FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

AND

STATEMENT OF APPROPRIATED EXPENDITURES
BIENNIUM ENDED JUNE 30, 2017

BND

Bank of North Dakota

BANK OF NORTH DAKOTA

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Industrial Commission
Bank of North Dakota
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the Bank of North Dakota, an enterprise fund of the State of North Dakota, which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in fund net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Emphasis of Matters

Reporting Entity
As discussed in Note 1, the financial statements of the Bank of North Dakota are intended to present the financial position, the changes in financial position and cash flows of only that portion of the State of North Dakota that is attributable to the transactions of the Bank of North Dakota. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of December 31, 2016 and 2015 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Financial Statement Presentation
As discussed in Note 1 to the financial statements, the Bank of North Dakota elected to present an unclassified statement of net position because current assets are not matched with current liabilities. Presentation of a classified statement of net position would give the false impression that there is a liquidity problem at the bank. Presentation of a classified statement of net position for the Bank of North Dakota would be misleading to the extent that the financial statements may be materially misstated.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–11, the schedule of bank's share of net pension liability on page 52, and the schedule of bank contributions on page 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of appropriated expenditures shown on pages 64 to 65 is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulation (CFR) Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the financial statements.

The schedule of appropriated expenditures and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of appropriated expenditures and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated April 10, 2017 on our consideration of the Bank of North Dakota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bank of North Dakota's internal control over financial reporting and compliance.

Eide Bailly LLP

Aberdeen, South Dakota
April 10, 2017

The discussion and analysis which follows provides an overview of the Bank of North Dakota's (Bank) financial performance for the calendar years ended December 31, 2016, 2015 and 2014. Please read it in conjunction with the financial statements of the Bank.

FINANCIAL HIGHLIGHTS:

On an aggregate basis, the loan portfolio grew by $438,000 or 10.3% to $4,694,000 at December 31, 2016. In 2015, the loan portfolio grew by $472,000 or 12.5%. In 2014, the loan portfolio grew by $366,000 or 10.7%.

Total assets decreased by $115,000 or 1.6% to $7,278,000 at December 31, 2016. The decrease was largely attributable to a reduction in the securities portfolio, coupled with an offsetting increase in loan demand. In 2015, total assets grew by $188,000 or 2.6% to $7,393,000. The increase was attributable to increased loan demand. In 2014, total assets grew by $340,000 or 4.9% to $7,205,000. The increase was attributable to continued growth in state deposits and liquidity of banks investing at the Bank.

The tier one leverage ratio is 12.01% compared to 10.02% and 8.77% in the prior two years. The leverage ratio is a measure of strength. Well capitalized per federal regulations requires this percentage to be a minimum of 5%.

REQUIRED FINANCIAL STATEMENTS:

The Bank is an enterprise fund and uses the accrual basis of accounting. The Bank's basic financial statements include the statements of net position, statements of revenues, expenses and changes in fund net position, and statements of cash flows. The statement of net position provides the basis for computing rate of return, evaluating the net position of the Bank and assessing the liquidity and financial flexibility of the Bank. The statements of revenues, expenses and changes in fund net position identify the operating performance of the Bank for the calendar year. The statement of cash flows identifies cash flows from operating activities, non-capital financing activities, capital and related financing activities and investing activities. It also provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

(continued on next page)

(In Thousands)

CONDENSED STATEMENTS OF NET POSITION

	2016	2015	2014
ASSETS			
Cash and cash equivalents	**$ 424,877**	$ 396,259	$ 405,090
Interest receivable	**50,824**	44,635	41,843
Securities	**2,003,060**	2,615,296	2,895,441
FHLB Restricted Stock	**60,124**	37,758	34,027
Loans, net	**4,693,726**	4,255,279	3,782,849
Other assets	**33,634**	32,104	33,799
Capital assets, net	**11,942**	11,566	11,678
Total assets	**7,278,188**	7,392,897	7,204,727
DEFERRED OUTFLOWS OF RESOURCES	**7,512**	6,695	5,281
TOTAL ASSETS AND DEFERRED OUTFLOWS	**$ 7,285,701**	$ 7,399,592	$ 7,210,008
LIABILITIES			
Federal funds purchased and repurchase agreements	**$ 242,480**	$ 119,500	$ 178,455
Non-interest bearing deposits	**663,156**	641,264	700,446
Interest bearing deposits	**4,224,036**	5,160,878	5,030,165
Interest payable	**874**	966	1,103
Transfer payable	**-**	-	45
Other liabilities	**17,661**	14,674	13,753
Short and long-term debt	**1,280,538**	727,322	645,126
Total liabilities	**6,428,744**	6,664,604	6,569,093
DEFERRED INFLOWS OF RESOURCES	**7,042**	2,402	1,524
NET POSITION			
Invested in capital assets	**11,942**	11,566	11,678
Restricted for pledging purposes	**475,825**	170,684	48,235
Unrestricted	**362,147**	550,336	579,478
Total net position	**849,915**	732,586	639,391
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	**$ 7,285,701**	$ 7,399,592	$ 7,210,008

Securities

Securities totaled $2,003,000 at December 31, 2016 compared to $2,615,000 at December 31, 2015 and $2,895,000 at December 31, 2014. The decrease in 2016 is a result of investments maturing or being sold, with the proceeds used to fund loans. The majority of the securities portfolio consists of AAA rated U.S. government/agency securities. The primary objective of the securities portfolio is to provide liquidity.

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(In Thousands)

Loans

On an aggregate basis, the loan portfolio increased by $438,000, or 10.3%, to $4,694,000 at year-end 2016 from $4,255,000 at year-end 2015 and $3,783,000 at year-end 2014. There are four major categories of loans at the Bank.

Student loans increased by $57,300 in 2016 compared to an increase of $112,800 in 2015 and $104,200 in 2014. In 2016, new student loans totaled $84,400 and new consolidation loans were $139,400. Decreases were from $166,500 in loan payments including loans paid in full through consolidation. In 2015, new student loans totaled $86,200 and new consolidation loans were $198,800. Decreases were from $172,200 in loan payments including loans paid in full through consolidation. In 2014, new student loans totaled $98,300 and new consolidation loans were $156,100. Decreases were from $150,200 in loan payments including loans paid in full through consolidation.

Residential loans increased by $45,700 in 2016, $41,600 in 2015, and $22,100 in 2014. New and refinanced loans made in 2016, 2015, and 2014 totaled $157,700, $158,400, and $117,500, respectively, while normal loan payments and refinancing payoffs were $112,000, $116,800, and $95,400 respectively.

Commercial loans increased by $171,300 in 2016 compared to increasing by $252,000 in 2015 and by $171,000 in 2014.

Farm loans increased by $173,600 in 2016 compared to an increase of $76,900 in 2015 and $75,200 in 2014.

Loan Delinquencies and Allowance for Credit Losses

When the collectability of any loan becomes uncertain due to delinquency, the financial condition of the borrower, or other factors which cause the Bank to deem itself unsecured, the loan is considered nonperforming and interest is no longer accrued on the loan.

The allowance for credit losses are established by charges to income and are decreased by loans charged off, net of recoveries. Adequacy of the allowance is determined by the credit quality of outstanding loans, which are assigned specific ratings commensurate with risk on a case-by-case basis. Management currently reviews the allowance for credit losses for adequacy on a monthly basis. As of December 31, 2016, 41% of the overall loan portfolio is federally or state guaranteed compared to 44% at December 31, 2015 and 45% at December 31, 2014.

The following sets forth certain information with respect to the Bank's loan loss experience:

	2016	2015	2014
Gross loans at end of year	**$ 4,772,473**	$ 4,324,573	$ 3,841,195
Allowance for loan losses			
Balance, beginning of year	**$ 69,294**	$ 58,346	$ 51,770
Provision charged to operations	**16,000**	12,500	8,000
Loans charged off	**(6,830)**	(6,888)	(2,134)
Recoveries	**283**	5,336	710
Balance, end of year	**$ 78,747**	$ 69,294	$ 58,346

(continued on next page)

(In Thousands)

	2016	2015	2014
Net loan charge-offs to total loans at the end of period	**0.14%**	0.04%	0.04%
Net loan charge-offs to non-guaranteed loans at the end of period	**0.23%**	0.06%	0.07%
Allowance at end of period to total loans at end of period	**1.65%**	1.60%	1.52%
Allowance at end of period to non-guaranteed loans at the end of period	**2.82%**	2.85%	3.08%

Capital Assets

Bank of North Dakota had $11,900 in bank premises, equipment, and software at year-end 2016, $11,600 at year-end 2015, and $11,700 at year-end 2014. Capital expenditures totaled $1,100 in 2016 compared to $630 in 2015 and $491 in 2014. This year's expenditures were mainly related to building enhancements and software purchases. (See Note 7 to the financial statements.)

Deposits

Noninterest bearing deposits are $663,200 at December 31, 2016 compared to $641,300 at December 31, 2015 and $700,400 at December 31, 2014. Noninterest bearing deposits are primarily related to the amount of check clearing activities of respondent banks. Interest-bearing deposits totaled $4,224,000 at December 31, 2016 compared to $5,160,900 at December 31, 2015 and $5,030,200 at December 31, 2014. This decrease is from state deposit decline related to the current economic status of the state.

Short-Term Borrowings

Short-term borrowings are from North Dakota financial institutions investing in overnight federal funds at the Bank, customer investments in repurchase agreements with the Bank and overnight borrowings from the Federal Home Loan Bank (FHLB). Short-term borrowings were $1,052,500 at December 31, 2016 comprised of $810,000 in FHLB borrowings and $242,500 in federal funds. Borrowings were $319,500 at December 31, 2015 comprised of $200,000 in FHLB borrowings and $119,500 in federal funds. Borrowings were $278,500 at December 31, 2014 comprised of $100,000 in FHLB borrowings and $178,500 in federal funds.

Long-Term Debt

FHLB long-term debt is $470,300 at December 31, 2016 compared to $526,900 at December 31, 2015 and $544,600 at December 31, 2014. FHLB long-term debt is one funding source utilized to fund long-term fixed rate loans. (See Note 10 to the financial statements.)

(continued on next page)

Net Position

The Bank has a tier one capital leverage ratio of 12.01%, 10.02%, and 8.77% as of December 31, 2016, 2015, and 2014, respectively. The leverage ratio is a measure of strength. Well capitalized per federal regulations requires this percentage to be a minimum of 5%. The total net position of the Bank is affected by several factors, some of which are external to the Bank's operations. The State Legislature, representing the ownership interest in the Bank, makes transfers to the State's General Fund or other programs. By statute, however, in no event is the Bank's net position to be reduced below $175,000.

Asset/Liability Management - Interest Rate Risk

The Bank's principal objective for interest rate risk management is to control exposure of net interest income to risks associated with interest rate movements. Interest rate risk is measured and reported to the Bank's Funds Management Committee through the use of traditional gap analysis which measures the difference between assets and liabilities that reprice in a given time period, and simulation modeling which produces projections of net interest income under various interest rate scenarios and statement of net position strategies.

It is the Bank's policy to maintain a low interest rate risk position by monitoring the amount of forecasted net interest income at risk over a 12-month period assuming several interest rate scenarios. Forecasted results are sensitive to many assumptions, including estimates of the timing of changes in rates which are determined by reference to market indices, such as prime or the Treasury market curve, relative to each other and relative to rates which are determined by the Bank subject to competitive factors.

Liquidity Management

The objective of liquidity management is to ensure the continuous availability of funds to meet the demands of depositors and borrowers. The Bank's Funds Management Committee, within its Funds Management Policy, establishes contingency funding guidelines that seek to provide sufficient funding sources to meet these demands while achieving the Bank's financial objectives. The committee meets regularly to review the Bank's liquidity position, taking into consideration available funding sources, current and forecasted loan demand and projected investment balances.

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(In Thousands)

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

	2016	2015	2014
INTEREST INCOME	$ 217,153	$ 200,188	$ 167,562
INTEREST EXPENSE	33,975	32,164	31,455
NET INTEREST INCOME	183,178	168,024	136,107
Provision for loan losses	16,000	12,500	8,000
NET INTEREST INCOME AFTER PROVISION	167,178	155,524	128,107
Noninterest income	1,771	(7,315)	23,463
Noninterest expense	31,631	26,414	31,565
INCOME BEFORE TRANSFERS	137,318	121,795	120,005
TRANSFERS IN	-	-	-
TRANSFERS OUT	(19,989)	(28,600)	(17,388)
NET TRANSFERS	(19,989)	(28,600)	(17,388)
CHANGE IN NET POSITION	117,329	93,195	102,617
NET POSITION - BEGINNING	732,586	639,391	536,774
NET POSITION - ENDING	$ 849,915	$ 732,586	$ 639,391

Earnings Summary

The Bank's income before transfers was $137,300 in 2016 compared to $121,800 in 2015 and $120,000 in 2014. This was mainly attributable to an increase in net interest income.

Net Interest Income

Results of operations are primarily dependent upon the level of net interest income, which is affected by the mix of earning assets (loans, securities, and federal funds sold) and the interest rates earned thereon; and the amount of interest-bearing liabilities (deposits, federal funds purchased and other funds borrowed) on which interest is paid and the rates of interest paid thereon. Net interest income increased $15,200 from 2015 to 2016, and $31,900 from 2014 to 2015.

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(In Thousands)

The following table shows the average rates earned and paid for 2016 and 2015:

	Year Ended December 31,		
	2016	2015	2014
Annualized average interest rate earned			
Federal funds sold	**0.67%**	0.30%	0.29%
Securities	**1.49%**	1.30%	0.92%
Loans	**3.86%**	3.85%	3.83%
Weighted average interest rates earned	**3.03%**	2.61%	2.39%
Annualized average interest rate paid			
Deposits	**0.24%**	0.22%	0.25%
Federal funds purchased and repurchase agreements	**0.40%**	0.13%	0.13%
Short and long-term debt	**2.13%**	3.32%	3.37%
Weighted average interest rates paid	**0.57%**	0.50%	0.53%
Net interest spread	**2.46%**	2.12%	1.86%
Net interest margin	**2.54%**	2.18%	1.94%

Provision for Credit Losses

The provision for credit losses was $16,000 in 2016, $12,500 in 2015, and $8,000 in 2014. The Bank continually evaluates its allowance for credit loss position and any additional provision that would be needed.

Noninterest Income

Overall, noninterest income increased by $9,100 in 2016 and decreased by $30,800 in 2015. The main drivers in the fluctuation of noninterest income are changes in the fair value of securities as well as amortization and accretion of securities.

Noninterest Expense

Noninterest expense increased by $5,200 in 2016. The increase in noninterest expense is primarily due to prepayments of long-term debt and increased data processing expenses. Noninterest expense decreased by $5,200 in 2015. This decrease in noninterest expense was primarily related to a decrease in prepayments of long-term debt.

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ECONOMIC CONDITION AND OUTLOOK

Standard & Poor's publishes a ratings report for the State of North Dakota. This report discusses the overall economic conditions of the State as well as impacts of changing conditions on the State's budgetary performance.

The August 2016 report focuses much attention on the energy and agriculture sectors within the State, and how these changes impact the State's fiscal position. According to the report, although the State is experiencing large revenue declines, the State has a very strong credit quality. The largest declines are in sales and use tax and motor vehicle excise tax. It further notes that the State's reserve position remains strong; its liquidity position is good; the State's debt burden is low; and there is strong executive ability to reduce expenditures. Despite these shifts in energy production and agriculture commodity prices, the State's income and wealth factors remain strong. The report states that S&P's expectation is that oil prices will moderately increase and agriculture commodity prices will flatten, creating stable revenue over the next year.

During 2016, the Bank continued with its mission of "delivering quality, sound financial services that promote agriculture, commerce and industry in North Dakota." While the downturn in the State's energy and agriculture sectors has an impact on the Bank, the Bank is well diversified in its asset mix. In addition, prudent management tools are in place to proactively mitigate risk. As reported on previous pages, the Bank's capital position is as strong as it has ever been with a tier one capital leverage ratio of 12.01%, much higher than the "well capitalized" threshold of 5% as defined by federal banking regulations.

CONTACTING BANK OF NORTH DAKOTA'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Bank's finances and to demonstrate the Bank's accountability for the money it receives. If you have any questions about this report or need additional financial information, you can contact Bank of North Dakota by mail at P.O. Box 5509, Bismarck, North Dakota 58506-5509. If you wish to visit the Bank for information, the physical address is 1200 Memorial Hwy, Bismarck, ND 58504.

BANK OF NORTH DAKOTA
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015
(In Thousands)

	2016	2015
ASSETS		
Cash and due from banks		
Restricted	**$ 54,259**	$ 53,368
Unrestricted	**307,548**	264,986
Federal funds sold	**63,070**	77,905
Cash and cash equivalents	**424,877**	396,259
Interest receivable		
Due from other funds	**95**	371
Other	**50,729**	44,264
	50,824	44,635
Securities	**2,003,060**	2,615,296
Federal Home Loan Bank restricted stock	**60,124**	37,758
Loans		
Restricted	**1,641,745**	806,500
Unrestricted	**3,130,728**	3,518,073
Less allowance for loan losses	**(78,747)**	(69,294)
	4,693,726	4,255,279
Other assets		
Due from other funds	**17,947**	21,789
Other	**15,687**	10,315
	33,634	32,104
Capital assets		
Land	**2,449**	2,449
Building and equipment, net	**8,684**	8,480
Intangibles, net	**808**	637
	11,942	11,566
Total assets	**7,278,188**	7,392,897
DEFERRED OUTFLOWS OF RESOURCES	**7,512**	6,695
TOTAL ASSETS AND DEFERRED OUTFLOWS	**$ 7,285,701**	$ 7,399,592

STATEMENTS OF NET POSITION – PAGE 2

	2016	2015
LIABILITIES		
Federal funds purchased	**$ 242,480**	$ 119,500
Deposits		
Non-interest bearing	**546,182**	543,454
Non-interest bearing - of other funds	**116,974**	97,810
Interest bearing	**251,536**	273,686
Interest bearing - of other funds	**3,972,500**	4,887,192
	4,887,192	5,802,142
Interest payable		
Due to other funds	**587**	700
Other	**287**	266
	874	966
Other liabilities		
Due to other funds	**115**	180
Net pension liability	**9,722**	6,769
Other	**7,824**	7,725
	17,661	14,674
Short and long-term debt		
Current portion	**816,909**	206,669
Long-term portion	**463,629**	520,653
	1,280,538	727,322
Total liabilities	**6,428,744**	6,664,604
DEFERRED INFLOWS OF RESOURCES	**7,042**	2,402
NET POSITION		
Invested in capital assets	**11,942**	11,566
Restricted for pledging purposes	**475,825**	170,684
Unrestricted	**362,147**	550,336
Total net position	**849,915**	732,586
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	**$ 7,285,701**	$ 7,399,592

BANK OF NORTH DAKOTA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands)

	2016	2015
INTEREST INCOME		
Federal funds sold	**$ 477**	$ 380
Securities	**43,774**	48,092
Loans	**172,902**	151,716
Total interest income	**217,153**	200,188
INTEREST EXPENSE		
Deposits	**11,457**	12,814
Federal funds purchased and repurchase agreements	**861**	223
Short and long-term debt	**21,657**	19,127
Total interest expense	**33,975**	32,164
NET INTEREST INCOME	**183,178**	168,024
PROVISION FOR LOAN LOSSES	**16,000**	12,500
NET INTEREST AFTER PROVISION FOR LOAN LOSSES	**167,178**	155,524
NONINTEREST INCOME		
Service fees and other	**6,323**	7,648
Net decrease in the fair value of securities	**(4,552)**	(14,963)
Total noninterest income	**1,771**	(7,315)
NONINTEREST EXPENSE		
Salaries and benefits	**16,917**	14,563
Data processing	**5,745**	4,838
Occupancy and equipment	**843**	726
Long-term debt prepayment fee	**1,343**	-
Other operating expenses	**6,783**	6,287
Total noninterest expenses	**31,631**	26,414
INCOME BEFORE TRANSFERS	**137,318**	121,795
TRANSFERS		
Transfers out	**(19,989)**	(28,600)
Net transfers	**(19,989)**	(28,600)
CHANGE IN NET POSITION	**117,329**	93,195
TOTAL NET POSITION - BEGINNING OF YEAR	**732,586**	639,391
TOTAL NET POSITION - END OF YEAR	**$ 849,915**	$ 732,586

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

	2016	2015
OPERATING ACTIVITIES		
Receipt of service fees and other income from other funds	$ 3,268	$ 3,903
Receipt of service fees and other income from other entities	8,141	6,490
Payment of salaries and benefits	(16,112)	(14,759)
Payment of data processing expenses	(5,478)	(4,486)
Payment of occupancy and equipment	(398)	(311)
Payment of other operating expenses	(10,409)	(10,803)
NET CASH USED FOR OPERATING ACTIVITIES	(20,988)	(19,966)
NON-CAPITAL FINANCING ACTIVITIES		
Net increase (decrease) in non-interest bearing deposits	21,892	(59,182)
Net increase (decrease) in interest bearing deposits	(936,842)	130,713
Interest payments on deposits	(11,600)	(13,033)
Net increase (decrease) in federal fund purchased and repurchase agreements	122,980	(58,955)
Interest payments on federal funds purchased and repurchase agreements	(849)	(222)
Proceeds from issuance of short and long-term debt	2,975,001	615,000
Payment of short and long-term debt	(2,421,785)	(532,804)
Interest payments on short and long-term debt	(22,959)	(19,047)
Payment of transfers	(19,989)	(28,645)
NET CASH FROM (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	(294,151)	33,825
CAPITAL AND RELATED FINANCING ACTIVITY		
Purchases of capital assets	(1,106)	(630)
INVESTING ACTIVITIES		
Securities available for sale transactions		
Purchase of securities	-	(475,155)
Proceeds from sales, maturities, and principal repayments	607,683	740,336
Purchase of Federal Home Loan Bank stock	(119,231)	(25,015)
Sale of Federal Home Loan Bank stock	96,866	21,283
Purchase of other venture capital assets	(1,005)	(397)
Sale of other venture capital assets	334	28
Investment income received	45,301	48,736
Proceeds from sales of loans	12,862	14,332
Net increase in loans	(469,756)	(503,146)
Loan income received	167,798	152,835
Payments from rebuilders loan program	3,895	4,103
Proceeds from sale of other real estate and property owned	116	-
NET CASH FROM (USED FOR) INVESTING ACTIVITIES	344,863	(22,060)
NET CHANGE IN CASH AND CASH EQUIVALENTS	28,618	(8,831)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	396,259	405,090
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 424,877	$ 396,259

See Notes to Financial Statements

STATEMENT OF CASH FLOWS – PAGE 2

	2016	2015
RECONCILIATION OF INCOME BEFORE OPERATING TRANSFERS TO NET CASH USED FOR OPERATING ACTIVITIES		
Income before operating transfers	**$ 137,318**	$ 121,795
Adjustments to reconcile income before operating transfers to net cash used for operating activities		
Depreciation and amortization	**730**	742
Provision for loan losses	**16,000**	12,500
Gain on sale of loans	**(193)**	(201)
Loss on sale of other real estate and property owned	**103**	-
Net increase in the fair value of securities	**4,552**	14,963
Reclassification of interest income and expense to other activities	**(183,178)**	(168,024)
Increase in other assets	**(1,906)**	(5,473)
Decrease in due from other funds	**3,841**	4,210
Decrease in due to other funds	**(66)**	(17)
Increase (decrease) in other liabilities	**1,811**	(461)
NET CASH USED FOR OPERATING ACTIVITIES	**$ (20,988)**	$ (19,966)
SUPPLEMENTAL SCHEDULE OF NON-CASH TRANSACTIONS		
Transfers from net position to transfers payable	**$ 19,989**	$ 28,645

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*, Bank of North Dakota should include all component units over which the Bank of North Dakota exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or (3) the potential for the organization to provide specific financial benefits to, or impose specific burdens on, the Bank.

Based on that criteria, no organizations were determined to be part of the reporting entity. The Bank of North Dakota is included as part of the primary government of the State of North Dakota's reporting entity.

Accounting Standards

The Bank follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting principles for governmental entities.

GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* requires assets and liabilities of enterprise funds be presented in a classified format to distinguish between current and long-term assets and liabilities. The Bank of North Dakota is the only government-owned bank in the United States. Banks do not present a classified statement of net position because current assets are not matched with current liabilities. Presentation of a classified statement of net position would give the false impression that there is a liquidity problem at the Bank. Presentation of a classified statement of net position for the Bank of North Dakota would be misleading to the extent that the financial statements may be materially misstated. Therefore, the statement of net position of Bank of North Dakota presents assets and liabilities in order of their relative liquidity, rather than in a classified format.

The Bank's Statements of Revenues, Expenses and Changes in Fund Net Position are presented in a format consistent with industry practice for financial institutions. Operating revenues are those revenues that are generated from the primary operations of the Bank, which include interest and noninterest income. Operating expenses are those expenses that are essential to the primary operations of the Bank, which include interest and noninterest expenses. All other revenues and expenses are reported as non-operating.

Fund Accounting

The Bank is an enterprise fund and uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net position. Net position is segregated into (1) net invested in capital assets, (2) restricted (distinguishing between major categories of restrictions) and (3) unrestricted. The statements of revenues, expenses and changes in fund net position present increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The statements of cash flows presents the cash flows for operating activities, non-capital financing activities, capital and related financing activities, and investing activities.

Use of Estimates

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

Significant Group Concentrations of Credit Risk

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

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

Cash and Cash Equivalents

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

Securities

Investments in debt and equity securities are carried at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Unrealized gains and losses due to fluctuations in fair value are included in noninterest income. Gains and losses on the sale of securities are recorded on the trade date in noninterest income and are determined using the specific identification method.

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Federal Home Loan Bank Stock

In order to borrow from the Federal Home Loan Bank (FHLB), the Bank is required to hold FHLB stock. The amount of stock that the Bank must hold is equal to .12% of total bank assets plus 4% of total FHLB advances. Since ownership of this stock is restricted, the stock is carried at cost and evaluated periodically for impairment. The FHLB stock is pledged on the FHLB advances (Note 10).

Loans Held For Sale

Loans held for sale are carried at the lower of aggregate cost or market value. Gains or losses on sale of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold. Loans held for sale are not carried at fair value because they do not meet the definition of an investment in accordance with GASB 72.

Loans

Loans are reported at the outstanding unpaid principal balances, adjusted for charge-offs and premiums or discounts on purchased loans. Interest income on loans is accrued at the specific rate on the unpaid principal balance. Discounts and premiums are amortized to income over the estimated life of the loan using the interest or straight line method. Loans are not carried at fair value because they do not meet the definition of an investment in accordance with GASB 72.

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

Allowance for Credit Losses

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

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

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

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

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

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

Loan Charge-Offs

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

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

Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit and financial standby letters of credit. Such financial instruments are recorded when they are funded.

Transfers of Financial Assets

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

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Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section of deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. See Note 11 for additional information.

Capital Assets

Capital assets, which include intangibles (software), are stated at cost less accumulated depreciation or amortization. Capital assets with a purchase price of $5 (for software that is internally developed, the threshold is $50) or more are capitalized and reported in the accompanying financial statements. Depreciation and amortization are provided over the estimated useful lives of the individual assets using the straight-line method.

Foreclosed Assets

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

Compensated Absences Payable

Annual Leave: Bank employees accrue vested annual leave at a variable rate based on years of service. The amount of annual leave earned ranges between 1 and 2 days per month, and is fixed by the employing unit per section 56-06-14 of the North Dakota Century Code. Accrued annual leave cannot exceed 30 days at December 31 of each year. Employees are paid for unused annual leave upon termination or retirement.

Sick Leave: Bank employees accrue sick leave at the rate of one working day per month of employment without limitation on the amount that can be accumulated. Per North Dakota Century Code section 54-06-14, employees vest at 10 years of continuous service at which time the Bank is liable for 10 percent of the employee's accumulated unused sick leave.

The Bank's liability for accumulated unpaid annual leave and sick leave is reported in other liabilities and will be funded by the Bank's appropriation when the liability is to be liquidated. The net change in the liability is recorded in salaries and benefits.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the North Dakota Public Employees Retirement System (NDPERS) and additions to/deductions from NDPERS' fiduciary net position have been determined on the same basis as they are reported by NDPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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Restricted Assets and Restricted Net Position

Certain Bank assets and net position carry a restricted classification because they are pledged on short and long-term debt, securities sold under agreements to repurchase and other required pledging purposes. If an expense is incurred that qualifies for use of either restricted or unrestricted resources, the Bank will first apply restricted resources.

Interest Rate Swaps

The Bank enters into interest rate swap agreements to modify interest rates on certain liabilities. The fair values of both hedging derivatives and investment derivatives (if any) are presented on the Statement of Net Position, either as a derivative liability (negative fair value) or as a derivative asset (positive fair value). The change in the total fair value of derivatives that are determined to be effective hedges is recorded as a deferred inflow or outflow of resources on the Statement of Net Position. If a derivative were determined to be an ineffective hedge, it would be classified as an investment derivative, and the change in the total fair value would be presented as part of investment earnings. The Bank currently has one type of derivative outstanding, interest rate swaps which are deemed effective hedges, therefore having no effect on net position.

Income Taxes

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

NOTE 2 - RESTRICTION ON CASH AND DUE FROM BANKS

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

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits

The Bank has depository relationships where it is a requirement of the other institution in order to have a business relationship. On other significant depository relationships, the Bank requires the depository financial institution to have a minimum short-term rating of A-1 or P-1 as established by the rating agency.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Bank will not be able to recover deposits that are in the possession of an outside party. The Bank does not have a formal policy that limits custodial credit risk for deposits. All of the Bank's deposits are insured up to $250,000 with the Federal Deposit Insurance Company except for deposits at the Federal Reserve Bank and the Federal Home Loan Bank. The remaining deposits with these financial institutions are uncollateralized.

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The following summary presents the amount of the Bank's deposits as of December 31, 2016 and 2015:

	2016	2015
Covered by depository insurance		
Due from banks	**$ 885**	$ 881
Uncollateralized		
Due from banks	**117,333**	73,691
Federal funds sold	**63,070**	77,905
Total bank balances	**$ 181,288**	$ 152,477

Investments

The Bank's investment policy provides guidelines for security custody, approved security dealers, investment authority, variance from the approved investment selection and purchase process, required investment data to be obtained and maintained, investment guidelines, investment management parameters, investment intent, and federal funds management.

The Bank's investment policy indicates that the Bank is authorized to own the following types of securities: U.S. Treasury securities, Federal agency securities, mortgaged-backed securities, collateralized mortgage obligations, corporate securities, asset-backed securities, state and municipal securities, money market securities, and capital stock of government sponsored agencies.

The composition of the investment portfolio, related credit quality rating, custody, and duration as of December 31, 2016 is provided below:

	Rating *	Custody	Duration (In Years)	**2016**
U.S. Treasury	**Aaa**	**(1)**	**1.26**	**$ 39,975**
Mortgage-backed	**Aaa**	**(1) & (2)**	**2.18**	**712,753**
Federal agency	**Aaa**	**(1) & (2)**	**2.47**	**1,246,192**
State and municipal	**Not rated**	**(2) & (3)**	**3.45**	**4,140**
				$ 2,003,060

* The credit quality rating indicated above is based on Moody's Investors Service.

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The composition of the investment portfolio, related credit quality rating, custody, and duration as of December 31, 2015 is provided below:

	Rating *	Custody	Duration (In Years)	2015
U.S. Treasury	Aaa	(1)	2.24	$ 39,796
Mortgage-backed	Aaa	(1) & (2)	2.99	975,743
Federal agency	Aaa	(1) & (2)	2.96	1,592,117
State and municipal	Not rated	(2) & (3)	0.86	7,640
				$ 2,615,296

* The credit quality rating indicated above is based on Moody's Investors Service.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Bank will not be able to recover the value of the investment that is in the possession of an outside party. The Bank does not have a formal policy that limits custodial credit risk for investments. The Bank is not exposed to any custodial credit risk for its investment portfolio. Custody of investments indicated above is as follows:

(1) These are fed-book entry securities.
(2) These are held by a DTC correspondent.
(3) Registered in the name of the Bank and held in the Bank's vault.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Bank's investment policy provides for a duration range of one to four years which will serve to decrease interest rate risk. The duration for the Bank's investments is provided in the table provided above using the modified duration method. The average duration for the Bank's entire investment portfolio was 2.3 years and 2.9 years as of December 31, 2016 and 2015, respectively.

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Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk for investments is the risk of loss attributed to the magnitude of the Bank's investment in a single issuer. The Bank's investment policy provides the following minimum credit quality ratings for its investments and the following asset allocation range for investments as a percentage of the total portfolio:

	Minimum Credit Quality Ratings		Asset Allocation Range	
	Moody's	S & P	Minimum	Maximum
U.S. Treasury securities	Aaa	AAA	0%	100%
Federal agency securities	Aaa	AAA	0%	100%
Step-up agency securities	Aaa	AAA	0%	20%
Agency Mortgaged-backed securities	Aaa	AAA	0%	75%
Agency collateralized mortgage obligations	Aaa	AAA	0%	50%
Non-agency collateralized mortgage obligations	Aaa	AAA	0%	20%
Corporate securities	A2	A	0%	20%
Municipal obligations	None	None	0%	20%
Money market securities	P1	A1	0%	20%

Investments in any one issuer that represent 5% or more of total investments as of December 31, 2016 and 2015, are as follows:

	2016		2015	
	Amount	**Percent**	Amount	Percent
Federal agency				
Federal Home Loan Bank	**$ 358,517**	**17.9%**	$ 437,395	16.7%
Fannie Mae	**280,790**	**14.0%**	400,578	15.3%
Freddie Mac	**274,837**	**13.7%**	313,795	12.0%
Farm Credit	**119,274**	**6.0%**	197,645	7.6%
Small Business Administration	**172,726**	**8.6%**	203,218	7.8%
Mortgage-backed				
Fannie Mae	**439,772**	**22.0%**	650,093	24.9%
Freddie Mac	**258,388**	**12.9%**	302,329	11.6%
Others less than 5%	**98,756**	**4.9%**	110,243	4.2%
	$ 2,003,060	**100.0%**	$ 2,615,296	100.0%

There were no securities pledged as of December 31, 2016 and 2015 for repurchase agreements. There were $759,048 and $5,267 of securities pledged as of December 31, 2016 and 2015, respectively, for other required pledging purposes.

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The maturity distribution of debt securities at December 31, 2016, is shown below. The distribution of mortgage-backed securities is based on average expected maturities. Actual maturities may differ because issuers may have the right to call or prepay obligations.

Within one year	$ 362,254
Over one year through five years	1,541,695
Over five years through ten years	54,324
Over ten years	44,787
	$ 2,003,060

For the years ended December 31, 2016 and 2015, proceeds from the sales of securities amounted to $90,037 and $9,552, respectively.

NOTE 4 - INTERFUND TRANSACTIONS

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

See Note 6 for disclosure relating to loans sold to other state funds and/or loans serviced for other state funds, including the North Dakota Student Loan Trust.

Dakota Education Alternative Loans are fully guaranteed by the North Dakota Guaranteed Student Loan Program, which is administered by the Bank. The outstanding principal balance of these loans was $1,065,772 and $934,666 at December 31, 2016 and 2015, respectively. Administrative fees paid by the Bank to the North Dakota Guaranteed Student Loan Program were $5,116 and $6,556 for the years ended December 31, 2016 and 2015.

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

The Bank also made transfers to the Rebuilders Loan Program to fund loans to owners of homes damaged in the 2011 floods. These funds will be repaid to the Bank as payments are received from the borrowers. At year end December 31, 2016 and 2015, the Bank had a receivable resulting from these transfers for $17,474 and $21,369, respectively. The Bank had no administrative fees receivable from this program at year end December 31, 2016 and 2015.

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LOANS AND INTEREST RECEIVABLE – DUE FROM OTHER FUNDS – See NOTE 5

	2016	2015
OTHER ASSETS - Due from other funds (accounts receivable - current, unless noted otherwise)		
Rebuilders Loan Program ($15,444 and $19,225 non-current in 2016 and 2015)	**$ 17,474**	$ 21,369
North Dakota Guaranteed Student Loan Program	**229**	210
North Dakota Student Loan Trust	**90**	92
Community Water Facility Loan Fund	**26**	24
Department of Human Services	**7**	7
Information Technology Department	**10**	10
Board of University and School Lands	**47**	61
Medical Facility Infrastructure Loan Program	**25**	14
State Water Commission	**29**	2
Infrastructure Revolving Fund	**10**	-
	$ 17,947	$ 21,789
OTHER LIABILITIES - Due to other funds (trade accounts payable - all current)		
Information Technology Department	**$ 105**	$ 165
Attorney General	**10**	8
Guaranteed Student Loan Program	**-**	7
	$ 115	$ 180
OPERATING TRANSFERS - Out		
PACE Fund	**$ 9,400**	$ 20,100
Ag PACE Fund	**600**	700
Beginning Farmer Revolving Loan Fund	**2,500**	2,800
Industrial Commission	**55**	-
Housing Incentive Fund	**5,000**	5,000
School Construction	**2,434**	-
	$ 19,989	$ 28,600

COMPONENT UNITS OF THE STATE OF NORTH DAKOTA

	2016	2015
LONG TERM DEBT		
NDPFA (to fund irrigation and waste management loans - $56 and $30 current in 2016 and 2015)	**$ 235**	$ 380
INTEREST PAYABLE (NDPFA - all current)	**$ 2**	$ 4

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NOTE 5 - LOANS

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

	2016	2015
Commercial	**$ 1,983,056**	$ 1,811,751
Student	**1,362,487**	1,305,177
Residential loans	**739,412**	693,712
Agricultural	**687,518**	513,933
	4,772,473	4,324,573
Allowance for loan losses	**78,747**	69,294
	$ 4,693,726	$ 4,255,279
Current portion	**$ 898,689**	$ 854,319

Net unamortized loan premiums and discounts on residential loans totaled $5,122 and $6,195 as of December 31, 2016 and 2015, respectively.

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

The composition of State Institutions loans at December 31, 2016 and 2015 is as follows:

	2016		2015	
	Principal	**Interest**	Principal	Interest
Mill and Elevator (annual operating)	**$ 29,000**	**$ 3**	$ 15,000	$ 2
Western Area Water Supply	**64,315**	**30**	67,449	14
Housing Finance Agency	**17,645**	**41**	-	-
Office of the Adjutant General	**5,012**	**12**	78	1
Dept of Corrections	**-**	**-**	-	-
Rough Rider Industries	**-**	**-**	-	-
Williston State College	**2,295**	**1**	2,412	5
State Water Commission	**42,784**	**8**	45,840	349
	$ 161,051	**$ 95**	$ 130,779	$ 371
Current portion	**$ 53,952**	**$ 95**	$ 17,490	$ 371

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

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

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

The total allowance reflects management's estimate of credit losses inherent in the loan portfolio at the statement of net position date. The Bank considers the allowance for credit losses of $78,747 and $69,294 adequate to cover loan losses inherent in the loan portfolio at December 31, 2016 and 2015. The following tables represent, by portfolio segment, the changes in the allowance for credit losses and the recorded investment in loans.

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

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

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

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

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

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

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

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

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

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

NOTE 6 - LOAN SALES AND LOAN SERVICING

A summary of the Bank's loan sales during 2016 and 2015 follows:

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

BND recognized gains on sale of loans of $193 and $201 in 2016 and 2015 which are included in noninterest income on the Statements of Revenues, Expenses and Changes in Fund Net Position.

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

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

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

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NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016 is as follows:

	Balance 2015	Additions	Retirements	Balance 2016
Capital assets not being depreciated:				
Land	**$ 2,449**	**$ -**	**$ -**	**$ 2,449**
Capital assets being depreciated:				
Building	**$ 10,317**	**$ 470**	**$ -**	**$ 10,787**
Equipment	**629**	**198**	**73**	**754**
Furniture	**697**	**12**	**4**	**705**
Hardware	**183**	**-**	**10**	**173**
Intangibles - software	**5,464**	**426**	**-**	**5,890**
	17,290	**1,106**	**87**	**18,309**
Less accumulated depreciation for				
Building	**2,289**	**282**	**-**	**2,571**
Equipment	**464**	**96**	**72**	**488**
Furniture	**519**	**67**	**5**	**581**
Hardware	**73**	**32**	**10**	**95**
Intangibles - software	**4,828**	**253**	**-**	**5,081**
Total accumulated depreciation	**8,173**	**730**	**87**	**8,816**
Capital assets being depreciated, net	**$ 9,117**	**$ 376**	**$ -**	**$ 9,493**

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

Capital asset activity for the year ended December 31, 2015 is as follows:

	Balance 2014	Additions	Retirements	Balance 2015
Capital assets not being depreciated:				
Land	$ 2,449	$ -	$ -	$ 2,449
Capital assets being depreciated:				
Building	$ 10,212	$ 105	$ -	$ 10,317
Equipment	678	72	121	629
Furniture	698	-	1	697
Hardware	233	-	50	183
Intangibles - software	5,045	453	34	5,464
	16,866	630	206	17,290
Less accumulated depreciation for				
Building	2,013	276	-	2,289
Equipment	513	72	121	464
Furniture	452	68	1	519
Hardware	89	34	50	73
Intangibles - software	4,570	292	34	4,828
Total accumulated depreciation	7,637	742	206	8,173
Capital assets, net	$ 9,229	$ (112)	$ -	$ 9,117

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

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NOTE 8 - DEPOSITS

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

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

NOTE 9 - FEDERAL FUNDS PURCHASED AND REPURCHASE AGREEMENTS

	December 31, 2016	
	Federal Funds Purchased	Repurchase Agreements
Ending balance	**$ 242,480**	**$ -**
Highest month-end balance	**286,095**	**-**
Average daily balance	**213,108**	**-**
Interest rate as of year-end	**0.625%**	**0.00%**
Weighted average interest rate paid during year	**0.400%**	**0.00%**

	December 31, 2015	
	Federal Funds Purchased	Repurchase Agreements
Ending balance	$ 119,500	$ -
Highest month-end balance	367,195	-
Average daily balance	164,318	-
Interest rate as of year-end	0.375%	0.00%
Weighted average interest rate paid during year	0.130%	0.00%

The purpose of federal funds purchased and repurchase agreements is to provide continuous short-term investments for the Bank's customers. A schedule disclosing the increases and decreases of federal funds purchased and repurchase agreements has not been provided since this information would not provide any useful information to the users of the financial statements.

Federal funds purchased generally mature the day following the date of purchase. The Bank enters into repurchase agreements, which are a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying agreements to repurchase normally exceeds the cash received, providing the dealers a margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the Bank or provide securities or cash of equal value, the Bank would suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There was no credit exposure as of December 31, 2016 and 2015 because the dealer did not take control of the securities. The Bank had not incurred any losses on these agreements in 2016 and 2015. All sales of investments under agreements to repurchase are for fixed terms. In investing the proceeds of agreements to repurchase, the Bank policy is for the term to maturity of the investment to be the same as the term of the agreement to repurchase. Such matching existed at year-end.

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NOTE 10 - SHORT AND LONG-TERM LIBILITIES

Activity for short and long-term liabilities for the year ended December 31, 2016 was as follows:

	Balance 2015	Additions	Reductions	Balance 2016	Amounts Due Within One Year
SHORT AND LONG-TERM LIABILITIES					
Federal Home Loan Bank advances	**$ 726,942**	**$ 2,975,001**	**$ 2,421,640**	**$1,280,303**	**$ 816,853**
ND Public Finance Authority	**380**	**-**	**145**	**235**	**56**
Compensated absences	**1,124**	**1,003**	**968**	**1,159**	**996**
Total long-term liabilities	**$ 728,446**	**$ 2,976,004**	**$ 2,422,753**	**$1,281,697**	**$ 817,905**

Activity for short and long-term liabilities for the year ended December 31, 2015 was as follows:

	Balance 2014	Additions	Reductions	Balance 2015	Amounts Due Within One Year
SHORT AND LONG-TERM LIABILITIES					
Federal Home Loan Bank advances	$ 644,574	$ 615,000	$ 532,632	$ 726,942	$ 206,639
ND Public Finance Authority	552	-	172	380	30
Compensated absences	1,066	972	914	1,124	955
Total long-term liabilities	$ 646,192	$ 615,972	$ 533,718	$ 728,446	$ 207,624

As of December 31, 2016, a summary, by years, of future minimum payments required to amortize the outstanding short and long-term debt is as follows:

	Principal	Interest	Total
2017	$ 816,909	$ 14,677	$ 831,586
2018	37,130	14,289	51,419
2019	47,337	12,416	59,753
2020	27,580	11,254	38,834
2021	100,833	8,475	109,308
2022-2026	225,861	13,638	239,499
2027-2031	24,888	1,067	25,955
Totals	$ 1,280,538	$ 75,816	$ 1,356,354

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

The ND Public Finance Authority long-term borrowing is unsecured. Proceeds from the long-term borrowings are used to make irrigation and livestock waste program loans at Bank of North Dakota.

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NOTE 11 - DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Deferred Outflows of Resources and Deferred Inflows of Resources are grouped into one line item on the face of the financial statements. Details as of December 31, 2016 and 2015 are provided as follows:

	2016	2015
Deferred Outflows of Resources		
Unrealized loss on interest rate swap	$ 4,656	$ 5,064
Derived from pension	2,856	1,631
	$ 7,512	$ 6,695
Deferred Inflows of Resources		
Unrealized gain on interest rate swaps	$ 6,464	$ 863
Derived from pension	578	1,539
	$ 7,042	$ 2,402

Note 12 and 15 of the financial statements contains details of the pension plan and interest rate swaps, respectively.

NOTE 12 - PENSION PLAN

North Dakota Public Employees Retirement System (Main System)

The following brief description of NDPERS is provided for general information purposes only. Participants should refer to NDCC Chapter 54-52 for more complete information.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all employees of the State of North Dakota, its agencies and various participating political subdivisions. NDPERS provides for pension, death and disability benefits. The cost to administer the plan is financed through the contributions and investment earnings of the plan.

Responsibility for administration of the NDPERS defined benefit pension plan is assigned to a Board comprised of nine members. The Board consists of a Chairman, who is appointed by the Governor; one member appointed by the Attorney General; one member appointed by the State Health Officer; two members of the legislative assembly appointed by the chairman of the legislative management; three members elected by the active membership of the NDPERS system; and one member elected by the retired public employees.

Pension Benefits

Benefits are set by statute. NDPERS has no provisions or policies with respect to automatic and ad hoc post-retirement benefit increases. Member of the Main System are entitled to unreduced monthly pension benefits beginning when the sum of age and years of credited service equal or exceed 85 (Rule of 85), or at normal retirement age (65). For members hired on or after January 1, 2016 the Rule of 85 is replaced with the Rule of 90 with a minimum age of 60. The annual pension benefit is equal to 2.00% of their average monthly salary, using the highest 36 months out of the last 180 months of service, for each year of service. The plan permits early retirement at ages 55-64 with three or more years of service.

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Members may elect to receive the pension benefits in the form of a single life, joint and survivor, term-certain annuity, or partial lump sum with ongoing annuity. Members may elect to receive the value of their accumulated contributions, plus interest, as a lump sum distribution upon retirement or termination, or they may elect to receive their benefits in the form of an annuity. For each member electing an annuity, total payment will not be less than the members' accumulated contributions plus interest.

Death and Disability Benefits

Death and disability benefits are set by statute. If an active member dies with less than three years of service for the Main System, a death benefit equal to the value of the member's accumulated contributions, plus interest, is paid to the member's beneficiary. If the member has earned more than three years of credited service for the Main System, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the member's accrued normal retirement benefit, or monthly payments in an amount equal to the member's accrued 100% Joint and Survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the member's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible members who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits equal to 25% of their final average salary with a minimum benefit of $100. To qualify under this section, the member has to become disabled during the period of eligible employment and apply for benefits within one year of termination. The definition for disabled is set by the NDPERS in the North Dakota Administrative Code.

Refunds of Member Account Balance

Upon termination, if a member of the Main System is not vested (is not 65 or does not have three years of service), they will receive the accumulated member contributions and vested employer contributions, plus interest, or may elect to receive this amount at a later date. If the member has vested, they have the option of applying for a refund or can remain as a terminated vested participant. If a member terminated and withdrew their accumulated member contribution and is subsequently reemployed, they have the option of repurchasing their previous service.

Member and Employer Contributions

Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation.

The member's account balance includes the vested employer contributions equal to the member's contributions to an eligible deferred compensation plan. The minimum member contribution is $25 and the maximum may not exceed the following:

- 1 to 12 months of service – Greater of one percent of monthly salary or $25
- 13 to 24 months of service – Greater of two percent of monthly salary or $25
- 25 to 36 months of service – Greater of three percent of monthly salary or $25
- Longer than 36 months of service – Greater of four percent of monthly salary or $25

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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2016 and 2015, the Bank reported a liability of $9,722 and $6,769, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Bank's proportion of the net pension liability was based on the Bank's share of covered payroll in the Main System pension plan relative to the covered payroll of all participating Main System employers. At June 30, 2016, the Bank's portion was 0.997523 percent. At June 30, 2015, the Bank's portion was 0.995461 percent.

For the years ended December 31, 2016 and 2015 the Bank recognized pension expense of $2,112 and $973, respectively. At December 31, 2016 and 2015, the Bank reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	**$ 146**	**$ 90**
Changes of assumptions	**896**	**483**
Net difference between projected and actual earnings on pension plan investments	**1,356**	**-**
Changes in proportion and differences between employer contributions and proportionate share of contributions	**48**	**5**
Employer contributions subsequent to the measurement date (see below)	**410**	**-**
	$ 2,856	**$ 578**

The employer contributions subsequent to the measurement date of $410 reported as deferred outflows of resources relate to Bank contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended December 31, 2017.

	2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 183	$ -
Changes of assumptions	-	603
Net difference between projected and actual earnings on pension plan investments	782	925
Changes in proportion and differences between employer contributions and proportionate share of contributions	51	11
Employer contributions subsequent to the measurement date (see below)	615	-
	$ 1,631	$ 1,539

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The employer contributions subsequent to the measurement date of $615 reported as deferred outflows of resources relate to Bank contributions subsequent to the measurement date and were recognized as a reduction of the net pension liability in the year ended December 31, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		
2017	$	340
2018		340
2019		636
2020		411
2021		141
Thereafter		-

Actuarial Assumptions

The total pension liability in the July 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50%
Salary increases	4.50% per annum
Investment rate of return	8.00%, net of investment expenses
Cost-of-living adjustments	None

For active members, inactive members and healthy retirees, mortality rates were based on the RP-2000 Combined Healthy Mortality Table set back two years for males and three years for females, projected generationally using the SSA 2014 Intermediate Cost scale from 2014. For disabled retirees, mortality rates were based on the RP-2000 Disabled Mortality Table set back one year for males (no setback for females) multiplied by 125%.

The actuarial assumptions used were based on the results of an actuarial experience study completed in 2015. They are the same as the assumptions used in the July 1, 2016, funding actuarial valuation for NDPERS.

As a result of the 2015 actuarial experience study, the NDPERS Board adopted several changes to the actuarial assumptions effective July 1, 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Fund's target asset allocation are summarized in the following table:

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Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31%	6.60%
International Equity	21%	7.30%
Private Equity	5%	10.90%
Domestic Fixed Income	17%	1.49%
International Fixed Income	5%	-0.45%
Global Real Assets	20%	5.24%
Cash Equivalents	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 8 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at rates equal to those based on the July 1, 2016, Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016.

Sensitivity of the Bank's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Bank's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the Bank's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Bank's proportionate share of the net pension liability	$ 13,790	$ 9,722	$ 6,294

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued NDPERS financial report.

NDPERS issues a publicly available financial statement that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657

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NOTE 13 - COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

State Water Commission

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

Farm Real Estate Loan Guarantee Program

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

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Beginning Entrepreneur Loan Guarantee Program

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

NOTE 14 - OFF-BALANCE-SHEET ACTIVITIES

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, financial standby letters of credit, and guarantees related to loan programs as discussed in Note 13. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

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

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

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

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

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Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party which require this type of facility. The maturities for these letters of credit range from three months to ten years, and the likelihood of funding any of these letters of credit is considered to be remote. The Bank holds collateral supporting those commitments. The Bank also has letters of credit with the North Dakota Public Finance Authority (NDPFA) with maturities ranging from four years to 30 years. If the letters issued to the NDPFA were ever drawn upon, the NDPFA is legally obligated to reimburse the Bank from funds legally available, or from any appropriation made available from the Legislative Assembly after certification by the Industrial Commission. The likelihood of funding any of these letters of credit is also considered to be remote. Outstanding issued letters of credit as of December 31, 2016 and 2015 were $88,914 and $84,806, respectively.

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

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

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

NOTE 15 - INTEREST RATE SWAP CONTRACTS

Objective of the Interest Rate Swap

The Bank has outstanding interest rate swap agreements with a notional amount totaling $150,000 to convert variable rate federal funds into fixed-rate instruments over the term of the contract.

Terms

On June 5, 2014 ("June Swap") the Bank entered into a swap agreement which matures on June 1, 2029, and the swap's notional amount is $50,000. Under the terms of the swap, the Bank pays the counterparty a fixed payment of 2.861% and receives a variable payment based on the USD-FEDERAL FUNDS-H.15 interest rate.

On April 14, 2015 ("April Swap") the Bank entered into a swap agreement which matures on May 1, 2030, and the swap's notional amount is $50,000. Under the terms of the swap, the Bank pays the counterparty a fixed payment of 1.920% and receives a variable payment based on the USD-FEDERAL FUNDS-H.15 interest rate.

On August 11, 2016 ("August Swap") the Bank entered into a swap agreement which matures on September 1, 2031, and the swap's notional amount is $50,000. Under the terms of the swap, the Bank pays the counterparty a fixed payment of 1.483% and receives a variable payment based on the USD-1 MONTH LIBOR-BBA interest rate.

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Fair Value

At December 31, 2016, the June Swap has a negative fair value of $4,656 because interest rates have declined since the swap was executed. Also at December 31, 2016, the April Swap has a positive fair value of $827 because interest rates have increased since the swap was executed. Lastly, at December 31, 2016, the August Swap has a positive fair value of $5,637 because interest rates have increased since the swap was executed. Fair values for interest rate swap agreements are based upon the amounts required to settle the contracts.

At December 31, 2015, the June Swap had a negative fair value of $5,064 because interest rates had declined since the swap was executed. Also at December 31, 2015, the April Swap has a positive fair value of $863 because interest rates have increased since the swap was executed. Fair values for interest rate swap agreements are based upon the amounts required to settle the contracts.

Credit Risk

At December 31, 2016 and 2015, the Bank was not exposed to material credit risk because each counterparty is required to fully collateralize the fair value of the swaps within $250 of daily mark-to-market valuations by depositing funds with the other counterparty.

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

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

Interest Rate Risk

The Bank is exposed to interest rate risk on its swap agreements. On its pay-fixed, receive variable interest rate swaps, the Bank's net payment increases as the USD-FEDERAL FUNDS-H.15 and USD-1 MONTH LIBOR-BBA interest rates decrease.

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Termination Risk

Either the Bank or its counterparties may terminate the interest rate swap if the other party fails to perform under the terms of the contract. Termination could result in the Bank being required to make a payment of the fair value of the swap to counterparty.

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

		Fair Value		Changes in Fair Value	
	amount	Classification	Amount	Classification	Amount
Pay-fixed June interest rate swap	**$ 50,000**	**Other liabilities**	**$ (4,656)**	**Deferred outflow**	**$ 408**
Pay-fixed April interest rate swap	**$ 50,000**	**Other assets**	**$ 827**	**Deferred inflow**	**$ (36)**
Pay-fixed August interest rate swap	**$ 50,000**	**Other assets**	**$ 5,637**	**Deferred inflow**	**$ 5,637**

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

		Fair Value		Changes in Fair Value	
	amount	Classification	Amount	Classification	Amount
Pay-fixed June interest rate swap	$ 50,000	Other liabilities	$ (5,064)	Deferred outflow	$ (621)
Pay-fixed April interest rate swap	$ 50,000	Other assets	$ 863	Deferred inflow	$ 863

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Swap Payments and Hedged Debt

Using rates as of December 31, 2016, the interest expense of the variable rate federal funds, variable rate 1 month LIBOR and the net swap payments are as follows. As rates vary, the federal fund and 1 month LIBOR interest expense and the net swap payments will vary.

	Pay Fixed	Receive Variable		
Year ended December 31:	Contract Interest	Federal Fund Interest	1-Month LIBOR Interest	Interest Rate Swap, net
2017	$ 3,132	$ 540	$ 308	$ 2,284
2018	3,132	540	308	2,284
2019	3,132	540	308	2,284
2020	3,132	540	308	2,284
2021	3,132	540	308	2,284
2022-2026	15,665	2,700	1,540	11,425
2027-2031	10,121	1,553	1,437	7,131
	$ 41,446	$ 6,953	$ 4,517	$ 29,976

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurements are used to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

Fair Value Hierarchy

Under GASB Statement No. 72, assets and liabilities are grouped at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

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

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Determination of Fair Value

Under GASB Statement No. 72, fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is Bank policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy.

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Securities

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

Interest Rate Swap Agreements

Fair values for interest rate swap agreements are based upon the settlement value adjusted by estimated nonperformance risk.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

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

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

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NOTE 17 - RISK MANAGEMENT

The Bank is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the state for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of State Agencies resulting from the elimination of the State's sovereign immunity. The RMF manages the tort liability of the State, its agencies' employees, and the University System. All State agencies participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of $250,000 per person and $1,000,000 per occurrence.

The Bank also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The Bank pays an annual premium to the Fire and Tornado Fund to cover property damage to building and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reimbursed by a third party insurance carrier for losses in excess of $1 million per occurrence during a 12-month period. The State Bonding Fund currently provides the agency with blanket employee fidelity bond coverage in the amount of $2,000,000. The State Bonding Fund does not currently charge any premium for this coverage. There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

(In Thousands)

Schedule of Bank's Share of Net Pension Liability
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2016	2015	2014
1. Bank's proportion of the net pension liability (asset)	**0.997523%**	0.995461%	0.983912%
2. Bank's proportionate share of the net pension liability (asset)	**$9,722**	$6,769	$6,245
3. Bank's covered-employee payroll	**$10,053**	$8,868	$8,288
4. Bank's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	**96.71%**	76.33%	75.35%
5. Plan fiduciary net position as a percentage of the total pension liability	**70.46%**	77.15%	77.70%

*Complete data for this schedule is not available prior to 2014.

Data reported is measured as of 7/1/2016, 7/1/2015 and 7/1/2014.

Schedule of Bank Contributions
ND Public Employees Retirement System
Last 10 Fiscal Years*

	2016	2015	2014
1. Statutorily required contribution	**$728**	$674	$590
2. Contribution in relation to the statutorily required contribution	**($707)**	($717)	($674)
3. Contribution deficiency (excess)	**$21**	($43)	($84)
4. Bank's covered-employee payroll	**$10,053**	$8,868	$8,288
5. Contributions as a percentage of covered-employee payroll	**7.03%**	8.09%	8.13%

*Complete data for this schedule is not available prior to 2014.

Data reported is measured as of 7/1/2016, 7/1/2015 and 7/1/2014.

NOTE 1 - CHANGES OF ASSUMPTIONS

Amounts reported in 2016 reflect actuarial assumption changes effective July 1, 2016 based on the results of an actuarial experience study completed in 2015. This includes changes to the mortality tables, disability incidence rates, retirement rates, administrative expenses, salary scale, and percent married assumption.

BANK OF NORTH DAKOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS — EXHIBIT A-1
YEAR ENDED DECEMBER 31, 2016

Federal Grantor/Program Title	Federal CFDA Number	Expenditures
DEPARTMENT OF EDUCATION		
Direct Program:		
Federal Family Education Loan Program	84.032	
Interest subsidy		$ 1,009,367
Special allowance		296,945
Excess interest		(7,297,337)
Net special allowance received/(paid)		(7,000,392)
Guaranteed Student Loans:		
Previous year balance of loans on which there are continuing compliance requirements		370,468,235
Total guaranteed student loans (Note 2)		370,468,235
Total Department of Education		364,477,210
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Direct Program:		
Federal Housing Administration (FHA) Loan Program	14.117	
Guaranteed Loans:		
Previous year balance of loans on which there are continuing compliance requirements		409,351,689
FHA loan principal disbursed during the fiscal year		66,818,015
Total guaranteed loans (Note 3)		476,169,704
Total Department of Housing and Urban Development		476,169,704
DEPARTMENT OF DEFENSE		
Direct Program:		
Veteran's Benefits Administration (VA) Loan Program	64.114	
Guaranteed Loans:		
Previous year balance of loans from on which there are continuing compliance requirements		179,139,329
VA loan principal disbursed during the fiscal year		63,960,206
Total guaranteed loans (Note 4)		243,099,535
Total Department of Defense		243,099,535
DEPARTMENT OF JUSTICE		
Direct Program:		
John R. Justice Prosecutors and Defenders Incentive Act	16.816	
Grant for loan forgiveness		31,330
Department of Justice		31,330
TOTAL FEDERAL AWARDS		$ 1,083,777,779

NOTE 1 - The schedule of expenditures of federal awards includes the federal grant activity of the Bank of North Dakota and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The Bank has not elected to use the 10% de minimis cost rate.

NOTE 2 - The outstanding balance of guaranteed student loans on which there are continuing compliance requirements under the student loan program totaled $296,672,749 as of December 31, 2016.

NOTE 3 - The outstanding balance of guaranteed FHA residential loans on which there are continuing compliance requirements totaled $409,699,917 as of December 31, 2016.

NOTE 4 - The outstanding balance of guaranteed VA residential loans on which there are continuing compliance requirements totaled $211,999,525 as of December 31, 2016.

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Industrial Commission
Bank of North Dakota
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Bank of North Dakota, an enterprise fund of the State of North Dakota, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Bank of North Dakota's basic financial statements, and have issued our report thereon dated April 10, 2017.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Bank of North Dakota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bank of North Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bank of North Dakota's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Bank of North Dakota's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Aberdeen, South Dakota
April 10, 2017

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for the Major Federal Program
We have audited the Bank of North Dakota's, an enterprise fund of the State of North Dakota, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Bank of North Dakota's major federal program for the year ended December 31, 2016.The Bank of North Dakota's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on the compliance for the Bank of North Dakota's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Bank of North Dakota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Bank of North Dakota's compliance.

Opinion on the Major Federal Program
In our opinion, the Bank of North Dakota complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended December 31, 2016.

Report on Internal Control over Compliance
Management of the Bank of North Dakota is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Bank of North Dakota's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Bank of North Dakota's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Aberdeen, South Dakota
April 10, 2017

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over federal programs:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance with major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516	No

Identification of major programs:

Name of Federal Program	CFDA number
Veteran's Benefits Administration (VA) Loan Program	64.114

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee	Yes

Section II – Financial Statement Findings

No financial statement findings reported in the current year.

Section III – Federal Award Findings and Questioned Costs

No federal award findings reported in the current year.

EXHIBIT A-5

Independent Auditor's Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses regarding the December 31, 2016 audit of Bank of North Dakota are as follows:

Audit Report Communications:

1. What type of opinion was issued on the financial statements?

   Unmodified

2. Was there compliance with statutes, laws, rules and regulations under which the Agency was created and is functioning?

   Yes

3. Was internal control adequate and functioning effectively?

   Yes.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

   No

5. Was action taken on prior audit findings and recommendations?

   There were no prior audit findings and recommendations.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

   No

Audit Committee Communications:

1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.

   None

2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of these estimates.

   Bank of North Dakota has a significant accounting estimate in their determination of the allowance for loan losses. The allowance for loan losses is maintained at an amount considered by management to adequately provide for probable losses in the loan portfolio at the statement of net position date. The allowance for loan losses is based on periodic analysis of the loan portfolio by management. In this analysis, management considers factors including, but not limited to, current economic conditions, loan portfolio composition and historical loss experience. We have evaluated the key factors and assumptions used to develop the allowance for loan losses in determining that it is reasonable in relation to the financial statements taken as a whole.

   The Bank of North Dakota also has a significant estimate in their determination of the fair value of their federal funds interest rate swaps. Management's specialist completes a quarterly pricing analysis, as well as tests the effectiveness of the hedge, which complies with appropriate GASB Accounting Standards for hedge accounting. We have evaluated the key factors and assumptions used to develop the fair value of the interest rate swaps in determining that it is reasonable in relation to the financial statements taken as a whole.

   The Bank of North Dakota also has a significant estimate in their determination of the net pension liability. The net pension liability is based on an actuary's calculation in accordance with the plan provisions and census data for plan participants. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

3. Identify any significant audit adjustments.

   None

4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to financial accounting, reporting, or auditing matter that could be significant to the financial statements.

   None

5. Identify any significant difficulties encountered in performing the audit.

   None

6. Identify any major issues discussed with management prior to retention.

   None

7. Identify any management consultations with other accountants about auditing and accounting matters.

   None

8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit report questions addressed above are directly related to the operations of an information technology system.

   Based on the audit procedures performed, Bank of North Dakota's critical information technology system is the Fiserv system. There were no exceptions identified that were directly related to this application.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, Bank of North Dakota Advisory Board, and management of the Bank of North Dakota and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Aberdeen, South Dakota
April 10, 2017

BANK OF NORTH DAKOTA
SCHEDULE OF APPROPRIATED EXPENDITURES — EXHIBIT B-1
BIENNIUM ENDED JUNE 30, 2017
(In Thousands)

	Biennium Appropriation July 1, 2015 to June 30, 2017	Expenditures for Year Ended June 30, 2016	Unexpended Appropriations
APPROPRIATED EXPENDITURES:			
Operating Expenses	$ 58,542	$ 25,380	$ 33,162
Capital Assets	17,745	1,192	16,553
	$ 76,287	$ 26,572	$ 49,715
* **Expenditures Reconciliation:**			
Total expenses per financial statements-			
Interest expense		$ 33,975	
Provision for loan losses		16,000	
Operating expenses		31,631	
		81,606	
Non-appropriated expenditures:			
Interest expense		33,975	
Provision for loan losses		16,000	
Long-term debt prepayment fee		1,343	
Correspondent fees		764	
Depreciation and amortization		730	
Other real estate expense		-	
Loan collection expenses		351	
Loan servicing fee expense		645	
Other expenses		451	
Nonappropriated expenditures		54,259	
Equipment capitalized		211	
Facility capitalized		470	
Hardware capitalized		-	
Software capitalized		412	
Salaries capitalized		8	
		1,101	
Timing differences for appropriated expenditures:			
July 1, 2016 to December 31, 2016		(13,606)	
July 1, 2015 to December 31, 2015		11,730	
		(1,876)	
Appropriated Expenditures for the fiscal year		$ 26,572	

The continuing appropriation for non-appropriated expenditures are authorized by the Industrial Commission and come under the continuing appropriation authority provided by Article 10, Section 12 of the North Dakota Constitution.

BANK OF NORTH DAKOTA
DETAILED SCHEDULE OF APPROPRIATED EXPENDITURES **EXHIBIT B-2**
YEAR ENDED JUNE 30, 2016

Operating	
Salaries and wages	$ 10,969
Social security	825
Hospital insurance	2,264
State retirement contribution	1,271
Vacation and sick leave benefits	174
Unemployment insurance and worker's compensation premium	7
Building expenses	279
Furniture and equipment expenses	67
Processing and development expenses	2,276
Software/IT supplies	219
Contractual services/repairs	2,442
IT equipment < $5,000	329
Telephone	227
Marketing	1,386
Professional services	1,038
Travel	167
Dues and publications	217
Supplies	163
Postage	597
Other operating expenses	463
Contingency	-
	25,380
Capital assets	1,192
	$ 26,572

CPAs & BUSINESS ADVISORS

Karlene Fine, Executive Director
The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements, prepared following the Governmental Accounting Standards Board (GASB) accounting standards, of the Bank of North Dakota as of and for the year ended December 31, 2016, and have issued our report thereon dated April 10, 2017. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated November 2, 2016 and governance communication letter dated January 17, 2017, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of its respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of Bank of North Dakota solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

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Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies
Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Bank of North Dakota is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during 2016. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates
Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements were:

> Management's estimate of the allowance for loan losses is based on management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the member's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. We evaluated the key factors and assumptions used to develop the allowance for loan losses in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of the fair value of their interest rate swaps are based on the valuation techniques performed by a third party specialist. Management's specialist completes a quarterly pricing analysis, as well as tests of the effectiveness of the hedges, which complies with appropriate GASB Accounting Standards for hedge accounting. We have evaluated the key factors and assumptions used to develop the fair value of the interest rate swaps in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of the net pension liability is based on an actuary's calculation in accordance with the plan provisions and census data for plan participants. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures
Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the Bank's financial statements relate to Note 5 – Loans.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. There were no adjustments to the financial statements as a result of the audit procedures performed.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included a separate letter dated April 10, 2017.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with Bank of North Dakota, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operating plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Bank of North Dakota's auditors.

This report is intended solely for the use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, Bank of North Dakota Advisory Board, and management of the Bank of North Dakota and is not intended to be, and should not be, used by anyone other than these specified parties.

Eide Bailly LLP

Aberdeen, South Dakota
April 10, 2017