

Bank of North Dakota Rating Raised To 'A+' From 'A' Because Of State Ownership

Primary Credit Analysts:

Sunsierre Newsome
New York
(1) 212-438-2421
sunsierre_newsome@
standardandpoors.com

Secondary Credit Analysts:

Vikas Jhaveri
New York
(1) 212-438-3693
vikas_jhaveri@
standardandpoors.com

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Overview

- We believe that there is a high likelihood the State of North Dakota, which owns the Bank of North Dakota, will provide the bank with extraordinary support if needed.
- As a result, after applying our new criteria for government-related entities, we have raised our rating on the bank to 'A+' from 'A'.
- The outlook is stable, reflecting our expectation that BND should continue to perform well throughout this economic environment.

Rating Action

On July 30, 2009, Standard & Poor's Ratings Services raised its long-term counterparty credit rating on Bank of North Dakota (BND) to 'A+' from 'A'. At the same time, Standard & Poor's affirmed its 'AA+/A-1+' deposit rating on the bank. The outlook is stable.

Rationale

The upgrade incorporates a one-notch uplift from the bank's stand-alone creditworthiness based on the state ownership of BND following the application of our new government-related entities criteria. In our opinion, there is a high likelihood that the State of North Dakota would provide timely and sufficient extraordinary support to BND, as the state owns, controls, and maintains the bank. We base this view on our assessment of BND:

- Its important role in promoting the state government's economic development and stabilization process by delivering quality, sound financial services that promote agriculture, commerce, and industry in North Dakota.

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- Its integral link with the state government, as the bank acts as the agent of several state-legislated programs as a lender, as a depository for state agency funds, and as a correspondent bank to private financial institutions in the state.

Moreover, the state explicitly guarantees all of BND's deposits as codified in the North Dakota Century Code (NDCC § 6-09-10). As a result, the 'AA+' deposit rating parallels the rating on the State of North Dakota. No other liabilities have an explicit guarantee.

North Dakota's steadily growing economy throughout economic cycles buttresses the rating on BND. The bank's earnings continue to increase year over year, as has loan growth. Its capital is generally strong, with a Tier 1 ratio of 10.96%. Moreover, liquidity appears ample.

In addition to deposits, other sources of funding are provided by the Federal Home Loan Bank, repurchase agreements, and fed funds. The economy of North Dakota continues to post strong revenue performance at a time when many other states struggle with a weakening and recessionary economy. We attribute the state's strong performance to its key sectors: oil production and agriculture. Because of the state's current financial strength, it has suspended the usually large annual appropriation payouts the bank typically makes to the state's general fund. This two-year suspension should help to further improve not only the banks' profitability but also its already strong capital.

Outlook

The stable outlook reflects our expectation that BND should continue to perform well throughout this economic environment and that asset-quality measures will remain acceptable. We could lower the rating if the state economy deteriorates, putting pressure on BND's earnings, or if asset-quality levels deteriorate significantly. A change in the political environment affecting the support for BND could positively or negatively affect the ratings.

Related Research

"Enhanced Methodology And Assumptions For Rating Government-Related Entities," June 29, 2009.

Ratings List

Upgraded; Ratings Affirmed

	To	From
Bank of North Dakota Counterparty Credit Rating	A+/Stable/A-1	A/Stable/A-1
Ratings Affirmed Bank of North Dakota Certificate Of Deposit		
Local Currency	AA+/Stable/A-1+	

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