal to the dollar amount of the portion of the quarterly installment of the incentive fee

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payable in shares divided by the average of the closing prices of our common stock on the NYSE for the five trading days prior to the date on which such quarterly installment is paid.

Core Earnings is a non-GAAP financial measure. We calculate Core Earnings as GAAP net income (loss) excluding non-cash equity compensation expense, the incentive fee, depreciation and amortization of real estate and associated intangibles, losses on extinguishment of debt, acquisition costs associated with successful acquisitions and any unrealized gains, losses or other non-cash items recorded in net income for the period, regardless of whether such items are included in OCI, or in net income. The amount is adjusted to exclude one-time events pursuant to changes in GAAP and certain other non-cash adjustments as determined by our Manager and approved by a majority of our independent directors.

For the years ended December 31, 2015, 2014 and 2013, approximately \$37.7 million, \$34.4 million and \$11.6 million, respectively, was incurred for incentive fees. As of December 31, 2015 and 2014, approximately \$21.8 million and \$18.9 million, respectively, of unpaid incentive fees were included in related party payable in our consolidated balance sheets.

Expense Reimbursement. We are required to reimburse our Manager for operating expenses incurred by our Manager on our behalf. In addition, pursuant to the terms of the Management Agreement, we are required to reimburse our Manager for the cost of legal, tax, consulting, auditing and other similar services rendered for us by our Manager's personnel provided that such costs are no greater than those that would be payable if the services were provided by an independent third party. The expense reimbursement is not subject to any dollar limitations but is subject to review by our independent directors. For the years ended December 31, 2015, 2014 and 2013, approximately \$7.0 million, \$8.1 million and \$8.8 million was incurred, respectively, for executive compensation and other reimbursable expenses. As of December 31, 2015 and 2014, approximately \$3.6 million and \$3.4 million, respectively, of unpaid reimbursable executive compensation and other expenses were included in related party payable in our consolidated balance sheets.

Termination Fee. We can terminate the Management Agreement without cause, as defined in the Management Agreement, with an affirmative two-thirds vote by our independent directors and 180 days written notice to our Manager. Upon termination without cause, our Manager is due a termination fee equal to three times the sum of the average annual base management fee and incentive fee earned by our Manager over the preceding eight calendar quarters. No termination fee is payable if our Manager is terminated for cause, as defined in the Management Agreement, which can be done at any time with 30 days written notice from our board of directors.

Manager Equity Plan

In May 2015, we granted 675,000 RSUs to our Manager under the Starwood Property Trust, Inc. Manager Equity Plan ("Manager Equity Plan"). In January 2014, we granted 2,489,281 RSUs to our Manager under the Manager Equity Plan. In connection with these grants and prior similar grants, we recognized share-based compensation expense of \$26.6 million, \$26.5 million and \$15.7 million within management fees in our consolidated statements of operations for the years ended December 31, 2015, 2014 and 2013, respectively. Refer to Note 17 herein for further discussion of these grants.

Investments in Loans and Securities

In March 2015, we purchased a subordinate single-borrower CMBS from a third party for \$58.6 million which is secured by 85 U.S. hotel properties. The borrower is an affiliate of Starwood Distressed Opportunity Fund IX (“Fund IX”), an affiliate of our Manager.

In March 2015, we sold our entire interest, consisting of a \$35 million participation, in a subordinate loan (the “Mammoth Loan”) at par to Mammoth Mezz Holdings, LLC, an affiliate of our Manager. We purchased the Mammoth Loan in April 2011 from an independent third party and a syndicate of financial institutions and other entities acting as subordinate lenders to Mammoth Mountain Ski Area, LLC (“Mammoth”). Mammoth is a single purpose, bankruptcy remote entity that is owned and controlled by Starwood Global Opportunity Fund VII A, L.P., Starwood Global Opportunity Fund VII B, L.P., Starwood U.S. Opportunity Fund VII D, L.P. and Starwood U.S. Opportunity Fund VII D 2, L.P. (collectively, the “Sponsors”). Each of the Sponsors is indirectly wholly owned by Starwood Capital

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Group Global I, LLC and an affiliate of our Chief Executive Officer.

In January 2015, a junior mezzanine loan, which we co-originated with SEREF and an unaffiliated third party in 2012, was restructured to reduce both our and SEREF's participation interests and margin. Following the restructuring, we held a participation interest in the junior mezzanine loan of £18 million, which paid interest at three-month LIBOR plus 8.81%. Prior to the restructure, our participation interest was £30.0 million and carried an interest rate of three-month LIBOR plus 11.65%. The junior mezzanine loan paid off in full in October 2015.

In December 2014, we co-originated a £200 million first mortgage for the acquisition of a 17-story office tower located in London with SEREF and other private funds, all affiliates of our Manager. We originated £138.3 million of the loan, SEREF provided £45.0 million and the private funds provided £16.7 million.

In July 2014, we announced the co-origination of a £101.75 million first mortgage loan for the development of a 46-story residential tower and 18-story housing development containing a total of 366 private residential and affordable housing units located in London. We originated £86.75 million of the loan, and private funds managed by an affiliate of our Manager provided £15.0 million.

In July 2014, we co-originated a €99.0 million mortgage loan for the refinancing and refurbishment of a 239 key, full service hotel located in Amsterdam, Netherlands with SEREF and other private funds, both affiliates of our Manager. We originated €58.0 million of the loan, SEREF provided €25.0 million and the private funds provided €16.0 million.

In December 2013, we acquired a subordinate CMBS investment in a securitization issued by an affiliate of our Manager. The security was acquired for \$84.1 million and is secured by five regional malls in Ohio, California and Washington.

In November 2013, we co-originated a GBP denominated first mortgage loan with SEREF, which is secured by Centre Point, an iconic tower located in Central London, England. We funded £15 million of the initial £55 million funding and committed to future funding of £165 million. The A Note bears interest at 8.55% fixed and the B Note bears interest at three-month LIBOR plus 7.0%, unless the fixed rate option is elected. The loan was amended in December 2014, increasing the total commitment to £265.0 million and our future funding commitment to £195.0 million. The loan matures in December 2017.

In October 2013, we co-originated a GBP-denominated \$467.2 million first mortgage loan with SEREF that is secured by the Heron Tower in London, England (the "Heron Tower Loan"). The facility was advanced in October 2013 in a single utilization, with SEREF taking \$29.2 million of the total advance. The most senior tranche funded by us, which is of \$340.6 million, carries a return of LIBOR plus 3.90% and the other tranche funded by us, which is of \$97.3 million, carries a fixed rate of 5.61% per annum. The Heron Tower Loan matures in October 2018.

In September 2013, we co-originated a EUR denominated first mortgage loan with Starfin Lux S.a.r.l. ("Starfin"), an affiliate of our Manager. The loan had an initial funding of approximately \$102.3 million (\$53.8 million for us and \$48.5 million for Starfin), and future funding commitments totaling \$24.6 million, of which we committed to fund \$12.9 million and Starfin is committed to fund \$11.7 million. The loan bears interest at three-month EURIBOR plus 7.0% and is secured by a portfolio of approximately 20 retail properties located throughout Finland. The loan matures in October 2016.

In August 2013, we co-originated GBP denominated first mortgage and mezzanine loans with Starfin. The loans are collateralized by a development of a 109 unit retirement community and a 30 key nursing home in Battersea Park,

London, England. We and Starfin committed \$11.3 million and \$22.5 million, respectively, in aggregate for the two loans. The first mortgage loan bears interest at 5.02% and the mezzanine loan bears interest at 15.12%, and the loans each have three year terms.

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In April 2013, we purchased two B Notes for \$146.7 million from entities substantially all of whose equity was owned by an affiliate of our Manager. The B Notes are secured by two Class A office buildings located in Austin, Texas. On May 17, 2013, we sold senior participation interests in the B Notes to a third party, generating \$95.0 million in aggregate proceeds. We retained the subordinated interests. In October 2015, we sold one of the subordinated interests in the B-Notes to a third party, generating \$29.2 million in aggregate proceeds.

In December 2012, we acquired 9,140,000 ordinary shares in SEREF, a debt fund that is externally managed by an affiliate of our Manager and is listed on the London Stock Exchange, for approximately \$14.7 million, which equated to approximately 4% ownership of SEREF. As of December 31, 2015, our shares represent an approximate 3% interest in SEREF. Refer to Note 6 for additional details.

In October 2012, we co-originated \$475.0 million in financing for the acquisition and redevelopment of a 10-story retail building located at 701 Seventh Avenue in the Times Square area of Manhattan through a joint venture with Fund IX, an affiliate of our Manager. In January 2014, we refinanced the initial financing with an \$815.0 million first mortgage and mezzanine financing to facilitate the further development of the property. Fund IX did not participate in the refinancing. As such, the joint venture distributed \$31.6 million to Fund IX for the liquidation of Fund IX's interest in the joint venture.

Investment in Unconsolidated Entities

In October 2014, we committed \$150 million for a 33% equity interest in four regional shopping malls (the "Retail Fund"), of which \$132.0 million was funded as of December 31, 2014. During the year ended December 31, 2015, we received capital distributions of \$17.1 million, which reduced our carrying value to \$122.5 million as of December 31, 2015. The Retail Fund was established for the purpose of acquiring and operating four leading regional shopping malls located in Florida, Michigan, North Carolina and Virginia. All leasing services and asset management functions for the properties are conducted by an affiliate of our Manager which specializes in redeveloping, managing and repositioning retail real estate assets. In addition, another affiliate of our Manager serves as general partner of the Retail Fund. In consideration for its services, the general partner will earn incentive distributions that are payable once we, along with the other limited partners, receive 100% of our capital and a preferred return of 8%. During the years ended December 31, 2015 and 2014, we recognized \$10.1 million and \$2.2 million of income from the Retail Fund, respectively.

In April 2013, in connection with our acquisition of LNR, we acquired 50% of a joint venture. An affiliate of ours, Fund IX, owns the remaining 50% of the venture.

Other Related-Party Arrangements

In connection with the LNR acquisition, we were required to cash collateralize certain obligations of LNR, including letters of credit and performance obligations. Fund IX funded \$6.2 million of this obligation, but the account was in our name and was thus reflected within our restricted cash balance. As of December 31, 2014, we recognized a corresponding payable to Fund IX of \$4.4 million within related-party payable in our consolidated balance sheet. Our obligation was released in September 2015.

Our Investing and Servicing Segment acquires properties from CMBS trusts, some of which are consolidated as VIEs on our balance sheet. Acquisitions from consolidated VIEs are reflected as repayment of debt of consolidated VIEs in

our consolidated statement of cash flows. During the year ended December 31, 2015, we acquired \$138.7 million of properties, \$13.6 million of which were acquired as non-performing loans and subsequently converted to properties through foreclosure, from both consolidated and unconsolidated CMBS trusts. During the year ended December 31, 2014, we acquired \$35.0 million of properties from a consolidated CMBS trust. There were no properties acquired from CMBS trusts during the year ended December 31, 2013. Refer to Note 3 for further discussion of these acquisitions.

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17. Stockholders' Equity

The Company's authorized capital stock consists of 100,000,000 shares of preferred stock, \$0.01 par value per share, and 500,000,000 shares of common stock, \$0.01 par value per share.

We issued common stock in public offerings as follows during the years ended December 31, 2015, 2014 and 2013:

Pricing date	Shares issued (in thousands)	Price per share	Proceeds (in thousands)
4/20/15	13,800	\$ 23.63	\$ 326,142
4/11/14	25,300	22.32	564,695
9/9/13	28,750	24.04	691,150
4/8/13	30,475	26.99	822,367

In May 2014, we established the Starwood Property Trust, Inc. Dividend Reinvestment and Direct Stock Purchase Plan (the "DRIP Plan"), which provides stockholders with a means of purchasing additional shares of our common stock by reinvesting the cash dividends paid on our common stock and by making additional optional cash purchases. Shares of our common stock purchased under the DRIP Plan will either be issued directly by the Company or purchased in the open market by the plan administrator. The Company may issue up to 11 million shares of common stock under the DRIP Plan. During the years ended December 31, 2015 and 2014, shares issued under the DRIP Plan were not material.

In May 2014, we entered into an amended and restated At-The-Market Equity Offering Sales Agreement (the "ATM Agreement") with Merrill Lynch, Pierce, Fenner & Smith Incorporated to sell shares of the Company's common stock of up to \$500.0 million from time to time, through an "at the market" equity offering program. Sales of shares under the ATM Agreement are made by means of ordinary brokers' transactions on the NYSE or otherwise at market prices prevailing at the time of sale or at negotiated prices. During the year ended December 31, 2015, there were no shares issued under the ATM Agreement. During the year ended December 31, 2014, we issued 1.5 million shares under the ATM Agreement for gross proceeds of \$36.2 million.

In September 2014, our board of directors authorized and announced the repurchase of up to \$250 million of our outstanding common stock over a period of one year. Subsequent amendments to the repurchase program approved by our board of directors in December 2014 and June 2015 resulted in the program being (i) amended to increase maximum repurchases to \$450.0 million, (ii) expanded to allow for the repurchase of our outstanding Convertible Notes under the program and (iii) extended through June 2016. Purchases made pursuant to the program are made in either the open market or in privately negotiated transactions from time to time as permitted by federal securities laws and other legal requirements. The timing, manner, price and amount of any repurchases are discretionary and are subject to economic and market conditions, stock price, applicable legal requirements and other factors. The program may be suspended or discontinued at any time. During the year ended December 31, 2015, we repurchased \$118.6 million aggregate principal amount of our 2019 Notes for \$136.3 million (refer to Note 11). Also during the year ended December 31, 2015, we repurchased 2,340,246 shares of common stock for \$48.7 million under the repurchase program. During the year ended December 31, 2014, we repurchased 587,900 shares of common stock for \$13.0 million and no Convertible Notes under the repurchase program. As of December 31, 2015, we had \$251.8 million of remaining capacity to repurchase common stock and/or Convertible Notes under the repurchase program.

In January 2016, our board of directors authorized a \$50.0 million increase and an extension of our share repurchase program through January 2017, increasing the maximum amount of shares and Convertible Notes available for

repurchase under the program to \$500.0 million. Refer to Note 25 for further discussion.

Underwriting and offering costs for the years ended December 31, 2015, 2014 and 2013 were \$0.9 million, \$1.5 million and \$1.4 million, respectively, and are reflected as a reduction of additional paid in capital in the consolidated statements of equity.

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Our board of directors declared the following dividends in 2015, 2014 and 2013:

Declaration Date	Record Date	Ex-Dividend Date	Payment Date	Amount	Frequency
11/5/15	12/31/15	12/29/15	1/15/16	\$ 0.48	Quarterly
8/4/15	9/30/15	9/28/15	10/15/15	0.48	Quarterly
5/5/15	6/30/15	6/26/15	7/15/15	0.48	Quarterly
2/25/15	3/31/15	3/27/15	4/15/15	0.48	Quarterly
11/5/14	12/31/14	12/29/14	1/15/15	0.48	Quarterly
8/6/14	9/30/14	9/26/14	10/15/14	0.48	Quarterly
5/6/14	6/30/14	6/26/14	7/15/14	0.48	Quarterly
2/24/14	3/31/14	3/27/14	4/15/14	0.48	Quarterly
11/7/13	12/31/13	12/27/13	1/15/14	0.46	Quarterly
10/31/13 (non-cash SWAY shares)	1/24/14	2/3/14	1/31/14	5.77	Special
8/6/13	9/30/13	9/26/13	10/15/13	0.46	Quarterly
5/8/13	6/28/13	6/26/13	7/15/13	0.46	Quarterly
2/27/13	3/28/13	3/26/13	4/15/13	0.44	Quarterly

Equity Incentive Plans

The Company currently maintains the Manager Equity Plan, which provides for the grant of stock options, stock appreciation rights, RSAs, RSUs and other equity based awards, including dividend equivalents, to our Manager. The Company also maintains the Starwood Property Trust, Inc. Equity Plan (the "Equity Plan"), which provides for the same types of equity based awards to individuals who provide services to the Company, including employees of our Manager. The maximum number of shares that may be made subject to awards granted under either the Manager Equity Plan or the Equity Plan, determined on a combined basis, was initially 3,112,500 shares. On March 26, 2013, the Company amended, subject to stockholder approval which was obtained on May 2, 2013, the Manager Equity Plan and the Equity Plan to (i) increase the number of shares available under such plans for awards granted on or after January 1, 2013 by 6,000,000 shares of common stock, (ii) clarify the prohibitions on the repricing of stock options and stock appreciation rights, and (iii) remove the restriction that no more than an aggregate of 50,000 shares may be subject to awards granted to the Company's chief financial officer and/or compliance officer. Additionally, we have reserved 100,000 shares of common stock for issuance under the Starwood Property Trust, Inc. Non Executive Director Stock Plan ("Non Executive Director Stock Plan") which provides for the issuance of restricted stock, RSUs and other equity based awards to non executive directors. To date, we have only granted RSAs and RSUs under the three equity incentive plans. The holders of awards of RSAs or RSUs are entitled to receive dividends or "distribution equivalents," which generally will be payable at such time dividends are paid on our outstanding shares of common stock.

The table below summarizes our share awards granted or vested under the Manager Equity Plan during the years ended December 31, 2015, 2014 and 2013 (dollar amounts in thousands):

Grant Date	Type	Amount Granted	Vesting Period
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			Grant Date Fair Value	
May 2015	RSU	675,000	\$ 16,511	3 years
January 2014 (1)	RSU	489,281	14,776	3 years
January 2014	RSU	2,000,000	55,420	3 years
October 2012	RSU	875,000	19,854	3 years
May 2012	RSA	30,000	602	9 months

(1) As part of the spin-off of our SFR segment, all holders of the Company's common stock and vested restricted common stock received one SWAY common share for every five shares of the Company's common stock. At the time of the spin-off, the Manager held certain unvested RSUs that were not entitled to SWAY shares. Under the legal documentation governing the outstanding RSUs, the Manager was entitled to receive additional RSUs in an amount equal to the number of such outstanding RSUs multiplied by the amount received in the spin-off by a holder of a share of the Company's common stock (i.e., the price per share of a SWAY common share divided by five) divided by the fair market value of a share of the Company's common stock on the date of the spin-off. In order to prevent dilution of the rights of our equity plan participants resulting from this make-whole issuance, the Equity Plan and Manager Equity Plan provide for, and, on August 12, 2014, our

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board of directors authorized, an increase of 489,281 shares to the maximum number of shares available for issuance under the Equity Plan and Manager Equity Plan.

During the year ended December 31, 2015, we granted 576,408 RSAs under the Equity Plan to a select group of eligible participants which includes our employees and employees of our Manager who perform services for us. The awards were granted based on the market price of the Company's common stock on the respective grant date and vest over a three-year period. Expenses related to the vesting of these awards is reflected in general and administrative expenses in our consolidated statements of operations.

As of December 31, 2015, there were 2.7 million shares available for future grants under the Manager Equity Plan, the Equity Plan and the Non-Executive Director Stock Plan.

The following shares of common stock were issued, without restriction, to our Manager as part of the incentive compensation due under the Management Agreement:

Timing of Issuance	Shares of Common Stock Issued	Price per share
November 2015	126,154	\$ 20.22
August 2015	95,696	21.82
May 2015	136,261	24.17
March 2015	387,299	24.39
November 2014	92,865	22.97
August 2014	86,328	23.49
May 2014	152,316	23.99
March 2014	138,288	23.92
November 2013	89,269	26.72
March 2013	13,188	27.83

The following table summarizes our share based compensation expenses during the years ended December 31, 2015, 2014 and 2013 (in thousands):

	For the year ended December 31,		
	2015	2014	2013
Management fees:			
Manager incentive fee	\$ 18,859	\$ 17,258	\$ 5,764
Manager Equity Plan	26,625	26,498	15,688
	45,484	43,756	21,452
General and administrative:			
Non-Executive Director Stock Plan	360	294	217

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Equity Plan	5,161	1,830	437
	5,521	2,124	654
Income tax effect	—	—	—
Total share-based compensation expense	\$ 51,005	\$ 45,880	\$ 22,106

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Schedule of Non Vested Shares and Share Equivalents

	Non-Executive Director Stock Plan	Equity Plan	Manager Equity Plan	Total	Weighted Average Grant Date Fair Value (per share)
Balance as of December 31, 2014	17,105	109,708	1,854,585	1,981,398	\$ 27.30
Granted	16,988	576,408	675,000	1,268,396	24.20
Vested	(17,105)	(52,249)	(1,226,735)	(1,296,089)	26.58
Forfeited	—	(85,489)	—	(85,489)	24.27
Balance as of December 31, 2015	16,988	548,378	1,302,850	1,868,216	25.84

The weighted average grant date fair value per share of grants during the years ended December 31, 2015, 2014 and 2013 was \$24.20, \$27.91 and \$26.87, respectively.

Vesting Schedule

	Non-Executive Director Stock Plan	Equity Plan	Manager Equity Plan	Total
2016	16,988	273,429	1,021,600	1,312,017
2017	—	234,998	225,000	459,998
2018	—	39,951	56,250	96,201
Total	16,988	548,378	1,302,850	1,868,216

As of December 31, 2015, there was approximately \$36.0 million of total unrecognized compensation costs related to unvested share based compensation arrangements which are expected to be recognized over a weighted average period of 1.7 years. The total fair value of shares vested during the year ended December 31, 2015 was \$28.3 million as of the respective vesting dates.

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18. Earnings per Share

The following table provides a reconciliation of net income from continuing operations and the number of shares of common stock used in the computation of basic EPS and diluted EPS (amounts in thousands, except per share amounts):

	For the Year Ended December 31,		
	2015	2014	2013
Basic Earnings			
Continuing Operations:			
Income from continuing operations attributable to STWD common shareholders	\$ 450,697	\$ 496,572	\$ 324,824
Less: Income attributable to participating shares	(3,434)	(5,579)	(1,579)
Basic — Income from continuing operations	\$ 447,263	\$ 490,993	\$ 323,245
Discontinued Operations:			
Loss from discontinued operations	\$ —	\$ (1,551)	\$ (19,794)
Basic — Net income attributable to STWD common shareholders after allocation to participating shares	\$ 447,263	\$ 489,442	\$ 303,451
Diluted Earnings			
Continuing Operations:			
Basic — Income from continuing operations attributable to STWD common shareholders	\$ 450,697	\$ 496,572	\$ 324,824
Less: Income attributable to participating shares	(3,434)	(5,579)	(1,579)
Add: Undistributed earnings to participating shares	—	918	—
Less: Undistributed earnings reallocated to participating shares	—	(902)	—
Diluted — Income from continuing operations	\$ 447,263	\$ 491,009	\$ 323,245
Discontinued Operations:			
Basic — Loss from discontinued operations	\$ —	\$ (1,551)	\$ (19,794)
Diluted — Net income attributable to STWD common shareholders after allocation to participating shares	\$ 447,263	\$ 489,458	\$ 303,451
Number of Shares:			
Basic — Average shares outstanding	233,419	214,945	166,356
Effect of dilutive securities — Convertible Notes	97	3,432	—
Effect of dilutive securities — Contingently issuable shares	524	404	139
Effect of dilutive securities — Unvested non-participating shares	102	—	—
Diluted — Average shares outstanding	234,142	218,781	166,495
Earnings Per Share Attributable to STWD Common Stockholders:			
Basic:			
Income from continuing operations	\$ 1.92	\$ 2.29	\$ 1.94
Loss from discontinued operations	—	(0.01)	(0.12)

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Net income	\$ 1.92	\$ 2.28	\$ 1.82
Diluted:			
Income from continuing operations	\$ 1.91	\$ 2.25	\$ 1.94
Loss from discontinued operations	—	(0.01)	(0.12)
Net income	\$ 1.91	\$ 2.24	\$ 1.82

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As of December 31, 2015, 2014 and 2013, participating shares of 1.5 million, 2.0 million and 0.5 million, respectively, were excluded from the computation of diluted shares as their effect was already considered under the more dilutive two-class method used above.

Also as of December 31, 2015, there were 62.4 million potential shares of common stock contingently issuable upon the conversion of the Convertible Notes. The Company has asserted its intent and ability to settle the principal amount of the Convertible Notes in cash. As a result, this principal amount, representing 62.3 million shares at December 31, 2015, was not included in the computation of diluted EPS. However, as discussed in Note 11, the conversion options associated with the 2019 Notes are “in-the-money” as the if-converted values of the 2019 Notes exceeded their principal amounts by \$2.2 million at December 31, 2015. The dilutive effect to EPS is determined by dividing this “conversion spread value” by the average share price. The “conversion spread value” is the value that would be delivered to investors in shares based on the terms of the Convertible Notes, upon an assumed conversion. In calculating the dilutive effect of these shares, the treasury stock method was used and resulted in a dilution of 0.1 million shares for the year ended December 31, 2015. The conversion option associated with the 2017 Notes and 2018 Notes are “out-of-the-money” because the if-converted value of the 2017 Notes and 2018 Notes was less than their principal amount by \$61.2 million and \$30.7 million, respectively, at December 31, 2015, therefore, there was no dilutive effect to EPS for the 2017 Notes and 2018 Notes.

19. Accumulated Other Comprehensive Income

The changes in AOCI by component are as follows (in thousands):

	Effective Portion of Cumulative Loss on Cash Flow Hedges	Cumulative Unrealized Gain (Loss) on Available-for- Sale Securities	Foreign Currency Translation	Total
Balance at January 1, 2013	\$ (2,571)	\$ 82,246	\$ —	\$ 79,675
OCI before reclassifications	334	10,723	9,487	20,544
Amounts reclassified from AOCI	1,633	(26,403)	—	(24,770)
Net period OCI	1,967	(15,680)	9,487	(4,226)
Balance at December 31, 2013	(604)	66,566	9,487	75,449
OCI before reclassifications	(865)	3,683	(13,684)	(10,866)
Amounts reclassified from AOCI	1,372	(10,059)	—	(8,687)
Net period OCI	507	(6,376)	(13,684)	(19,553)
Balance at December 31, 2014	(97)	60,190	(4,197)	55,896
OCI before reclassifications	(709)	(17,487)	(9,285)	(27,481)
Amounts reclassified from AOCI	741	(5,396)	5,969	1,314
Net period OCI	32	(22,883)	(3,316)	(26,167)
Balance at December 31, 2015	\$ (65)	\$ 37,307	\$ (7,513)	\$ 29,729

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The reclassifications out of AOCI impacted the consolidated statements of operations for the years ended December 31, 2015, 2014 and 2013 as follows:

Details about AOCI Components	Amounts Reclassified from AOCI during the Year Ended December 31,			Affected Line Item in the Statements of Operations
	2015	2014	2013	
Losses on cash flow hedges:				
Interest rate contracts	\$ (741)	\$ (1,372)	\$ (1,633)	Interest expense
Unrealized gains (losses) on available-for-sale securities:				
Interest realized upon collection	5,396	—	—	Interest income from investment securities
Net realized gain on sale of investments	—	10,148	27,417	Gain on sale of investments and other assets, net
OTTI	—	(89)	(1,014)	OTTI
Total	5,396	10,059	26,403	
Foreign currency translation:				
Foreign currency loss from CMBS redemption	(5,969)	—	—	Foreign currency loss, net
Total reclassifications for the period	\$ (1,314)	\$ 8,687	\$ 24,770	

20. Fair Value

GAAP establishes a hierarchy of valuation techniques based on the observability of inputs utilized in measuring financial assets and liabilities at fair value. GAAP establishes market based or observable inputs as the preferred source of values, followed by valuation models using management assumptions in the absence of market inputs. The

three levels of the hierarchy are described below:

Level I—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II—Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level III—Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Valuation Process

We have valuation control processes in place to validate the fair value of the Company's financial assets and liabilities measured at fair value including those derived from pricing models. These control processes are designed to assure that the values used for financial reporting are based on observable inputs wherever possible. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and the assumptions are reasonable.

Pricing Verification—We use recently executed transactions, other observable market data such as exchange data, broker/dealer quotes, third party pricing vendors and aggregation services for validating the fair values generated using valuation models. Pricing data provided by approved external sources is evaluated using a number of approaches; for example, by corroborating the external sources' prices to executed trades, analyzing the methodology and

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assumptions used by the external source to generate a price and/or by evaluating how active the third party pricing source (or originating sources used by the third party pricing source) is in the market.

Unobservable Inputs—Where inputs are not observable, we review the appropriateness of the proposed valuation methodology to ensure it is consistent with how a market participant would arrive at the unobservable input. The valuation methodologies utilized in the absence of observable inputs may include extrapolation techniques and the use of comparable observable inputs.

Any changes to the valuation methodology will be reviewed by our management to ensure the changes are appropriate. The methods used may produce a fair value calculation that is not indicative of net realizable value or reflective of future fair values. Furthermore, while we anticipate that our valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value could result in a different estimate of fair value at the reporting date.

Fair Value on a Recurring Basis

We determine the fair value of our financial assets and liabilities measured at fair value on a recurring basis as follows:

Loans held-for-sale

We measure the fair value of our mortgage loans held-for-sale within the Investing and Servicing Segment's conduit platform using a discounted cash flow analysis unless observable market data (i.e., securitized pricing) is available. A discounted cash flow analysis requires management to make estimates regarding future interest rates and credit spreads. The most significant of these inputs relates to credit spreads and is unobservable. Thus, we have determined that the fair values of mortgage loans valued using a discounted cash flow analysis should be classified in Level III of the fair value hierarchy, while mortgage loans valued using securitized pricing should be classified in Level II of the fair value hierarchy. Mortgage loans classified in Level III are transferred to Level II if securitized pricing becomes available.

RMBS

RMBS are valued utilizing observable and unobservable market inputs. The observable market inputs include recent transactions, broker quotes and vendor prices ("market data"). However, given the implied price dispersion amongst the market data, the fair value determination for RMBS has also utilized significant unobservable inputs in discounted cash flow models including prepayments, default and severity estimates based on the recent performance of the collateral, the underlying collateral characteristics, industry trends, as well as expectations of macroeconomic events (e.g., housing price curves, interest rate curves, etc.). At each measurement date, we consider both the observable and unobservable valuation inputs in the determination of fair value. However, given the significance of the unobservable inputs these securities have been classified within Level III.

CMBS

CMBS are valued utilizing both observable and unobservable market inputs. These factors include projected future cash flows, ratings, subordination levels, vintage, remaining lives, credit issues, recent trades of similar securities and the spreads used in the prior valuation. We obtain current market spread information where available and use this information in evaluating and validating the market price of all CMBS. Depending upon the significance of the fair value inputs used in determining these fair values, these securities are classified in either Level II or Level III of the fair value

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hierarchy. CMBS may shift between Level II and Level III of the fair value hierarchy if the significant fair value inputs used to price the CMBS become or cease to be observable.

Equity security

The equity security is publicly registered and traded in the United States and its market price is listed on the London Stock Exchange. The security has been classified within Level I.

Domestic servicing rights

The fair value of this intangible is determined using discounted cash flow modeling techniques which require management to make estimates regarding future net servicing cash flows, including forecasted loan defeasance, control migration, delinquency and anticipated maturity defaults which are calculated assuming a debt yield at which default occurs. Since the most significant of these inputs are unobservable, we have determined that the fair values of this intangible in its entirety should be classified in Level III of the fair value hierarchy.

Derivatives

The valuation of derivative contracts are determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market based inputs, including interest rate curves, spot and market forward points and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level II of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level III inputs, such as estimates of current credit spreads to evaluate the likelihood of default by us and our counterparties. However, as of December 31, 2015 and 2014, we have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not as significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level II of the fair value hierarchy.

The valuation of over the counter ("OTC") derivatives are determined using discounted cash flows based on Overnight Index Swap ("OIS") rates. Fully collateralized trades are discounted using OIS with no additional economic adjustments to arrive at fair value. Uncollateralized or partially collateralized trades are also discounted at OIS, but include appropriate economic adjustments for funding costs (i.e., a LIBOR OIS basis adjustment to approximate uncollateralized cost of funds) and credit risk.

For credit index instruments, fair value is determined based on changes in the relevant indices from the date of initiation of the instrument to the reporting date, as these changes determine the amount of any future cash settlement between us and the counterparty. These indices are considered Level II inputs as they are directly observable. We have assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our credit index

instruments and have determined that any credit valuation adjustment would not be significant to the overall valuation as

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the counterparty to these contracts is a highly rated global financial institution. As a result, we have determined that credit index instruments are classified in Level II of the fair value hierarchy.

Liabilities of consolidated VIEs

We utilize several inputs and factors in determining the fair value of VIE liabilities, including future cash flows, market transaction information, ratings, subordination levels, and current market spread and pricing information where available. Quoted market prices are used when this debt trades as an asset. Depending upon the significance of the fair value inputs used in determining these fair values, these liabilities are classified in either Level II or Level III of the fair value hierarchy. VIE liabilities may shift between Level II and Level III of the fair value hierarchy if the significant fair value inputs used to price the VIE liabilities become or cease to be observable.

Assets of consolidated VIEs

The VIEs in which we invest are “static”; that is, no reinvestment is permitted, and there is no active management of the underlying assets. In determining the fair value of the assets of the VIE, we maximize the use of observable inputs over unobservable inputs. We also acknowledge that our principal market for selling CMBS assets is the securitization market where the market participant is considered to be a CMBS trust or a CDO. This methodology results in the fair value of the assets of a static CMBS trust being equal to the fair value of its liabilities. The individual assets of a VIE are inherently incapable of precise measurement given their illiquid nature and the limitations on available information related to these assets. Because our methodology for valuing these assets does not value the individual assets of a VIE, but rather uses the value of the VIE liabilities as an indicator of the fair value of VIE assets as a whole, we have determined that our valuations of VIE assets in their entirety should be classified in Level III of the fair value hierarchy.

Fair Value Only Disclosed

We determine the fair value of our financial instruments and assets where fair value is disclosed as follows:

Loans held for investment and loans transferred as secured borrowings

We estimate the fair values of our loans not carried at fair value on a recurring basis by discounting their expected cash flows at a rate we estimate would be demanded by the market participants that are most likely to buy our loans. The expected cash flows used are generally the same as those used to calculate our level yield income in the financial statements. Since these inputs are unobservable, we have determined that the fair value of these loans in their entirety would be classified in Level III of the fair value hierarchy.

HTM securities

We estimate the fair value of our mandatorily redeemable preferred equity interests in commercial real estate companies using the same methodology described for our loans held for investment. We estimate the fair value of our HTM CMBS using the same methodology described for our CMBS carried at fair value on a recurring basis.

European servicing rights

The fair value of this intangible was determined using discounted cash flow modeling techniques which require management to make estimates regarding future net servicing cash flows. Since the most significant of these inputs are unobservable, we have determined that the fair values of these intangibles in their entirety should be classified in Level III of the fair value hierarchy.

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Secured financing agreements and secured borrowings on transferred loans

The fair value of the secured financing agreements and secured borrowings on transferred loans are determined by discounting the contractual cash flows at the interest rate we estimate such arrangements would bear if executed in the current market. We have determined that our valuation of secured financing agreements and secured borrowings on transferred loans should be classified in Level III of the fair value hierarchy.

Convertible Notes

The fair value of the debt component of our Convertible Notes is estimated by discounting the contractual cash flows at the interest rate we estimate such notes would bear if sold in the current market without the embedded conversion option which, in accordance with ASC 470, is reflected as a component of equity. We have determined that our valuation of our Convertible Notes should be classified in Level III of the fair value hierarchy.

Fair Value Disclosures

The following tables present our financial assets and liabilities carried at fair value on a recurring basis in the consolidated balance sheets by their level in the fair value hierarchy as of December 31, 2015 and 2014 (amounts in thousands):

	December 31, 2015			
	Total	Level I	Level II	Level III
Financial Assets:				
Loans held-for-sale, fair value option	\$ 203,865	\$ —	\$ —	\$ 203,865
RMBS	176,224	—	—	176,224
CMBS	212,981	—	—	212,981
Equity security	14,498	14,498	—	—
Domestic servicing rights	119,698	—	—	119,698
Derivative assets	45,091	—	45,091	—
VIE assets	76,675,689	—	—	76,675,689
Total	\$ 77,448,046	\$ 14,498	\$ 45,091	\$ 77,388,457
Financial Liabilities:				
Derivative liabilities	\$ 5,196	\$ —	\$ 5,196	\$ —
VIE liabilities	75,817,014	—	73,264,566	2,552,448
Total	\$ 75,822,210	\$ —	\$ 73,269,762	\$ 2,552,448

	December 31, 2014			
	Total	Level I	Level II	Level III
Financial Assets:				
Loans held-for-sale, fair value option	\$ 391,620	\$ —	\$ —	\$ 391,620

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RMBS	207,053	—	—	207,053
CMBS	334,080	—	—	334,080
Equity security	15,120	15,120	—	—
Domestic servicing rights	132,303	—	—	132,303
Derivative assets	26,628	—	26,628	—
VIE assets	107,816,065	—	—	107,816,065
Total	\$ 108,922,869	\$ 15,120	\$ 26,628	\$ 108,881,121
Financial Liabilities:				
Derivative liabilities	\$ 5,476	\$ —	\$ 5,476	\$ —
VIE liabilities	107,232,201	—	102,339,081	4,893,120
Total	\$ 107,237,677	\$ —	\$ 102,344,557	\$ 4,893,120

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The changes in financial assets and liabilities classified as Level III are as follows for the years ended December 31, 2015 and 2014 (amounts in thousands):

	Loans Held for sale	RMBS	CMBS	Domestic Servicing Rights	VIE Assets	VIE Liabilities	Total
January 1, 2014 balance	\$ 206,672	\$ 296,236	\$ 208,006	\$ 150,149	\$ 103,151,624	\$ (1,597,984)	\$ 102,414,703
Total realized and unrealized gains (losses):							
Included in earnings:							
Change in fair value / gain on sale	70,420	11,677	11,712	(16,788)	(15,306,563)	(762,590)	(15,992,132)
OTTI	—	(259)	—	—	—	—	(259)
Net accretion	—	20,600	—	—	—	—	20,600
Included in OCI	—	59	(12,876)	—	—	—	(12,817)
Purchases / Originations	1,785,769	—	113,240	—	—	—	1,899,009
Sales	(1,670,522)	(68,134)	(29,301)	—	—	—	(1,767,957)
Issuances	—	—	—	—	—	(89,354)	(89,354)
Cash repayments / receipts	(719)	(53,126)	(1,124)	—	—	118,165	63,196
Transfers into Level III	—	—	54,220	—	—	(3,428,958)	(3,374,738)
Transfers out of Level III	—	—	(180)	(1,058)	—	2,827,109	2,825,871
Consolidations of VIEs	—	—	(10,474)	—	29,363,132	(2,004,330)	27,348,328
Deconsolidations of VIEs	—	—	857	—	(9,392,128)	44,822	(9,346,449)
December 31, 2014 balance	391,620	207,053	334,080	132,303	107,816,065	(4,893,120)	103,988,001
Total realized and unrealized gains (losses):							
Included in earnings:							
Change in fair value / gain on sale	64,320	—	(3,093)	(12,605)	(35,365,585)	3,980,376	(31,336,587)
OTTI	—	—	—	—	—	—	—
Net accretion	—	20,625	—	—	—	—	20,625
Included in OCI	—	(16,210)	(2,363)	—	—	—	(18,573)

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Purchases /							
Originations	1,848,879	—	14,653	—	—	—	1,863,532
Sales	(2,100,216)	—	(6,410)	—	—	—	(2,106,626)
Issuances	—	—	—	—	—	(9,132)	(9,132)
Cash repayments / receipts	(738)	(35,244)	(100,738)	—	—	304,816	168,096
Transfers into Level III	—	—	—	—	—	(2,920,033)	(2,920,033)
Transfers out of Level III	—	—	—	—	—	1,290,497	1,290,497
Consolidations of VIEs	—	—	(24,309)	—	12,050,421	(363,008)	11,663,104
Deconsolidations of VIEs	—	—	1,161	—	(7,825,212)	57,156	(7,766,895)
December 31, 2015 balance	\$ 203,865	\$ 176,224	\$ 212,981	\$ 119,698	\$ 76,675,689	\$ (2,552,448)	\$ 74,836,009
Amount of total gains (losses) included in earnings attributable to assets still held at:							
December 31, 2014	\$ 1,278	\$ 18,376	\$ 9,747	\$ (16,788)	\$ (15,306,563)	\$ (762,590)	\$ (16,056,540)
December 31, 2015	155	15,131	3,134	(12,605)	(35,365,585)	3,980,376	(31,379,394)

Amounts were transferred from Level II to Level III due to a decrease in the observable relevant market activity and amounts were transferred from Level III to Level II due to an increase in the observable relevant market activity.

The following table presents the fair values, all of which are classified in Level III of the fair value hierarchy, of our financial instruments not carried at fair value on the consolidated balance sheets (amounts in thousands):

	December 31, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets not carried at fair value:				
Loans held-for-investment and loans transferred as secured borrowings	\$ 6,059,652	\$ 6,125,881	\$ 5,908,665	\$ 6,034,838
HTM securities	321,244	315,255	441,995	440,629
European servicing rights	2,626	5,302	11,849	12,741
Financial liabilities not carried at fair value:				

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Secured financing agreements and secured borrowings on transferred loans	\$ 4,107,035	\$ 4,092,264	\$ 3,267,230	3,251,035
Convertible senior notes	1,325,243	1,331,979	1,418,022	1,444,975

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The following is quantitative information about significant unobservable inputs in our Level III measurements for those assets and liabilities measured at fair value on a recurring basis (dollar amounts in thousands):

	Carrying Value at December 31, 2015	Valuation Technique	Unobservable Input	Range as of December 31, (1)		
				2015	2014	
Loans held-for-sale, fair value option	\$ 203,865	Discounted cash flow	Yield (b)	4.8% - 5.3%	4.2% - 4.9%	
			Duration (c)	5.0 - 10.0 years	10.0 years	
RMBS	176,224	Discounted cash flow	Constant prepayment rate (a)	2.6% - 17.8%	1.2% - 15.9%	
			Constant default rate (b)	1.0% - 8.9%	1.1% - 8.9%	
			Loss severity (b)	10% - 79% (e)	15% - 80% (e)	
			Delinquency rate (c)	2% - 29%	2% - 43%	
			Servicer advances (a)	30% - 94%	14% - 75%	
			Annual coupon deterioration (b)	0% - 0.5%	0% - 0.6%	
			Putback amount per projected total collateral loss (d)	0% - 11%	0% - 11%	
				0% - 435.8%	0% - 421.4%	
CMBS	212,981		Discounted cash flow	Yield (b)	0 - 18.5	0 - 11.8
				Duration (c)	years	years
Domestic servicing rights	119,698	Discounted cash flow	Debt yield (a)	8.25%	8.25%	
			Discount rate (b)	15%	15%	
			Control migration (b)	0% - 80%	0% - 80%	
VIE assets	76,675,689	Discounted cash flow	Yield (b)	0% - 920.2%	0% - 925.0%	
			Duration (c)	0 - 17.5 years	0 - 21.0 years	
VIE liabilities	2,552,448	Discounted cash flow	Yield (b)	0% - 920.2%	0% - 925.0%	
			Duration (c)	0 - 17.5 years	0 - 21.0 years	

(1) The ranges of significant unobservable inputs are represented in percentages and years.

Sensitivity of the Fair Value to Changes in the Unobservable Inputs

- (a) Significant increase (decrease) in the unobservable input in isolation would result in a significantly higher (lower) fair value measurement.
- (b) Significant increase (decrease) in the unobservable input in isolation would result in a significantly lower (higher) fair value measurement.
- (c) Significant increase (decrease) in the unobservable input in isolation would result in either a significantly lower or higher (lower or higher) fair value measurement depending on the structural features of the security in question.
- (d) Any delay in the putback recovery date leads to a decrease in fair value for the majority of securities in our RMBS portfolio.
- (e) 76% and 85% of the portfolio falls within a range of 45% - 80% as of December 31, 2015 and 2014, respectively.

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21. Income Taxes

Certain of our subsidiaries have elected to be treated as taxable REIT subsidiaries (“TRSs”). TRSs permit us to participate in certain activities from which REITs are generally precluded, as long as these activities meet specific criteria, are conducted within the parameters of certain limitations established by the Code, and are conducted in entities which elect to be treated as taxable subsidiaries under the Code. To the extent these criteria are met, we will continue to maintain our qualification as a REIT.

Our TRSs engage in various real estate-related operations, including special servicing of commercial real estate, originating and securitizing commercial mortgage loans, and investing in entities which engage in real estate-related operations. The majority of our TRSs are held within the Investing and Servicing Segment. As of December 31, 2015 and 2014, approximately \$858.5 million and \$1.0 billion, respectively, of the Investing and Servicing Segment’s assets, including \$185.6 million and \$88.6 million in cash, respectively, were owned by TRS entities. Our TRSs are not consolidated for federal income tax purposes, but are instead taxed as corporations. For financial reporting purposes, a provision for current and deferred taxes is established for the portion of earnings recognized by us with respect to our interest in TRSs.

Our income tax provision consisted of the following for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	For the year ended December 31,		
	2015	2014	2013
Current			
Federal	\$ 15,095	\$ 28,677	\$ 27,850
Foreign	6,000	5,432	1,484
State	2,532	4,946	4,768
Total current	23,627	39,055	34,102
Deferred			
Federal	(3,799)	(9,975)	(6,915)
Foreign	(1,973)	(3,400)	(1,829)
State	(649)	(1,584)	(1,305)
Total deferred	(6,421)	(14,959)	(10,049)
Total income tax provision (1)	\$ 17,206	\$ 24,096	\$ 24,053

(1) Includes provision of zero and \$0.2 million reflected in discontinued operations for the years ended December 31, 2014 and 2013, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are presented net by tax jurisdiction and are reported in other assets and other liabilities, respectively. At December 31, 2015 and 2014, our U.S. tax jurisdiction was in a net deferred tax asset position, while our European tax

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jurisdiction was in a net deferred tax liability position. The following table presents each of these tax jurisdictions and the tax effects of temporary differences on their respective net deferred tax assets and liabilities (in thousands):

	December 31,	
	2015	2014
U.S.		
Deferred tax asset, net		
Reserves and accruals	\$ 11,659	\$ 13,818
Domestic intangible assets	17,734	9,617
Investment securities and loans	(2,416)	(2,327)
Investment in unconsolidated entities	(362)	883
Deferred income	423	427
Net operating and capital loss carryforwards	2,967	2,498
Valuation allowance	(2,967)	(2,498)
Other U.S. temporary differences	343	515
	27,381	22,933
Europe		
Deferred tax liability, net		
European servicing rights	(583)	(2,681)
Net operating and capital loss carryforwards	7,606	8,702
Valuation allowance	(7,606)	(8,702)
Other European temporary differences	(346)	(337)
	(929)	(3,018)
Net deferred tax assets	\$ 26,452	\$ 19,915

Unrecognized tax benefits were not material as of and during the years ended December 31, 2015 and 2014. The Company's tax returns are no longer subject to audit for years ended prior to January 1, 2012. The Company had pre-tax income from foreign operations of \$22.0 million and \$13.5 million during the years ended December 31, 2015 and 2014, respectively, and a pre-tax loss of \$2.5 million during the year ended December 31, 2013.

The following table is a reconciliation of our federal income tax determined using our statutory federal tax rate to our reported income tax provision for the years ended December 31, 2015, 2014 and 2013 (dollar amounts in thousands):

	For the year ended December 31,					
	2015		2014		2013	
Federal statutory tax rate	\$ 164,286	35.0 %	\$ 183,622	35.0 %	\$ 117,034	35.0 %
REIT and other non-taxable income	(148,514)	(31.6) %	(160,745)	(30.7) %	(93,892)	(28.1) %
State income taxes	1,800	0.4 %	3,149	0.6 %	3,769	1.1 %
Federal benefit of state tax deduction	(630)	(0.1) %	(1,102)	(0.2) %	(1,319)	(0.4) %

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Valuation allowance	445	0.1 %	1,315	0.3 %	(1,928)	(0.6) %
Other	(181)	(0.1) %	(2,143)	(0.4) %	389	0.2 %
Effective tax rate	\$ 17,206	3.7 %	\$ 24,096	4.6 %	\$ 24,053	7.2 %

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The changes in the valuation allowance associated with our deferred tax assets are as follows for the years ended December 31, 2015 and 2014 (amounts in thousands):

	2015	2014
January 1 balance	\$ 11,200	\$ 11,750
Additions to income tax provision	445	1,315
Provision to return adjustments to deferred tax amounts	23	(822)
Foreign currency adjustments reflected in OCI	(770)	(1,086)
Other	(325)	43
December 31 balance	\$ 10,573	\$ 11,200

22. Commitments and Contingencies

As of December 31, 2015, we had future funding commitments on 54 loans totaling \$1.5 billion, of which we expect to fund \$1.3 billion. These future funding commitments primarily relate to construction projects, capital improvements, tenant improvements and leasing commissions. Generally, funding commitments are subject to certain conditions that must be met, such as customary construction draw certifications, minimum debt service coverage ratios or executions of new leases before advances are made to the borrower.

In the ordinary course of business, we provide various forms of guarantees. In limited instances, specifically involving construction loans, the Company has guaranteed the future funding obligations of certain third party lenders in the event that such third parties fail to fund their proportionate share of the obligation in a timely manner. We are currently unaware of any circumstances which would require us to make payments under any of these guarantees.

Future minimum rental payments and sublease income related to our existing corporate leases and subleases for each of the next five years and thereafter are as follows (in thousands):

	Minimum Rents	Sublease Income
2016	\$ 7,093	\$ 1,447
2017	6,797	1,481
2018	6,697	1,375
2019	6,389	789
2020	5,691	612

Thereafter	2,647	483
Total	\$ 35,314	\$ 6,187

Management is not aware of any other contractual obligations, legal proceedings, or any other contingent obligations incurred in the normal course of business that would have a material adverse effect on our consolidated financial statements.

23. Segment and Geographic Data

In its operation of the business, management, including our chief operating decision maker, who is our Chief Executive Officer, reviews certain financial information, including segmented internal profit and loss statements prepared on a basis prior to the impact of consolidating VIEs under ASC 810. The segment information within this note is reported on that basis. Effective January 1, 2015, we established a separate presentation for corporate overhead, which includes our corporate debt facilities and the associated expenses, management fee expenses and general and administrative expenses not directly allocable to our segments. Also effective January 1, 2015, we transferred a performing loan with a balance of \$25.0 million as of December 31, 2014 from our Investing and Servicing Segment to our Lending Segment. Effective upon our Ireland Portfolio acquisition discussed in Note 3, we established a third business segment, the Property Segment, and transferred our existing equity method investment in the Retail Fund from our Lending Segment to our Property Segment. As of December 31, 2014, the carrying value of the Retail Fund was \$129.5 million. We have retrospectively reclassified prior periods to conform to these changes in presentation.

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The table below presents our results of operations for the year ended December 31, 2015 by business segment (amounts in thousands):

	Lending Segment	Investing and Servicing Segment	Property Segment	Corporate	Subtotal	Investing and Servicing VIEs	Total
Revenues:							
Interest income from loans	\$ 460,365	\$ 17,566	\$ —	\$ —	\$ 477,931	\$ —	\$ 477,931
Interest income from investment securities	68,059	156,365	—	—	224,424	(130,759)	93,665
Servicing fees	428	215,770	—	—	216,198	(99,130)	117,068
Rental income	—	11,177	25,445	—	36,622	—	36,622
Other revenues	597	10,928	—	—	11,525	(934)	10,591
Total revenues	529,449	411,806	25,445	—	966,700	(230,823)	735,877
Costs and expenses:							
Management fees	901	72	—	123,532	124,505	228	124,733
Interest expense	81,676	10,386	5,584	104,904	202,550	—	202,550
General and administrative	21,685	123,746	1,205	7,275	153,911	717	154,628
Acquisition and investment pursuit costs	2,065	2,375	8,951	38	13,429	—	13,429
Costs of rental operations	—	6,121	5,421	—	11,542	—	11,542
Depreciation and amortization	—	13,972	15,038	—	29,010	—	29,010
Loan loss allowance, net	(2)	—	—	—	(2)	—	(2)
Other expense	6	383	—	—	389	—	389
Total costs and expenses	106,331	157,055	36,199	235,749	535,334	945	536,279
Income (loss) before other income, income taxes and non-controlling interests	423,118	254,751	(10,754)	(235,749)	431,366	(231,768)	199,598
Other income: Change in net assets related to	—	—	—	—	—	185,490	185,490

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consolidated VIEs							
Change in fair value of servicing rights	—	(46,831)	—	—	(46,831)	34,226	(12,605)
Change in fair value of investment securities, net	209	(9,952)	—	—	(9,743)	12,827	3,084
Change in fair value of mortgage loans held-for-sale, net	—	64,320	—	—	64,320	—	64,320
Earnings from unconsolidated entities	4,045	13,042	10,090	—	27,177	(503)	26,674
Gain on sale of investments and other assets, net	4,839	17,825	—	—	22,664	—	22,664
Gain (loss) on derivative financial instruments, net	30,764	(14,226)	5,060	—	21,598	—	21,598
Foreign currency (loss) gain, net	(36,956)	(296)	31	—	(37,221)	—	(37,221)
Loss on extinguishment of debt	—	—	—	(5,921)	(5,921)	—	(5,921)
Other income, net	—	161	1,530	17	1,708	—	1,708
Total other income (loss)	2,901	24,043	16,711	(5,904)	37,751	232,040	269,791
Income (loss) before income taxes	426,019	278,794	5,957	(241,653)	469,117	272	469,389
Income tax provision	(242)	(16,964)	—	—	(17,206)	—	(17,206)
Net income (loss)	425,777	261,830	5,957	(241,653)	451,911	272	452,183
Net income attributable to non-controlling interests	(1,389)	175	—	—	(1,214)	(272)	(1,486)
Net income (loss) attributable to Starwood Property Trust, Inc.	\$ 424,388	\$ 262,005	\$ 5,957	\$ (241,653)	\$ 450,697	\$ —	\$ 450,697

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The table below presents our results of operations for the year ended December 31, 2014 by business segment (amounts in thousands):

	Lending Segment	Investing and Servicing Segment	Property Segment	Corporate	Single Family Residential	Subtotal	Investing and Servicing VIEs	Total
Revenues:								
Interest income from loans	\$ 420,683	\$ 13,979	\$ —	\$ —	\$ —	\$ 434,662	\$ —	\$ 434,662
Interest income from investment securities	68,348	109,819	—	—	—	178,167	(66,151)	112,016
Servicing fees	330	227,145	—	—	—	227,475	(91,910)	135,565
Rental income	—	9,831	—	—	—	9,831	—	9,831
Other revenues	406	11,619	—	—	—	12,025	(1,224)	10,801
Total revenues	489,767	372,393	—	—	—	862,160	(159,285)	702,875
Costs and expenses:								
Management fees	2,079	72	—	115,411	—	117,562	170	117,732
Interest expense	65,913	4,781	—	90,410	—	161,104	—	161,104
General and administrative	21,551	141,500	—	5,887	—	168,938	723	169,661
Acquisition and investment pursuit costs	2,023	1,206	—	452	—	3,681	—	3,681
Costs of rental operations	—	5,938	—	—	—	5,938	—	5,938
Depreciation and amortization	—	16,627	—	—	—	16,627	—	16,627
Loan loss allowance, net	2,047	—	—	—	—	2,047	—	2,047
Other expense	52	7,167	—	—	—	7,219	—	7,219
Total costs and expenses	93,665	177,291	—	212,160	—	483,116	893	484,009
Income (loss) before other income, income taxes and non-controlling interests	396,102	195,102	—	(212,160)	—	379,044	(160,178)	218,866
Other income:								

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Change in net assets related to consolidated VIEs	—	—	—	—	—	—	212,506	212,506
Change in fair value of servicing rights	—	(53,065)	—	—	—	(53,065)	36,278	(16,787)
Change in fair value of investment securities, net	822	97,723	—	—	—	98,545	(83,468)	15,077
Change in fair value of mortgage loans held-for-sale, net	—	70,420	—	—	—	70,420	—	70,420
Earnings from unconsolidated entities	7,484	13,610	2,176	—	—	23,270	(3,338)	19,932
Gain on sale of investments, net	12,886	—	—	—	—	12,886	—	12,886
Gain (loss) on derivative financial instruments, net	30,713	(10,262)	—	—	—	20,451	—	20,451
Foreign currency loss, net	(29,139)	(803)	—	—	—	(29,942)	—	(29,942)
OTTI	(259)	(797)	—	—	—	(1,056)	—	(1,056)
Other income, net	(327)	4,159	—	—	—	3,832	—	3,832
Total other income	22,180	120,985	2,176	—	—	145,341	161,978	307,319
Income (loss) from continuing operations before income taxes	418,282	316,087	2,176	(212,160)	—	524,385	1,800	526,185
Income tax provision	(1,476)	(22,620)	—	—	—	(24,096)	—	(24,096)
Income (loss) from continuing operations	416,806	293,467	2,176	(212,160)	—	500,289	1,800	502,089
Loss from discontinued operations, net of tax	—	—	—	—	(1,551)	(1,551)	—	(1,551)
Net income (loss)	416,806	293,467	2,176	(212,160)	(1,551)	498,738	1,800	500,537
Net income attributable to	(3,717)	—	—	—	—	(3,717)	(1,800)	(5,517)

non-controlling
interests
Net income
(loss)
attributable to
Starwood
Property
Trust, Inc.

\$ 413,089	\$ 293,467	\$ 2,176	\$ (212,160)	\$ (1,551)	\$ 495,021	\$ —	\$ 495,021
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The table below presents our results of operations for the year ended December 31, 2013 by business segment (amounts in thousands):

	Lending Segment	Investing and Servicing Segment	Single Family Residential	Corporate	Subtotal	Investing and Servicing VIEs	Total
Revenues:							
Interest income from loans	\$ 335,078	\$ 9,562	\$ —	\$ —	\$ 344,640	\$ —	\$ 344,640
Interest income from investment securities	57,802	54,020	—	—	111,822	(37,510)	74,312
Servicing fees	—	179,015	—	—	179,015	(54,289)	124,726
Rental income	6	—	—	—	6	—	6
Other revenues	592	6,111	—	—	6,703	(892)	5,811
Total revenues	393,478	248,708	—	—	642,186	(92,691)	549,495
Costs and expenses:							
Management fees	2,993	51	—	73,650	76,694	122	76,816
Interest expense	65,007	3,117	—	43,679	111,803	—	111,803
General and administrative	11,125	132,713	—	5,658	149,496	523	150,019
Business combination costs	—	—	—	17,958	17,958	—	17,958
Acquisition and investment pursuit costs	2,819	829	—	—	3,648	—	3,648
Depreciation and amortization	—	9,701	—	—	9,701	—	9,701
Loan loss allowance, net	1,923	—	—	—	1,923	—	1,923
Other expense	150	1,148	—	—	1,298	—	1,298
Total costs and expenses	84,017	147,559	—	140,945	372,521	645	373,166
Income (loss) before other income, income taxes and non-controlling interests	309,461	101,149	—	(140,945)	269,665	(93,336)	176,329
Other income:	—	—	—	—	—	116,377	116,377

Change in net assets related to consolidated VIEs							
Change in fair value of servicing rights	—	(15,868)	—	—	(15,868)	9,024	(6,844)
Change in fair value of investment securities, net	(148)	22,657	—	—	22,509	(31,393)	(8,884)
Change in fair value of mortgage loans held-for-sale, net	—	43,849	—	—	43,849	—	43,849
Earnings from unconsolidated entities	4,776	4,502	—	—	9,278	(437)	8,841
Gain on sale of investments, net	25,063	—	—	—	25,063	—	25,063
(Loss) gain on derivative financial instruments, net	(13,259)	2,089	—	—	(11,170)	—	(11,170)
Foreign currency gain (loss), net	10,478	(95)	—	—	10,383	—	10,383
OTTI	(1,014)	—	—	—	(1,014)	—	(1,014)
Other income, net	15	1,037	—	—	1,052	—	1,052
Total other income	25,911	58,171	—	—	84,082	93,571	177,653
Income (loss) from continuing operations before income taxes	335,372	159,320	—	(140,945)	353,747	235	353,982
Income tax provision	1,722	(25,580)	—	—	(23,858)	—	(23,858)
Income (loss) from continuing operations	337,094	133,740	—	(140,945)	329,889	235	330,124
Loss from discontinued operations, net of tax	—	—	(8,106)	(11,688)	(19,794)	—	(19,794)
Net income (loss)	337,094	133,740	(8,106)	(152,633)	310,095	235	310,330
Net income attributable to	(5,065)	—	—	—	(5,065)	(235)	(5,300)

non-controlling
interests
Net income
(loss)
attributable to
Starwood
Property
Trust, Inc.

\$ 332,029	\$ 133,740	\$ (8,106)	\$ (152,633)	\$ 305,030	\$ —	\$ 305,030
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The table below presents our consolidated balance sheet as of December 31, 2015 by business segment (amounts in thousands):

	Lending Segment	Investing and Servicing Segment	Property Segment	Corporate	Subtotal	Investing and Servicing VIEs	Total
Assets:							
Cash and cash equivalents	\$ 83,836	\$ 62,649	\$ 2,944	\$ 218,408	\$ 367,837	\$ 978	\$ 368,815
Restricted cash	9,775	8,826	4,468	—	23,069	—	23,069
Receivables							
Available-for-investment, net	5,973,079	—	—	—	5,973,079	—	5,973,079
Assets held-for-sale	—	203,865	—	—	203,865	—	203,865
Assets transferred as							
Secured borrowings	86,573	—	—	—	86,573	—	86,573
Investment securities	511,966	1,038,200	—	—	1,550,166	(825,219)	724,947
Properties, net	—	150,497	768,728	—	919,225	—	919,225
Intangible assets	—	152,278	61,121	—	213,399	(11,829)	201,570
Investment in							
Consolidated entities	30,827	53,145	122,454	—	206,426	(7,225)	199,201
Goodwill	—	140,437	—	—	140,437	—	140,437
Intangible assets	33,412	2,087	9,592	—	45,091	—	45,091
Accrued interest							
Receivable	34,028	286	—	—	34,314	—	34,314
Other assets	27,883	72,936	31,853	11,648	144,320	(2,057)	142,263
Other assets, at fair value	—	—	—	—	—	76,675,689	76,675,689
Total Assets	\$ 6,791,379	\$ 1,885,206	\$ 1,001,160	\$ 230,056	\$ 9,907,801	\$ 75,830,337	\$ 85,738,000
Liabilities and Equity							
Liabilities:							
Accounts payable, accrued expenses							
Other liabilities	\$ 18,822	\$ 90,399	\$ 25,427	\$ 21,468	\$ 156,116	\$ 689	\$ 156,805
Related-party payable	—	423	—	40,532	40,955	—	40,955
Dividends payable	—	—	—	114,947	114,947	—	114,947
Intangible liabilities	5,190	6	—	—	5,196	—	5,196
Secured financing							
Commitments, net	2,361,842	423,691	576,934	656,568	4,019,035	—	4,019,035
Convertible senior notes,							
	—	—	—	1,325,243	1,325,243	—	1,325,243
Secured borrowings on							
Transferred loans	88,000	—	—	—	88,000	—	88,000
Other liabilities, at fair value	—	—	—	—	—	75,817,014	75,817,014
Total Liabilities	2,473,854	514,519	602,361	2,158,758	5,749,492	75,817,703	81,567,000

ity:							
wood Property							
st, Inc.							
Stockholders' Equity:							
Common stock	—	—	—	2,410	2,410	—	2,410
Additional paid-in capital	2,477,987	1,146,926	394,465	173,466	4,192,844	—	4,192,8
Treasury stock	—	—	—	(72,381)	(72,381)	—	(72,381)
Accumulated other							
Comprehensive income							
(Losses)	37,242	(3,714)	(3,799)	—	29,729	—	29,729
Retained earnings							
(Accumulated deficit)	1,790,705	221,073	8,133	(2,032,197)	(12,286)	—	(12,286)
Starwood Property							
st, Inc. Stockholders'							
Equity	4,305,934	1,364,285	398,799	(1,928,702)	4,140,316	—	4,140,3
Non-controlling interests							
Consolidated subsidiaries	11,591	6,402	—	—	17,993	12,634	30,627
Total Equity	4,317,525	1,370,687	398,799	(1,928,702)	4,158,309	12,634	4,170,9
Total Liabilities and							
Equity	\$ 6,791,379	\$ 1,885,206	\$ 1,001,160	\$ 230,056	\$ 9,907,801	\$ 75,830,337	\$ 85,738,

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The table below presents our consolidated balance sheet as of December 31, 2014 by business segment (amounts in thousands):

	Lending Segment	Investing and Servicing Segment	Property Segment	Corporate	Subtotal	Investing and Servicing VIEs	Total
Assets:							
and cash							
equivalents	\$ 125,132	\$ 85,252	\$ —	\$ 44,017	\$ 254,401	\$ 786	\$ 255,187
restricted cash	34,941	13,763	—	—	48,704	—	48,704
investments							
held-for-investment, net	5,771,307	7,931	—	—	5,779,238	—	5,779,238
held-for-sale	—	391,620	—	—	391,620	—	391,620
transferred as							
secured borrowings	129,427	—	—	—	129,427	—	129,427
investment securities	764,517	753,553	—	—	1,518,070	(519,822)	998,248
properties, net	—	39,854	—	—	39,854	—	39,854
intangible assets	—	190,207	—	—	190,207	(46,055)	144,152
investment in							
consolidated entities	22,537	48,693	129,475	—	200,705	(6,722)	193,983
goodwill	—	140,437	—	—	140,437	—	140,437
intangible assets	23,579	3,049	—	—	26,628	—	26,628
acquired							
interest receivable	39,188	914	—	—	40,102	—	40,102
other assets	21,329	61,048	—	14,739	97,116	(1,464)	95,652
intangible assets, at fair value	—	—	—	—	—	107,816,065	107,816,065
Intangible Assets	\$ 6,931,957	\$ 1,736,321	\$ 129,475	\$ 58,756	\$ 8,856,509	\$ 107,242,788	\$ 116,099,073
Liabilities and Equity							
Liabilities:							
accounts payable, accrued expenses							
other liabilities	\$ 23,015	\$ 97,424	\$ —	\$ 23,620	\$ 144,059	\$ 457	\$ 144,516
related-party payable	—	4,405	—	36,346	40,751	—	40,751
dividends payable	—	—	—	108,189	108,189	—	108,189
intangible liabilities	3,662	1,814	—	—	5,476	—	5,476
secured financing							
commitments, net	2,252,493	222,363	—	662,933	3,137,789	—	3,137,789
convertible senior notes,							
	—	—	—	1,418,022	1,418,022	—	1,418,022
secured borrowings on							
transferred loans	129,441	—	—	—	129,441	—	129,441
	—	—	—	—	—	107,232,201	107,232,201

Liabilities, at fair value							
Total Liabilities	2,408,611	326,006	—	2,249,110	4,983,727	107,232,658	112,216,000
Equity:							
Starwood Property Trust, Inc.							
Stockholders' Equity:							
Common stock	—	—	—	2,248	2,248	—	2,248
Additional paid-in capital	3,126,845	1,413,608	127,299	(832,027)	3,835,725	—	3,835,725
Treasury stock	—	—	—	(23,635)	(23,635)	—	(23,635)
Accumulated other comprehensive income	55,781	115	—	—	55,896	—	55,896
Retained earnings (accumulated deficit)	1,328,794	(3,408)	2,176	(1,336,940)	(9,378)	—	(9,378)
Total Starwood Property Trust, Inc. Stockholders' Equity	4,511,420	1,410,315	129,475	(2,190,354)	3,860,856	—	3,860,856
Non-controlling interests							
Consolidated subsidiaries	11,926	—	—	—	11,926	10,130	22,056
Total Equity	4,523,346	1,410,315	129,475	(2,190,354)	3,872,782	10,130	3,882,912
Total Liabilities and Equity	\$ 6,931,957	\$ 1,736,321	\$ 129,475	\$ 58,756	\$ 8,856,509	\$ 107,242,788	\$ 116,099,000

Revenues generated from foreign sources were \$134.7 million, \$111.5 million and \$64.8 million for the years ended December 31, 2015, 2014 and 2013, respectively. The majority of our revenues generated from foreign sources are derived from Ireland and the United Kingdom. Refer to Schedule III for a detailed listing of the properties held by the Company, including their respective geographic locations.

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24. Quarterly Financial Data (Unaudited)

The following table summarizes our quarterly financial data which, in the opinion of management, reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of our results of operations (amounts in thousands, except per share data):

	For the Three-Month Periods Ended			
	March 31	June 30	September 30	December 31
2015:				
Revenues	\$ 178,849	\$ 178,660	\$ 192,145	\$ 186,223
Income from continuing operations	120,779	117,640	117,116	96,648
Net income	120,779	117,640	117,116	96,648
Net income attributable to Starwood Property Trust, Inc.	120,363	117,148	116,735	96,451
Basic earnings per share:				
Continuing operations	0.53	0.49	0.49	0.40
Net income	0.53	0.49	0.49	0.40
Diluted earnings per share:				
Continuing operations	0.52	0.49	0.49	0.40
Net income	0.52	0.49	0.49	0.40
2014:				
Revenues	171,979	170,750	181,368	178,778
Income from continuing operations	122,432	120,382	167,390	91,885
Net income	120,881	120,382	167,390	91,885
Net income attributable to Starwood Property Trust, Inc.	120,601	117,868	165,044	91,508
Basic earnings per share:				
Continuing operations	0.62	0.53	0.73	0.41
Net income	0.61	0.53	0.73	0.41
Diluted earnings per share:				
Continuing operations	0.61	0.52	0.73	0.40
Net income	0.60	0.52	0.73	0.40

Annual EPS may not equal the sum of each quarter's EPS due to rounding and other computational factors.

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25. Subsequent Events

Our significant events subsequent to December 31, 2015 were as follows:

Woodstar Portfolio Acquisitions

Since December 31, 2015, we have acquired 12 properties in the Woodstar Portfolio, comprised of 3,082 units, which were previously under contract for an aggregate gross acquisition price of \$202.8 million. We assumed sponsored debt of \$126.7 million at acquisition.

Amendment to Share Repurchase Program and Subsequent Repurchases

In January 2016, our board of directors authorized a \$50.0 million increase and an extension of our share repurchase program through January 2017, increasing the maximum amount of shares and Convertible Notes available for repurchase under the program to \$500.0 million. Subsequent to December 31, 2015 and through February 19, 2016, we repurchased 1.1 million shares for \$19.7 million and no Convertible Notes, bringing the remaining capacity under the repurchase program to \$282.1 million as of February 19, 2016.

Dividend Declaration

On February 25, 2016, our board of directors declared a dividend of \$0.48 per share for the first quarter of 2016, which is payable on April 15, 2016 to common stockholders of record as of March 31, 2016.

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Starwood Property Trust, Inc. and Subsidiaries

Schedule III—Real Estate and Accumulated Depreciation

December 31, 2015

(Dollars in thousands)

Property Type / Geographic Location	Initial Cost to Company		Costs Capitalized Subsequent		Gross Amounts Carried at December 31, 2015		Accumulated Depreciation	Acquisition Date	
	Encumbrances	Land	Property	Acquisition	Land	Property			Total
Individually significant properties									
Office—Dublin, Ireland—1	\$ 78,331	\$ 35,476	\$ 69,301	\$ —	\$ 35,476	\$ 69,301	\$ 104,777	\$ (1,012)	Jul-15
Office—Dublin, Ireland—2	49,559	23,144	46,844	—	23,144	46,844	69,988	(1,012)	May-15
Office—Dublin, Ireland—3	44,398	21,901	39,149	—	21,901	39,149	61,050	(845)	May-15
Office—Dublin, Ireland—4	33,922	14,993	31,495	—	14,993	31,495	46,488	(680)	May-15
Aggregated properties									
Office—Ireland (8 properties)	102,059	53,931	83,255	—	53,931	83,255	137,186	(1,798)	May-15
Multi-family—U.S., South East (24 properties)	275,981	82,613	282,947	1,410	82,613	284,357	366,970	(2,047)	Sep-14 to Dec-15
Multi-family—U.S., South West (1 property)	—	665	2,356	—	665	2,356	3,021	(105)	Sep-14
Multi-family—Ireland (1 property)	11,053	8,247	8,766	—	8,247	8,766	17,013	(189)	May-15
Retail—U.S., North East (3 properties)	23,057	7,457	24,804	286	7,457	25,090	32,547	(173)	May-15 to Nov-15
Retail—U.S., West (2 properties)	—	1,339	2,910	—	1,339	2,910	4,249	(5)	Dec-15
Retail—U.S., South East (3 properties)	4,838	7,617	12,304	—	7,617	12,304	19,921	(85)	Aug-15 to Dec-15
	12,300	5,238	5,692	—	5,238	5,692	10,930	(39)	Nov-15

Retail—U.S., Midwest (1 property)									
Retail—U.S., South West (3 properties)	24,400	10,108	26,615	188	10,108	26,803	36,911	(691)	Oct-14 to Sep-15
Industrial—U.S., Midwest (1 property)	—	717	2,557	35	717	2,592	3,309	(145)	Apr-14
Self-storage—U.S., North East (1 property)	—	2,202	11,498	—	2,202	11,498	13,700	(9)	Dec-15
	\$ 659,898	\$ 275,648	\$ 650,493	\$ 1,919	\$ 275,648	\$ 652,412	\$ 928,060(2)	\$ (8,835)	

Notes to Schedule III:

- (1) No costs subsequent to acquisition are capitalized to land.
- (2) The aggregate cost for federal income tax purposes is \$1.0 billion.
- (3) Depreciation is computed based upon estimated useful lives as described in Note 7 of our Consolidated Financial Statements.

The following schedule presents our real estate activity during the years ended December 31, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Beginning balance, January 1	\$ 40,497	\$ 754,981	\$ 99,328
Additions during the year:			
Acquisitions (1)	900,247	96,901	539,610
Acquisitions through foreclosure	12,548	7,897	18,867
Gain on conversion of loans to real estate	—	—	8,624
Improvements	2,056	1,872	102,490
Total additions	914,851	106,670	669,591
Deductions during the year:			
Spin-off of SWAY	—	(819,239)	—
Costs of real estate sold	(18,421)	(1,915)	12,842
Foreign currency translation	(8,867)	—	—
Other	—	—	1,096
Total deductions	(27,288)	(821,154)	13,938
Ending balance, December 31	\$ 928,060	\$ 40,497	\$ 754,981

- (1) Refer to Note 16 of our Consolidated Financial Statements for a discussion of property acquisitions from related

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parties.

The following schedule presents activity within accumulated depreciation during the years ended December 31, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Beginning balance, January 1	\$ 643	\$ 5,767	\$ 213
Depreciation expense	8,802	2,183	5,554
Spin-off of SWAY	—	(7,221)	—
Disposition/write-offs	(539)	(86)	—
Foreign currency translation	(71)	—	—
Ending balance, December 31	\$ 8,835	\$ 643	\$ 5,767

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Starwood Property Trust, Inc. and Subsidiaries

Schedule IV—Mortgage Loans on Real Estate

December 31, 2015

(Dollars in thousands)

Description/ Location	Prior	Face	Carrying	Interest Rate(2)	Payment	Maturity Date(4)
	Liens(1)	Amount	Amount		Terms(3)	
Individually Significant First Mortgages:						
Hospitality, Various, USA-1	\$ —	\$ 164,902	\$ 163,282	L+2.40%	I/O	12/9/2018
Hospitality, Various, USA-2	—	41,225	41,223	L+9.90%	I/O	12/9/2018
Mixed Use, New York, NY-1	—	118,750	117,951	L+8.00%	I/O	1/31/2019
Mixed Use, New York, NY-2	—	32,700	32,388	L+8.00%	I/O	1/31/2019
Mixed Use, New York, NY-3	—	42,687	40,840	L+8.00%	I/O	1/31/2019
Mixed Use, New York, NY-4	—	53,000	51,573	5.90%	I/O	1/31/2019
Office, London, England-1	—	88,428	87,759	5.61%	I/O	10/1/2018
Office, London, England-2	—	309,498	307,186	3GBP+3.90%	I/O	10/1/2018
Office, New York, NY-1	—	140,000	139,475	L+10.90%	I/O	4/9/2018
Office, New York, NY-2	—	161,085	160,101	L+3.50%	I/O	4/9/2018
Office, New York, NY-3	—	48,914	48,608	L+3.50%	I/O	4/9/2018
Aggregated First Mortgages:						
Hospitality, International, Floating (1 mortgage)	N/A	N/A	54,175	3EU+7.00%	N/A	2016
Hospitality, North East, Floating (6 mortgages)	N/A	N/A	72,798	L+2.75% to 9.75%	N/A	2017-2018
	N/A	N/A	68,015	9.00%	N/A	2016

Hospitality, South East, Fixed (1 mortgage)						
Hospitality, South East, Floating (10 mortgages)	N/A	N/A	406,940	L+2.65% to 13.00%	N/A	2016-2019
Hospitality, South West, Floating (4 mortgages)	N/A	N/A	131,536	L+2.25% to 9.75%	N/A	2020
Hospitality, West, Floating (14 mortgages)	N/A	N/A	374,083	L+2.25% to 10.25%	N/A	2018-2019
Industrial, South East, Fixed (7 mortgages)	N/A	N/A	31,312	7.80% to 9.83%	N/A	2016-2024
Industrial, West, Fixed (1 mortgage)	N/A	N/A	463	9.75%	N/A	2017
Mixed Use, North East, Floating (3 mortgages)	N/A	N/A	141,908	L+3.50% to 10.19%	N/A	2018-2019
Mixed Use, South West, Floating (2 mortgages)	N/A	N/A	87,537	L+2.50% to 10.00%	N/A	2019
Mixed Use, West, Floating (4 mortgages)	N/A	N/A	52,810	L+1.00% to 7.50%	N/A	2017-2018
Multi-family, International, Fixed (1 mortgage)	N/A	N/A	21,936	8.55%	N/A	2017
Multi-family, International, Floating (1 mortgage)	N/A	N/A	37,546	3GBP+7.00%	N/A	2017
Multi-family, International, Floating (1 mortgage)	N/A	N/A	47,448	GBP+7.65%	N/A	2017
Multi-family, North East, Floating (12 mortgages)	N/A	N/A	61,335	L+6.34%	N/A	2018
Multi-family, West, Floating (21 mortgages)	N/A	N/A	215,199	L+1.00% to 9.25%	N/A	2016-2020
Office, International, Fixed (2 mortgages)	N/A	N/A	117,950	5.60%	N/A	2016
Office, International, Floating (1 mortgage)	N/A	N/A	68,281	3GBP+4.50%	N/A	2016

Office, Mid Atlantic, Fixed (1 mortgage)	N/A	N/A	48,014	5.25%	N/A	2017
Office, Mid Atlantic, Floating (4 mortgages)	N/A	N/A	156,494	L+2.25% to 11.25%	N/A	2016-2019
Office, Midwest, Floating (5 mortgages)	N/A	N/A	33,679	L+2.25% to 10.58%	N/A	2017-2019
Office, North East, Fixed (2 mortgages)	N/A	N/A	75,254	6.35% to 11.00%	N/A	2017-2019
Office, North East, Floating (10 mortgages)	N/A	N/A	324,147	L+2.00% to 10.67%	N/A	2018-2019
Office, South East, Floating (4 mortgages)	N/A	N/A	146,963	L+2.25% to 13.00%	N/A	2018-2019
Office, South West, Floating (4 mortgages)	N/A	N/A	50,817	L+5.50%	N/A	2017
Office, West, Floating (14 mortgages)	N/A	N/A	189,539	L+2.25% to 9.75%	N/A	2016-2019
Other, International, Fixed (2 mortgages)	N/A	N/A	10,341	5.02% to 15.12%	N/A	2016
Other, South East, Fixed (3 mortgages)	N/A	N/A	126,165	5.00% to 12.00%	N/A	2017-2024
Other, South East, Floating (4 mortgages)	N/A	N/A	36,042	L+8.50%	N/A	2018
Other, Various, Fixed (1 mortgage)	N/A	N/A	41,894	10.00%	N/A	2025
Residential, West, Floating (1 mortgage)	N/A	N/A	99,775	L+5.25%	N/A	2018
Retail, International, Floating (1 mortgage)	N/A	N/A	39,238	3EU+8.00%	N/A	2016
Retail, Mid Atlantic, Fixed (1 mortgage)	N/A	N/A	650	7.07%	N/A	2019
Retail, Midwest, Fixed (4 mortgages)	N/A	N/A	2,021	7.07% to 10.25%	N/A	2017-2019
Retail, Midwest, Floating (6 mortgages)	N/A	N/A	81,403	L+2.25% to 10.75%	N/A	2018

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Retail, North East, Fixed (3 mortgages)	N/A	N/A	7,287	5.74% to 10.00%	N/A	2016-2019
Retail, North East, Floating (8 mortgages)	N/A	N/A	64,744	L+2.25% to 8.05%	N/A	2017
Retail, South East, Fixed (4 mortgages)	N/A	N/A	9,242	5.93% to 10.00%	N/A	2016-2019
Retail, South West, Fixed (3 mortgages)	N/A	N/A	2,404	6.03% to 7.99%	N/A	2018
Retail, South West, Floating (4 mortgages)	N/A	N/A	33,865	L+2.25% to 15.25%	N/A	2018
Retail, Various, Floating (2 mortgages)	N/A	N/A	12,432	L+2.25% to 9.25%	N/A	2016
Retail, West, Fixed (6 mortgages)	N/A	N/A	10,651	5.82% to 7.26%	N/A	2017-2023
Investing and Servicing Segment Loans						
Held-for-Sale, Various, Fixed Aggregated Subordinated and Mezzanine Loans:						
Hospitality, Midwest, Floating (2 mortgages)	N/A	N/A	15,670	L+8.11%	N/A	2018
Hospitality, North East, Floating (5 mortgages)	N/A	N/A	44,569	L+5.10% to 11.17%	N/A	2018
Hospitality, South East, Floating (2 mortgages)	N/A	N/A	14,615	L+3.49% to 8.83%	N/A	2018
Hospitality, Various, Floating (4 mortgages)	N/A	N/A	151,681	L+7.50% to 11.13%	N/A	2017-2018
Hospitality, West, Fixed (1 mortgage)	N/A	N/A	6,142	12.66%	N/A	2016
Hospitality, West, Floating (2 mortgages)	N/A	N/A	11,985	L+7.75%	N/A	2018
Industrial, South East, Fixed (8 mortgages)	N/A	N/A	63,425	8.18%	N/A	2024
Mixed Use, North East, Floating (2 mortgages)	N/A	N/A	155,273	L+10.00% to 12.00%	N/A	2017-2020

Mixed Use, West, Floating (2 mortgages)	N/A	N/A	38,950	L+9.31%	N/A	2018
Multi-family, Mid Atlantic, Fixed (1 mortgage)	N/A	N/A	2,976	10.50%	N/A	2024
Multi-family, Mid Atlantic, Floating (2 mortgages)	N/A	N/A	9,828	L+8.35%	N/A	2019

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Description/ Location	Prior Liens(1)	Face Amount	Carrying Amount	Interest Rate(2)	Payment Terms(3)	Maturity Date(4)
Multi-family, Midwest, Fixed (1 mortgage)	N/A	N/A	1,786	7.62%	N/A	2016
Multi-family, North East, Floating (2 mortgages)	N/A	N/A	85,578	L+9.08% to 15.00%	N/A	2016-2018
Multi-family, South East, Fixed (1 mortgage)	N/A	N/A	2,878	5.47%	N/A	2020
Multi-family, South West, Fixed (1 mortgage)	N/A	N/A	4,179	8.51%	N/A	2016
Multi-family, West, Fixed (1 mortgage)	N/A	N/A	3,684	7.83%	N/A	2016
Multi-family, West, Floating (1 mortgage)	N/A	N/A	99,569	L+10.13%	N/A	2019
Office, Midwest, Floating (6 mortgages)	N/A	N/A	57,566	L+8.25% to 9.00%	N/A	2017-2019
Office, North East, Fixed (5 mortgages)	N/A	N/A	56,226	6.79% to 8.72%	N/A	2016-2023
Office, North East, Floating (3 mortgages)	N/A	N/A	62,487	L+8.00% to 10.25%	N/A	2017-2018
Office, South East, Fixed (1 mortgage)	N/A	N/A	7,770	8.25%	N/A	2020
Office, South West, Fixed (2 mortgages)	N/A	N/A	56,706	5.92% to 6.13%	N/A	2017
Office, West, Floating (6 mortgages)	N/A	N/A	93,902	L+7.34% to 8.85%	N/A	2017-2019
Other, Midwest, Floating (2 mortgages)	N/A	N/A	25,698	L+10.67%	N/A	2016
Other, South East, Fixed (1 mortgage)	N/A	N/A	4,582	12.02%	N/A	2021
Other, West, Floating (2 mortgages)	N/A	N/A	57,822	L+6.10% to 10.08%	N/A	2018
Residential, South East, Floating (1 mortgage)	N/A	N/A	8,574	L+9.46%	N/A	2019
Residential, West, Floating (1 mortgage)	N/A	N/A	34,566	L+7.89%	N/A	2019
	N/A	N/A	92,073		N/A	2017-2024

Retail, Midwest, Fixed (3 mortgages)				6.97% to 7.16%		
Retail, South West, Floating (1 mortgage)	N/A	N/A	7,417	L+8.85%	N/A	2017
Retail, Various, Floating (1 mortgage)	N/A	N/A	3,787	L+8.85%	N/A	2017
Retail, West, Floating (1 mortgage)	N/A	N/A	8,290	L+8.85%	N/A	2017
Loan Loss Allowance	—	—	(6,029)			
Prepaid Loan Costs, Net	—	—	(9,292)			
			\$ 6,263,517(5)			

Notes to Schedule IV:

- (1) Represents third party priority liens. Third party portions of pari passu participations are not considered prior liens. Additionally, excludes the outstanding debt on third party joint ventures of underlying borrowers.
- (2) L = one month LIBOR rate, GBP=one month GBP LIBOR rate, 3GBP= three month GBP LIBOR rate, 3EU = three month Euro LIBOR rate.
- (3) I/O = interest only until final maturity.
- (4) Based on management's judgment of extension options being exercised.
- (5) The aggregate cost for federal income tax purposes is \$6.2 billion.

For the activity within our loan portfolio during the years ended December 31, 2015, 2014 and 2013, refer to the loan activity table in Note 5 of our Consolidated Financial Statements.

Refer to Note 16 of our Consolidated Financial Statements for a discussion of loan activity with related parties.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures.—We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer, as appropriate, to allow timely decisions regarding required disclosures.

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Management Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

As of December 31, 2015, our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework established in Internal Control—Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on this assessment, our management has concluded that our internal control over financial reporting as of December 31, 2015 is effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report included in this Form 10 K, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2015.

Changes to Internal Control Over Financial Reporting. No change in internal control over financial reporting (as defined in Rule 13a 15(f) under the Exchange Act) occurred during the quarter ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None noted.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information required by this Item with respect to members of our board of directors and with respect to our Audit Committee will be contained in the Proxy Statement for the 2016 Annual Meeting of Shareholders (“2016 Proxy Statement”) under the captions “Election of Directors” and “Board and Committee Meetings—Audit Committee” and in the chart disclosing Audit Committee membership and is incorporated herein by this reference. Information required by this Item with respect to our executive officers will be contained in the 2016 Proxy Statement under the caption “Executive Officers,” and is incorporated herein by this reference. Information required by this Item with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 will be contained in the 2016 Proxy Statement under the caption “Compliance with Section 16(a) of the Securities Exchange Act of 1934,” and is incorporated herein by this reference.

Code of Ethics

We have adopted a Code of Business Conduct and Ethics for all directors, officers and employees of the Company which is available on our website at <http://ir.starwoodpropertytrust.com/govdocs>. In addition, stockholders may request a free copy of the Code of Business Conduct and Ethics from:

Starwood Property Trust, Inc.

Attention: Investor Relations

591 West Putnam Avenue

Greenwich, CT 06830

(202) 422 7700

We have also adopted a Code of Ethics for our Principal Executive Officer and Senior Financial Officers setting forth a code of ethics applicable to our Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer, which is available on our website at <http://ir.starwoodpropertytrust.com/govdocs>. Stockholders may request a free copy of the Code of Ethics for Principal Executive Officer and Senior Financial Officers from the address and phone number set forth above.

Corporate Governance Guidelines

We have also adopted Corporate Governance Guidelines, which are available on our website at <http://ir.starwoodpropertytrust.com/govdocs>. Stockholders may request a free copy of the Corporate Governance Guidelines from the address and phone number set forth above.

Item 11. Executive Compensation.

Information required by this Item will be contained in the 2016 Proxy Statement under the captions “Executive Compensation” and “Compensation of Directors” and is incorporated herein by this reference, provided that the Compensation Committee Report shall not be deemed to be “filed” with this Annual Report on Form 10 K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information required by this Item will be contained in the 2016 Proxy Statement under the captions “Security Ownership of Certain Beneficial Owners, Directors and Management” and “Equity Compensation Plan Information” and is incorporated herein by this reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information required by this Item will be contained in the 2016 Proxy Statement under the captions “Certain Relationships and Related Transactions” and “Corporate Governance—Determination of Director Independence” and is incorporated herein by this reference.

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Item 14. Principal Accountant Fees and Services.

Information required by this Item will be contained in the 2016 Proxy Statement under the captions “Independent Registered Public Accounting Firm” and “Pre Approval Policies for Services of Independent Registered Public Accounting Firm” and is incorporated herein by reference.

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PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Documents filed as part of this report:

(1) Financial Statements:

See Item 8—"Financial Statements and Supplementary Data", filed herewith, for a list of financial statements.

(2) Financial Statement Schedules:

Included within Item 8:

Schedule III—Real Estate and Accumulated Depreciation

Schedule IV—Mortgage Loans on Real Estate

(3) Exhibits:

Exhibit	
No.	Description
2.1	Unit Purchase Agreement, dated January 23, 2013, by and among Starwood Property Trust, Inc., LNR Property LLC, Aozora Investments LLC, CBR I LLC, iStar Marlin LLC, Opps VIIb LProp, L.P. and VNO LNR Holdco LLC (Incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed January 24, 2013)
2.2	Separation and Distribution Agreement, dated January 16, 2014, by and between Starwood Property Trust, Inc. and Starwood

- 3.1 Waypoint Residential Trust (Incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed January 21, 2014) Articles of Amendment and Restatement of Starwood Property Trust, Inc. (Incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q filed November 16, 2009)
- 3.2 Amended and Restated Bylaws of Starwood Property Trust, Inc. (Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed March 17, 2014)
- 4.1 Form of Indenture for Senior Debt Securities between the Company and The Bank of New York Mellon, as trustee (Incorporated by reference to Exhibit 4.4 of the Company's Registration Statement on Form S-3 filed February 11, 2013)
- 4.2

- 4.3 First Supplemental Indenture, dated as of February 15, 2013, between the Company and The Bank of New York Mellon, as trustee (Incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8 K filed February 15, 2013)
- 4.4 Form of 4.55% Convertible Senior Notes due 2018 (Incorporated by reference to Exhibit 4.3 of the Company's Current Report on Form 8 K filed February 15, 2013)
- 4.4 Second Supplemental Indenture, dated as of July 3, 2013, between the Company and The Bank of New York Mellon, as trustee (Incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8 K filed July 3, 2013)

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Exhibit

No.	Description
4.5	Form of 4.00% Convertible Senior Notes due 2019 (Incorporated by reference to Exhibit 4.3 of the Company's Current Report on Form 8 K filed July 3, 2013)
4.6	Third Supplemental Indenture, dated as of October 8, 2014, between the Company and The Bank of New York Mellon, as trustee (Incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8 K filed October 8, 2014)
4.7	Form of 3.75% Convertible Senior Notes due 2017 (Incorporated by reference to Exhibit 4.3 of the Company's Current Report on Form 8 K filed October 8, 2014)
10.1	Registration Rights Agreement, dated August 17, 2009, among Starwood Property Trust, Inc., SPT Investment, LLC and SPT Management, LLC (Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10 Q filed November 16, 2009)
10.2	Management Agreement, dated August 17, 2009, among SPT Management, LLC and Starwood Property Trust, Inc. (Incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10 Q filed November 16, 2009)
10.3	Amendment No. 1, dated May 7, 2012, to Management Agreement, dated August 17, 2009, as amended, between Starwood Property Trust, Inc. and SPT Management, LLC (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8 K filed May 8, 2012)
10.4	Amendment No. 2, dated December 4, 2014, to Management Agreement, dated August 17, 2009, as amended, between Starwood Property Trust, Inc. and SPT Management, LLC (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8 K filed December 5, 2014)
10.5	Co Investment and Allocation Agreement, dated August 17, 2009, among Starwood Property Trust, Inc., SPT Management, LLC and Starwood Capital Group Global, L.P. (Incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10 Q filed November 16, 2009)
10.6	Amendment No. 1, dated as of June 19, 2015, to the Co-Investment and Allocation Agreement, dated as of August 17, 2009, by and among Starwood Property Trust, Inc., SPT Management, LLC and Starwood Capital Group Global, L.P. (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed June 25, 2015)
10.7	Starwood Property Trust, Inc. Non Executive Director Stock Plan (Incorporated by reference to Exhibit 10.5 of the Company's Quarterly Report on Form 10 Q filed November 16, 2009)
10.8	Form of Restricted Stock Award Agreement for Independent Directors (Incorporated by reference to Exhibit 10.6 of the Company's Quarterly Report on Form 10 Q filed November 16, 2009)
10.9	Starwood Property Trust, Inc. Manager Equity Plan (Incorporated by reference to Exhibit 10.7 of the Company's Quarterly Report on Form 10 Q filed November 16, 2009)
10.10	First Amendment to the Starwood Property Trust, Inc. Manager Equity Plan (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8 K filed May 6, 2013)
10.11	Restricted Stock Unit Award Agreement, dated August 17, 2009, between Starwood Property Trust, Inc. and SPT Management, LLC (Incorporated by reference to Exhibit 10.8 of the Company's Quarterly Report on Form 10 Q filed November 16, 2009)
10.12	Starwood Property Trust, Inc. Equity Plan (Incorporated by reference to Exhibit 10.9 of the Company's Quarterly Report on Form 10 Q filed November 16, 2009)

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Exhibit No.	Description
10.13	First Amendment to the Starwood Property Trust, Inc. Equity Plan (Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8 K filed May 6, 2013)
10.14	Master Repurchase and Securities Contract, dated March 31, 2010, between Starwood Property Mortgage Sub 1, L.L.C. and Wells Fargo Bank, National Association (Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10 Q filed May 10, 2010)
10.15	Master Repurchase and Securities Contract, dated August 6, 2010, between Starwood Property Mortgage Sub 2, L.L.C. and Wells Fargo Bank, National Association (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8 K filed August 12, 2010)
10.16	Amendment No. 2, dated November 3, 2011, to Amended and Restated Master Repurchase and Securities Contract, Amended and Restated Guarantee and Security Agreement and Amended and Restated Fee and Pricing Letter between and among Starwood Property Mortgage Sub 2, L.L.C., Starwood Property Mortgage Sub 2A, L.L.C., Starwood Property Trust, Inc. and Wells Fargo Bank, National Association (Incorporated by reference to Exhibit 10.17 of the Company's Annual Report on Form 10 K filed February 29, 2012)
10.17	Second Amended and Restated Master Repurchase and Securities Contract, dated January 27, 2014, between and among Starwood Property Mortgage Sub 2, L.L.C., Starwood Property Mortgage Sub 2 A, L.L.C. and Wells Fargo Bank, National Association (Incorporated by reference to Exhibit 10.20 of the Company's Annual Report on Form 10 K filed February 26, 2014)
10.18	Third Amended and Restated Master Repurchase and Securities Contract, dated October 23, 2014, between and among Starwood Property Mortgage Sub 2, L.L.C., Starwood Property Mortgage Sub 2 A, L.L.C. and Wells Fargo Bank, National Association (Incorporated by reference to Exhibit 10.19 of the Company's Annual Report on Form 10-K filed February 25, 2015)
10.19	Fourth Amended and Restated Master Repurchase and Securities Contract, dated August 3, 2015, between and among Starwood Property Mortgage Sub 2, L.L.C., Starwood Property Mortgage Sub-2-A, L.L.C. and Wells Fargo Bank, National Association (Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10 Q filed November 5, 2015)
10.20	Master Repurchase Agreement, dated December 2, 2010, between Starwood Property Mortgage Sub 3, L.L.C. and Goldman Sachs Mortgage Company (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8 K filed December 6, 2010)
10.21	Credit Agreement, dated December 3, 2010, among SPT Real Estate Sub II, LLC, Starwood Property Trust, Inc. and certain subsidiaries of Starwood Property Trust, Inc., as guarantors, and Bank of America, N.A., as administrative agent (Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10 Q filed August 6, 2014)
10.22	Uncommitted Master Repurchase Agreement, dated as of December 10, 2015, by and among Starwood Property Mortgage Sub-14, L.L.C., Starwood Property Mortgage Sub-14-A, L.L.C. and JPMorgan Chase Bank, National Association (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed December 16, 2015)
10.23	Form of Indemnification Agreement for Directors and Officers
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm

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Exhibit No.	Description
31.1	Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002
31.2	Certification pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32.1	Certification pursuant to Section 906 of the Sarbanes Oxley Act of 2002
32.2	Certification pursuant to Section 906 of the Sarbanes Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 25, 2016
Starwood Property Trust, Inc.

By: /s/ BARRY S. STERNLICHT

Barry S. Sternlicht
Chief Executive Officer and Chairman of the Board of
Directors

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 25, 2016
By: /s/ BARRY S. STERNLICHT
Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)

Barry S. Sternlicht
Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)

Date: February 25, 2016
By: /s/ RINA PANIRY

Rina Paniry
Chief Financial Officer, Treasurer, Chief Accounting Officer and Principal Financial Officer

Date: February 25, 2016
By: /s/ JEFFREY G. DISHNER

Jeffrey G. Dishner
Director

Date: February 25, 2016
By: /s/ RICHARD D. BRONSON

Richard D. Bronson
Director

Date: February 25, 2016
By: /s/ CAMILLE J. DOUGLAS

Camille J. Douglas
Director

Date: February 25, 2016 By: /s/ STRAUSS ZELNICK

Strauss Zelnick
Director

Date: February 25, 2016 By: /s/ SOLOMON J. KUMIN

Solomon J. Kumin
Director

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