DACOTAH BANK®

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DACOTAH BANKS, INC.
SECOND QUARTER REPORT

JUNE 30, 2016

DACOTAH BANKS, INC.
FINANCIAL HIGHLIGHTS

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

	Six months ended June 30		
	2016	2015	% change
PERFORMANCE			
Net interest income	**$41,404**	39,890	3.8%
Provision for loan and lease losses	**1,500**	1,800	(16.7)
Non-interest income	**8,224**	8,485	(3.1)
Non-interest expenses	**31,735**	30,039	5.6
Net income	**10,500**	10,543	(0.4)
Per share	**0.95**	0.95	-
Cash dividends declared	**2,104**	1,938	8.6
Per share	**0.190**	0.175	8.6
Net interest margin	**4.01%**	4.00%	0.2
Return on average assets	**0.96**	0.98	(2.0)
Return on average equity	**8.60**	9.29	(7.4)
AT JUNE 30			
Total assets	**$2,263,260**	2,185,169	3.6%
Investment securities and deposits with banks	**300,949**	303,266	(0.8)
Loans, net	**1,783,762**	1,703,596	4.7
Deposits	**1,889,009**	1,827,192	3.4
Overnight borrowings	**54,500**	65,200	(16.4)
Long term borrowings	**44,000**	35,000	25.7
Stockholders' equity	**253,019**	232,373	8.9
Book value per share	**22.74**	21.00	8.3
Shares of common stock outstanding	**11,129**	11,068	0.6
Tier I leverage	**11.19**%	10.55%	6.1
Tier I capital	**12.35**%	11.90%	3.8
Total capital	**13.60**%	13.16%	3.3

DACOTAH BANKS, INC.

CONSOLIDATED STATEMENTS OF INCOME

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	**2016**	2015
INTEREST INCOME				
Loans	**$21,646**	20,756	**42,635**	40,910
Securities:				
Taxable	**972**	922	**1,884**	1,819
Exempt from federal income taxes	**284**	260	**569**	508
Deposits in banks	**45**	28	**88**	53
Federal funds sold	**8**	18	**67**	59
	22,955	21,984	**45,243**	43,349
INTEREST EXPENSE				
Deposits	**1,716**	1,514	**3,359**	3,026
Borrowings	**256**	220	**480**	433
	1,972	1,734	**3,839**	3,459
NET INTEREST INCOME	**20,983**	20,250	**41,404**	39,890
PROVISION FOR LOAN AND LEASE LOSSES	**900**	900	**1,500**	1,800
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	**20,083**	19,350	**39,904**	38,090
NON-INTEREST INCOME				
Income from fiduciary activities	**649**	444	**1,179**	915
Service charges on deposit accounts	**905**	887	**1,744**	1,716
Insurance commissions	**956**	981	**2,018**	1,994
Fees on sale of residential mortgages	**336**	270	**562**	471
Other income	**1,406**	1,633	**2,721**	3,389
	4,252	4,215	**8,224**	8,485
NON-INTEREST EXPENSES				
Salaries and employee benefits	**10,571**	9,568	**21,335**	19,459
Occupancy, net	**1,117**	1,169	**2,296**	2,416
Furniture and equipment	**487**	487	**1,000**	987
FDIC assessment	**392**	325	**709**	639
Other expenses	**3,139**	3,290	**6,395**	6,538
	15,706	14,839	**31,735**	30,039
INCOME BEFORE INCOME TAXES	**8,629**	8,726	**16,393**	16,536
Applicable income taxes:				
Current	**3,166**	4,064	**6,128**	7,502
Deferred (credit)	**(67)**	(886)	**(235)**	(1,509)
	3,099	3,178	**5,893**	5,993
NET INCOME	**$ 5,530**	5,548	**10,500**	10,543
PER SHARE OF COMMON STOCK				
Net income - basic	**$ 0.50**	0.50	**0.95**	0.95
Cash dividends declared	**-**	-	**0.190**	0.175

DACOTAH BANKS, INC.

CONSOLIDATED STATEMENTS OF CONDITION

(Dollars in thousands)

	June 30 2016	December 31 2015	June 30 2015
ASSETS			
Cash and due from banks	**$ 36,904**	57,047	38,542
Interest-bearing deposits in banks	**-**	25,700	-
Time deposits in banks	**10,680**	11,184	10,838
Securities:			
Taxable	**239,372**	228,797	246,337
Tax exempt	**61,577**	61,326	56,929
Total securities	**300,949**	290,123	303,266
Loans	**1,809,713**	1,748,682	1,730,016
Allowance for loan and lease losses	**(25,951)**	(26,667)	(26,420)
Net loans	**1,783,762**	1,722,015	1,703,596
Interest receivable	**18,085**	20,952	17,449
Premises and equipment, net	**45,975**	46,152	46,852
Foreclosed assets	**1,979**	1,048	527
Investment in life insurance contracts	**41,196**	36,923	37,115
Deferred income tax asset	**11,881**	13,158	11,682
Goodwill	**6,415**	6,415	6,415
Intangible assets	**1,770**	1,985	2,244
Other assets	**3,664**	1,588	6,643
Total assets	**$ 2,263,260**	2,234,290	2,185,169
LIABILITIES AND STOCKHOLDERS' EQUITY			
Deposits:			
Noninterest-bearing	**$ 474,300**	541,891	442,984
Interest-bearing	**1,414,709**	1,384,999	1,384,208
Total deposits	**1,889,009**	1,926,890	1,827,192
Borrowings	**98,500**	44,000	100,200
Interest Payable	**2,533**	2,452	2,113
Accrued expenses and other liabilities	**20,199**	19,940	23,291
Total liabilities	**2,010,241**	1,993,282	1,952,796
Stockholders' equity:			
Common stock, par value $4 per share. Authorized 30,000,000 shares; issued 14,285,980 shares	**5,714**	5,714	5,714
Capital surplus	**13,630**	12,540	12,016
Retained earnings	**247,598**	239,202	230,551
Unrealized loss on securities available for sale, net	**2,141**	(224)	(93)
Treasury stock, 3,157,260 shares at June 30, 2016, 3,212,060 shares at December 31, 2015, and 3,217,900 shares at June 30, 2015, at cost	**(16,064)**	(16,224)	(15,815)
Total stockholders' equity	**253,019**	241,008	232,373
Total liabilities and stockholders' equity	**$ 2,263,260**	2,234,290	2,185,169

DACOTAH BANKS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Six months ended June 30	
	2016	2015
Operating Activities:		
Net income	**$ 10,500**	10,543
Adjustments to reconcile net income to net cash flows from operating activities:		
Provision for loan and lease losses	**1,500**	1,800
Depreciation and amortization	**3,480**	2,589
Benefit from deferred income taxes	**(235)**	(1,509)
Increase in investment in life insurance contracts	**(4,273)**	(393)
Decrease in interest receivable	**2,867**	1,306
Increase other assets, net	**(1,837)**	(410)
Increase (decrease) in interest payable	**81**	(349)
Increase in other accrued expenses and liabilities, net	**259**	873
Net cash from operating activities	**12,342**	14,450
Investing Activities:		
Proceeds from maturities and calls of securities available for sale, interest-bearing deposits with banks and federal funds sold	**64,091**	55,903
Purchases of securities available for sale and interest-bearing deposits with banks	**(72,244)**	(68,731)
Net increase in loans	**(63,247)**	(47,480)
Purchases of premises and equipment	**(1,619)**	(2,149)
(Purchase) sale of foreclosed assets, net	**(931)**	1,131
Net cash used by investing activities	**(73,950)**	(61,326)
Financing Activities:		
Decrease in noninterest-bearing deposits, net	**(67,592)**	(77,890)
(Decrease) increase in interest-bearing deposits, net	**(65)**	24,619
Increase (decrease) in certificates of deposit, net	**29,776**	(9,876)
Increase in overnight borrowings, net	**54,500**	65,200
Advances (repayments) of borrowings	**-**	(2,000)
Sale (purchase) of treasury stock, net	**1,250**	(503)
Dividends paid to stockholders	**(2,104)**	(1,938)
Net cash from financing activities	**15,765**	(2,388)
Net change in cash and cash equivalents	**(45,843)**	(49,264)
Cash and cash equivalents, beginning of year	**82,747**	87,806
Cash and cash equivalents, end of year	**$ 36,904**	38,542

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

Balance, January 1	**$ 26,667**	24,059
Provision for loan and lease losses	**1,500**	1,800
Recoveries	**166**	1,026
Loans charged off	**(2,382)**	(465)
Balance, June 30	**$ 25,951**	26,420
As a % of loans	**1.44%**	1.53%

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Sioux Falls, SD

Corporate Secretary

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Executive Vice President
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