

Bank of North Dakota  
 Biennium Appropriation Report - July 1, 2015 - June 30, 2017  
 Six months ended December 31, 2015

| Line Item          | Total<br>Appropriation | Monthly<br>Approp. | Current<br>Months<br>Expenditures | (Over)<br>Under<br>Budget | Biennium<br>To-Date<br>Expenditures | Total<br>Available<br>To-Date | (Over)<br>Under<br>Budget | Balance<br>Unexpended |
|--------------------|------------------------|--------------------|-----------------------------------|---------------------------|-------------------------------------|-------------------------------|---------------------------|-----------------------|
| Operating Expenses | 58,542,304             | 2,230,293          | 2,076,952                         | 153,341                   | 12,330,336                          | 13,381,758                    | 1,051,422                 | 46,211,968            |
| Capital Assets     | 745,000                | 30,285             | 61,035                            | (30,750)                  | 359,905                             | 181,710                       | (178,195)                 | 385,095               |
|                    | <u>59,287,304</u>      | <u>2,260,578</u>   | <u>2,137,987</u>                  | <u>122,591</u>            | <u>12,690,241</u>                   | <u>13,563,468</u>             | <u>873,227</u>            | <u>46,597,063</u>     |

**BANK OF NORTH DAKOTA  
BALANCE SHEET - ACTUAL VERSUS BUDGET  
DECEMBER 31, 2015 - UNAUDITED**

|   | (In thousands)   |                  |                 |               |
|---|------------------|------------------|-----------------|---------------|
|   | Actual           | Budget           | Difference      | % Change      |
| Cash and due from banks                           | \$318,354        | \$564,921        | -246,567        | -43.65%       |
| Federal funds sold                                | 77,905           | 55,000           | 22,905          | 41.65%        |
| Securities  | 2,657,527        | 2,939,131        | -281,604        | -9.58%        |
| <b>Loans</b>                                      |                  |                  |                 |               |
| Commercial  | 1,811,259        | 1,771,234        | 40,025          | 2.26%         |
| Farm  | 513,899          | 433,949          | 79,950          | 18.42%        |
| Residential                                       | 693,712          | 662,000          | 31,712          | 4.79%         |
| Student Loans                                     | 1,320,748        | 1,234,038        | 86,710          | 7.03%         |
|   | 4,339,618        | 4,101,221        | 238,397         | 5.81%         |
| Less allowance for credit loss                    | (69,294)         | (58,346)         | (10,948)        | 18.76%        |
|   | 4,270,324        | 4,042,875        | 227,449         | 5.63%         |
| Other assets                                      | 83,832           | 87,071           | -3,239          | -3.72%        |
| <b>Total assets</b>                               | <b>7,407,942</b> | <b>7,688,997</b> | <b>-281,055</b> | <b>-3.66%</b> |
| <b>Deposits -</b>                                 |                  |                  |                 |               |
| Non-interest bearing                              | 641,264          | 750,000          | -108,736        | -14.50%       |
| Interest bearing                                  | 5,160,878        | 5,351,000        | -190,122        | -3.55%        |
| Federal funds purchased and repurchase agreements | 119,500          | 225,000          | -105,500        | -46.89%       |
| Short and long-term borrowings                    | 727,322          | 667,674          | 59,648          | 8.93%         |
| Other liabilities                                 | 9,485            | 7,611            | 1,874           | 24.62%        |
| <b>Total liabilities</b>                          | <b>6,658,449</b> | <b>7,001,286</b> | <b>-342,837</b> | <b>-4.90%</b> |
| <b>Equity</b>                                     | <b>749,493</b>   | <b>687,711</b>   | <b>61,782</b>   | <b>8.98%</b>  |
| <b>Total liabilities and equity</b>               | <b>7,407,942</b> | <b>7,688,997</b> | <b>-281,055</b> | <b>-3.66%</b> |

BND's primary financial objective is to generate a consistent financial return to the State of North Dakota while maintaining the strength and financial integrity of the Bank. BND intends to grow profits while protecting its balance sheet by following strategies that focus on income generation, risk mitigation, and expense control.

**COMMENTARY:**

Securities were \$282 million lower than budgeted as a result of investments maturing with the proceeds used to fund loans. Commercial loans were \$40 million more than budget due to increased loan participations and loan programs developed to support state and political subdivisions. Farm loans were \$80 million higher than budget as a result of restructurings, inventory carryover and continued demand for farm real estate loans. Residential real estate loans were \$32 million higher than budget due to a strong housing market. Student loans were \$87 million higher than budget due to the popularity of the DEAL One consolidation

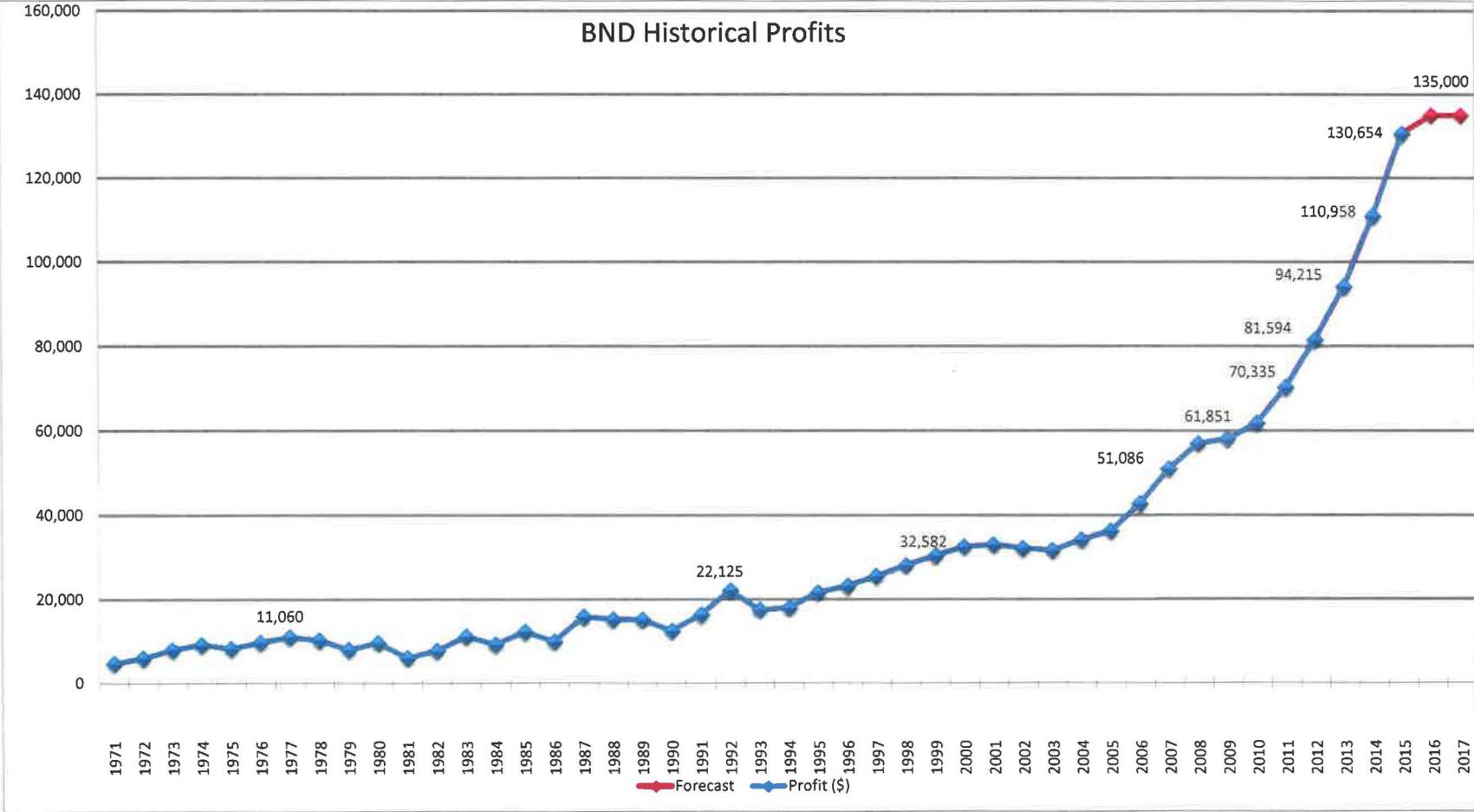
Deposits were lower than anticipated as a result of timing differences between anticipated deposits and withdrawals of the State. Short and long-term borrowings were \$60 million higher than projected due to funding needs at year-end. Equity was \$62 million higher than projected due to net income exceeding budget and timing differences on transfers to other State funds.

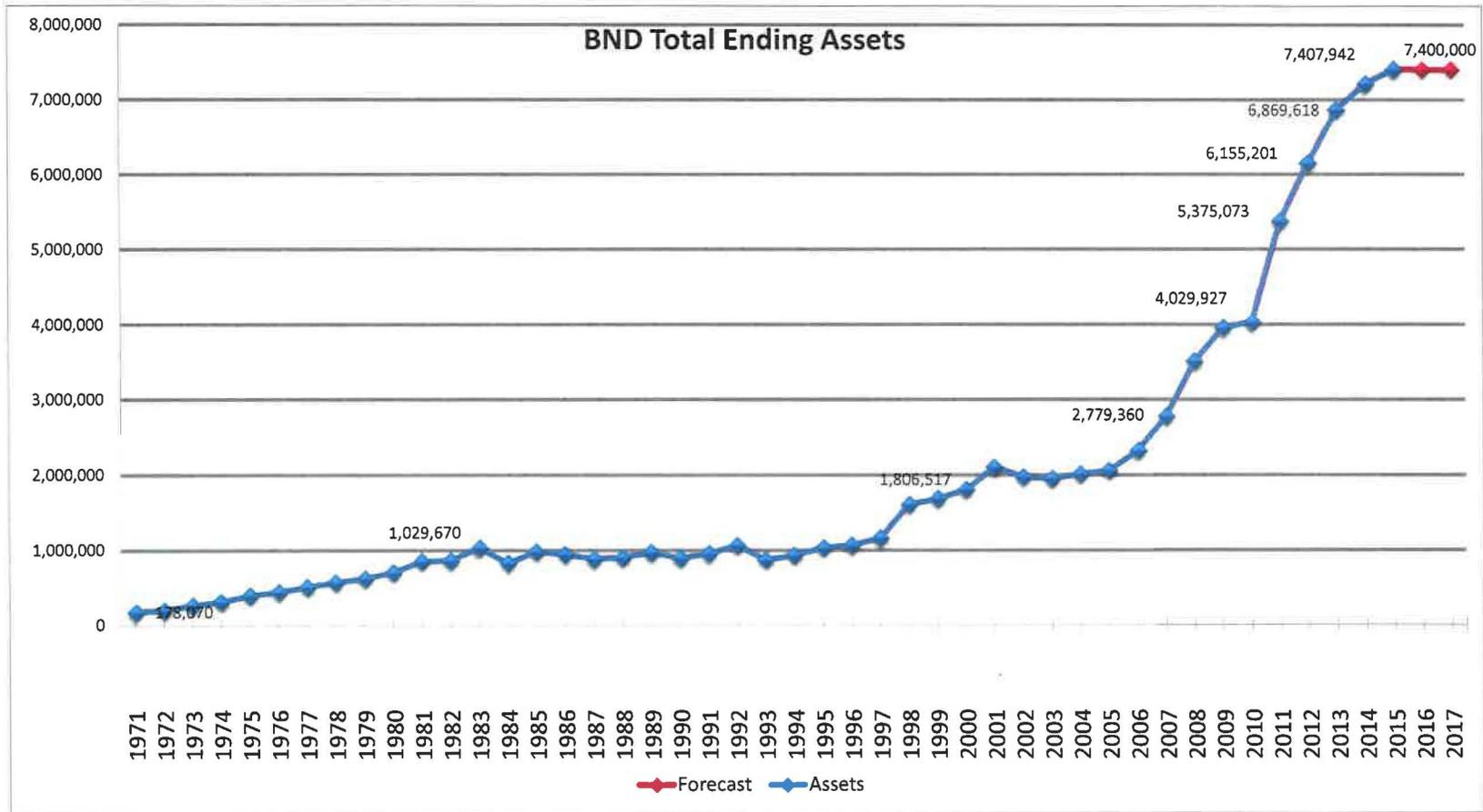
**BANK OF NORTH DAKOTA  
INCOME STATEMENT - ACTUAL VERSUS BUDGET  
DECEMBER 31, 2015 - UNAUDITED**

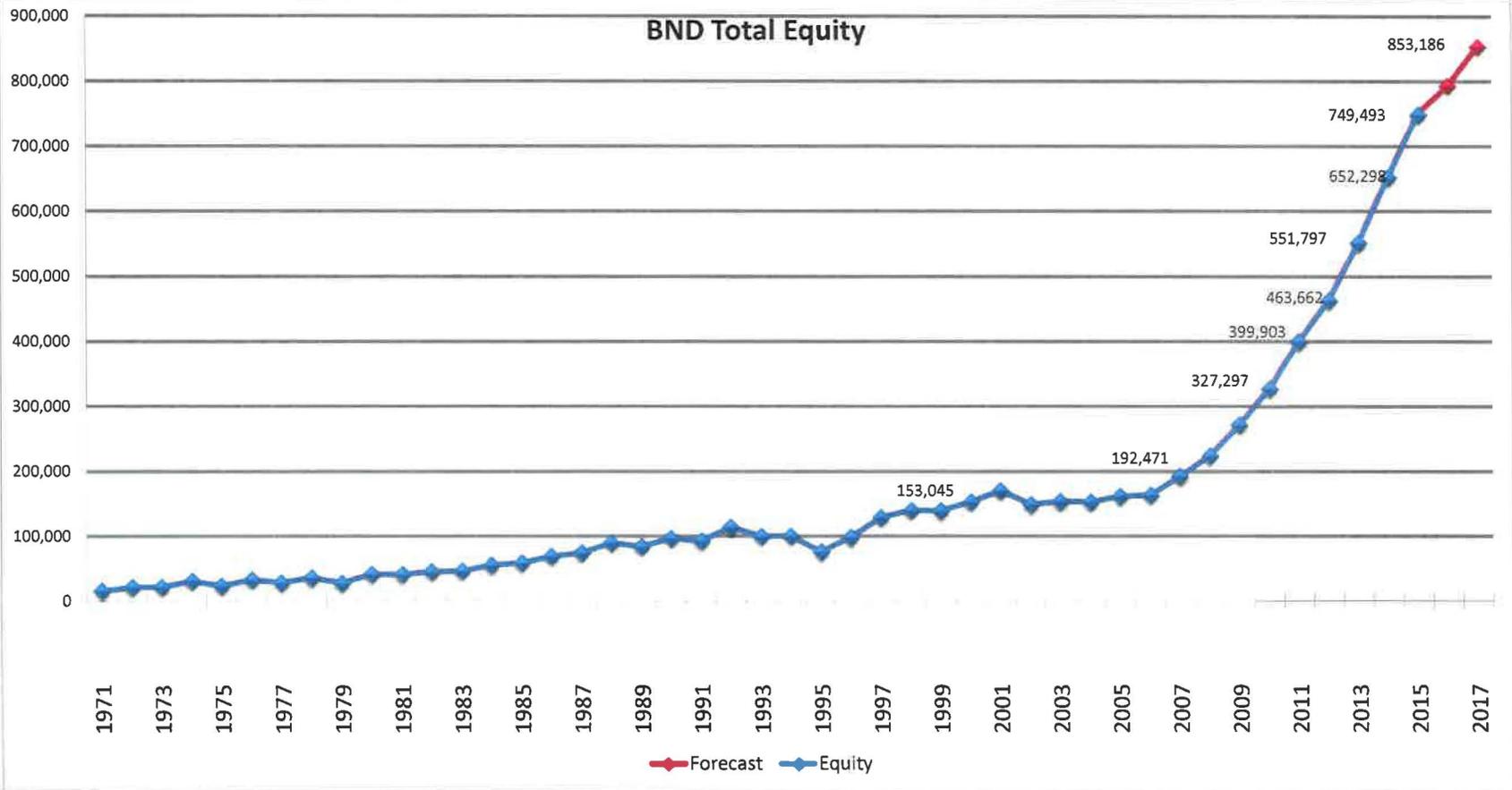
|                                     | (In thousands) |           |            |         |
|-------------------------------------|----------------|-----------|------------|---------|
|                                     | ACTUAL         | BUDGET    | DIFFERENCE | CHANGE  |
| INTEREST INCOME                     | \$194,298      | \$187,225 | \$7,073    | 3.78%   |
| INTEREST EXPENSE                    | 32,164         | 34,755    | -2,591     | -7.46%  |
| NET INTEREST INCOME                 | 162,134        | 152,470   | 9,664      | 6.34%   |
| PROVISION FOR CREDIT LOSSES         | 12,500         | 6,000     | 6,500      | 108.33% |
| NET INTEREST INCOME AFTER PROVISION | 149,634        | 146,470   | 3,164      | 2.16%   |
| NONINTEREST INCOME                  | 7,689          | 7,207     | 482        | 6.69%   |
| NONINTEREST EXPENSE                 |                |           |            |         |
| Salaries and benefits               | 14,817         | 15,281    | -464       | -3.04%  |
| Occupancy and equipment             | 726            | 989       | -263       | -26.59% |
| Data Processing                     | 4,838          | 7,516     | -2,678     | -35.63% |
| Other operating expenses            | 6,288          | 13,209    | -6,921     | -52.40% |
|                                     | 26,669         | 36,995    | -10,326    | -27.91% |
| NET INCOME                          | \$130,654      | \$116,682 | \$13,972   | 11.97%  |

BND's primary objective is to generate a consistent financial return to the State of North Dakota while maintaining the strength and financial integrity of BND.

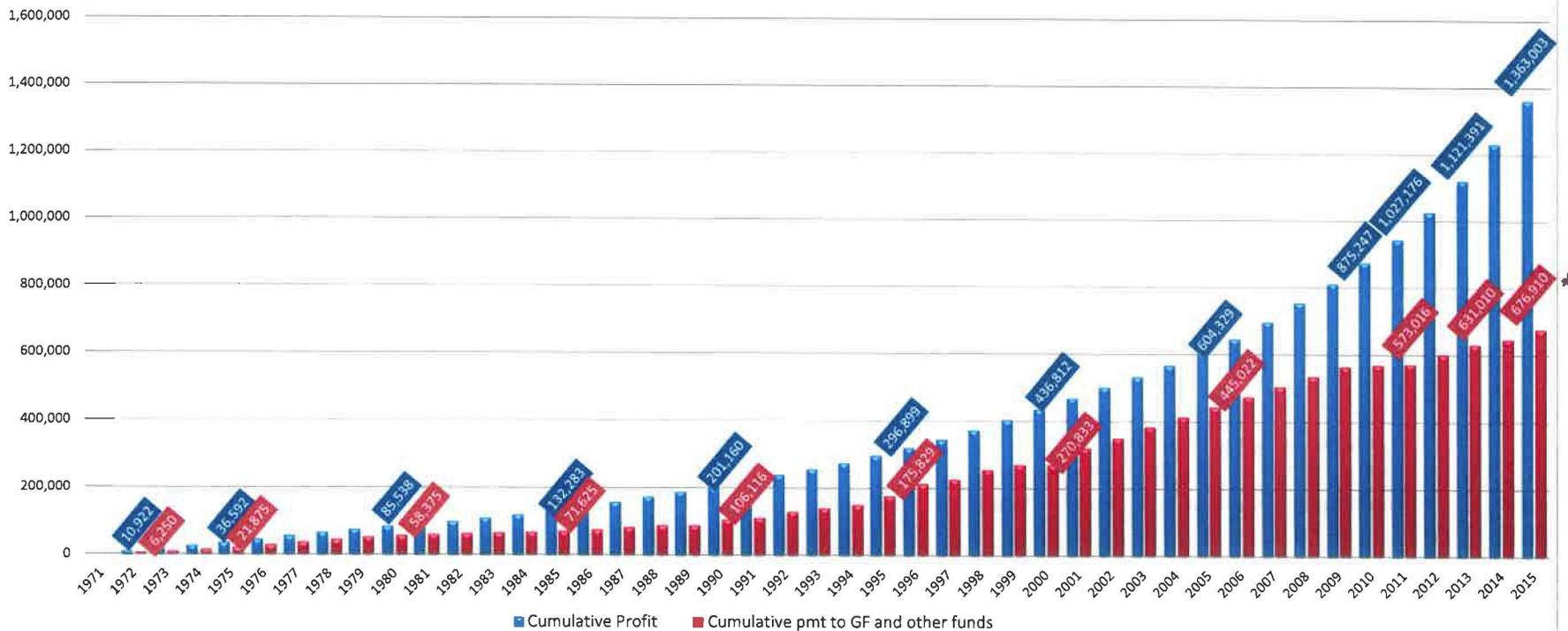
COMMENTARY: Overall, net income was \$14 million higher than budgeted. Interest income was \$7 million higher than budgeted mainly due to the loan portfolio growing more than anticipated. Interest expense was \$2.6 million lower than projections mostly due to less FHLB long-term borrowings. Provision for credit loss was \$6.5 million higher than anticipated due to slowing energy and ag economies. Data processing was \$2.7 million less than budget due to anticipated projects being deferred into 2016. Other operating expenses were \$6.9 million lower than budget largely due to anticipated prepayment penalties on FHLB borrowings that were not realized.







**BND Profits and Payments to General Fund and Other Funds**



\* 536,007 - General Fund  
 \$140,903 - other Funds  
 HIT  
 BND Buydowns  
 HIF

**SECTION 15. CONTINGENT APPROPRIATION - INDUSTRIAL COMMISSION FUNDING.** The amount of \$556,260 from the general fund and five full-time equivalent positions included in subdivision 1 of section 1 of this Act may be spent only in accordance with provisions of this section if the monthly average drilling rig count exceeds one hundred forty drilling rigs. The industrial commission shall notify the office of management and budget and the legislative council each time one or more full-time equivalent positions is authorized to be hired. For purposes of this section, the "monthly average drilling rig count" means the number, rounded to the nearest whole number, calculated by dividing the sum of the daily drilling rig counts for a calendar month by the number of days in the month. Of the \$556,260 and the five full-time equivalent positions in this section, the industrial commission may spend funding and hire full-time equivalent positions, as follows:

1. \$166,878, of which \$126,072 is from the salaries and wages line item and \$40,806 is from the operating expenses line item, and one full-time equivalent position if the monthly average drilling rig count exceeds one hundred forty drilling rigs.
2. In addition to the funding and full-time equivalent positions authorized in subsection 1, \$139,065, of which \$105,060 is from the salaries and wages line item and \$34,005 is from the operating expenses line item, and one full-time equivalent position if the monthly average drilling rig count exceeds one hundred fifty-five drilling rigs.
3. In addition to the funding and full-time equivalent positions authorized in subsections 1 and 2, \$111,252, of which \$84,048 is from the salaries and wages line item and \$27,204 is from the operating expenses line item, and one full-time equivalent position if the monthly average drilling rig count exceeds one hundred seventy drilling rigs.
4. In addition to the funding and full-time equivalent positions authorized in subsections 1 through 3, \$83,439, of which \$63,036 is from the salaries and wages line item and \$20,403 is from the operating expenses line item, and one full-time equivalent position if the monthly average drilling rig count exceeds one hundred eighty-five drilling rigs.
5. In addition to the funding and full-time equivalent positions authorized in subsections 1 through 4, \$55,626, of which \$42,024 is from the salaries and wages line item and \$13,602 is from the operating expenses line item, and one full-time equivalent position if the monthly average drilling rig count exceeds two hundred drilling rigs.

**SECTION 16.** A new section to chapter 6-09 of the North Dakota Century Code is created and enacted as follows:

**North Dakota financial center - Lease rates - Payments in lieu of taxes.**

The North Dakota financial center is a building that is owned by the Bank of North Dakota and is adjacent to the building in which the Bank of North Dakota is housed. The Bank of North Dakota shall lease the space in the North Dakota financial center to other state agencies based on market rate lease prices. The Bank of North Dakota shall make payments in lieu of property taxes in the manner and according to the conditions and procedures that would apply if the building were privately owned.

**SECTION 17. AMENDMENT.** Section 54-17-40 of the North Dakota Century Code is amended and reenacted as follows:

**54-17-40. (Effective through June 30, ~~2015~~2017) Housing incentive fund - Continuing appropriation - Report to budget section.**

1. The housing incentive fund is created as a special revolving fund at the Bank of North Dakota. The housing finance agency may direct disbursements from the fund and a continuing appropriation from the fund is provided for that purpose.
2. After a public hearing, the housing finance agency shall create an annual allocation plan for the distribution of the fund. At least twenty-five percent of the fund must be used to assist

**SECTION 26. CONTINGENT FUNDING - BANK OF NORTH DAKOTA - NORTH DAKOTA FINANCIAL CENTER - EXEMPTION - LEGISLATIVE MANAGEMENT REPORT.** The capital assets line item in subdivision 2 of section 1 of this Act includes \$17,000,000 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 in 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 \$125,000,000. The funding appropriated for this purpose is not subject to section 54-44.1-11 and any unexpended funds are available during the biennium beginning July 1, 2017, and ending June 30, 2019. The Bank of North Dakota shall report to the legislative management and to the appropriations committees of the sixty-fifth legislative assembly on the use of the funding provided for the North Dakota financial center, including the amounts spent to date and the amounts anticipated to be continued into the 2017-19 biennium, and on the progress of the project.

**SECTION 27. CONTINGENT EFFECTIVE DATE.** Section 16 of this Act is effective only if the Bank of North Dakota's net income, reported in accordance with financial accounting standards board accounting standards, for calendar year 2015 exceeds \$125,000,000.

**SECTION 28. EMERGENCY.** The amount of \$13,625,322 from the strategic investment and improvements fund in the capital assets line item in subdivision 1 of section 1 of this Act for the core library expansion project and sections 7 and 13 of this Act are declared to be an emergency measure.