
AGENCY OVERVIEW**471 Bank of North Dakota****Date:** 12/23/2014**Time:** 12:57:36

Statutory Authority

North Dakota Century Code Chapter 6-09.

Agency Description

The Bank of North Dakota (BND) serves as the development bank for agriculture, commerce, and industry in North Dakota. The strategic objectives of the Bank include delivering quality programs and services to expand the economy of North Dakota; providing a culture that develops the skills of its people and is a model of efficient business and government; and generating a consistent financial return to the State of North Dakota while maintaining the strength and financial integrity of BND.

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 and a funding source for special projects and/or program needs as they arise. 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 2013, 2012, and 2011 were 1.44 percent, 1.45 percent, and 1.48 percent.

Return on Average Equity: Return on average equity for 2013, 2012, and 2011 were 18.44 percent, 19.22 percent, and 19.32 percent.

Leverage Ratio: The leverage ratio for 2013, 2012, and 2011 were 8.42 percent, 7.59 percent, and 7.70 percent. BND's benchmark is 8.0 percent.

Major Accomplishments

1. Experienced consistent asset growth. As of June 30, 2013, asset size was \$6.60 billion. Today the asset size is \$7.40 billion, an increase of 12.1 percent. Over the past 5 years, BND's assets have grown considerably (75 percent) while its authorized FTE count has only increased by 3.00 FTE's (176.5 to 179.5) over that same period.
2. Closed 2013 with a nearly \$3.50 billion loan portfolio, up a modest 6 percent over 2012. BND's loan portfolio concentrates on 4 main loan program areas: agriculture, commercial, residential, and student loans. Overall, loans totaled \$3.48 billion after \$200.0 million in new loan growth for the year 2012.
3. Participated in 309 North Dakota business and industrial projects in 2013. BND spurred economic development by funding or renewing \$1.18 billion of commercial participation with financial institution partners in the \$1.39 billion commercial loan portfolio.
4. Increased BND's residential portfolio by over \$36.0 million in 2013. BND made 58 loans through the rural housing programs, accounting for \$9.3 million of its \$630.0 million portfolio. BND also expanded a mortgage loan origination program approved by the 2011 legislature that funded \$2.9 million to 20 borrowers.
5. Disbursed over \$113.0 million in student loans in 2013 and the total portfolio increased by 3 percent to \$1.09 billion. BND's Dakota Education Alternative Loan (DEAL) Program volume increased by 13 percent in 2013. BND disbursed over \$113.4 million in DEAL loans in 2013.

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6. Created a new debt consolidation program on April 21, 2014. The DEAL One Loan allows residents who have graduated or left college and are currently making student loan payments to consolidate all federal, DEAL, DEAL Consolidation and private/alternative loans into one easy payment. From April 21, 2014 to August 25, 2014, BND disbursed \$76.0 million to 1,716 borrowers.
7. Grew the agriculture loan portfolio by 5 percent in 2013 to \$362.0 million. Increased activity in farm real estate loans contributed to the overall growth of the Ag portfolio in 2013.
8. Grew BND's earnings in 2013 by 15 percent over 2012 to \$94.2 million. BND's return on average equity was 18 percent, which reflects the state's return on its investment in BND.
9. Implemented the Rebuilders Loan Program, which was authorized during the 2011 Special Session by designating \$50.0 million to help flood-impacted homeowners rebuild or purchase a home in the same community. The Rebuilders Loan Program allowed homeowners to apply for up to \$30,000 to cover qualifying expenses. The first \$30.0 million of this program was funded with BND's retained earnings. As of August 28, 2014, BND has made 1,912 loans totaling \$49.1 million.
10. Continued to be rated AA- by Standard and Poors (S&P), putting BND in a rating category with the highest-rated U.S. banks. The rating of AA- was last affirmed in August 2013.
11. Formed a Medical Facility Infrastructure (MFI) Program and named BND as the administrator of that program passed during the 2013 Legislative Session. The legislation set aside \$50.0 million to be used for loans to medical facilities located in the energy producing cities. Have approved 4 loan requests totaling \$33.3 million. Two additional applications that will account for the remaining funds have been approved by the MFI task force and are pending receipt and approval by BND.
12. Developed an infrastructure loan program for western North Dakota cities, at the request of the Industrial Commission. BND has approved direct and participation loan requests from 5 different political subdivisions totaling \$96.9 million.
13. Assisted in the growing need for affordable housing, by approving 19 loans for a total of approximately \$22.5 million to date in the 2013-15 biennium. These loans have funded 517 affordable housing units.
14. Committed to \$90.0 million in direct funding for the Western Area Water Supply Authority (WAWSA).

Future Critical Issues

The 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 8.0 percent. Capital growth is obtained in only one way for BND - net profits retained. BND met this objective at the end of 2013 for the first time since 2005.
- **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 percentage 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.

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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.

BND's continues to deal with increased regulatory requirements related to financial institutions. The effects of Dodd Frank, Basel III, SOX 404, and information security program requirements are burdensome. The role of compliance in the banking industry cannot be overstated and our entire bank feels the effects on a daily basis. In addition, BND will continue to invest in ways to protect its physical and cyber security, whether through improved building security or insurance coverage. Although this coverage comes at a cost, we owe it to our employees and customers to provide a safe environment to conduct business.

REQUEST SUMMARY

471 Bank of North Dakota
Biennium: 2015-2017

Bill#: HB1014

Date: 12/23/2014

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Description	Expenditures 2011-2013 Biennium	Present Budget 2013-2015	Budget Request Change	Requested Budget 2015-2017 Biennium	Optional Budget Request
By Major Program					
Bank of North Dakota Operations	64,952,204	103,150,147	(49,636,665)	53,513,482	3,969,238
Total Major Program	64,952,204	103,150,147	(49,636,665)	53,513,482	3,969,238
By Line Item					
Accrued Leave Payments	0	881,231	(881,231)	0	0
Capital Assets	348,706	745,000	0	745,000	0
PACE Fund	13,543,648	0	0	0	0
Agriculture PACE Prog.	1,674,709	0	0	0	0
Beginning Farmer Prog.	4,553,327	0	0	0	0
Biofuels PACE	979,190	0	0	0	0
BND Operations	43,852,624	51,523,916	1,244,566	52,768,482	3,969,238
Med Fac Infrastructure	0	50,000,000	(50,000,000)	0	0
Total Line Items	64,952,204	103,150,147	(49,636,665)	53,513,482	3,969,238
By Funding Source					
General Fund	20,750,874	0	0	0	0
Federal Funds	2,896,149	3,000,000	(1,965,000)	1,035,000	0
Special Funds	41,305,181	100,150,147	(47,671,665)	52,478,482	3,969,238
Total Funding Source	64,952,204	103,150,147	(49,636,665)	53,513,482	3,969,238
Total FTE	176.50	179.50	0.00	179.50	2.00

REQUEST DETAIL471 Bank of North Dakota
Biennium: 2015-2017

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Description	Expenditures 2011-2013 Biennium	Present Budget 2013-2015	Budget Request Change	Requested Budget 2015-2017 Biennium	Optional Budget Request
Accrued Leave Payments					
Salaries - Permanent	0	881,231	(881,231)	0	0
Total	0	881,231	(881,231)	0	0
Accrued Leave Payments					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	881,231	(881,231)	0	0
Total	0	881,231	(881,231)	0	0
Capital Assets					
Equipment Over \$5000	208,066	250,000	0	250,000	0
IT Equip/Sftware Over \$5000	140,640	495,000	0	495,000	0
Total	348,706	745,000	0	745,000	0
Capital Assets					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	348,706	745,000	0	745,000	0
Total	348,706	745,000	0	745,000	0
PACE Fund					
Transfers Out	13,543,648	0	0	0	0
Total	13,543,648	0	0	0	0
PACE Fund					
General Fund	13,543,648	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	13,543,648	0	0	0	0
Agriculture PACE Prog.					
Transfers Out	1,674,709	0	0	0	0
Total	1,674,709	0	0	0	0
Agriculture PACE Prog.					
General Fund	1,674,709	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0

REQUEST DETAIL471 Bank of North Dakota
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Description	Expenditures 2011-2013 Biennium	Present Budget 2013-2015	Budget Request Change	Requested Budget 2015-2017 Biennium	Optional Budget Request
Total	1,674,709	0	0	0	0
Beginning Farmer Prog.					
Transfers Out	4,553,327	0	0	0	0
Total	4,553,327	0	0	0	0
Beginning Farmer Prog.					
General Fund	4,553,327	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	4,553,327	0	0	0	0
Biofuels PACE					
Transfers Out	979,190	0	0	0	0
Total	979,190	0	0	0	0
Biofuels PACE					
General Fund	979,190	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	979,190	0	0	0	0
BND Operations					
Salaries - Permanent	17,220,249	21,132,160	(231,343)	20,900,817	283,656
Temporary Salaries	477,892	903,000	212,320	1,115,320	0
Fringe Benefits	6,796,975	7,687,000	877,058	8,564,058	103,989
Travel	344,420	442,000	0	442,000	0
Supplies - IT Software	352,510	525,000	0	525,000	0
Supply/Material-Professional	53,112	55,000	0	55,000	0
Office Supplies	437,493	495,000	0	495,000	0
Postage	1,363,188	1,300,000	200,000	1,500,000	0
IT Equip Under \$5,000	318,431	520,000	0	520,000	0
Other Equip Under \$5,000	50,884	100,000	0	100,000	0
Utilities	217,805	245,000	0	245,000	0
Insurance	45,660	50,000	125,000	175,000	0
Rentals/Leases-Equip & Other	35,915	55,000	0	55,000	0
Repairs	354,868	465,000	20,000	485,000	0
IT - Data Processing	2,661,772	3,368,000	650,000	4,018,000	317,280
IT - Communications	551,373	630,000	0	630,000	0

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Date: 12/23/2014

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Description	Expenditures 2011-2013 Biennium	Present Budget 2013-2015	Budget Request Change	Requested Budget 2015-2017 Biennium	Optional Budget Request
IT Contractual Svcs and Rprs	3,876,177	4,058,000	397,000	4,455,000	200,000
Professional Development	859,184	863,400	86,600	950,000	329,600
Operating Fees and Services	2,999,446	3,403,000	0	3,403,000	0
Fees - Professional Services	1,685,114	1,983,000	105,000	2,088,000	782,000
Special Line Other	3,150,156	3,244,356	(1,197,069)	2,047,287	1,952,713
Total	43,852,624	51,523,916	1,244,566	52,768,482	3,969,238
BND Operations					
General Fund	0	0	0	0	0
Federal Funds	2,896,149	3,000,000	(1,965,000)	1,035,000	0
Special Funds	40,956,475	48,523,916	3,209,566	51,733,482	3,969,238
Total	43,852,624	51,523,916	1,244,566	52,768,482	3,969,238
Med Fac Infrastructure					
Grants, Benefits & Claims	0	50,000,000	(50,000,000)	0	0
Total	0	50,000,000	(50,000,000)	0	0
Med Fac Infrastructure					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	50,000,000	(50,000,000)	0	0
Total	0	50,000,000	(50,000,000)	0	0
Funding Sources					
General Fund	20,750,874	0	0	0	0
Federal Funds	2,896,149	3,000,000	(1,965,000)	1,035,000	0
Special Funds	41,305,181	100,150,147	(47,671,665)	52,478,482	3,969,238
Total Funding Sources	64,952,204	103,150,147	(49,636,665)	53,513,482	3,969,238

CHANGE PACKAGE SUMMARY

471 Bank of North Dakota
Biennium: 2015-2017

Bill#: HB1014

Date: 12/23/2014

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Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds
Base Budget Changes						
One Time Budget Changes						
A-E 6 Remove Medical Facility Infrastructure Loan		0.00	0	0	(50,000,000)	(50,000,000)
Total One Time Budget Changes		0.00	0	0	(50,000,000)	(50,000,000)
Ongoing Budget Changes						
A-A 1 Changes in Operating Expenses		0.00	0	0	386,531	386,531
A-A 4 Purchase or Replacement of Capital Assets		0.00	0	0	250,000	250,000
A-A 5 Purchase or Replacement of IT Equipment		0.00	0	0	495,000	495,000
A-A 7 Change in Funding Source from Fed. to Special fo		0.00	0	(2,028,740)	2,028,740	0
A-F 3 Remove Current Biennium Capital Assets		0.00	0	0	(745,000)	(745,000)
Base Payroll Change		0.00	0	63,740	(86,936)	(23,196)
Total Ongoing Budget Changes		0.00	0	(1,965,000)	2,328,335	363,335
Total Base Budget Changes		0.00	0	(1,965,000)	(47,671,665)	(49,636,665)
Optional Budget Changes						
Ongoing Optional Changes						
A-C 2 Changes in Operating Expenses Special Noted Chan	1	0.00	0	0	3,581,593	3,581,593
A-C 8 New FTE - Credit Analyst	2	1.00	0	0	177,836	177,836
A-C 9 New FTE - Information Security Analyst	3	1.00	0	0	209,809	209,809
Total Ongoing Optional Changes		2.00	0	0	3,969,238	3,969,238
Total Optional Budget Changes		2.00	0	0	3,969,238	3,969,238

BUDGET CHANGES NARRATIVE

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

This change package represents the changes in the needs for maintaining the current operations of the Bank. The resulting increase in line item expenditures is directly offset by a corresponding decrease in the line item Special Line Other (acct. #709000).

Change Group: A	Change Type: A	Change No: 4	Priority: 1
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Purchase or Replacement of Capital Assets

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

Change Group: A	Change Type: A	Change No: 5	Priority: 1
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Purchase or Replacement of IT Equipment

Change Group: A	Change Type: A	Change No: 7	Priority: 1
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Change in Funding Source from Fed. to Special for NDCAN

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

This change package represents the changes in the needs for maintaining the operations of the Bank after incorporating inflationary changes and implementation of new systems. Items are outlined as follows:

- \$317,280 Represents an estimated increase in the Bank's ITD costs. The current average monthly billing for Year 1 of the 2013-2015 biennium is \$137,700/mo. Using an inflation and usage increase of 10% based on communication between ITD and our IT Manager, the new resulting per mo. charge is estimated at \$151,470/mo. x 24mo. = \$3,635,280 for the biennium.
- \$200,000 The Bank is in the early stages of implementing a Customer Relationship Management system (CRM). This balance would pertain to the annual maintenance cost to run the system.
- \$329,600 Represents the increasing rise of continuing education costs, additional industry education requirements due to regulation, employees attending graduate school of banking, additional employees utilizing the college tuition reimbursement program, and also the implementation of bank-wide leadership programs (i.e. Situational Leadership).
- \$782,000 Represents an inflationary increase in current external audit fees, and more significantly the increase in the annual DFI Assessment Fee & Exam. The Bank previously received a 'haircut' on the assessment fee; however, effective 2015, that 'haircut' will be taken away resulting in an increase in fees of approximately 35% annually. -- Audit & Exam account for \$529,000 -- Management / Consulting account for another \$178,000. This is due

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to an increase in our S&P Rating fees (\$18k), and more significantly due to the Bank's SSAE 16 readiness assessment (\$160k). The final \$25,000 pertains to increased Office Administrative Hearings as it relates to Student Loan Operations and the Guarantor.

- \$1,952,713 Represents an increase in equipment and IT projects the Bank would undertake with available funding and resources. Currently a detailed list is maintained that would account for the balance in the Special Line Other acct.

Change Group: A	Change Type: C	Change No: 8	Priority: 2
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New FTE - Credit Analyst

BND is requesting an additional FTE for a Credit Analyst position for the Credit Review Department. In order to meet our initiative to expand our correspondent services through Loan Officers and Calling Officers, support staff will be a necessity. This will be critical so tha we can continue to provide great customer service to our financial institutions and state agencies.

Change Group: A	Change Type: C	Change No: 9	Priority: 3
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New FTE - Information Security Analyst

BND is requesting an additional FTE for an Information Security Analyst position for the Information Security department. The risk of cyber security threats continues to rise creating additional resource needs to ensure the safety and security of the bank's assets.

Change Group: A	Change Type: E	Change No: 6	Priority: 1
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Remove Medical Facility Infrastructure Loan

For the 2013-2015 biennium, SB No. 2187 provided for a medical facility infrastructure loan program to be administered by the Bank of North Dakota, provided a continuing appropriation to the Bank for funds in the newly created medical facility infrastructure fund, provided for a transfer of \$50 million from the SIIF to the medical facility infrastructure fund, provided for a transfer of any balance remaining in the medical infrastructure fund on July 1, 2017, to the SIIF, and provided for a report by the Bank on loan program. This change package is to remove this one-time item.

Change Group: A	Change Type: F	Change No: 3	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: R	Change Type: A	Change No: 1	Priority:
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Change in Operating Expenses - special noted changes

Provides funding for changes in the operations of the Bank after incorporating inflationary changes and implementation of new systems.

Change Group: R	Change Type: A	Change No: 2	Priority:
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Credit analyst FTE

Authorizes 1.00 FTE for a Credit Analyst position for the Credit Review Department in order to meet the initiative to expand correspondent services through Loan Officers and Calling Officers.

Change Group: R	Change Type: A	Change No: 3	Priority:
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Information security analyst FTE

Authorizes 1.00 FTE for an Information Security Analyst position for the Information Security department to ensure the safety and security of the bank's assets.

Change Group: R	Change Type: A	Change No: 100	Priority:
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Executive compensation adjustment package

This budget change provides funding for recommended 2015-17 compensation adjustments.