



*Here for you.*<sup>SM</sup>

**DACOTAH BANKS, INC.  
SECOND QUARTER REPORT**

**JUNE 30, 2018**

# DACOTA BANKS, INC.

## FINANCIAL HIGHLIGHTS

(Dollar and share amounts in thousands, except per share data)

	Six months ended June 30		% change
	2018	2017	
<b>PERFORMANCE</b>			
Net interest income .....	<b>\$44,532</b>	43,552	2.3%
Provision for loan and lease losses .....	<b>1,000</b>	2,700	(63.0)
Non-interest income .....	<b>9,216</b>	8,610	7.0
Non-interest expenses .....	<b>34,751</b>	32,976	5.4
Net income .....	<b>13,895</b>	10,587	31.2
Per share .....	<b>1.24</b>	0.95	30.5
Cash dividends declared ....	<b>2,459</b>	2,338	5.2
Per share .....	<b>0.22</b>	0.21	4.8
Net interest margin .....	<b>3.95%</b>	4.06%	(2.7)
Return on average assets ....	<b>1.16</b>	0.92	26.1
Return on average equity ....	<b>10.03</b>	8.04	24.8
<b>AT JUNE 30</b>			
Total assets .....	<b>\$2,441,350</b>	2,386,213	2.3%
Investment securities and deposits with banks ..	<b>249,782</b>	261,550	(4.5)
Loans, net .....	<b>2,001,564</b>	1,939,005	3.2
Deposits .....	<b>2,082,112</b>	2,019,022	3.1
Overnight borrowings .....	<b>17,300</b>	35,000	(50.6)
Long term borrowings .....	<b>32,000</b>	38,000	(15.8)
Stockholders' equity .....	<b>283,477</b>	270,153	4.9
Book value per share .....	<b>25.37</b>	24.20	4.8
Shares of common stock outstanding .....	<b>11,173</b>	11,162	0.1
Tier I leverage .....	<b>11.49%</b>	11.18%	2.8
Tier I capital .....	<b>12.71%</b>	12.37%	2.7
Total capital .....	<b>13.97%</b>	13.62%	2.6

# DACOTA BANKS, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(Dollar and share amounts in thousands, except per share data)

	Three months ended		Six months ended	
	June 30		June 30	
	2018	2017	2018	2017
<b>INTEREST INCOME</b>				
Loans.....	\$25,066	23,690	48,836	45,594
Securities:				
Taxable.....	1,008	916	1,924	1,795
Exempt from federal income taxes.....	293	285	596	572
Deposits in banks.....	54	38	103	74
Federal funds sold.....	48	14	252	63
	<u>26,469</u>	<u>24,943</u>	<u>51,711</u>	<u>48,098</u>
<b>INTEREST EXPENSE</b>				
Deposits.....	3,624	2,056	6,705	3,937
Borrowings.....	240	359	474	609
	<u>3,864</u>	<u>2,415</u>	<u>7,179</u>	<u>4,546</u>
<b>NET INTEREST INCOME</b> .....	<b>22,605</b>	<b>22,528</b>	<b>44,532</b>	<b>43,552</b>
<b>PROVISION FOR LOAN AND LEASE LOSSES</b> .....	<b>300</b>	<b>1,500</b>	<b>1,000</b>	<b>2,700</b>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES</b> .....	<b>22,305</b>	<b>21,028</b>	<b>43,532</b>	<b>40,852</b>
<b>NON-INTEREST INCOME</b>				
Income from fiduciary activities.....	539	611	1,185	1,201
Service charges on deposit accounts.....	816	834	1,603	1,624
Insurance commissions.....	1,084	1,021	2,203	2,135
Fees on sale of residential mortgages.....	259	272	457	480
Servicing fees on residential mortgages.....	203	59	364	185
Other income.....	1,920	1,622	3,404	2,985
	<u>4,821</u>	<u>4,419</u>	<u>9,216</u>	<u>8,610</u>
<b>NON-INTEREST EXPENSES</b>				
Salaries and employee benefits.....	11,572	11,258	23,374	22,347
Occupancy, net.....	1,180	1,164	2,443	2,342
Furniture and equipment.....	531	493	1,030	1,008
FDIC assessment.....	170	183	356	362
Other expenses.....	3,637	3,368	7,548	6,917
	<u>17,090</u>	<u>16,466</u>	<u>34,751</u>	<u>32,976</u>
<b>INCOME BEFORE INCOME TAXES</b> .....	<b>10,036</b>	<b>8,981</b>	<b>17,997</b>	<b>16,486</b>
Applicable income taxes:				
Current.....	2,031	3,968	4,019	7,133
Deferred (credit).....	243	(733)	83	(1,234)
	<u>2,274</u>	<u>3,235</u>	<u>4,102</u>	<u>5,899</u>
<b>NET INCOME</b> .....	<b>\$ 7,762</b>	<b>5,746</b>	<b>13,895</b>	<b>10,587</b>
<b>PER SHARE OF COMMON STOCK</b>				
Net income - basic.....	\$ 0.69	0.51	1.24	0.95
Cash dividends declared.....	-	-	0.22	0.21

# DACOTAH BANKS, INC.

## CONSOLIDATED STATEMENTS OF CONDITION

(Dollars in thousands)

	June 30 2018	December 31 2017	June 30 2017
<b>ASSETS</b>			
Cash and due from banks.....	\$ 42,965	48,456	40,861
Interest-bearing deposits in banks.....	-	15,800	-
Time deposits in banks.....	11,188	10,687	9,443
Securities:			
Taxable.....	192,913	183,843	203,669
Tax exempt.....	56,869	61,796	57,881
Total securities.....	249,782	245,639	261,550
Loans held for sale.....	1,056	136	1,948
Loans.....	2,031,435	1,978,724	1,967,543
Allowance for loan and lease losses.....	(29,871)	(31,211)	(28,538)
Net loans.....	2,001,564	1,947,513	1,939,005
Interest receivable.....	19,524	24,632	18,272
Premises and equipment, net.....	46,239	46,688	45,878
Foreclosed assets.....	968	800	730
Investment in life insurance contracts.....	43,673	43,222	42,593
Deferred income tax asset.....	9,949	9,637	12,967
Goodwill.....	6,415	6,415	6,415
Intangible assets.....	1,077	1,174	1,349
Mortgage servicing rights.....	1,161	940	855
Other assets.....	5,789	5,023	4,347
Total assets.....	<u>\$ 2,441,350</u>	<u>2,406,762</u>	<u>2,386,213</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Deposits:			
Noninterest-bearing.....	\$ 500,125	542,862	479,845
Interest-bearing.....	1,581,987	1,530,034	1,539,177
Total deposits.....	2,082,112	2,072,896	2,019,022
Borrowings.....	49,300	32,000	73,000
Interest payable.....	4,241	3,621	2,865
Accrued expenses and other liabilities.....	22,220	24,383	21,173
Total liabilities.....	2,157,873	2,132,900	2,116,060
Stockholders' equity:			
Common stock, \$4 par value; 30,000,000 shares authorized, 14,285,980 shares issued and outstanding.....	57,144	57,144	57,144
Capital surplus.....	15,288	14,953	14,495
Retained earnings.....	230,451	219,016	214,550
Unrealized gain (loss) on securities available for sale, net.....	(2,822)	(1,215)	39
Treasury stock, 3,113,115 shares at June 30, 2018, 3,106,653 shares at December 31, 2017, and 3,124,283 shares at June 30, 2017, at cost.....	(16,584)	(16,036)	(16,075)
Total stockholders' equity.....	283,477	273,862	270,153
Total liabilities and stockholders' equity.....	<u>\$ 2,441,350</u>	<u>2,406,762</u>	<u>2,386,213</u>

# DACOTA BANKS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Six months ended June 30	
	2018	2017
<b>Operating Activities:</b>		
Net income .....	\$ 13,895	10,587
Adjustments to reconcile net income to net cash flows from operating activities:		
Provision for loan and lease losses .....	1,000	2,700
Depreciation and amortization .....	2,320	2,269
Expense (benefit) from deferred income taxes .....	83	(1,234)
Increase in investment in life insurance contracts .....	(451)	(765)
Increase in loans held for sale .....	(920)	(1,442)
Decrease in interest receivable .....	5,108	4,231
(Increase) decrease other assets, net .....	(1,293)	705
Increase (decrease) in interest payable .....	620	(138)
Decrease in other accrued expenses and liabilities, net .....	(2,163)	(557)
Net cash from operating activities .....	<u>18,199</u>	<u>16,356</u>
<b>Investing Activities:</b>		
Proceeds from maturities and calls of securities available for sale, interest-bearing deposits with banks and federal funds sold .....	24,053	40,701
Purchases of securities available for sale and interest-bearing deposits with banks .....	(30,658)	(21,866)
Net increase in loans .....	(55,051)	(130,193)
Purchases of premises and equipment .....	(1,510)	(2,493)
(Purchase) sale of foreclosed assets, net .....	(168)	560
Net cash used by investing activities .....	<u>(63,334)</u>	<u>(113,291)</u>
<b>Financing Activities:</b>		
Decrease in noninterest-bearing deposits, net .....	(42,737)	(48,264)
Increase in interest-bearing deposits, net .....	18,492	72,404
Increase in certificates of deposit, net .....	33,461	20,467
Increase in overnight borrowings, net .....	17,300	35,000
(Purchase) sale of treasury stock, net .....	(213)	650
Dividends paid to stockholders .....	(2,459)	(2,338)
Net cash from financing activities .....	<u>23,844</u>	<u>77,919</u>
<b>Net change in cash and cash equivalents .....</b>	<b>(21,291)</b>	<b>(19,016)</b>
<b>Cash and cash equivalents, beginning of year .....</b>	<b>64,256</b>	<b>59,877</b>
<b>Cash and cash equivalents, end of year .....</b>	<b>\$ 42,965</b>	<b>40,861</b>

### CONSOLIDATED STATEMENTS OF CHANGES IN THE ALLOWANCE FOR LOAN AND LEASE LOSSES

Balance, January 1 .....	\$ 31,211	26,165
Provision for loan and lease losses .....	1,000	2,700
Recoveries .....	244	402
Loans charged off .....	(2,584)	(729)
Balance, June 30 .....	<u>\$ 29,871</u>	<u>28,538</u>
As a % of loans .....	<u>1.47%</u>	<u>1.45%</u>

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## **DIRECTORS**

RICHARD L. WESTRA  
Chairman of the Board  
Aberdeen, SD

JOSEPH A. SENGER  
President and Chief Executive Officer  
Aberdeen, SD

RODNEY W. FOUBERG  
Retired Chairman  
Aberdeen, SD

ARTHUR R. RUSSO  
Partner  
RhodesAnderson Insurance  
Aberdeen, SD

WILLIAM S. LAMONT  
Planning Consultant  
Lamont Associates  
Aberdeen, SD

KENT E. EDSON  
Retired President and Chief Financial Officer  
Aberdeen, SD

BRADFORD J. WHEELER  
President  
Wheeler Manufacturing, Inc.  
Lemmon, SD

CATHERINE O. DUTENHOFFER  
Businesswoman  
Sioux Falls, SD

ELIZABETH A. LEWIS  
Attorney  
Woods, Fuller, Shultz & Smith P.C.  
Sioux Falls, SD

LORI LAMONT LANGE  
Independent Travel Director  
St. Cloud, MN

**Corporate Secretary**  
ROBERT J. FOUBERG  
Executive Vice President  
Aberdeen, SD

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## **AFFILIATED DACOTAH BANKS**

### **MID-DAKOTA REGION**

BRADLEY D. MOORE, Regional President

#### **ABERDEEN, FAULKTON**

KIP J. HANSEN, Market President

#### **LEMMON, BISON, HETTINGER**

TRAVIS J. ELLISON, Market President

#### **MOBRIDGE**

DARRELL D. SCHLEPP, Market President

#### **SISSETON, NEW EFFINGTON**

KEVIN B. WEGEHAUPT, Market President

#### **WEBSTER, ROSLYN**

DANIEL N. MENKING, Market President

### **NORTHERN REGION**

DANIEL R. VOLLMER, Regional President

#### **DICKINSON**

JEFF C. MOORE, Market President

#### **JAMESTOWN**

CASEY L. HENDERSON, Market President

#### **MINOT, BOWBELLS**

RYAN J. HERTZ, Market President

#### **ROLLA, BELCOURT**

KELLY J. BURSINGER, Market President

#### **VALLEY CITY**

DICK A. GULMON, Market President

### **SOUTHERN REGION**

DAVID W. BANGASSER, Regional President

#### **BROOKINGS**

STEVEN J. CARNES, Market President

#### **CLARK, HENRY, WILLOW LAKE**

THOMAS R. LABRIE, Market President

#### **MORRIS, CHOKIO**

LARRY D. RINGGENBERG, Market President

#### **RAPID CITY, CUSTER**

RANDY L. SILVER, Market President

#### **SIOUX FALLS**

MATTHEW J. SMITH, Market President

#### **WATERTOWN**

TROY J. ZEBROSKI, Market President

# DACOTAH TERRITORY



*Here for you.*<sup>SM</sup>

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