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Research Update:

Bank of North Dakota Ratings Lowered To 'A+/A-1' Following The Recent Downgrade Of The State; Outlook Stable

Primary Credit Analyst:

Raphael A Hunter, Centennial (1) 347-346-3445; raphael.hunter@standardandpoors.com

Secondary Contact:

Nikola G Swann, CFA, FRM, Toronto (1) 416-507-2582; nikola.swann@standardandpoors.com

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Overview

- On Feb. 18, 2016, Standard & Poor's Ratings Services downgraded the state of North Dakota to 'AA+' from 'AAA' based on increased volatility in the state's economy and projected revenue shortfall for the 2015-2017 biennium. The outlook on the state is stable.
- Given the links between the state and the bank, we are lowering our issuer credit ratings on the Bank of North Dakota (BND) to 'A+/A-1' from 'AA-/A-1+' and our deposit rating to 'AA' from 'AA+' as per our government-related entities (GRE) criteria. We also affirmed our short-term deposit rating at 'A-1+'.
- We maintained our stand-alone credit profile on the bank at 'a', primarily reflecting our expectation that, although asset quality could deteriorate somewhat from very robust levels, BND's very strong capital base continues to serve as a bulwark against the uncertainties related to the energy and agricultural sectors.
- The rating outlook is stable, reflecting the link between the bank and the current ratings on the state of North Dakota.

Rating Action

On Feb. 19, 2016, Standard & Poor's Ratings Services lowered its issuer credit ratings on the Bank of North Dakota to 'A+/A-1' from 'AA-/A-1+' and its deposit rating to 'AA' from 'AA+'. The rating outlook is stable.

We also affirmed our short-term deposit rating at 'A-1+', and we maintained our stand-alone credit profile (SACP) at 'a'.

Rationale

The rating action on BND follows the recent downgrade of the state of North Dakota to 'AA+' from 'AAA' (see "North Dakota Issuer Credit Rating Lowered To 'AA+' On Economic Volatility, Projected Revenue Shortfall," published Feb. 18, 2016, on RatingsDirect). As a state-run financial institution, the bank participates in activities that broadly promote commerce, agriculture, and industry in North Dakota. Our ratings on the bank reflect our assessment of the likelihood of extraordinary support from the state to the bank, which we view as high based on our assessment of a very strong link and important role. As a result of the lower rating on the state, we now include only one notch of

uplift from the bank's 'a' SACP.

On Sept. 22, 2015, we lowered our SACP on BND to 'a', reflecting our view of BND's relatively high direct and indirect exposures to the inherent volatility of commodities prices because of the company's attachment to the North Dakota economy. More specifically, we believe the weaknesses in the energy sector could hurt the bank's operating conditions over the next few years, particularly if oil prices were to remain low for a prolonged period of time. We continue to monitor the interdependencies with the state, including the bank's deposit inflows, capital position, asset quality, liquidity, and profitability.

The downgrade of the state also affected the deposit rating, which benefits from a statutory guarantee provided by the state. Our deposit rating incorporates our view of a very strong link between the state and the bank's deposits and their critical role, resulting in an extremely high likelihood of support (for more details, see "Bank of North Dakota," published on Oct. 14, 2015). Our 'AA' rating on the bank's deposits now includes three notches of uplift from the SACP.

Outlook

The stable outlook reflects Standard & Poor's view that the link between the bank and the current ratings on the state of North Dakota support the issuer credit and deposit ratings on BND. Given these linkages, a two-notch reduction in the SACP would still not affect the issuer credit ratings or the deposit ratings (refer to table 10 of the GRE criteria for more details).

We could lower the SACP if the state's economy weakens further than we anticipated, if capital appropriations by the state increase by more than we currently expect--enough to impair BND's capital profile such that the risk-adjusted capital ratio remains below the 15% threshold on a consistent basis--or if the bank's asset quality deteriorates significantly. We are unlikely to raise the SACP in the near term given the cyclicity of the state's revenue base and the interdependencies between the state and BND.

We could lower the ratings on the bank's deposits if we lowered the state rating by one notch to 'AA', and we could lower the issuer credit ratings should we downgrade the state by more than two notches.

Ratings Score Snapshot

Issuer Credit Rating	A+/Stable/A-1
SACP	a

Anchor	bbb+
Business Position	Adequate (0)
Capital and Earnings	Very Strong (+2)
Risk Position	Adequate (0)
Funding and Liquidity	Above Average and Adequate (0)
Support	+1
GRE Support	+1
Group Support	0
Sovereign Support	0
Additional Factors	0

Related Criteria And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Commercial Paper I: Banks, March 23, 2004

Related Research

- North Dakota Issuer Credit Rating Lowered To 'AA+' On Economic Volatility, Projected Revenue Shortfall, Feb. 18, 2016

Ratings List

Downgraded

	To	From
Bank of North Dakota		
Issuer Credit Rating	A+/Stable/A-1	AA-/Stable/A-1+
Certificate Of Deposit	AA/A-1+	AA+/A-1+

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express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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