

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

3018

2007 HOUSE CONSTITUTIONAL REVISION

HCR 3018

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HCR 3018

House Constitutional Revision Committee

Check here for Conference Committee

Hearing Date: 2-7-07

Recorder Job Number: 3076

Committee Clerk Signature

Mario Khan

Minutes:

Chairman Koppelman: opened the Hearing on HCR 3018 .

Rep Thorpe, District 5: Introduced HCR 3018. See attached testimony.

Representative Conrad: As I recall, 2 years ago, you introduced a measure to use profits in the Bank of North Dakota for economic development.

Rep Thorpe: I did.

Representative Conrad: Does that jive with what this is attempting to do?

Rep Thorpe: That was a learning lesson. Before it was discussed on the floor, the bank president told me that we hadn't left them anything to operate on. I told him that what I asked for was that anything over \$30 M in bank profits would go into the development fund. He said that didn't leave them very much because the Governor has that spent that bill didn't go very far. The reason this bill is here is that for several sessions, one of the questions asked of me is, "Why are we spending the bank profits into the general fund when it was chartered for industrial development with the State of North Dakota?" I've told them that they had a legitimate question, but in my experience, I don't think I've had a vote on how that money is spent. I explained to them how it worked, in my opinion, the Industrial Commission, headed up by our Governor, Attorney General & Ag Commissioner make those decisions. We have a

great Industrial Commission & a very wise Governor & they've made those decisions. One of them asked me if any big businesses leave all their profits to be determined on how it will be spent to 3 individuals. I certainly don't have an argument with our Governor or the Industrial Commission, this is just a matter of hearing ... I think we should be thinking about.

Chairman Koppelman: The measure calls for & of course with any constitutional amendment, this would have to go to a vote of the people, to pass in the legislature. Basically, it calls for a 60% vote of the members of the legislature in order to appropriate the funds from the bank. That isn't really the correct way to go. I'm curious what you're thinking is on that.

Rep Thorpe: My thinking on that was that our citizens out there decided that the legislature should make that decision & they would vote in favor & if they feel that the Industrial Commission is the right way to continue then it would fail. With humility, I'll have to admit to you that the super majority that I put into this bill, 60%, I was thinking that maybe I could get a vote in there with that super majority. If you're going to consider the resolution, if you want to amend it down to a simple majority, I would have no problem with that.

Chairman Koppelman: Any other testimony in support, opposition or neutral?

Stan Benson, Bank of North Dakota: I visited with Eric this afternoon before heading out and he wanted me to convey to the committee that the bank is neutral.

Chairman Koppelman: Can you explain to the committee how this works currently & your view of what this measure would change in terms of how the profits of the bank are currently appropriated?

Stan Benson: I'm not prepared to answer that this afternoon; however, we can a later date.

Representative Conrad: How much has gone into the general fund over the last 30 years? I would like to see how a bank of comparable size does, are they reinvested? I've had many people visit with me, many with concerns about the Bank of North Dakota & actually saying

that it's not grown at the rate it should grow and if you look back in the last 20 years, it hasn't kept up with the size it was then.

Chairman Koppelman: Stan, when you're preparing that, if you would also give the committee a little background, such as the history of the bank, it's purpose, it that's changed over the years. We're the only state in the nation that has a state owned bank, so it's an unusual situation to be in. As Rep Conrad pointed out, in recent years the bank's profits have been used for general (*can't understand*) & many would say that that saves us from tax increases and the question is, is that a good thing or not?

Representative Conrad: The student loan program was used to better the lives of the citizens of North Dakota.

Representative Owens: I want to make sure there's no misunderstanding; my experience with the banking industry is your asset growth. That tells me & what I'd like to do, since this is the only state owned bank, I deal with the banking industry quite a bit & I'm used to capital reserves ... I assume you have some type of capital reserve.

Representative Klemin: I think that the state owned bank does a lot of things that regular commercial banks can't do. The Bank of North Dakota participates in loans that a lot of other commercial banks won't and takes risks that an ordinary bank wouldn't take. The number of programs for reduced loans & interest rates for certain kinds of things, like a beginning farm loan program. I don't think we can compare the Bank of North Dakota's operation to that of a regular commercial bank whose only goal is to make profits, whereas the Bank of North Dakota has some other goals.

Chairman Koppelman: A bill I sponsored earlier this session that passed unanimously, I believe, came from a program that I actually initiated 4 years ago & was a ag loan program, similar to what Rep Klemin's been talking about. We talked about keeping farmers on the

land, etc and this particular program said that if someone is having difficulty in consolidating their debt & staying on the farm, which is an important question for people in our state, the bank could accommodate a loan that a normal bank may not. Stan, if you or Mr Hardmeyer or whoever comes back to our next committee meeting on this bill, if you could give us some overview & history of the bank.

Representative Conrad: The people that I've visited with about the subject have said that the profits going into the general funds, is that really what we should be doing, or should we be expanding these things that other banks are not, such as tourism and what is being done with the profits?

Representative Owens: We're dealing with an organization that has certain responsibilities, in my opinion, to the Federal Reserve, only at the state level & then it has certain other responsibilities because it's part of the state, that are totally unrelated to commercial banking and it's really credit unions that are more coops. I have a feeling that what we're going to find out is that, while they may not have grown like a commercial competitor, we're going to find out that with the changing of the mission and all the various things that are involved with, that it's very well managed over the past 30 years.

Representative Klemin: I think most of what we're asking for is an Annual Report.

Stan Benson: Chairman Koppelman, just a little feedback ... the bill that you helped sponsor is HB 1061 & we appreciated that.

Chairman Koppelman: We'll ask you to come back and we'll notify you when the next meeting on this will be.

Rep Thorpe: Thank you so much for being so gracious and I just want to say that it's only the amount of money going into the general fund that the citizens back home had a concern with.

Chairman Koppelman: I'm not going to adjourn the hearing, rather I'm going to recess it because we've asked for this additional information from the bank & if anyone else wants to come and testify further, we'll entertain that as well.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HCR 3018

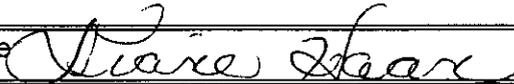
House Constitutional Revision Committee

Check here for Conference Committee

Hearing Date: 2-22-07

Recorder Job Number: 3622

Committee Clerk Signature



Minutes:

Chairman Koppelman: Reopened the hearing on HCR 3018

Karline Fine, Executive Director and Secretary of the Industrial Commission: Appeared to provide background on the transfers that have taken place over the years from the Bank of North Dakota. SEE ATTACHED TESTIMONY.

Eric Harmeyer, President & CEO of the Bank of North Dakota: Reviewed information in the ATTACHED BLUE FOLDER/PACKET BND

Chairman Koppelman: How does that relate to the \$175M floor that Karline refers to?

Hardmeyer: The floor has increased from \$100M to \$150M and now we're proposing it to \$175M ... it just means that for whatever reason, you can't take it down below \$175M ... from \$185M is another \$10M there but there has to be some sort of legislative action that would allow you to go in and take above and beyond the \$60M ... I'm not sure how they get the additional \$10M. (After answering question, Hardmeyer continued on with the prepared testimony) We do have a loan loss reserve ... (that's not mentioned on the testimony) we have about \$30M in a loan loss provision to offset loan losses. In some cases bank regulators combine reserves and (*can't understand*) capital provision and they call that primary capital. The Bank of North Dakota reserve as a percentage of total loans is about 180 or 190 and that

compares pretty well with the rest of the industry at about 175 to 180 so we have a good healthy loan loss reserve. BACK TO WRITTEN TESTIMONY IN BLUE FOLDER

Representative Conrad: This is real interesting ... some of the older people must remember the jump of early 90's where we went from \$16M to \$60M ... the question is what would have we done with \$60M if we hadn't put it into the general fund, what would have you done?

Hardmeyer: That would have gone to increase capital, that represents free money ... equity, there's no cost to it. Our deposits, which make up a great deal of our liabilities, we pay going market rate of say 4%, so if we keep capital, which is 0% on that, that basically lowers our cost of funds so when we loan someone money (we're making a loan at 8%) we have a cost to that money ... our cost is what we pay depositors. We also have to pay overhead and then you have to make a profit margin so what that does is lower our costs. We've been asked to explain if you kept the \$60M next biennium, what does that mean to the bank. In the simplest form it means that we'll be more profitable because we have 0% costs in those funds and we project that we'll earn the bank an additional \$500-600,000.

Representative Conrad: And would you make more loans to farmers?

Hardmeyer: That's a bit of a misnomer that when you have that money then you have additional money that you could lend. The Bank of North Dakota has what we call (*can't understand*) sources ... in addition to our deposit, which is a funding source, we have the ability to go out and sell CDs in the international markets, because we're not going to compete with North Dakota banks. We have Fed funds lines set up banks around the country ... we could issue bonds if we wanted to or we could tap a line of credit that we have with the federal home loan bank which allows us to borrow \$700M if we want to. We do not have a liquidity problem at the Bank of North Dakota ... we do not have a shortage of funds to lend out. Could

we make more loans? ... really not, because we have all the funding ability we need to make as many loans as there is demand.

Representative Conrad: So it would be up to the legislature to say we want you to start a new program for entrepreneurs, artists or community construction program or low interest rate ... we would be the one to say what you should do with that profit, other than put it in our general fund?

Hardmeyer: There are various programs throughout our profile of loans that we have that are legislative mandated programs. I have another example of what the bank does ... on the agricultural side, you'll see that last year we made \$20M of loans to farmers who suffered a disaster. That was a Bank of North Dakota decision to provide a program; it didn't take legislative action to that, because we need to be able to react quickly to the market place ... so we opened up this program for farmers and ranchers who suffered some disaster and we gave them a low interest loan with flexible payment options and we made \$20M in loans and we'll do some more this year. That's what we do, we come in and help in times of need, not only transfer to the general fund, but in terms of loan programs.

Vice Chairman Kretschmar: Is the Bank of North Dakota a member of the FDIC?

Hardmeyer: No we are not ... we have no FDIC insurance, but instead, our deposits are backed by the full faith and credit of the state of North Dakota. We are rated by a national rating agency, we have a separate rating that has rated the bank AA. Wells Fargo is the only bank with a AAA rating so a AA is significant rating for the bank.

Representative Owens: Looking at the information that you provided for us, the provision for loan loss for a \$2B budget, you and your staff are doing an excellent job. I was the one that was asking about capital reserve when we were talking about this earlier. In your opinion, wouldn't it be better, that instead of 175, and I know this doesn't directly relate to this bill, just

say 8% of 7.5% ... if we as a legislature, as technically a board of directors of the state, ...the bank said we want to maintain that.

Hardmeyer: I think that's a great idea, a capital base of 8%, if we could maintain that. The number's just been kind of a compromise between the bank, the Industrial Commission and the legislature, in terms of what's the appropriate amount to take. I've always thought that a percentage would be a better way to go and if can always keep our floor at least at 8% and allow the bank to first of all to kill it's (*can't understand*) and then we could look at transfers above and beyond there ... that would be great. I would endorse that.

Chairman Koppelman: You said that in the last 6 bienniums the bank has transferred nearly \$350M to the general fund ... is it fair to say that it's either a savings for the taxpayers of North Dakota or offsetting potential cuts in (*can't understand*) in government services?

Hardmeyer: That's the only we can look at it as well, it's a dividend back to the shareholders and the citizens of the state of North Dakota.

Chairman Koppelman: The bill before us basically calls for super majorities vote ... do you feel that the transfers have been abused? Do you think a measure like this is necessary?

Hardmeyer: I think it's been treated fairly ... obviously, the governor has a fine history at the bank and as a banker, he understands capital. I think the legislature has treated the bank very well, there's always been some concern about the money coming up here ... I hear that from both sides of the isle, so I think there's a lot of concern and respect for the bank in terms of the transfers up here.

Chairman Koppelman: We'll close the hearing on HCR 3018.

2007 HOUSE STANDING COMMITTEE MINUTES

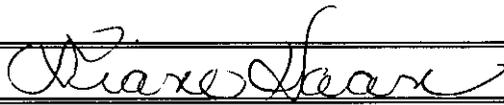
Bill/Resolution No. HCR 3018

House Constitutional Revision Committee

Check here for Conference Committee

Hearing Date: 2-26-07

Recorder Job Number: 3914

Committee Clerk Signature 

Minutes:

Chairman Koppelman: This is the resolution that Rep Thorpe introduced and after the continued hearing, when the Bank of North Dakota gave testimony on this, Rep Thorpe shared with me that after he heard the testimony, he no longer sees a need for this resolution and wanted the committee to be aware of that.

Vice Chairman Kretschmar: I'll move a **DO NOT PASS**

Representative Dahl: I'll **Second** it.

Roll Call Vote Yes 9 No 0 Absent 0

Carrier Representative Klemin

REPORT OF STANDING COMMITTEE (410)
February 27, 2007 9:17 a.m.

Module No: HR-37-3979
Carrier: Klemlin
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HCR 3018: Constitutional Revision Committee (Rep. Koppelman, Chairman)
recommends **DO NOT PASS** (9 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING).
HCR 3018 was placed on the Eleventh order on the calendar.

2007 TESTIMONY

HCR 3018

House Resolution 3018 Speech

I'd first like to start today by thanking the committee members for allowing me to speak and taking the time to listen to my words.

But before I speak about House Resolution No. 3018, I'd like to start today by taking us back to an American classic.

I'm sure you are all familiar with the Christmas classic, "It's a Wonderful Life".

Here is a movie about a man, a banker in the town of Bedford Falls by the name of George Bailey. And as we watch the movie, we see the life of this man progress.

George Bailey however, was a struggling banker. His bank barely survived the end of each day. In fact, during the course of the film, we watch as his staff rejoices, after realizing they still have a dollar left in the till.

But then one day, George Bailey's life is turned upside down when Uncle Billy misplaces the bank's profits. And as the movie continues, we see the repercussions of these actions.

Now granted the movie has a happy ending. The bank gets back its profits, George Bailey realizes how truly wonderful his life is and Clarence gets his wings.

But if we continue to take away from the Bank of North Dakota's profits, our ending may not be so happy.

A bank is only worth the money it has and if we continue to appropriate from the Bank of North Dakota, it eventually will die.

The management at the Bank of North Dakota has done a wonderful job. But the industrial commission continues to take a bulk of the institution's profits, limiting the bank's growth and potential.

In a time where we are seeing unprecedented state profits, in excess of \$550 million dollars, we continue to sit and watch the bank's profits appropriated away and that just doesn't make sense.

And if these actions are allowed to continue, we will literally "stunt the growth" of the bank which would leave us to beg the question, "How will the Bank of North Dakota continue to sustain itself?"

Our answers to this would only be as uncertain as the question.

If the bank's profits are left to dwindle, our lawmakers and elected officials would be left to wonder how our State's largest bank would survive.

In an event of a state-wide emergency or disaster, our bank would be left in a disaster of their own – unable to help the very state it serves because it simply wouldn't have the money it needed to assist us in our time of need.

We would watch as our businesses migrated elsewhere to receive their funding and assistance, and the great institution that we know today would shrink in size and fade in memory.

We simply cannot stand by and watch these things happen. In the past, the Bank of North Dakota has always been here to assist us. And now, it is our time to help them – by passing House Resolution 3018.

House Resolution 3018 helps protect our bank – the only state owned bank in our nation.

We need to protect the Bank of North Dakota and utilize the bank's profits, in a responsible manner as the charter specifies, so our state's industrial sector can continue to grow.

We need to preserve the bank's profits so that it may continue to be a viable entity.

Finally, we need to pass this measure, so that our bank – the people's bank of North Dakota, may continue to serve our state for generations to come.

Passing this resolution will secure our state's future, our ability to grow and help us meet the demands of a growing community.

Let's pass House Resolution 3018 and together we can preserve our state's growth and protect its future.

Thank you.



INDUSTRIAL COMMISSION OF NORTH DAKOTA

John Hoeven
Governor

Wayne Stenehjem
Attorney General

Roger Johnson
Agriculture Commissioner

Testimony for House Concurrent Resolution No. 3018
Constitutional Revision Committee
Karlene Fine, Executive Director and Secretary
of the Industrial Commission
February 22, 2007

Mr. Chairman and members of the committee my name is Karlene Fine and I serve as Executive Director and Secretary for the Industrial Commission.

I appear today to provide you with some background on the transfers that have taken place over the years from the Bank of North Dakota. Transfers from the Bank of North Dakota have been made since at least 1949. In the early years the transfers were generally in the amount of \$1.5 million a biennium and the transfers were made to either the General Fund or to another specific fund. Up until 1991 the largest transfer that had been made from the Bank of North Dakota in any one biennium was \$16,000,000.

It was in the mid-90's that we started to see a larger reliance on transfers from the Bank of North Dakota. We also saw the ability for contingency transfers. (In some ways the Bank was serving as a Rainy Day Fund.) It was during that same time period that a provision was included with the transfer language that established a floor for the Bank's capital structure. That provision basically states--A transfer authorized may only be made to the extent the transfer does not reduce the Bank's capital structure below x-amount. This is an important provision as it helps secure the Bank's capital structure. That floor has ranged from as low as \$79,000,000 to the current level that was included this session at \$175,000,000.

It was also during that time frame that the transfer language was changed from a "may" provision to a "shall" provision. Up until that time the transfer language had stated that the Industrial Commission "may" transfer; it was changed to the Industrial Commission "shall" transfer. My information shows that there was one biennium back in 1980 when the Commission reduced the amount of the transfer from \$14 million to \$10 million. This change from "may" to "shall" did alter the role of the Commission as it relates to Bank transfers.

For those of you that are familiar with the appropriations process you will appreciate that it was also during the 1990's that the transfer language was placed in the Office of Management Budget bill rather than being in the Industrial Commission/Bank of North Dakota appropriation bill. Since the OMB budget bill is generally the last bill considered during the legislative session, it will generally receive a vote in excess of the sixty percent proposed in House Concurrent Resolution No. 3018. Transfers from the Bank can also be found in other legislation for specific projects and the adoption of this sixty percent requirement could have an impact on that type of legislation.

Achieving
Results
Through
Synergy

BND

BANK OF NORTH DAKOTA
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www.banknd.com

**BND's Mission
Vision
Core Values
Strategic Objectives
Skills & Competencies**

**Eric Hardmeyer
President
Bank of North Dakota**

**“To Deliver Quality, Sound
Financial Services that
Promote Agriculture,
Commerce and Industry in
North Dakota.”**

~BND Mission Statement

www.banknd.com

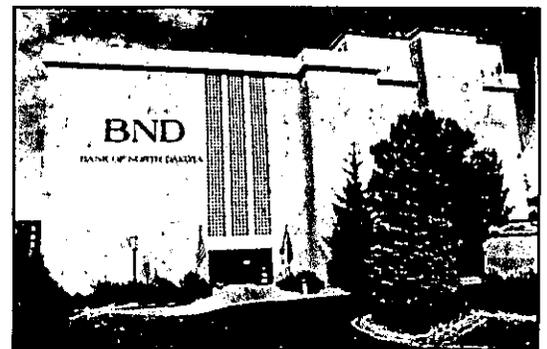
Welcome to
Bank of North Dakota!

The information contained in this booklet summarizes our mission and vision, core values, strategic objectives and the skills and competencies we expect from everyone in our organization.

Whether you are our customer or a member of the Bank of North Dakota organization, we want you to know why we exist, our guiding principles and what we strive to deliver.

Mission

The mission of Bank of North Dakota (BND) is, *“To Deliver Quality, Sound Financial Services that Promote Agriculture, Commerce and Industry in North Dakota.”* BND’s mission was established by the North Dakota legislature in 1919 and remains current today.



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Vision

At BND, we have developed a vision statement to paint a picture of our future. Our vision statement is, "Bank of North Dakota is a financial services leader in North Dakota fostering growth and economic well-being for the State and its citizens, using a partnership approach. Bank of North Dakota has knowledgeable, well-trained people delivering exceptional customer service, resulting in consistent financial returns to the State."

Our vision statement gives a snapshot of our broader vision, our more colorful picture, of the future at Bank of North Dakota. A more complete description of our vision is:

"Bank of North Dakota is a financial services leader, recognized for its uniqueness, accomplishments and partnership approach. BND fosters growth and generates economic well-being for the State of North Dakota and its citizens. This is accomplished through its knowledgeable, well-trained people who deliver exceptional customer service in a professional and timely manner. The delivery of superior customer service results in consistent financial returns for North Dakota.

At Bank of North Dakota, we are progressive and innovative in providing products and services to our customers. Examples of tools we

use include creative thinking, feedback from customers and employees, technology, clear internal and external communication channels and effective marketing of the services provided by BND. People and technology are cornerstones of the exceptional customer service we deliver. Strong partnerships assist us in delivering the service we promise.

At Bank of North Dakota, we are an organization that provides an



innovative and competitive compensation plan that rewards and recognizes people for their contributions. We thrive in a culture that fosters employee loyalty, team work, open and honest communication and empowerment, consistent with our core values. At BND, we find the work to be challenging and rewarding. Development opportunities are available to all members of the organization."

There are several key ideas within our vision that are so important we consider them separately. They are:

- Leadership
- Strong Partnerships
- Economic Growth and Well-Being
- Knowledgeable Well-Trained People
- Exceptional Customer Service
- Professional, Timely Services
- Consistent Financial Returns
- Progressive and Innovative
- Creative Thinking
- Customer and Employee Feedback
- Use of Technology
- Clear Communication
- Effective Marketing
- Reward and Recognition
- Loyalty
- Teamwork
- Empowerment
- Opportunity

Core Values

BND's Core Values describe the qualities and characteristics most important to us. We use our core values as a guide when working with others and in

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decision-making. At BND, we have chosen the following core values and defined them as:

Service: "Excel and Deliver!" We make decisions based on customer needs and preferences; recognizing the importance of continuous improvement, cost effectiveness and timeliness.

Teamwork: "Together We Accomplish More!" We provide a positive work environment that fosters communication, respect, empowerment, accountability, commitment and partnerships.

Ethics: "Do The Right Thing!" We expect honesty and promote integrity and trust.

People: "Set Us Apart!" We provide a work culture that respects differences, encourages employee creativity and development, promotes work/personal balance and recognizes individuals for their unique contributions.

Strategic Objectives

BND's Strategic Objectives are the framework for all of our daily business and operational activities. We conduct business and make decisions that will contribute to the achievement of one or more of our strategic objectives:

- Develop partnerships that deliver quality programs and services to expand the economy of North Dakota.

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- Maintain the strength and financial integrity of Bank of North Dakota.
- Generate a consistent financial return to the State of North Dakota.
- Provide a culture that develops people and is a model of efficient business and government.

Employee Skills and Competencies

BND's Employee Skills and Competencies are the essential abilities and expertises required of all members of our organization. These skills and competencies are necessary for each of us to wholly contribute to the accomplishment of the BND mission. BND Employee Skills and Competencies include:

- Customer Relations
- Communications
- Interpersonal
- Flexibility
- Technical
- Continuous Learning
- Innovative
- Decision-making
- Teamwork
- Productivity
- Business Focused

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Leadership Skills and Competencies

BND's Leadership Skills and Competencies are the additional abilities and expertises required of individuals in leadership positions. While 'leadership' is defined as responsibility for people, all employees are encouraged to demonstrate leadership in our daily actions.

- Strategic Thinking
- Visionary
- People Oriented
- Demonstrate Values
- Support of Learning and Development

"Achieving Results Through Synergy"

"Cooperative action among groups that creates an enhanced combined effect" is how synergy is defined. Synergy involves our customers, partnerships, work teams, and employees. In essence, synergy is how we achieve results at BND. For this reason, we have adopted "Achieving Results Through Synergy" as our motto.

If you are already a customer of Bank of North Dakota or a member of our organization, we are pleased to have the opportunity to work with you. If you are considering joining us as a customer or employee, we say:

Welcome to
Bank of North Dakota!

“Bank of North Dakota is a financial services leader in North Dakota fostering growth and economic well-being for the State and its citizens, using a partnership approach. Bank of North Dakota has knowledgeable, well-trained people delivering exceptional customer service, resulting in consistent financial returns to the State.”

~BND Vision Statement

www.banknd.com

Geography

BND centers on North Dakota and focuses on industries or businesses that will benefit the state and/or local communities within the state.

Inquiries & Applications

BND encourages investment requests throughout the year for present or future capital needs.

Application process steps:

- Contact BND to determine whether the business project is eligible.
- Submit all information to BND. Include business plan and information to allow for an effective evaluation of the request.
- Due diligence and outside sources may be utilized to analyze the project.
- Written notification of project approval or denial will be sent to project managers.

New Venture Capital Fund

"The New Venture Capital

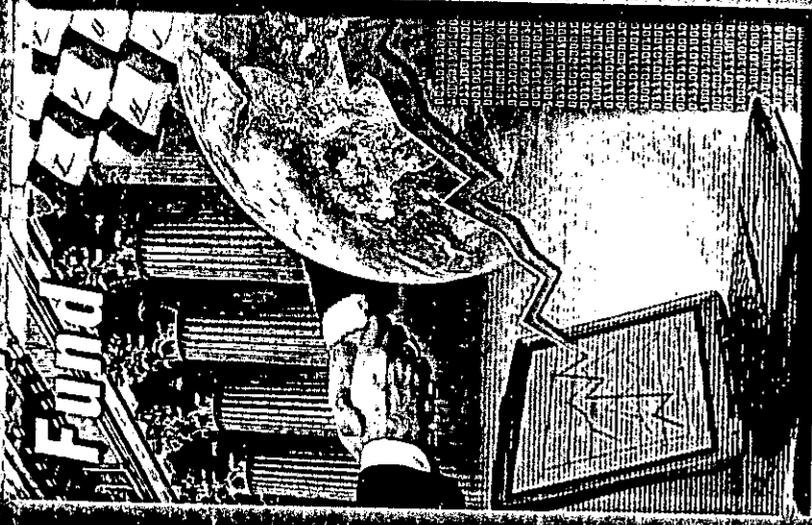
Fund offers growing companies the ability to expand or new companies early stage financing. By acting as a funding resource in partnership with other agencies or institutions, BND can offer a flexible means of financing the next phase of a business plan."

~ Eric Hardmeyer, President
Bank of North Dakota

For more information contact:

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New Venture Capital Fund



BND

Bank of North Dakota

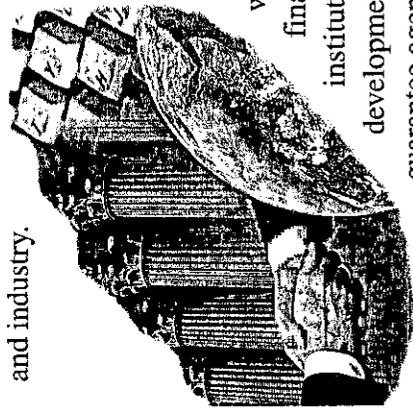
New Venture Capital Fund

The New Venture Capital Fund is an innovative financial program that was developed through state legislation passed in 2003. It is a fund which provides flexible financing through debt and equity investments for new or expanding businesses in the state of North Dakota.

The Bank of North Dakota (BND) manages the New Venture Capital Fund, as it provides a broad range of venture capital, industry and operating experience and skills.

Located in Bismarck, BND is the only state-owned bank in the nation. The Bank's mission, established by legislative action in 1919, is to encourage and promote agriculture, commerce and industry.

In this role, BND acts as a funding resource in partnership with other financial institutions, economic development groups and guarantee agencies.



Financing

The New Venture Capital Fund will invest up to \$300,000 with appropriate capital structures favoring the following investment instruments:

- *Subordinated debt with warrants to acquire common stock.*
- *Preferred stock with warrants to acquire common stock.*
- *Common stock.*

BND may adjust the limit when deemed necessary.

Business Criteria

BND welcomes proposals from companies that fit the following investment or project profile:

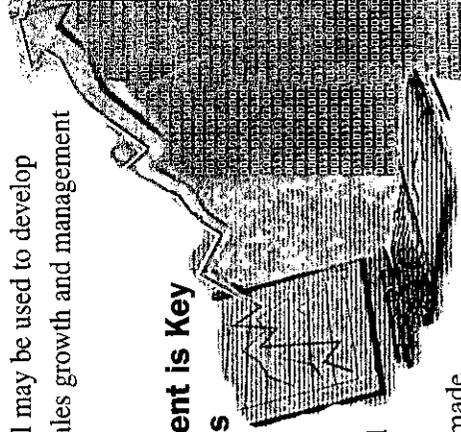
- *A successful and experienced management team.*
- *Cooperative management predisposed to communicate and work closely with outside investors toward common goals.*
- *A market with favorable size, growth and competitive characteristics.*
- *Adequate capital being raised to support operating objectives.*
- *Companies working to commercialize university-developed technology within the North Dakota University System.*

Expansion & Early Stage Financing

BND can fund rapidly growing companies which require equity funding. The Bank may provide funding for early stage companies which can show clear proof of completed product development and market acceptance as evidenced by growing sales. BND's capital may be used to develop production, sales growth and management capabilities.

Management is Key to Success

BND's success in this program will be based on selective investments made with successful business managers. The management team must exhibit integrity and effective results.



Industry & Technology Preferences

BND will invest in a variety of technologies and types of businesses, including North Dakota Department of Commerce strategic target industries. The Bank will also invest in growth and later stage manufacturing, service and businesses with profitable growth potential.

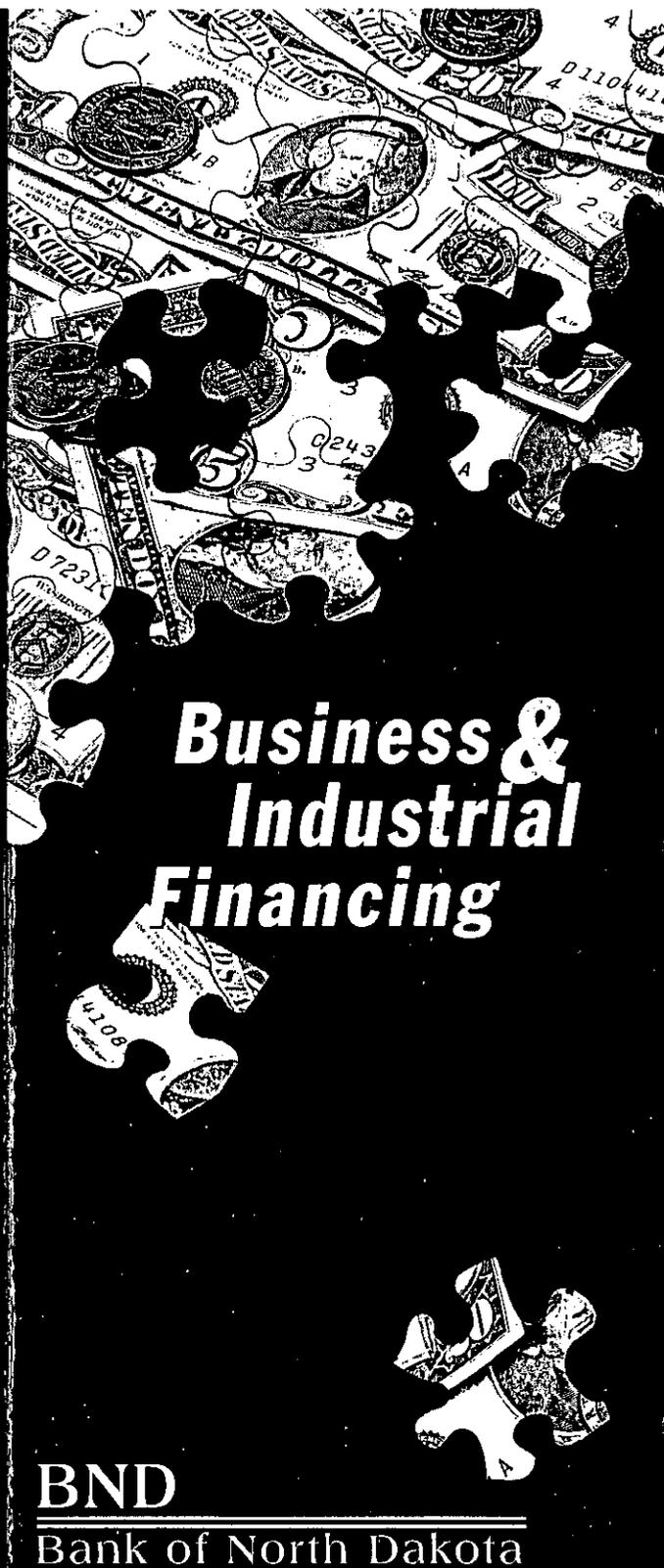
BND Commercial Loan Programs

"Our connection with Bank of North Dakota has increased over the years while allowing us to maintain important business relationships throughout the state. By utilizing commercial loan programs that Bank of North Dakota offers we can service our customers and continue our growth."

~ Karl Bollingberg
Director of Banking Services
Alerus Financial

Bank of North Dakota
700 E Main Ave.
PO Box 5509
Bismarck, ND 58506-5509
701.328.5777
1.800.472.2166 ext. 5777
www.banknd.nd.gov

12/31/05



Business & Industrial Financing

BND
Bank of North Dakota

BND Commercial Loan Programs

	BUSINESS DEVELOPMENT LOAN PROGRAM	SBA MAIN STREET PURCHASE PROGRAM	BEGINNING ENTREPRENEUR LOAN GUARANTY PROGRAM	PACE FUND	BIODIESEL PACE PROGRAM	MATCH PROGRAM	REGULAR BND LOAN PARTICIPATION
BORROWER	Any business	SBA qualified small businesses which have been awarded an SBA Guaranty on a new or existing loan	A North Dakota resident who has a high school diploma or GED	PACE: Manufacturing, processing, data processing, communications, and telecommunications Flex PACE: Includes retail, smaller tourist businesses & essential community businesses	Biodiesel production facilities located in ND involved in production of diesel fuel containing at least 5% biodiesel, meeting the specifications adopted by the American Society of Testing & Materials	Businesses that create new wealth for the state and provide new jobs outside of the retail sector	Any business
FUNDING LIMIT	BND's share - Maximum of \$500,000 per project	BND may purchase up to 100% of the guaranteed portion of an SBA guaranteed loan	BND may guaranty up to 85% of the amount of principal due the lender	BND's share - up to BND lending limit	BND's share - up to BND lending limit	BND's share - up to BND lending limit	BND's share - up to BND lending limit
BND PARTICIPATION REQUIREMENTS	Lead lender required - averages 30% to 40% of total loan	Additional funds may be obtained from any other funding sources	Maximum loan may not exceed \$100,000	Lead lender required - BND must participate in 50% to 80% of total loan	Lead lender required - BND must participate in 50% to 80% of total loan	Lead lender required	Lead lender required - averages 30% to 40% of total loan
USE OF PROCEEDS	Working capital, equipment and real property or refinancing	Fixed Assets, working capital and start-up costs	Business start-up, expansion including accounting, legal or business planning	Working capital, equipment and real property	Real property, equipment, facility expansion, working capital, and inventory	Real estate, for the purchase and lease of machinery and equipment	Working capital, equipment and real property
INTEREST RATE	BND share - Variable at Prime less .50% or fixed at comparable FHLB plus 2.25%. Lead lender - Capped at 3% over BND base	Variable Rate - BND to yield NY Prime less 1.50%; Fixed Rate - BND to yield BND's 5 year guaranteed fixed rate index.	Lender rate may not exceed 3% over BND base or NY Prime	Below market rates. PACE will fund up to \$250,000 for interest rate buy down of 5% below yield rate	Below market rate. BIODIESEL PACE will fund up to \$400,000 for interest rate buy down & not more than one loan per production facility. If PACE funds are not available, the maximum increases to \$600,000 per facility	BND's share - equal terms U.S. Treasury Note rate plus 2.5% - .75%. Rate may be adjusted periodically	Variable or fixed rates are available
TERM	Averages: working capital 1-5 years, equipment 5-7 years, and real estate 12-15 years	Maximums: working capital 7 years, equipment 10 years, and real estate 25 years	The guaranty may not exceed 5 years	Averages: working capital 1-5 years, equipment 5-7 years, and real estate 12-15 years	Averages: working capital 1-5 years, equipment 5-7 years, and real estate 12-15 years	Averages: working capital 1-5 years, equipment 5-7 years, and real estate 12-15 years	Averages: working capital 1-5 years, equipment 5-7 years, and real estate 12-15 years
COLLATERAL	First security interest on acceptable business assets	SBA Guaranty	Negotiable	First security interest on acceptable business assets	First security interest acceptable business assets	First security interest on acceptable assets and corporate guarantee	First security interest on acceptable business assets
EQUITY REQUIREMENTS	No minimums - based on project and management	Determined by lead lender and the SBA	No minimums - based on project and management	No minimums - based on project and management	No minimums - based on project and management	No minimums - based on project and management	No minimums - based on project and management
PERSONAL GUARANTEES	Yes	Yes	Yes	Yes	Yes	Corporate guarantor is a subsidiary if borrower is a subsidiary	Yes
CREDIT CRITERIA	Based on borrower and project	Determined by lead lender and the SBA	In compliance with the lead lender	Based on borrower and project	Based on borrower and project	Borrower must have a long term credit rating of "A" or better, or its equivalent	Based on borrower and project
ELIGIBLE AREA	Statewide	Statewide	Statewide	Statewide	Statewide	Statewide	Statewide
AVERAGE PROCESSING TIME	10 to 15 working days depending upon size of loan and completeness of application	1 to 5 working days	1 to 5 working days	10 to 45 working days depending upon size of loan and completeness of application	10 to 45 working days depending upon size of loan and completeness of application	15 to 45 working days	10 to 45 working days depending upon size of loan and completeness of application
QUALIFICATIONS	North Dakota business	North Dakota business	ND resident with a qualified net worth less than \$100,000	PACE: North Dakota business which creates one job for every \$75,000 of loan proceeds Flex PACE: No job requirement	No job requirements	Project must demonstrate it will have a significant positive impact on the state's economy	North Dakota business
COST AND FEES	Fees will be assessed on a loan-by-loan basis	Service fees will be added to BND's interest rate. Borrower must pay a \$250 setup fee	A guaranty fee of .5% per year or a one time fee of 1.5% will be charged the lender	Minimum of \$250, otherwise assessed on a loan-by-loan basis	Minimum of \$250; otherwise assessed on a loan-by-loan basis	Fees will be assessed on a loan-by-loan basis	Fees will be assessed on a loan-by-loan basis
MISCELLANEOUS	Available for refinancing	Borrower receives below market borrowing rates	May be used in conjunction with other BND programs	Not available for refinancing	Blending facilities do not qualify	Bank L.O.C. may be substituted if borrower does not have an "A" rating	

■ **The Bank of North Dakota's (BND)**

commercial lending programs serve the credit needs of the state and are made on a sound and collectible basis.

All of the Bank's loan programs are established under the following general guidelines:

■ **Participation Lending**

Business loans are made in participation with a lead lender. The lead lender completes and submits an application requesting the Bank's participation.

■ **Trade Area**

The Bank's primary trade area is the State of North Dakota.



■ **Loan Applications**

All loans are reviewed on an individual basis to insure the general credit standards of the Bank are met. In addition, all loans require an identifiable purpose. A specific source of repayment is identified to assure repayment of the loan.

■ **Loan Review**

All loans, regardless of size or type, are subject to the Bank's review process:

- Loans are reviewed by the Commercial Credit Committee and those requests which are \$1,000,000 or less are generally processed within 15 business days.
- Loans between \$1,000,000 and \$2,000,000 are reviewed by the Investment Committee and generally are processed within 15 business days.
- Loans in excess of \$2,000,000 are reviewed by the Investment Committee, the Bank's Advisory Board and presented to the Industrial Commission for final review. These loans generally are processed in 30-45 business days.



■ **Loan Commitment**

Funding is extended when the Bank has received all of the required documentation. The commitment period is 90 days.



■ **Collateral**

Adequate collateral is required. In addition, personal guarantees will be required from the principals with respect to corporate and partnership borrowing.

■ **Repayment Terms**

BND'S loan participation requires a specific source of repayment agreed upon by all parties. The repayment terms assigned to these loans vary depending upon the use of proceeds as well as the overall nature of the business.

■ **Fees**

Commitment fees, origination fees, and service fees may be charged. These fees depend upon the loan program and are reviewed on an individual basis.

■ **Contact**

For more information on all of the Bank's lending programs, contact:

Commercial Loan Department

Bank of North Dakota

700 E Main Ave.

PO Box 5509

Bismarck, ND 58506-5509

(701) 328-5777

1-800-472-2166, Ext. 5777

1-800-643-3916 (TDD)

www.banknd.nd.gov

Farm Loan Programs - Direct, Guarantee & Participation

In response to the challenges in agriculture, Bank of North Dakota (BND) has developed a number of loan programs to meet specific needs of the state's farmers and ranchers.

BND is involved in three types of farm lending:

Direct Lending

- BND works directly with the borrower and all funds are advanced by BND to the borrower.

Guarantee-Issuer

- The local lender requests a guarantee based on a percentage of the loan balance.

Participation Lending

- The borrower works with a local lender to develop a loan package. The local lender requests the participation of BND.

All of BND's programs have been established using the following general parameters:

Trade Area

- BND's primary trade area is the State of North Dakota.

Loan Review

- All loans require an identifiable purpose and are reviewed on an individual basis to ensure the general credit standards of BND are met. A specific source of repayment is necessary to assure payment of the loan. An application for a participation loan generally takes about two weeks to process. Direct loans may take longer depending upon the information provided by the borrower.

All loans, regardless of size or type are subject to BND's approval process:

- All Loans are reviewed by the Loan Department.
- Loans between \$1,000,000 and \$2,000,000 are reviewed by BND's Investment Committee.
- Loans in excess of \$2,000,000 are reviewed by BND's Investment Committee and Advisory Board and then presented to the Industrial Commission for final review.

Ag PACE

"Without Ag PACE we wouldn't have been able to expand and work on larger projects. And we didn't have to borrow from one operation to the other for support. With Ag PACE we have been able to expand into the next phase of our business model."

- Tanya Stadheim
Vice President
Swan Creek Marketing

Bank of North Dakota
700 E Main Ave.
PO Box 5509
Bismarck, ND 58506-5509
701.328.5624
1.800.472.2166 ext. 5624
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Farm

Loan

Programs

BND

Bank of North Dakota

Direct & Guarantee Lending Programs

	BEGINNING FARMER REAL ESTATE LOANS	ESTABLISHED FARMER REAL ESTATE LOANS	IRRIGATION LOAN PROGRAM	FARM REAL ESTATE LOAN GUARANTEE PROGRAM	FEEDLOT LOAN GUARANTEE PROGRAM
BORROWER	Resident of North Dakota whose principal occupation is farming or ranching	Resident of North Dakota	Any irrigator in North Dakota	A North Dakota resident at least eighteen (18) years old	The owner of a commercial feedlot located in North Dakota that backgrounds or feeds cattle to harvest-ready weight
BND FUNDING LIMIT	\$250,000 maximum to any one borrower - up to 75% of appraised value of property	\$1,000,000 maximum to any one borrower - up to 65% of appraised value of property	Direct - \$600,000 Participation - BND lending limit	BND may guaranty up to 75% of the amount of principal due the lender. Maximum loan cannot exceed \$400,000	BND may guaranty up to 85% of the amount of principal due the lender
USE OF PROCEEDS	Purchase of agricultural real estate	Purchase or refinancing of agricultural real estate or for other agricultural purposes	Purchase, develop or repair of irrigation system	Purchase or restructure of agricultural real estate loans	Purchase cost of cattle and cost to bring the cattle to projected weight
INTEREST RATE	First 5 years fixed at 1% below BND base, 6% max; next five years variable at 1% below the BND base, adjusted annually; then floats at BND base	Variable or fixed rate options	When SRF funds are used, the first \$50,000 is 5.50% fixed up to 10 years. Remaining balance will be at BND farm real estate rate minus .25%	The maximum amount the lender may charge may not exceed 3% above BND base rate. The guarantee fee may be included in the loan or in the rate charged by the lender	The maximum interest rate the lender may charge may not exceed 3% above BND base rate
TERM	25 year maximum	25 years maximum	Up to 25 years if secured by real estate, 10 years if secured by chattels	The guarantee term may not exceed 5 years.	The guarantee term may not exceed 2 years
COLLATERAL	First mortgage on farm real estate	First mortgage on farm real estate	Adequate collateral will be required	First mortgage on farm real estate	Purchase money security interest in feeder cattle purchased
EQUITY OR NET WORTH	\$300,000 or less	Loan reviewed on its own merits	Loan reviewed on its own merits	Loan reviewed on its own merits	Loan reviewed on its own merits
CREDIT CRITERIA	Entire operation must demonstrate repayability	Entire operation must demonstrate repayability	Entire operation must demonstrate repayability	Farm real estate loan must show repayability	Price protection and insurance coverage may be required
SPECIAL PROGRAM REQUIREMENTS	May not own real estate greater than 30% of the median farm size in the county where the parcel is located	No lead lender is required	No lead lender required if secured by a first real estate mortgage. Lead lender will be required if secured by chattels		Commercial feedlot must be approved and operating under the rules of the ND Department of Health
OTHER FUNDING SOURCES	No lead lender is required	No lead lender is required	State Revolving Funds may provide up to \$50,000 if Best Management Practices are incorporated. SBA programs can be utilized	Program expires July 31, 2007	Program expires June 30, 2009
APPRAISAL REQUIREMENTS	BND qualified appraisal	BND qualified appraisal	Appraisal requirements will be evaluated on a case-by-case basis	Maximum loan to appraised value may not exceed 80%	
COSTS AND FEES	All loan costs	Origination fee plus all loan costs	\$250 commitment fee plus .5% origination fee	.5% per year or a one time fee of 1.5% of the guaranteed portion.	.5% per year of the guaranteed portion
CONTACT	Bank of North Dakota 1.800.472.2166 ext 5786	Bank of North Dakota 1.800.472.2166 ext 5624	BND @ 1.800.472.2166 ext 5624 or local lender	Local Lender	Local Lender

**TESTIMONY TO THE
HOUSE CONSTITUTIONAL REVISION COMMITTEE**

February 22, 2007

HOUSE CONCURENT RESOLUTION 3018

ERIC HARDMEYER - BANK OF NORTH DAKOTA

House Concurrent Resolution 3018 creates a new section to Article X of the Constitution of North Dakota that would require 60% of the members of each house must vote in favor of a measure to appropriate funds derived from BND profits. BND has a neutral position on this bill.

Mission

For almost 90 years, Bank of North Dakota has been focused on its mission to deliver quality, sound financial services that promote agriculture, commerce and industry. We strive to create and maintain programs that serve the people of this state on an individual level as well as to help strengthen and grow North Dakota as a whole.

BND History

In 1919, due to a lack of cohesiveness between North Dakota's farmers and its business community which led to difficulty in the buying, selling and financing of farming operations, the legislature created the Bank of North Dakota and the State Mill and Elevator in order for North Dakota to control its own destiny. BND officially opened its doors with \$2 million of capital provided through the sale of Bonds of North Dakota.

Bank of North Dakota has been located on its existing site since inception, and we are currently undertaking construction, and are due to complete the new Bank building, near the Liberty Memorial Bridge, in early 2008. We remain the only state-owned Bank in the country.

BND Today

Today, BND's funding source is the state tax and fee collections by the various state agencies. BND has had total assets approaching \$2.5 billion. Of those assets, 75% or \$1.75 billion are in loans. Capital has grown to over \$160 million.

For the last six biennium's, including the current 2005-2007 biennium, BND has transferred nearly \$330 million to the General Fund. In 2006, BND for the third consecutive year, realized a record for profitability with \$42.8 million. That equates to a return on equity or investment of over 26%. Of that amount, \$30 million may be transferred to the state General Fund.

The Bank's Student Loan Services makes about 60% of all student loans in North Dakota and we conduct business as a banker's bank, which includes check clearing, and imaging for financial institutions across North Dakota, and liquidity management through our Investment Services area.

Strategic Objectives and Core Values

We have four strategic objectives that provide a framework for our business and operational activities. We conduct business and make decisions that help contribute to the achievement of these objectives.

- Develop partnerships that deliver quality programs and services to expand the economy of ND.
- Provide a culture that develops people and is a model for efficient business and government.
- Maintain the strength and financial integrity of BND.
- Generate a consistent financial return to the state of North Dakota.

Bank of North Dakota's employees use core values as a guide when working with others and in decision making. We use the 'STEP' process in defining our core values.

SERVICE - "Excel and Deliver"

We make decisions based on customer needs and preferences; recognizing the importance of continuous improvement, cost effectiveness, and timeliness.

TEAMWORK - "Together We Accomplish More"

We provide a positive work environment that fosters communication, respect, empowerment, accountability, commitment, and partnerships.

ETHICS - "Do the Right Thing"

We expect honesty and promote integrity and trust.

PEOPLE - "Set Us Apart"

We provide a work culture that respects differences, encourages employee creativity and development, promotes work/personal balance, and recognizes individuals for their unique contributions.

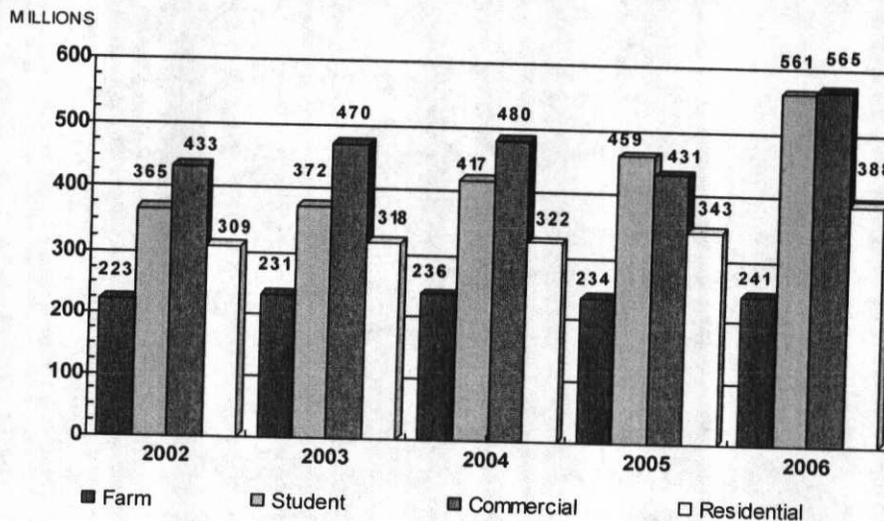
BND Financial Highlights (millions)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	Unaudited <u>2006</u>	Projected <u>2007</u>
Assets	\$1,953	\$2,015	\$2,062	\$2,326	\$2,272
Loans	\$1,392	\$1,456	\$1,467	\$1,756	\$1,798
Deposits	\$1,057	\$1,199	\$1,352	\$1,617	\$1,505
Capital	\$ 153	\$ 153	\$ 163	\$ 164	\$ 185
Ratio	7.83%	7.75%	7.90%	7.24%	8.14%
Income	\$31.7	\$34.2	\$36.4	\$42.8	\$45.0
GF transfer	\$34.0	\$30.0	\$30.0	\$30.0	\$30.0
ROE	20.7%	22.1%	22.9%	26.1%	24.97%

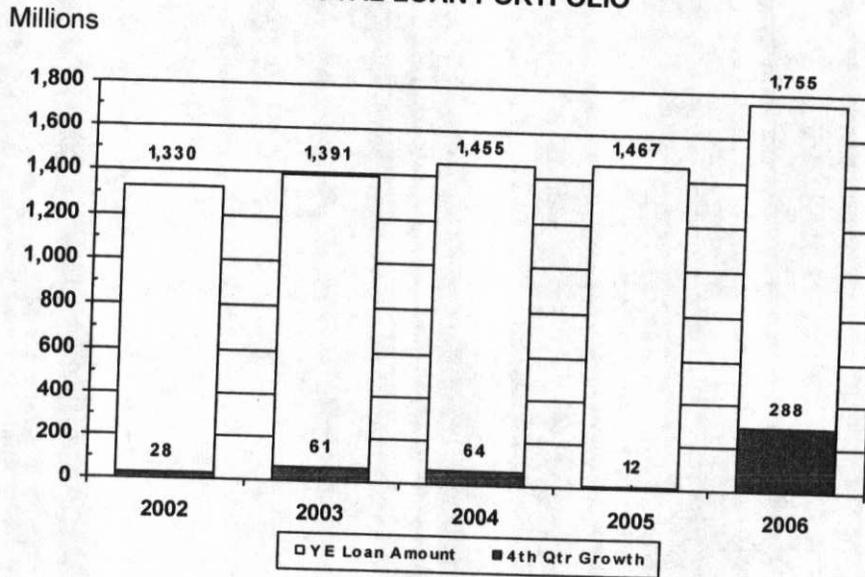
Assets have grown over the last four years with significant growth in 2006. This growth generally can be attributed to the overall strength of North Dakota's economy. As tax and fee income grows they are deposited at BND. Those deposits are then deployed into various asset types; loans or investments.

Loan volume has increased each year with nearly a 20% increase in net loans in 2006. The loan portfolio is diversified into four main categories: business, agriculture, student loans, and residential. The breakdown is as follows: business - \$565 million, agriculture - \$241 million, student loans - \$561 million, and residential - \$388 million.

PORTFOLIO BY LOAN GROUP



TOTAL LOAN PORTFOLIO



The Bank of North Dakota is adequately capitalized with capital of \$164 million or 7.24% of average assets. According to Federal Reserve regulations, to qualify as "well-capitalized", a financial institution must have at least 5% capital. A nation-wide average for banks of similar size is 8.01%, while the North Dakota average for all banks is 9.91%. Our internal goal is for BND to have equity of 8% and by the end of the 2005-07 biennium, we project equity to be over 8%.

Earnings have been consistent over the last four years, with BND achieving record profits the last three years, although 2006 are unaudited at this point. For 2006, we had budgeted for earnings to be \$38 million; however, as a result of increased loan demand and deposit growth, earnings were nearly \$43 million. For the 2005-07 biennium, total BND earnings will be approximately \$83 million. This allows BND to grow capital by \$23 million after the \$60 million in transfers to the General Fund.

Currently we have 165 positions filled and we are actively recruiting for three positions. Before we fill a vacated position, we first determine if there is a way to absorb the responsibilities with existing staff. We believe that resources (human, equipment, etc.) should be available to flow to the location within the Bank where they are most needed. Consequently, if we have a business opportunity where additional revenue can be generated, or if there is a specific need, we have the ability to move resources to meet the need.

BND continues to monitor efficiency ratios for salaries and wages and also in regard to the number of employees. Expenditures for salaries and benefits are .40% of average assets. Industry average for banks in North Dakota is well over 1%. Operating profit per employee at BND is \$256,000, compared to the industry average for banks in North Dakota of less than \$80,000. There are \$12.8 million in assets per employee at BND compared to an industry average

for banks in North Dakota of \$3 million. These industry averages are taken from the 2006 Sheshunoff Publication: *Banks and S&L's of the Great Plains*. Sheshunoff is a nationally recognized bank analysis and consulting firm.

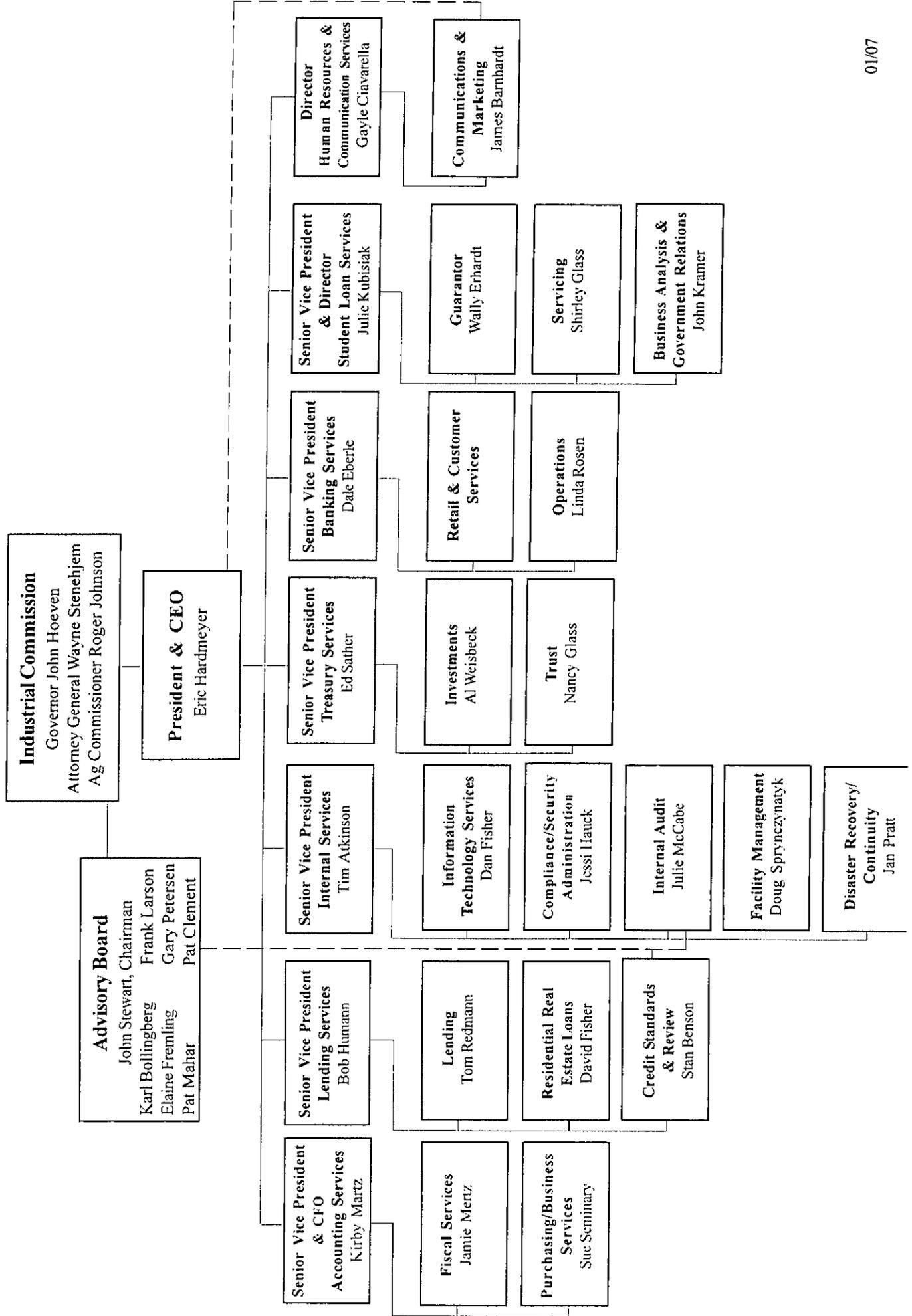
A key industry benchmark for gauging the efficiency of a financial institution is the efficiency ratio. This measures non-interest expense as percentage of income. Anything below 50% is considered to be excellent. BND is operating with a 26% efficiency ratio, which is more than twice as good as the industry average of 56.7%.

BANK OF NORTH DAKOTA 1987-2006 HISTORICAL OVERVIEW

(in thousands)	2006-unaudited	2005	2004	2003	2002	2001	2000	1999	1998	1997
NET INCOME	\$42,861	\$36,357	34,216	31,694	32,191	33,059	32,582	30,459	28,137	25,544
Payments to general fund	30,000	30,000	30,000	34,000	30,000	50,000	0	15,000	29,600	12,715
TOTAL ASSETS	2,326,689	2,062,247	2,014,525	1,953,178	1,974,448	2,107,456	1,806,517	1,687,167	1,609,039	1,162,415
EQUITY	163,542	161,824	152,776	153,744	149,113	170,496	153,045	139,275	139,931	128,888
TOTAL LOANS	1,755,565	1,467,058	1,456,256	1,391,583	1,329,985	1,276,334	1,156,614	1,056,232	835,654	623,532
Student	561,181	459,287	417,356	372,362	364,816	399,002	376,535	335,687	292,896	244,154
Commercial	564,946	431,084	480,870	469,912	432,940	392,206	362,940	342,860	272,648	220,544
Residential	388,043	342,786	322,044	318,087	309,267	271,385	213,009	188,474	113,934	38,089
Agriculture	241,395	233,921	235,986	231,242	222,962	213,741	204,130	189,211	156,176	120,745
NUMBER OF EMPLOYEES	170	172.75	175.5	170.5	175.25	176.5	181.5	180	175	176.75
Permanent	165.5	167.75	170.5	167	170.25	174	177	176	170.5	169.75
Temporary	4.5	5	5	3.5	5	2.5	4.5	4	4.5	7

(in thousands)	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
NET INCOME	23,191	\$21,639	18,031	17,530	22,340	16,414	12,547	15,176	15,240	15,917
Payments to general fund	37,500	0	0	11,116	18,596	4,696	14,000	0	6,000	7,750
TOTAL ASSETS	1,068,082	1,033,816	935,070	872,220	1,064,109	956,759	893,972	971,866	900,113	884,569
EQUITY	98,477	76,000	100,206	100,000	114,119	92,917	96,618	84,016	89,472	74,232
TOTAL LOANS	554,001	487,297	393,756	305,552	313,873	266,854	227,984	203,315	209,225	207,147
Student	205,787	168,765	122,714	75,026	118,639	86,487	46,886	32,744	29,373	21,204
Commercial	196,331	174,203	138,300	95,003	69,634	57,438	56,894	46,024	50,173	48,277
Residential	29,595	27,808	33,116	57,318	61,655	78,564	88,969	99,048	108,445	117,562
Agriculture	122,288	116,531	99,626	78,205	63,945	44,365	35,235	25,499	20,234	20,104
NUMBER OF EMPLOYEES	172	169	166.5	164.5	173	174	172.5	172.5	N/A	N/A
Permanent	168	164.5	164.5	161	165	163.5	168.5	159	N/A	N/A
Temporary	4	4.5	2	3.5	8	10.5	4	13.5	N/A	N/A

Bank of North Dakota Organizational Chart



**BANK
OF
NORTH DAKOTA**



**PERFORMANCE
HIGHLIGHTS**

FOURTH QUARTER REPORT

2006

**BANK OF NORTH DAKOTA
PERFORMANCE HIGHLIGHTS
FOURTH QUARTER REPORT
2006**

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**BANK OF NORTH DAKOTA
BALANCE SHEET - ACTUAL VERSUS BUDGET
DECEMBER 31, 2006 - UNAUDITED**

	(In thousands)			
	Actual	Budget	Difference	% Change
Cash and due from banks	\$212,962	\$175,000	37,962	21.69%
Federal funds sold	129,135	77,825	51,310	65.93%
Securities	219,412	131,202	88,210	67.23%
Loans				
Commercial	564,946	464,728	100,218	21.56%
Farm	241,395	242,400	-1,005	-0.41%
Student loans	561,181	556,105	5,076	0.91%
Residential	388,043	349,450	38,593	11.04%
	1,755,565	1,612,683	142,882	8.86%
Less allowance for loan loss	-30,136	-27,123	-3,013	11.11%
	1,725,429	1,585,560	139,869	8.82%
Bank premises, equipment, and software, net	7,111	4,076	3,035	74.46%
Other assets	32,640	25,702	6,938	26.99%
Total assets	2,326,689	1,999,365	327,324	16.37%
Deposits -				
Non-interest bearing	230,993	190,000	40,993	21.58%
Interest bearing	1,386,143	1,097,850	288,293	26.26%
Federal funds purchased and repurchase agreements	249,145	225,000	24,145	10.73%
Short and long-term borrowings	257,209	278,720	-21,511	-7.72%
Other liabilities	39,657	45,984	-6,327	-13.76%
Total liabilities	2,163,147	1,837,554	325,593	17.72%
Equity	163,542	161,811	1,731	1.07%
Total liabilities and equity	2,326,689	1,999,365	327,324	16.37%

STRATEGIC OBJECTIVE: One of BND's four strategic objectives is to maintain the strength and financial integrity of the Bank. The Bank monitors, capital adequacy, asset quality, liquidity, and interest rate sensitivity, which are used in the banking industry to assess strength and financial integrity.

COMMENTARY:

Overall, assets are \$327 million higher than budgeted. The increase in assets are invested in all asset categories. Securities are \$88 million higher than budget. The bank implemented a strategy to increase its security portfolio and extend the duration of the portfolio. Commercial loans are \$100 million higher than budget as a result of loan demand being considerably higher than anticipated in commercial participations and match loans. Student loans are \$5 million higher as a result of loan consolidations. Residential loans are \$39 million higher than budget as a result of demand being higher than anticipated.

On the liability side, interest bearing deposits are \$288 million higher than budget. This is related to increased state revenue and other deposits.

**BANK OF NORTH DAKOTA
INCOME STATEMENT - ACTUAL VERSUS BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2006 - UNAUDITED**

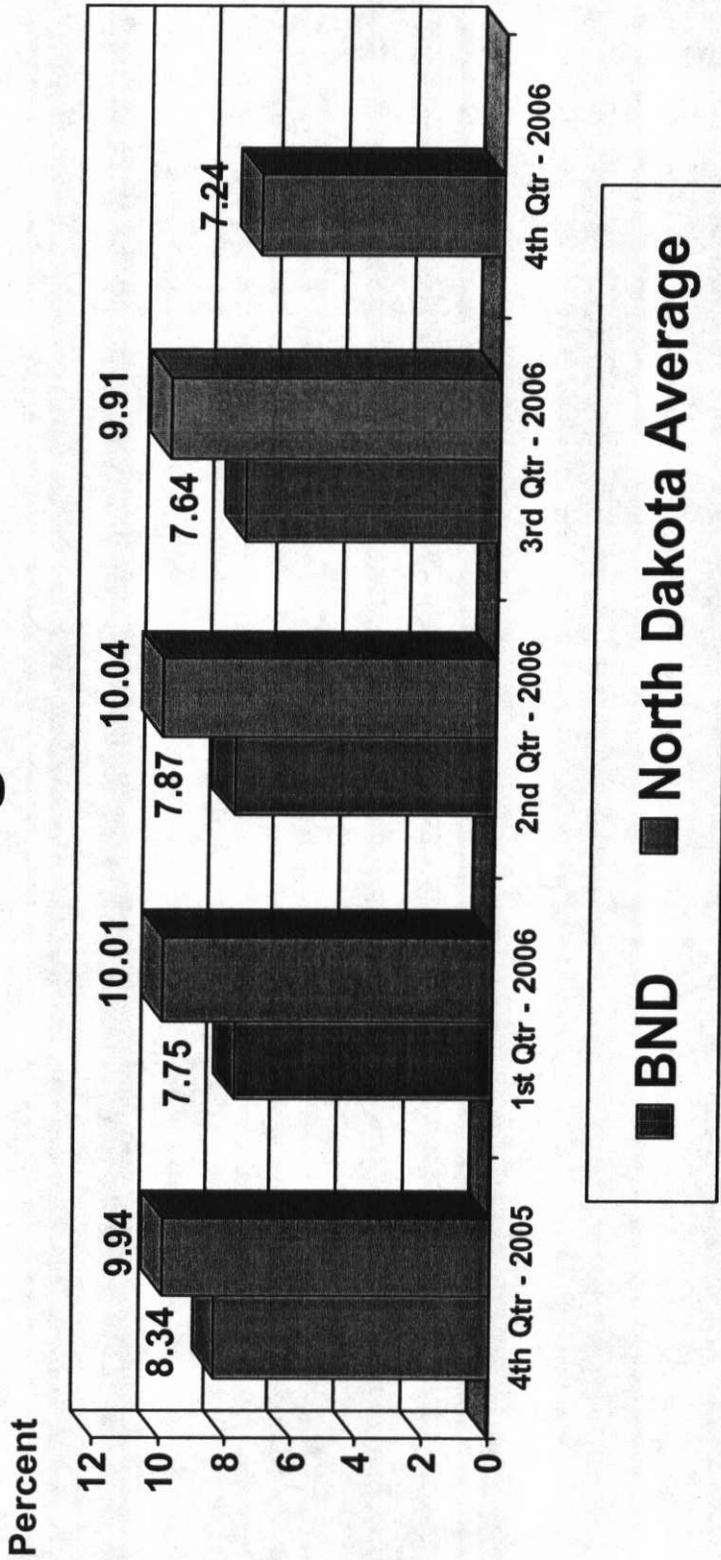
	(In thousands)			
	ACTUAL	BUDGET	DIFFERENCE	CHANGE
INTEREST INCOME	\$126,604	\$115,491	\$11,113	9.62%
INTEREST EXPENSE	71,284	65,784	5,500	8.36%
NET INTEREST INCOME	55,320	49,707	5,613	11.29%
PROVISION FOR LOAN LOSSES	3,400	2,400	1,000	41.67%
NET INTEREST INCOME AFTER PROVISION	51,920	47,307	4,613	9.75%
NONINTEREST INCOME	7,748	7,998	-250	-3.13%
NONINTEREST EXPENSE				
Salaries and benefits	8,611	8,780	-169	-1.92%
Data Processing	2,654	3,196	-542	-16.96%
Occupancy and equipment	855	921	-66	-7.17%
Other operating expenses	4,687	4,400	287	6.52%
	16,807	17,297	-490	-2.83%
NET INCOME	\$42,861	\$38,008	\$4,853	12.77%

STRATEGIC OBJECTIVE: One of BND's four strategic objectives is to generate a consistent return to the State of North Dakota.

COMMENTARY: Overall, net income is \$4,853,000 higher than budget. Net interest income is higher than budget as a result of both loan demand and deposit size being greater than anticipated. The provision for loan loss was increased \$1 million to provide an adequate allowance for loan loss. The increase in the provision is related to net loan growth being \$143 million higher than anticipated and other economic factors. Noninterest expenses are less than budget as a result of reduced spending related to controllable expenses.

BANK OF NORTH DAKOTA

Leverage Ratio



The leverage ratio is calculated by dividing tier one capital by average assets for the quarter. This ratio is a measure of strength. Well capitalized per federal regulation F is 5%. BND's benchmark is 8%. Average asset size has grown to \$2.26 billion from a previous quarterly average asset size for the past five years of approximately \$1.95 billion. As a result of this asset growth, the leverage ratio has declined to 7.24%. The leverage ratio is 9.91 percent as of September 30, 2006 for all insured commercial banks in state. The North Dakota average is obtained from the Federal Financial Institutions Examination Council (FFIEC) who tabulates input from over 100 insured commercial banks in North Dakota. Note: The December 31, 2006 North Dakota average has not yet been determined as the FFIEC publishes this data approximately 60 days after the completion of each calendar quarter.

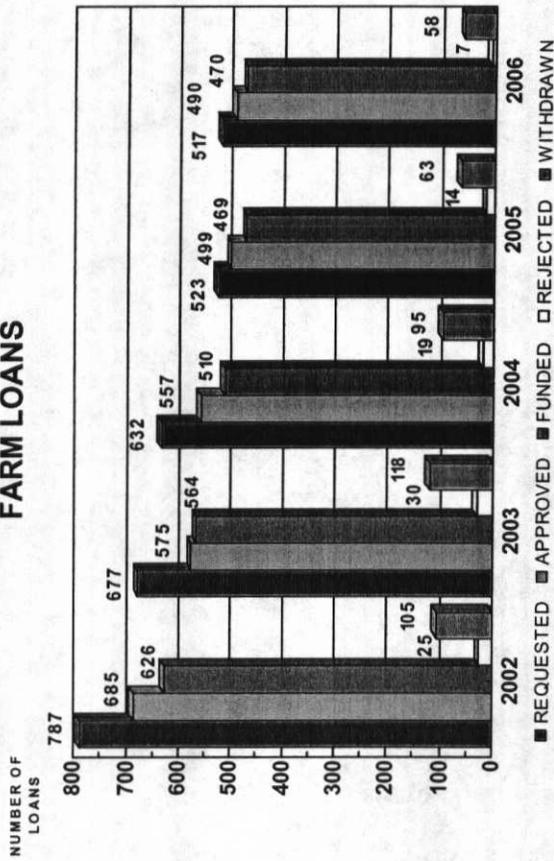
**BANK OF NORTH DAKOTA
LOAN ORIGINATIONS**

	YEAR TO DATE 31-Dec-06		YEAR TO DATE 31-Dec-05	
	###	\$\$\$	###	\$\$\$
BUSINESS DEVELOPMENT/SMALL BUSINESS	24	3,173,044	14	1,377,238
BANK PARTICIPATIONS - COMMERCIAL	168	309,565,894	197	293,863,103
SMALL BUSINESS MAIN STREET PACE	7	1,980,027	9	2,928,600
PACE	30	15,432,234	49	16,491,842
FLEX PACE	6	5,498,350	7	3,137,696
BIODIESEL PACE	1	3,420,560	0	0
MATCH	4	31,715,000	1	4,800,000
BANK STOCK	18	23,405,189	17	16,865,017
STATE INSTITUTION	10	65,137,185	11	54,699,934
RURAL DEVELOPMENT (COMMERCIAL)	2	4,054,651	0	0
CERTIFICATE OF DEPOSIT	1	9,267	4	34,110
BUSINESS DISASTER RELIEF	0	0	5	203,617
NEW VENTURE CAPITAL PROGRAM	3	370,000	1	50,000
TOTAL COMMERCIAL LOANS	274	463,761,401	315	394,451,157
FARM OPERATING	37	5,294,844	60	6,922,448
FAMILY FARM	6	243,720	12	700,577
FARM & RANCH	103	67,397,430	144	63,477,800
ENVEST	3	63,000	7	468,500
ESTABLISHED FARMER	4	332,345	9	632,458
BEGINNING FARMER REAL ESTATE	36	5,384,567	59	5,915,847
IRRIGATION LOAN PROGRAM	0	0	1	50,000
AG PACE	59	2,613,530	106	3,218,390
FARM SERVICE AGENCY	25	4,082,935	16	3,597,100
LIVESTOCK WASTE MANAGEMENT	5	408,298	0	0
FARM DISASTER RELIEF	101	20,218,710	2	272,250
TOTAL AGRICULTURAL LOANS	379	106,039,379	416	85,255,370
FEDERAL HOUSING ADMINISTRATION	594	64,020,569	526	51,907,893
VETERANS ADMINISTRATION	199	26,712,728	171	22,348,258
CONVENTIONAL/DISASTER	3	27,000	14	233,405
TOTAL RESIDENTIAL LOANS	796	90,760,297	711	74,489,556
SUBSIDIZED STAFFORD LOANS	23,729	38,346,373	25,838	40,123,311
UNSUBSIDIZED STAFFORD LOANS	20,943	37,352,265	21,332	36,398,809
PURCHASED STUDENT LOANS	1,307	3,348,562	786	2,010,144
PLUS LOANS	1,291	3,809,350	1,400	4,034,830
GRAD PLUS	21	85,782	0	0
CONSOLIDATION LOANS	14,092	96,409,496	16,980	117,875,378
DEAL LOANS	8,775	26,064,885	5,941	17,211,239
DESL LOANS	11	33,795	28	78,445
TOTAL STUDENT LOANS	70,169	205,450,508	72,305	217,732,156
TOTAL BANK OF NORTH DAKOTA LOANS	71,618	866,011,585	73,747	771,928,239
ADMINISTERED LOAN PROGRAMS				
FANNIE MAE	17	1,917,200	23	2,123,250
ST LAND DEPT LOAN POOL	27	5,223,983	19	4,377,946
BEGINNING ENTR. LOAN GUARANTEE	33	1,468,286	31	1,168,281
FARM REAL ESTATE LOAN GUARANTEE	3	751,500	0	0
FEEDLOT LOAN GUARANTEE	2	1,258,000	1	132,994
COMMUNITY WATER FACILITY LOAN PROGRAM	2	290,000	0	0
BEGINNING FARMER REVOLVING LOAN FUND	0	0	0	0
BEGINNING FARMER CHATTEL	55	1,623,662	52	1,611,367
FIRST TIME FARMER	4	450,917	2	282,000
LONG-TERM CARE FACILITY LOAN FUND	0	0	0	0
DEVELOPMENTALLY DISABLED FACILITY	0	0	0	0
TOTAL ADMINISTERED LOANS	143	12,983,548	128	9,695,838

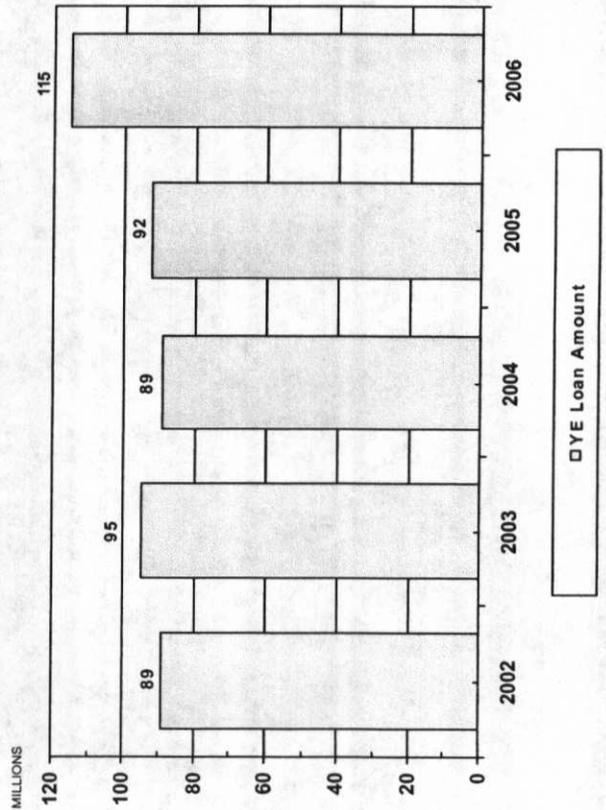
COMMERCIAL AND FARM LOAN ACTIVITY 2002 - 2006

The individual loan program data for this report, as contained on the Loan Originations Report (Page 4), includes data from Bank owned and Administered Loan Programs. 2005 and 2006 activity includes new loan requests and renewals.

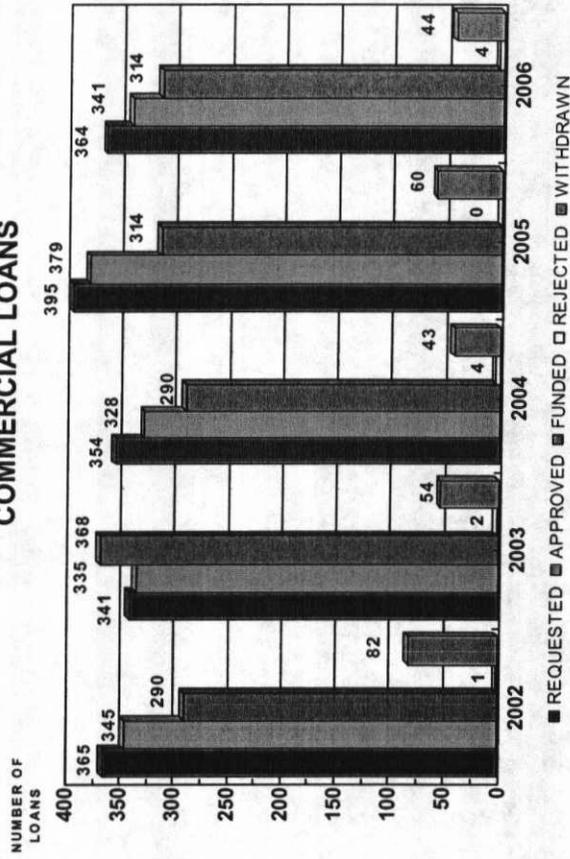
FARM LOANS



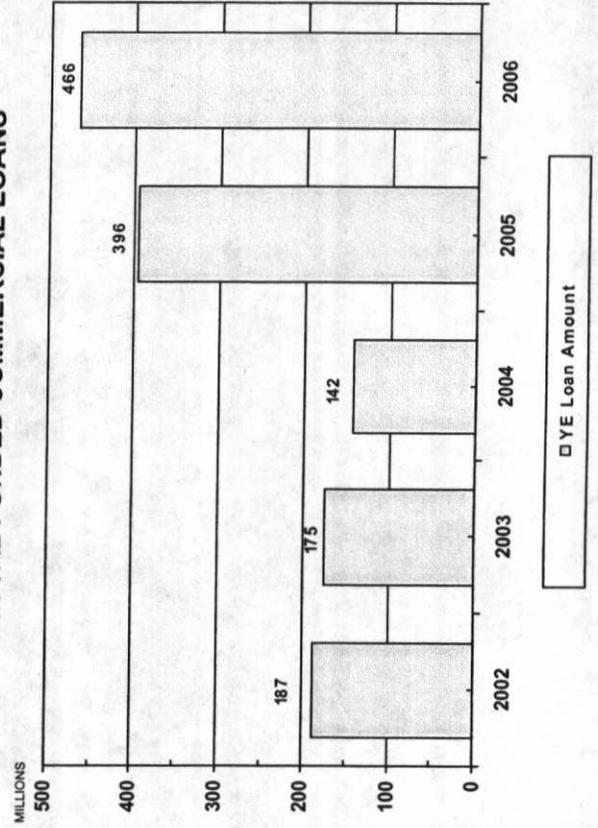
TOTAL FUNDED FARM LOANS



COMMERCIAL LOANS

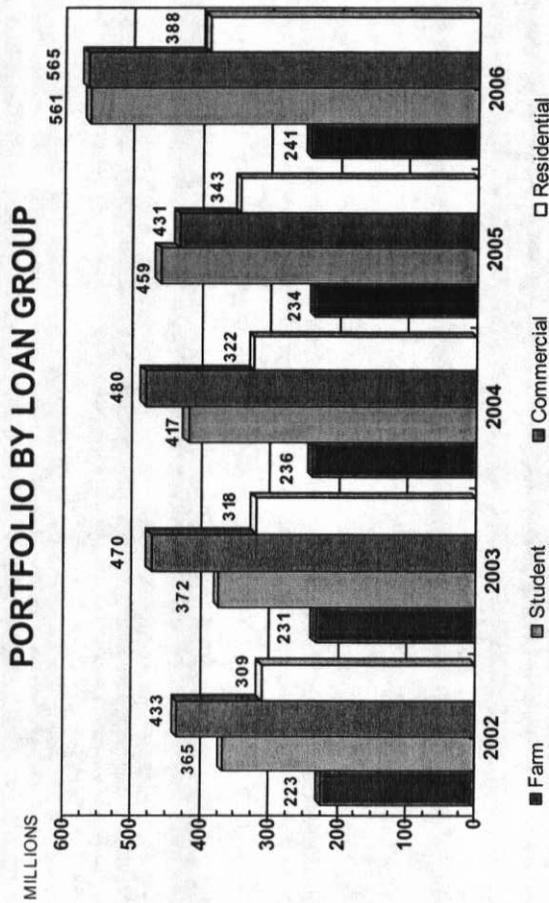


TOTAL FUNDED COMMERCIAL LOANS



CONSOLIDATED LOAN PORTFOLIO

2002 - 2006

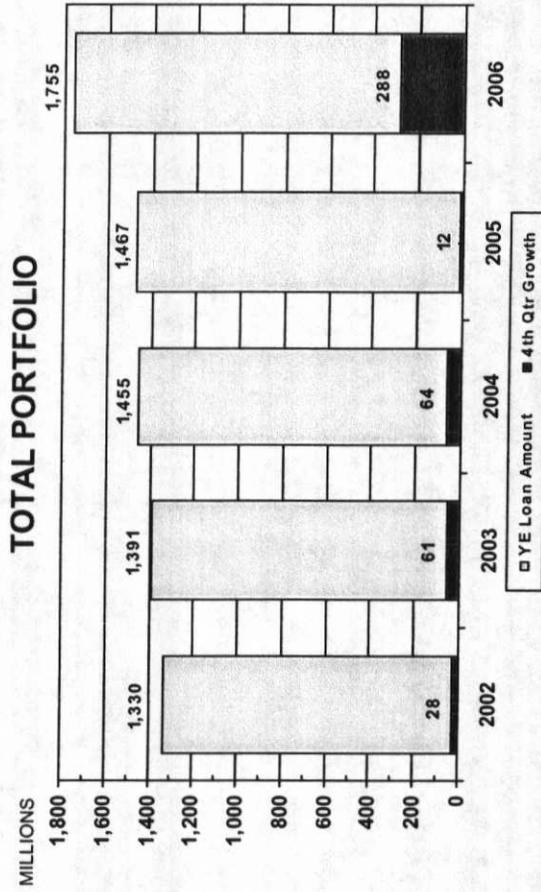


FARM - The farm loan portfolio indicates an overall increase of \$7 million with BND funding and renewing \$106 million of loans in 2006. Farm Disaster Relief loans led the way with new fundings of \$20 million in 2006.

STUDENT - BND's student loan portfolio has historically shown steady growth. This is indicative of the Bank's commitment to provide financing to students for post secondary education. There are three factors that cause the significant increase in student loans. BND is no longer recycling loans to the North Dakota Student Loan Trust, loan consolidations, and the demand for DEAL loans.

COMMERCIAL - The commercial loan portfolio increased by \$134 million with BND funding and renewing \$464 million of loans in 2006. The largest areas of 2006 growth were commercial participations increasing \$87 million and Match loans increasing \$25 million.

RESIDENTIAL - The residential loan portfolio increased by \$45 million in 2006 with BND funding \$91 million in home loans. BND provides a secondary market for home loans. Most conventional mortgages are sold on the secondary market.



FARM LOANS include: Ag PACE, Envest, Family Farm, Farm & Ranch, Farm Disaster Relief, Farm Operating, Farm Real Estate, FSA Guaranty Purchase, Irrigation, and Livestock Waste Management.

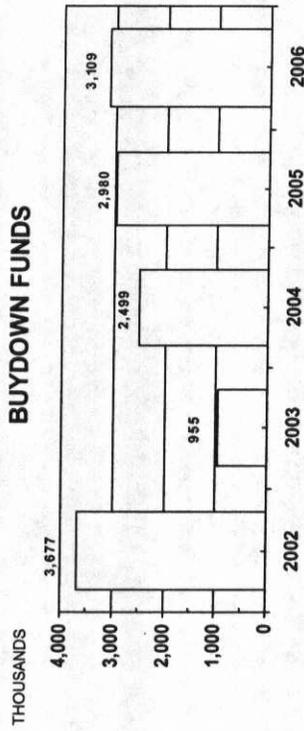
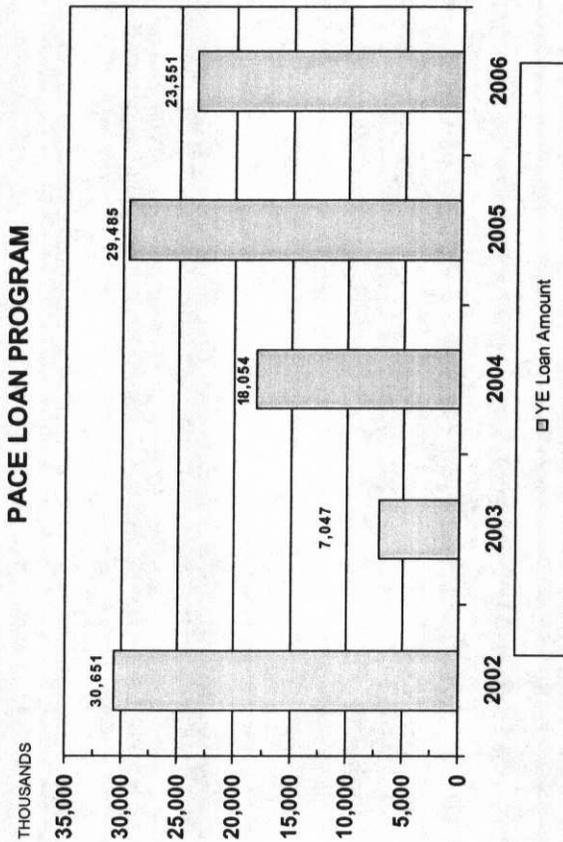
STUDENT LOANS include: Consolidation, DEAL, DESL, SLS, Stafford, PLUS and Grad PLUS.

COMMERCIAL LOANS include: Bank Participation, Bank Stock, BioDiesel PACE, Business Development, Business Disaster Relief, Developmentally Disabled Loan Fund, Flex PACE, Match, New Venture Capital, PACE, Guarantee Purchases, and State Institutions.

RESIDENTIAL LOANS include: Conventional, FHA, and VA Loans.

BUSINESS PROGRAM HIGHLIGHTS

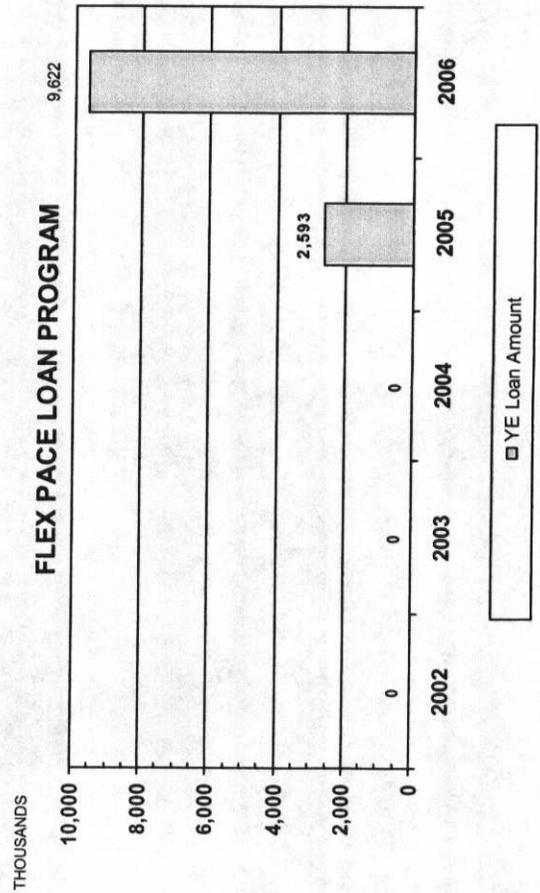
2002 - 2006



A total of 30 PACE loans were funded in 2006 in comparison to 49 in 2005. PACE loan volume for 2006 decreased from 2005, but a number of 2006 PACE projects are in the construction phase and funding is pending.

2005-2007 Biennium Buydown Fund	
Total Available Appropriated Funds	\$8,945,927 *
PACE Buydown Funds - Funded/Committed Lns	\$5,061,886
Flex PACE Buydown Funds - Funded/Committed Lns	\$1,300,072
Flex PACE Buydown Funds - Reserved	\$ 447,924
Remaining Buydown Funds	\$ 2,136,045

* Includes \$2,000,000 from Beginning Farmer Revolving Fund.

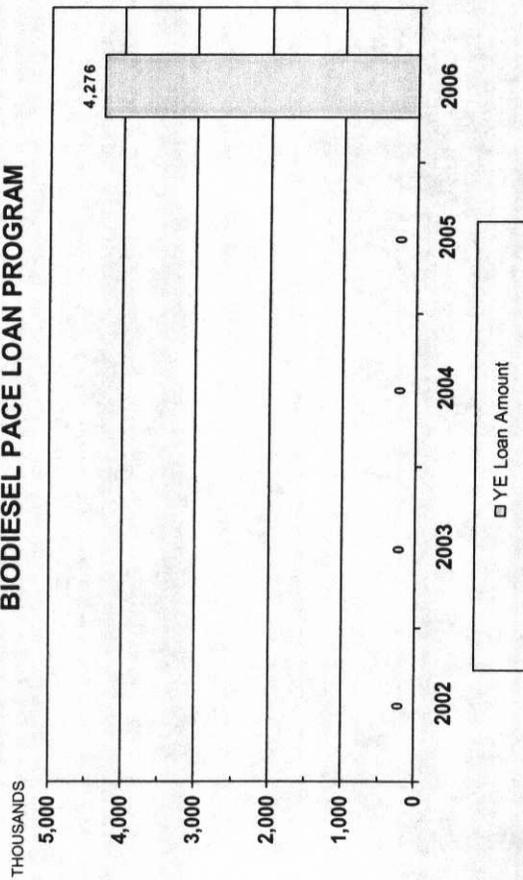


A total of 6 Flex PACE Loans were funded in 2006 which included two large energy related projects. There were 7 Flex PACE loans funded in 2005 with this program starting in August of 2005.

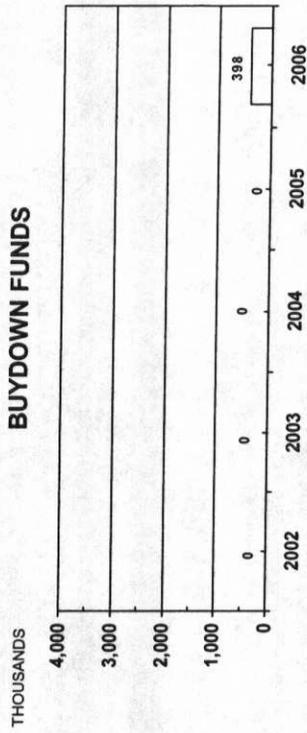
BUSINESS PROGRAM HIGHLIGHTS

2002 - 2006

BIODIESEL PACE LOAN PROGRAM

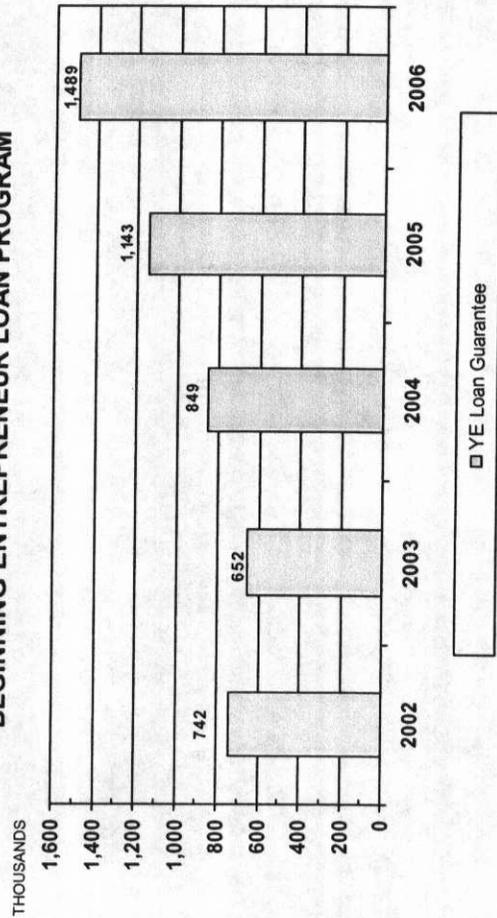


BUYDOWN FUNDS



The Biodiesel PACE Loan Program originated on August 1, 2005 and continues through June 30, 2007. BND funded one loan in the second quarter of 2006. BND is also working with a second project currently in a holding pattern. A total of \$1.2 million of interest buydown was appropriated for Biodiesel PACE. With \$398,000 committed to the funded loan, \$802,000 is available for other projects.

BEGINNING ENTREPRENEUR LOAN PROGRAM



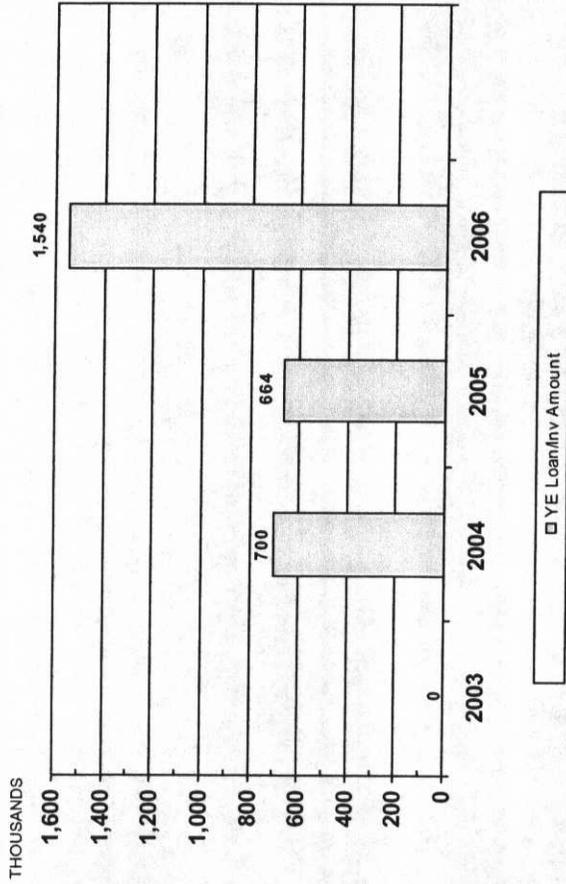
2005-2007 Biennium Guarantee Program

Maximum Loan Amount	\$4,000,000
Beginning Entrepreneur Loan Guarantee Percentage	X 85%
Maximum Guarantee Available	\$3,400,000
Guarantee Amount - Funded/Committed Loans	\$3,144,484
Remaining Guarantee Available	\$ 255,516

The Beginning Entrepreneur Loan Guarantee Program originated on July 1, 1999. BND originated a total of 33 loan guarantees in 2006 in comparison to 31 in 2005.

NEW VENTURE CAPITAL PROGRAM HIGHLIGHTS

2003 – 2006

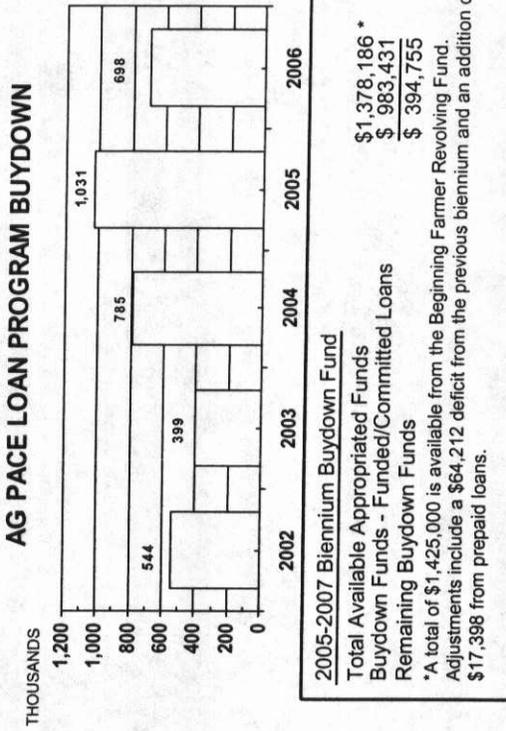
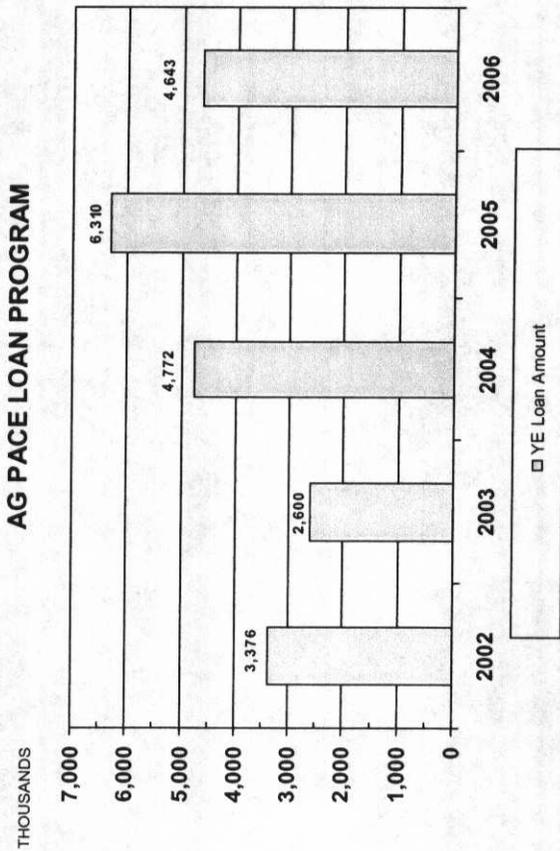


New Venture Capital Program Funds	
Total Available Funds	\$10,000,000
Funded Loans/Investments	\$ 2,924,234
Committed Loans/Investments	\$ 600,006
Reserved Loans/Investments	<u>\$ 1,050,000</u>
Remaining Funds Available	\$ 5,425,760

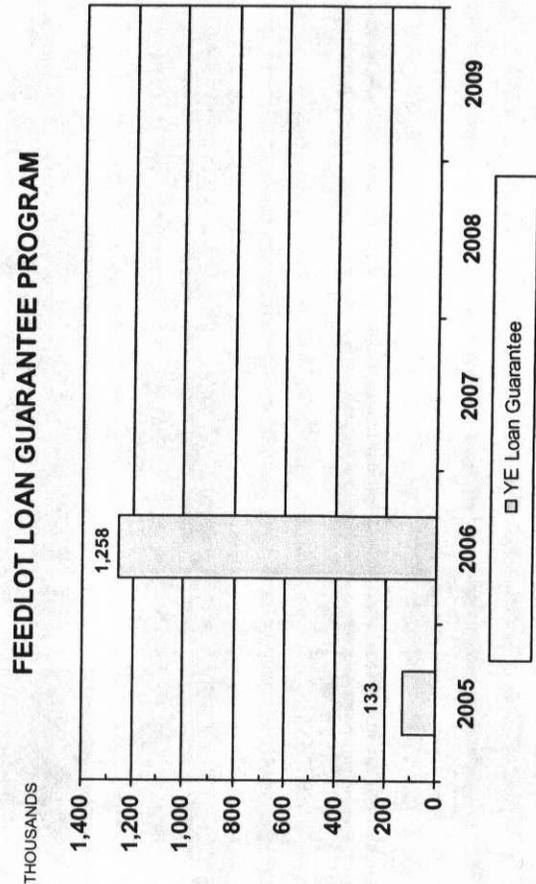
A total of 3 loans for \$605,000 and 11 investments for \$2,319,234 have been funded by BND in this program. The New Venture Capital Program is available through July 31, 2009.

FARM PROGRAM HIGHLIGHTS

2002 - 2006



A total of 59 Ag PACE loans were funded in 2006 in comparison to 106 in 2005. The number of Ag PACE loans was higher in 2005 due to the Red Trail Energy Project.

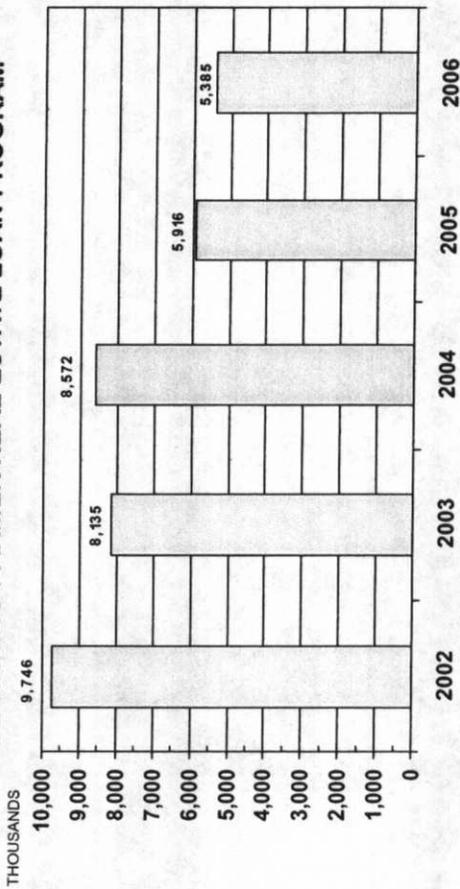


The Feedlot Loan Guarantee Program went into effect August 1, 2005 and expires June 30, 2009. A total of 3 Feedlot Loan Guarantees were issued with two in 2006 and one in 2005.

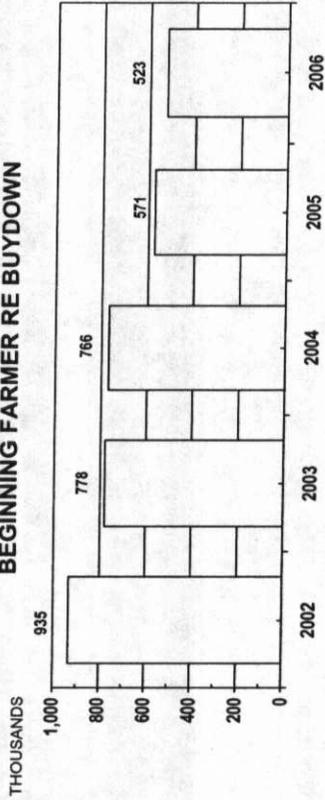
FARM PROGRAM HIGHLIGHTS

2002 - 2006

BEGINNING FARMER REAL ESTATE LOAN PROGRAM



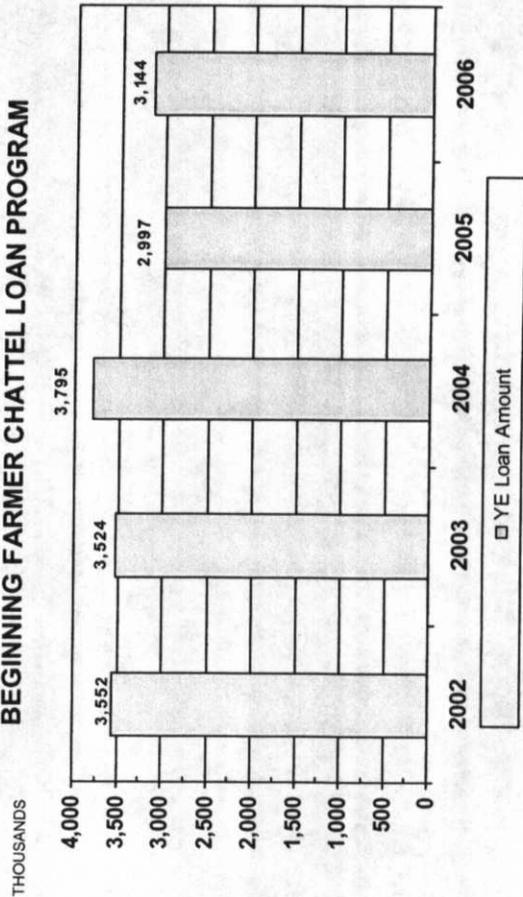
BEGINNING FARMER RE BUYDOWN



A total of 36 Beginning Farmer RE Loans were funded in 2006 in comparison to 59 in 2005. The number of Beginning Farmer Real Estate loans funded has decreased, but the loan amounts are larger with a higher total loan maximum and increased land values.

□ YE Loan Amount

BEGINNING FARMER CHATTEL LOAN PROGRAM



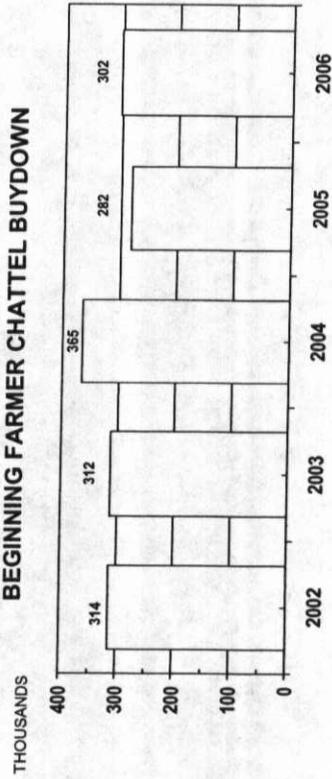
□ YE Loan Amount

2005-2007 Biennium Beginning Farmer Buydown Fund

Total Available Appropriated Funds	\$978,691 *
Buydown - Funded/RE Committed Loans	658,487
Buydown - Funded/Chattel Committed Loans	401,186
Remaining Buydown Funds	(\$80,982)

* Total Buydown funds are shared between Real Estate & Chattel Loans. (\$950,000 appropriation plus \$28,691 in adjustments. The entire cash balance in the Beginning Farmer Revolving Fund is available for buydown purposes.)

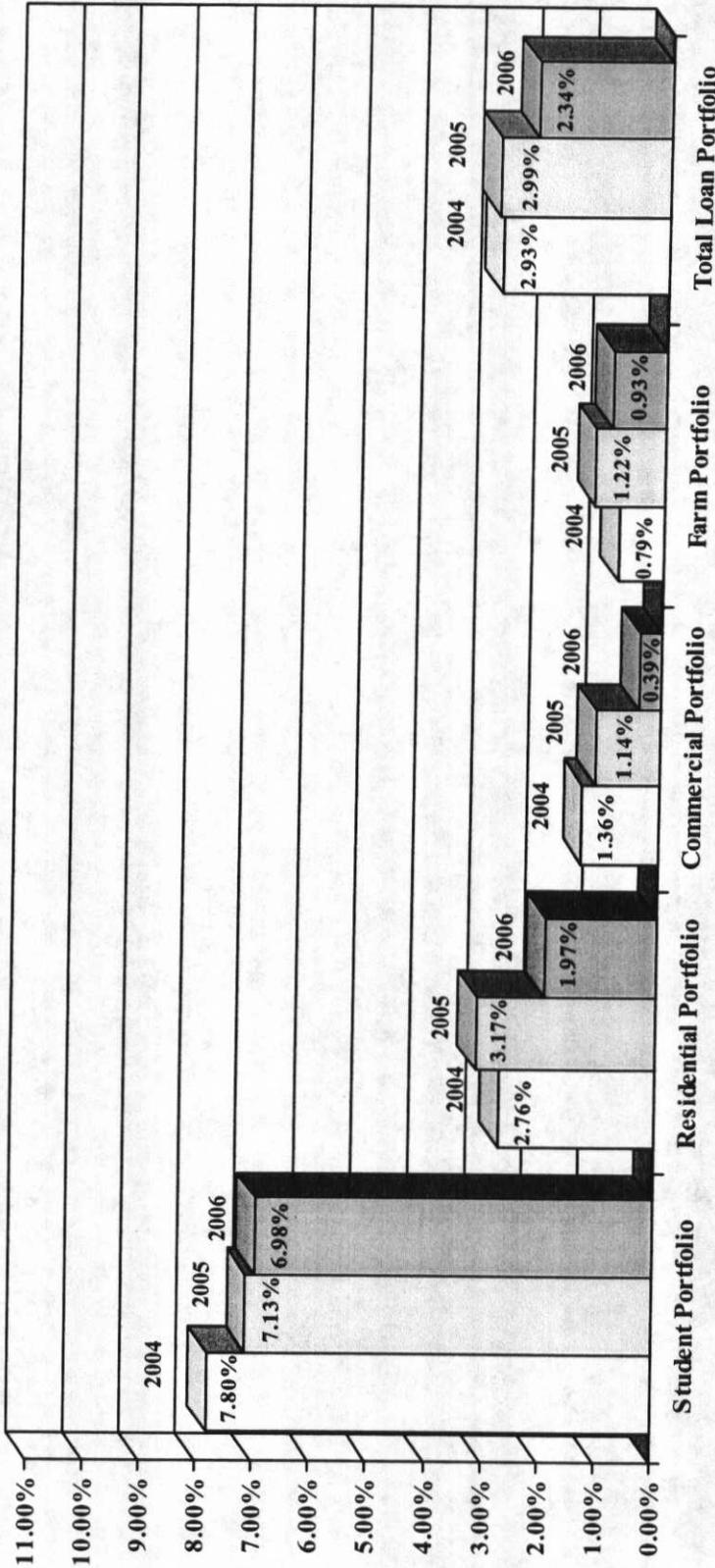
BEGINNING FARMER CHATTEL BUYDOWN



Program's inception date was July 1, 2001. A total of 55 Beginning Farmer Chattel Loans were funded in 2006 in comparison to 52 in 2005.

BND LOAN DELINQUENCY REPORT

FOURTH QUARTER 2004-2006



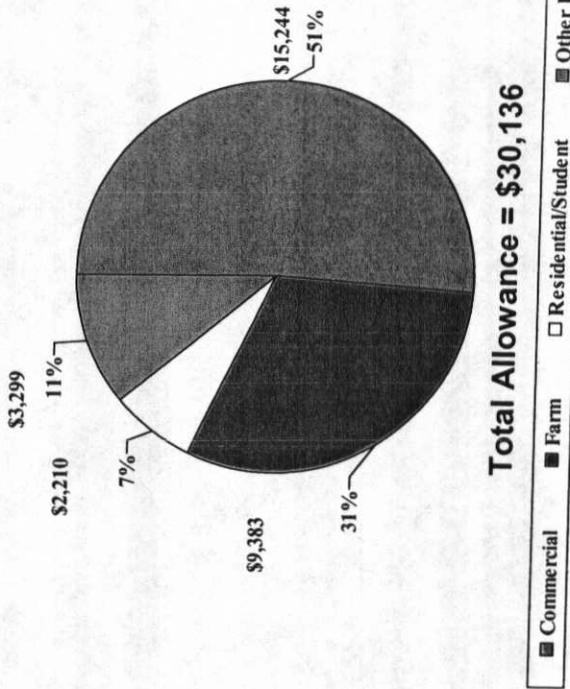
Commentary

Student Loan Portfolio: Student loan delinquencies were 6.98% of which 4.67% were delinquent over 90 days. Overall delinquency rates are lower than projected which can be attributed to on-going collection efforts by the Lender and Guarantor staff. Student loans are unsecured with the majority being federally guaranteed. Residential Portfolio: Residential delinquencies were 1.97% of which .18% were delinquent over 90 days. FHA delinquencies are lower than the industry average of 6.12%. Nearly all residential delinquencies represent federally guaranteed loans. Commercial Portfolio: Commercial delinquencies were .39% of which .09% were delinquent over 90 days. Delinquencies are significantly below the industry average of 2.39%. Farm Portfolio: Farm delinquencies were .93% of which .02% were delinquent over 90 days. Delinquencies are slightly above the industry average of .84%. Total BND Owned Loan Portfolio: December 31, 2006 overall delinquencies were 2.34% of which 1.24% is delinquent over 90 days.

BND ALLOWANCE FOR LOAN LOSS QUARTERLY RECAP AS OF DECEMBER 31, 2006

(IN THOUSANDS)

MONTH	YEAR	ALLOWANCE FOR LOAN LOSS	LOAN PORTFOLIO	% ALLOWANCE	NORTH DAKOTA AVERAGE
December	2006	\$30,136	\$1,755,565	1.72%	*TBD
September	2006	\$29,112	\$1,726,770	1.69%	1.47%
June	2006	\$28,516	\$1,632,721	1.75%	1.51%
March	2006	\$27,904	\$1,532,667	1.82%	1.67%
December	2005	\$27,123	\$1,467,229	1.85%	1.62%



Commentary

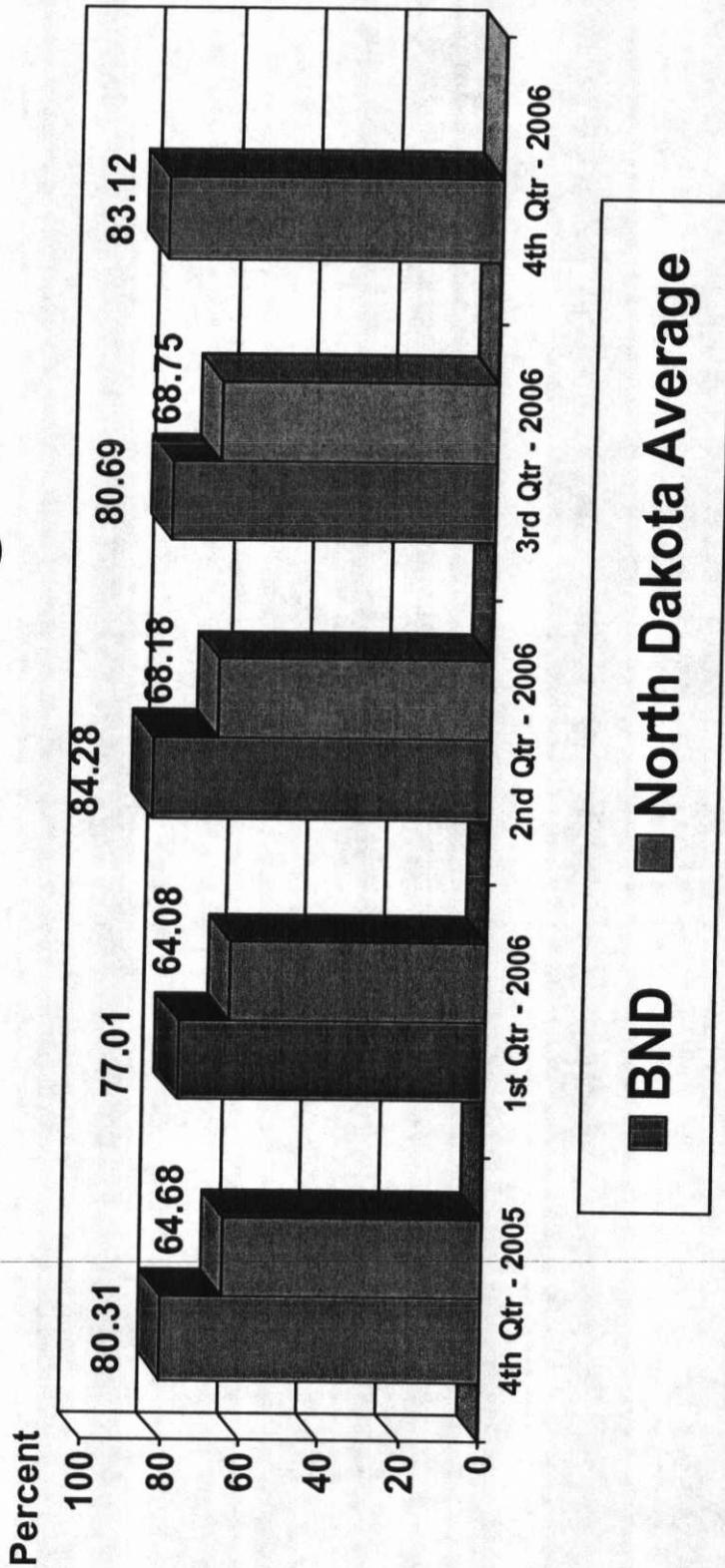
The adequacy of the allowance for loan loss is based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. As of December 31, 2006, BND's total allowance as a percentage of total loans is 1.72%; considerably better than the most recently posted North Dakota average of 1.47%. BND's total allowance as a percentage of non-guaranteed loans (\$813MM) is 3.71%; significantly better than the N.D. average.

Commercial loans require 51% of overall allowance needs followed by Farm loans which require 31%. \$3,299M or 11% of the allowance has been identified as "Other Factors" which includes BND's role as a development bank for the State of North Dakota and also includes adverse economic trends and conditions impacting segments of the loan portfolio. Present trends and conditions indicate uncertainty within the agricultural sector of North Dakota. Increased operating and interest costs along with concern over crop conditions as a result of the 2006 drought is likely to have a significant negative impact on the overall farm economy. In addition, federal legislation was not approved during 2006 for farm disaster payments. Lack of a federal disaster program increases the borrowing need and overall credit risk of farm loan borrowers.

The North Dakota average is obtained from the Federal Financial Institutions Examination Council (FFIEC) who tabulates input from over 100 insured banks in North Dakota. The December 31, 2006 average has not yet been determined as the FFIEC tabulates and publishes this data approximately 60 days after the completion of each calendar quarter.

BANK OF NORTH DAKOTA

Net Loans to Earning Assets



Net loans to earning assets is a ratio used to measure liquidity. BND has established a maximum net loans to earning assets of 90%. As shown above, BND is within this limit. Net loans to assets is 68.75% as of September 30, 2006 for all insured commercial banks in state. The North Dakota average is obtained from the Federal Financial Institutions Examination Council (FFIEC) who tabulates input from over 100 insured commercial banks in North Dakota. Note: The December 31, 2006 North Dakota average has not yet been determined as the FFIEC publishes this data approximately 60 days after the completion of each calendar quarter.