
AGENCY OVERVIEW**471 Bank of North Dakota****Date:** 01/13/2011**Time:** 10:59:49

Statutory Authority

North Dakota Century Code Chapter 6-09.

Agency Description

The Bank of North Dakota serves as the development bank for agriculture, commerce, and industry in North Dakota. The strategic objectives of the Bank include the finance, expansion and diversification of the state's economy and jobs; maintaining the capital strength and financial integrity of the Bank; generating a consistent financial return to the state of North Dakota; and delivering first class customer service.

Agency Mission Statement

Bank of North Dakota's mission is to deliver quality, sound financial services that promote agriculture, commerce, and industry in North Dakota.

Agency Performance Measures

In meeting BND's performance, there are three areas that we believe should be monitored: Financial performance, achieving BND's mission, and meeting legislative expectations.

1. Financial Performance - The Department of Financial Institutions (DFI) evaluates the safety and soundness of banks utilizing the "CAMELS" rating system. CAMELS is an acronym standing for: Capital, Asset Quality, Management, Earnings, Liquidity and funds management, and Sensitivity.
2. Meeting the Mission - To deliver quality, sound financial services that promote agriculture, commerce, and industry. We measure our success in achieving our mission by the quality and usage of our programs.
3. Meeting Legislative expectations - ND legislature has two distinct expectations of BND. They expect that BND will continue to be a major player in the economic evolution of the State of North Dakota and that BND can be a source of revenue for the State's General Fund. We believe that if we meet our mission and financial performance objectives, we will fulfill the expectations of the legislature.

Return on Average Assets: Return on assets for 2009, 2008, and 2007 were 1.57%, 1.86%, and 2.04%.

Return on Average Equity: Return on average equity for 2009, 2008, and 2007 were 23.80%, 27.01%, and 27.68%.

Leverage Ratio: The leverage ratio for 2009, 2008, and 2007 were 7.17%, 6.79%, and 7.19%. BND's benchmark is 8%.

Major Accomplishments

1. Surpassed the 2008 loan portfolio by 3.6 percent, closing 2009 at \$2.700 billion. BND's loan portfolio concentrates on four main loan program areas: agriculture, commercial, residential, and student loans. Overall, loans totaled \$2.713 billion after \$95.0 million in new loan growth for the year 2009.
2. Participated in 268 North Dakota business and industrial projects in 2009. Spurred economic development by funding or renewing \$472.0 million of commercial participations with financial institution partners in the \$1.039 billion commercial loan portfolio. Despite this activity, the commercial portfolio decreased as a result of loan repurchases and reduced need.
3. Exhibited a strong housing market in North Dakota with many homeowners taking advantage of refinancing opportunities in a low interest rate environment. This and a challenging market environment for new loan volume led to an overall reduction in the residential loan portfolio, decreasing by 7.0 percent to \$475.0 million. In 2010, BND established a \$10.0 million program called the Rural Housing Loan Program. This program was designed to assist rural ND banks with the loss of FHA/VA approved lenders. Additionally, BND has been approved to purchase USDA Guaranteed residential loans.
4. Increased student loan volume in 2009 due to legislation that contributed to the reduction in the number of lenders willing to participate in student loans. Strong demand for the Dakota Education Alternative Loan (DEAL) led to a 38.0 percent increase in DEAL disbursements and helped fuel an overall 20.0 percent growth to BND's total student loan portfolio. BND's student loan portfolio ended 2009 at \$932.0 million.
5. Maintained a stable agriculture loan portfolio in 2009 ending the year at \$268.0 million.

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6. Increased net earnings \$1.0 million to \$58.0 million, 1.8 percent over 2008. BND's performance for 2009 reflected its slower growth in loans and increased contributions to loan loss reserve. BND's return on average equity was 23.8 percent, which reflects the state's return on its investment in BND. Total assets grew to \$3.960 billion, 12.6 percent over 2008.
7. Awarded the College Access Grant. The Grant is \$1.5 million annually for up to five years and will provide for education and outreach services for those pursuing higher education.

Future Critical Issues

CAMELS rating system is utilized in the banking industry to evaluate the safety and soundness of a bank. In order to meet the financial objectives of maintaining the strength of BND and providing a consistent return to the State of North Dakota, it is critical that capital, asset quality, earnings, liquidity and fund management, and sensitivity continue to be managed. The components of the CAMELS rating system are:

Capital: BND monitors its risk based capital ratios and primary capital ratio identified in conjunction with the banking industry standards. Capital is needed to maintain the strength of the bank. Industry and regulatory requirements will put pressure on the financial industry to increase capital levels. BND has a capital level benchmark of 8% that has proven to be difficult to attain. Capital growth is obtained in only one way for BND - net profits retained. Despite the fact that BND has had solid earnings for many years and the legislature has not required a transfer of BND profits to the general fund, leverage at BND has not met its capital benchmark. Primarily this is due to asset growth fueled by significant deposit and federal funds (interbank overnight loans) increases.

Asset Quality: BND monitors delinquencies, classified loans, non-accrual loans, allowance for loan loss, concentrations of credit, restructured loans, loan distribution, off-balance sheet risk, loan documentation exceptions, loan charge offs and recoveries, adversely classified assets and investment ratings. Asset quality is needed to maintain the strength and provide consistent earnings for the bank.

Management: BND management is responsible for monitoring and controlling the components of the CAMELS rating system.

Earnings: BND monitors interest margin, income and expenses as a % of average assets, and return on assets and equity. Sufficient earnings are needed to maintain adequate capital and provide resources to the general fund.

Liquidity and Funds Management: The objective of liquidity and funds management is to ensure the continuous availability of funds to meet the demands of depositors and borrowers.

Sensitivity (Interest Rate Risk): BND's principal objective for interest rate risk management is to control exposure of net interest income to risks associated with interest rate movements.

It is continually important to balance the financial and business objectives of the bank with the social and political objectives to expand North Dakota's economy. It is equally important to provide a culture that develops people, acts as a model of efficient business and government, and exemplifies the core values of the bank. BND strives to be a leader in technology in order to provide quality customer service and meet customer needs.

Student Loans: For the first time in the history of the Federal Family Education Loan (FFEL) Program, BND will not be originating federal student loans to North Dakota students. Congress concluded in early 2010 that a direct loan program through the federal government should be the only option for delivering federal student loans. BND continues to support efforts for the non-profit sector to have a role in servicing federal student loans, but the details for these small servicing contracts have not been finalized. As outlined in the large IT projects narrative, a future critical issue will be obtaining a DOE contract to service loans under the Federal Direct Loan program. The contract will be contingent upon a reasonable fee structure, account allocation based on regional structure and meeting vigorous security and compliance requirements. BND remains committed to students and will continue to offer the Dakota Education Alternative Loan (DEAL) program to supplement funding beyond federal aid availability.

REQUEST SUMMARY

471 Bank of North Dakota

Biennium: 2011-2013

Bill#: HB1014

Date: 01/13/2011

Time: 10:59:49

Description	Expenditures 2007-2009 Biennium	Present Budget 2009-2011	Budget Request Change	Requested Budget 2011-2013 Biennium	Optional Budget Request
By Major Program					
Bank of North Dakota Operations	51,994,420	55,417,274	(922,122)	54,495,152	(282,000)
Total Major Program	51,994,420	55,417,274	(922,122)	54,495,152	(282,000)
By Line Item					
Capital Assets	6,853,622	1,455,000	(189,000)	1,266,000	0
PACE Fund	8,000,000	8,000,000	(2,000,000)	6,000,000	(282,000)
Agriculture PACE Prog.	1,400,000	2,400,000	(1,400,000)	1,000,000	0
Beginning Farmer Prog.	368,564	950,000	50,000	1,000,000	0
Biofuels PACE	4,200,000	700,000	300,000	1,000,000	0
BND Operations	31,172,234	41,912,274	2,316,878	44,229,152	0
Total Line Items	51,994,420	55,417,274	(922,122)	54,495,152	(282,000)
By Funding Source					
General Fund	13,600,000	11,100,000	(2,100,000)	9,000,000	(282,000)
Federal Funds	0	0	3,000,000	3,000,000	0
Special Funds	38,394,420	44,317,274	(1,822,122)	42,495,152	0
Total Funding Source	51,994,420	55,417,274	(922,122)	54,495,152	(282,000)
Total FTE	176.50	176.50	0.00	176.50	0.00

REQUEST DETAIL471 Bank of North Dakota
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Description	Expenditures 2007-2009 Biennium	Present Budget 2009-2011	Budget Request Change	Requested Budget 2011-2013 Biennium	Optional Budget Request
Capital Assets					
Land and Buildings	5,377,279	0	0	0	0
Equipment Over \$5000	491,910	255,000	(123,000)	132,000	0
IT Equip/Sftware Over \$5000	984,433	1,200,000	(66,000)	1,134,000	0
Total	6,853,622	1,455,000	(189,000)	1,266,000	0
Capital Assets					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	6,853,622	1,455,000	(189,000)	1,266,000	0
Total	6,853,622	1,455,000	(189,000)	1,266,000	0
PACE Fund					
Transfers Out	8,000,000	8,000,000	(2,000,000)	6,000,000	(282,000)
Total	8,000,000	8,000,000	(2,000,000)	6,000,000	(282,000)
PACE Fund					
General Fund	8,000,000	8,000,000	(2,000,000)	6,000,000	(282,000)
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	8,000,000	8,000,000	(2,000,000)	6,000,000	(282,000)
Agriculture PACE Prog.					
Transfers Out	1,400,000	2,400,000	(1,400,000)	1,000,000	0
Total	1,400,000	2,400,000	(1,400,000)	1,000,000	0
Agriculture PACE Prog.					
General Fund	1,400,000	2,400,000	(1,400,000)	1,000,000	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	1,400,000	2,400,000	(1,400,000)	1,000,000	0
Beginning Farmer Prog.					
Transfers Out	368,564	950,000	50,000	1,000,000	0
Total	368,564	950,000	50,000	1,000,000	0
Beginning Farmer Prog.					
General Fund	0	0	1,000,000	1,000,000	0
Federal Funds	0	0	0	0	0

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Special Funds	368,564	950,000	(950,000)	0	0
Total	368,564	950,000	50,000	1,000,000	0

Biofuels PACE

Transfers Out	4,200,000	700,000	300,000	1,000,000	0
Total	4,200,000	700,000	300,000	1,000,000	0

Biofuels PACE

General Fund	4,200,000	700,000	300,000	1,000,000	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	4,200,000	700,000	300,000	1,000,000	0

BND Operations

Salaries - Permanent	13,680,327	16,829,586	396,097	17,225,683	0
Temporary Salaries	264,355	500,000	0	500,000	0
Fringe Benefits	4,996,141	6,533,288	99,424	6,632,712	0
Travel	299,582	416,000	26,000	442,000	0
Supplies - IT Software	485,286	525,000	(30,000)	495,000	0
Supply/Material-Professional	45,342	55,000	0	55,000	0
Office Supplies	379,068	470,000	0	470,000	0
Postage	953,078	1,045,000	175,000	1,220,000	0
IT Equip Under \$5,000	452,485	350,000	80,000	430,000	0
Other Equip Under \$5,000	1,064,337	100,000	0	100,000	0
Utilities	264,913	254,000	(29,000)	225,000	0
Insurance	32,687	70,000	(20,000)	50,000	0
Rentals/Leases-Equip & Other	64,679	81,000	(26,000)	55,000	0
Repairs	513,489	665,000	(210,000)	455,000	0
IT - Data Processing	3,174,244	3,600,000	(950,000)	2,650,000	0
IT - Communications	442,993	550,000	140,000	690,000	0
IT Contractual Svcs and Rprs	1,458,698	2,550,000	1,326,000	3,876,000	0
Professional Development	558,451	575,000	175,000	750,000	0
Operating Fees and Services	875,707	1,221,400	1,921,357	3,142,757	0
Fees - Professional Services	1,166,372	1,522,000	43,000	1,565,000	0
Special Line Other	0	4,000,000	(800,000)	3,200,000	0
Total	31,172,234	41,912,274	2,316,878	44,229,152	0

BND Operations

General Fund	0	0	0	0	0
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REQUEST DETAIL

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Description	Expenditures 2007-2009 Biennium	Present Budget 2009-2011	Budget Request Change	Requested Budget 2011-2013 Biennium	Optional Budget Request
Federal Funds	0	0	3,000,000	3,000,000	0
Special Funds	31,172,234	41,912,274	(683,122)	41,229,152	0
Total	31,172,234	41,912,274	2,316,878	44,229,152	0

Funding Sources

General Fund	13,600,000	11,100,000	(2,100,000)	9,000,000	(282,000)
Federal Funds	0	0	3,000,000	3,000,000	0
Special Funds	38,394,420	44,317,274	(1,822,122)	42,495,152	0
Total Funding Sources	51,994,420	55,417,274	(922,122)	54,495,152	(282,000)

CHANGE PACKAGE SUMMARY

471 Bank of North Dakota
Biennium: 2011-2013

Bill#: HB1014

Date: 01/13/2011

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Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds
Base Budget Changes						
One Time Budget Changes						
A-E 5 One Time Budget Change		0.00	(1,700,000)	0	0	(1,700,000)
Total One Time Budget Changes		0.00	(1,700,000)	0	0	(1,700,000)
Ongoing Budget Changes						
A-A 1 Purchase or Replacement of IT Equipment		0.00	0	0	1,134,000	1,134,000
A-A 2 Changes in Operating Expenses		0.00	0	2,424,257	(602,900)	1,821,357
A-A 3 Purchase or Replacement of Capital Equip		0.00	0	0	132,000	132,000
A-A 6 Base Budget Change		0.00	(400,000)	0	(950,000)	(1,350,000)
A-F 4 Remove Current Biennium Capital Assets		0.00	0	0	(1,455,000)	(1,455,000)
Base Payroll Change		0.00	0	575,743	(80,222)	495,521
Total Ongoing Budget Changes		0.00	(400,000)	3,000,000	(1,822,122)	777,878
Total Base Budget Changes		0.00	(2,100,000)	3,000,000	(1,822,122)	(922,122)
Optional Savings Changes						
A-G 1 Optional Savings	1	0.00	(282,000)	0	0	(282,000)
Total Optional Savings Changes		0.00	(282,000)	0	0	(282,000)

BUDGET CHANGES NARRATIVE

471 Bank of North Dakota

Bill#: HB1014

Date: 01/13/2011

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Change Group: A	Change Type: A	Change No: 1	Priority: 1
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Purchase or Replacement of IT Equipment

This change package represents the Bank's capital expenditure needs for replacement or new IT equipment and software needs.

Change Group: A	Change Type: A	Change No: 2	Priority: 1
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Changes in Operating Expenses

This change package represents the changes in the needs for maintaining the operations of the Bank.

Change Group: A	Change Type: A	Change No: 3	Priority: 1
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Purchase or Replacement of Capital Equip

This change package represents BND's capital expenditures for new or replacement equipment.

Change Group: A	Change Type: A	Change No: 6	Priority: 2
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Base Budget Change

This change package represents the changes in the needs for maintaining the operations of the Bank.

Change Group: A	Change Type: E	Change No: 5	Priority: 2
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One Time Budget Change

This change package is to remove one time funding.

Change Group: A	Change Type: F	Change No: 4	Priority: 1
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Remove Current Biennium Capital Assets

This change package is to reduce the Bank's request related to the current biennium's capital asset requests.

Change Group: A	Change Type: G	Change No: 1	Priority: 1
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Optional Savings

This change package represents the 3% optional savings package for general fund monies. The optional savings amount would reduce the amount of buydown funds available for the largest fund, the PACE program.

Change Group: R	Change Type: A	Change No: 1	Priority:
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Enhance Beginning Farmer Program

BUDGET CHANGES NARRATIVE

471 Bank of North Dakota

Bill#: HB1014

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Enhances the Beginning Farmer Loan program with an additional \$400,000 transfer from the general fund.