

## BOLTracker™ Peer Group Report

### Prepared Exclusively for Dakota Community Bank, N.A.

Peer Group: North & South Dakota Community Banks (DACB)\*  
Industry Group: All Community Banks\*\*  
Information as of: June, 2013

	Your Bank	Peer Group Average	Industry Group Average
BOLI Cash Value (\$000s)	\$1,324	\$5,571	\$7,024
BOLI as % of Capital <sup>(1)</sup>	18.7%	18.0%	19.2%
Current Net Interest Return <sup>(2)</sup>	2.95%	3.11%	3.23%
Recent Purchases <sup>(3)</sup> (\$000s)	\$0	\$4,886	\$2,907
No.(%) of Purchasers	0 (0%)	17 (27%)	1014 (37%)
Remaining Capacity (\$000s)	\$451	\$5,699	\$3,687
Number of Banks <sup>(4)</sup>	1	62	2,743

\*Peer Group DACB is all 62 North & South Dakota banks with less than \$2 billion in assets and more than \$1 million of BOLI; \*\*Industry Group is all 2,743 banks in the country with less than \$2 billion in assets and more than \$1 million of BOLI; (1)Tier 1 FDIC as primary regulator; Tier1+LLR for OCC and FED primary regulators; (2)Net Interest Returns are net of death benefit proceeds and are based on 12-months ending June 30, 2013; Your Current Net Interest Return is based upon your reported BOLI income for the 12-months ending June 30, 2013; (3)Recent Purchases show the total for your bank and the average for the Peer Group (among those making purchases) for the 24-month period ending June 30, and (4)Data is aggregated for all multi-bank holding companies which are assumed to have the Federal Reserve as their primary regulator. As of June 30, 2013, there was an aggregate of \$158.2 billion of cash values in force in the U.S. among all size banks and bank holding companies.

### Observations

1. Your BOLI cash value as a percentage of capital of 18.7% is **within** the average for your Industry Group.
2. Your current net interest return of 2.95% is **below** the average for your Peer Group.

Please visit our website at [www.bolisolutionsgroup.com](http://www.bolisolutionsgroup.com) for more information about BOLTracker™.

## **BOLTracker™ Peer Group Report**

### **North & South Dakota Community Banks (DACB) as of 6/30/13**

**BOLTracker™:** All the information contained in this Peer Group Report was extracted from a proprietary database called BOLTracker™ containing detailed historical information about banks and bank-owned life insurance for every bank in the country. The database has been carefully populated after a thorough analysis of public information found in all of the following sources:

1. SEC filings
2. FDIC Call Reports
3. Thrift Financial Reports
4. Federal Reserve filings
5. Annual Reports
6. websites, and
7. requests for information sent to individual banks.

BOLI Solutions Group has devoted considerable time and money to ensure the accuracy of the reported information. However, the accuracy of the BOLTracker™ database depends upon the accuracy of the information reported by the bank. Please report any inaccuracies about reported information for your bank to us so that we may correct the information in our BOLTracker™ database.

**Peer Group DACB:** includes all banks with headquarters in North & South Dakota with less than \$2 billion in assets and more than \$1 million of BOLI cash values as of June 30, 2013. Multi-bank holding companies are aggregated. The information shown in the attached table includes each bank in the Peer Group.

**% of Capital:** represents BOLI cash values expressed as a percentage of specified capital. For banks and holding companies with the OCC or FED as the primary regulator, specified capital is considered to be Tier 1 capital plus the Allowance for Loan and Lease Losses. For banks with the FDIC as the primary regulator, specified capital is considered to be Tier 1 capital only.

**Interagency Statement 2004-56:** requires that the Board of Directors of the bank monitor its BOLI holdings at least annually to ensure they are consistent with safe and sound banking practices. It also requires that an institution compare its BOLI holdings relative to capital relative to the holdings of its peers to assess whether it is an outlier. This report is an objective and unbiased comparison with your peer group. You have our permission to make copies of this report to share with your management team and members of your Board of Directors.

**Recent Purchases:** The table below shows the aggregate BOLI purchases among all banks in the country with less than \$2 billion in assets. This table shows only new purchases and does not include BOLI purchases resulting from a §1035 exchange of cash values from one insurance company to another.

**BOLTracker™ Aggregate BOLI  
Purchases by Quarter (\$000s)\*  
For All Banks with Less Than \$2 Billion in Assets**

Quarter	2010	2011	2012	2013
1	\$133,895	\$235,143	\$395,192	\$299,562
2	\$118,125	\$141,637	\$277,291	\$477, 207
3	\$125,942	\$336,722	\$262,866	
4	<u>\$210,299</u>	<u>\$401,280</u>	<u>\$532,969</u>	
<b>All</b>	<b>\$588,261</b>	<b>\$1,114,782</b>	<b>\$1,468,324</b>	<b>\$776,769YTD</b>

\*includes 6,086 holding companies, banks and thrifts with less than \$2 billion in assets as of 6/30/13

**BOLTracker™ Aggregate BOLI  
Purchases by Quarter (\$000s)\*  
For North & South Dakota Community Banks**

Quarter	2010	2011	2012	2013
1	\$1,250	\$0	\$4,325	\$5,000
2	\$0	\$150	\$6,230	\$250
3	\$0	\$9,000	\$2,400	
4	<u>\$2,095</u>	<u>\$6,000</u>	<u>\$49,850</u>	
<b>All</b>	<b>\$3,345</b>	<b>\$15,150</b>	<b>\$62,805</b>	

\*includes the 62 North & South Dakota Community Banks included in this report.

**Net Interest Returns:** have been calculated after a thorough and careful analysis of current and historical changes in cash values and reported BOLI noninterest income and are shown in the table for the 12-month period ending 6/30/13. These net interest returns are net of cost of insurance charges, do not include death benefits received by the bank and exclude non-recurring interest credits. This methodology is used to facilitate comparison between banks and is not intended to reflect the overall economic return to

the bank. It is important to note that about 20% of all community banks report BOLI interest income before cost of insurance charges are deducted. The method used for calculating net interest returns for each bank is shown as a footnote in the attached table.

**Net Interest Return Trends:** As the following table shows, aggregate net interest returns on BOLI for community banks have been quite stable and very attractive over the past several years, particularly when actual realized returns are grossed-up and considered on a pre-tax equivalent basis. Aggregate returns for separate account BOLI policies have underperformed general account returns over the past four years. The dramatic fall-off of realized net interest returns for large banks in 2008 and later is attributable to the fact that a high percentage of this business is stable-value wrapped separate account policies that has experienced deterioration in market values and therefore credited returns.

**Comparison of BOLI Average Net Interest Returns  
for All Banks with \$1 Million or More of BOLI**

Asset Size	2008	2009	2010	2011	2012	2013
Less than \$2 billion*	3.94%	3.86%	3.74%	3.55%	3.36%	3.23%
More than \$2 billion**	3.51%	3.43%	3.43%	3.33%	3.12%	3.02%

\* average net interest return for 2,347 banks

\*\* average net interest return for 217 banks

**BOLI Holdings by Product Type:** Banks and Bank Holding Companies are now required to report BOLI holdings by product type – general account, separate account or hybrid account. The following table shows the prevalence of each product type based on asset size.

**Breakdown of BOLI Holdings by Product Type  
as of June 30, 2013**

Asset Size	General Account	Separate Account	Hybrid Account
Less than \$2 billion	75%	9%	16%
More than \$2 billion	34%	58%	8%

**North & South Dakota Community Banks (DACB)<sup>1</sup> as of 6/30/13**

<u>Financial Institution</u>	<u>City</u>	<u>St.</u>	<u>BOLI as % of Capit al</u>	<u>Assets (\$000s)</u>	<u>BOLI (\$000s)</u>	<u>BOLI Net Interest <sup>2</sup></u>	<u>Metho d<sup>3</sup></u>
Alerus Financial, N.A.	Grand Forks	ND	18.1%	\$1,289,511	\$26,243	3.31%	A
American Bank and Trust	Huron	SD	12.2%	\$394,666	\$4,913	2.70%	C
American Federal Bank	Fargo	ND	4.1%	\$460,805	\$1,641		X
American State Bank and Trust Company	Williston	ND	13.4%	\$506,279	\$5,442	3.54%	C
BankStar Financial	Elkton	SD	23.6%	\$69,244	\$1,426	1.28%	C
BankWest, Inc.	Pierre	SD	10.2%	\$817,970	\$7,758	3.41%	A
Beulah Bancorporation, Inc.	Sioux Falls	SD	8.2%	\$140,034	\$1,343	3.71%	C
BNC National Bank	Bismarck	ND	15.6%	\$797,322	\$14,923	3.60%	A
Campbell County Bank	Herreid	SD	21.1%	\$100,934	\$2,718	3.50%	C
Citizens State Bank Midwest	Cavalier	ND	25.7%	\$108,245	\$2,891	2.23%	C
Commercial Bank of Mott	Mott	ND	18.3%	\$91,715	\$1,592	3.42%	D
Commercial State Bank	Wagner	SD	16.8%	\$131,000	\$2,508		X
CorTrust Bank, N.A.	Mitchell	SD	2.8%	\$721,597	\$2,200	2.09%	C
Dacotah Bank	Aberdeen	SD	15.4%	\$1,983,431	\$32,891	3.16%	F
Dakota Community Bank & Trust, N.A.	Hebron	ND	10.4%	\$650,365	\$5,520	2.81%	C
Dakota State Bank	Blunt	SD	34.4%	\$34,147	\$1,013	1.10%	C
Dakota Western Bank	Bowman	ND	9.0%	\$223,946	\$2,257	3.15%	C
DNB National Bank	Clear Lake	SD	29.5%	\$58,688	\$1,989	2.53%	A
Farmers & Merchants State Bank	Plankinton	SD	14.0%	\$85,000	\$1,224	3.20%	C
Farmers & Merchants State Bank	Tolna	ND	20.9%	\$61,800	\$1,212		X
Farmers State Bank of Canton	Canton	SD	34.9%	\$49,013	\$1,721	3.74%	C
Farmers State Bank of Turton	Turton	SD	58.9%	\$27,040	\$1,643	3.46%	C
First Dakota National Bank	Yankton	SD	16.7%	\$974,654	\$14,852	3.23%	A
First Fidelity Bank	Burke	SD	20.9%	\$324,706	\$5,882	3.38%	H
First International Bank & Trust	Watford City	ND	10.8%	\$1,418,112	\$11,704	3.64%	C
First National Bank	Philip	SD	25.1%	\$209,275	\$6,072	2.39%	C
First National Bank	Fort Pierre	SD	1.5%	\$716,104	\$2,856		X
First PREMIER Bank	Sioux Falls	SD	0.7%	\$1,190,784	\$1,437		X
First Savings Bank	Beresford	SD	3.1%	\$475,112	\$2,683	3.63%	C
First Sleepy Eye Bancorporation, Inc.	Sioux Falls	SD	11.1%	\$299,776	\$4,122	3.44%	C
First State Bank of North Dakota	Arthur	ND	7.9%	\$285,958	\$2,099	4.12%	C
First State Bank of Roscoe	Roscoe	SD	20.4%	\$95,063	\$1,852	2.55%	C
First State Bank of Warner	Warner	SD	31.0%	\$64,881	\$1,539	2.53%	C
First United Bank	Park River	ND	9.7%	\$212,018	\$1,964	3.48%	A
First Western Bank and Trust	Minot	ND	11.6%	\$814,635	\$8,771	1.53%	A
Fishback Financial Corporation	Brookings	SD	17.4%	\$1,781,268	\$37,585	3.61%	F
Fulton State Bank	Mitchell	SD	16.4%	\$56,977	\$1,117	2.76%	C
Great Plains Bank	Eureka	SD	14.2%	\$99,948	\$1,345		X
Heartland State Bank	Edgeley	ND	21.6%	\$62,353	\$1,338	2.53%	C
HF Financial Corp.	Sioux Falls	SD	15.8%	\$1,214,449	\$19,965	3.57%	C
Ipswich State Bank	Ipswich	SD	34.0%	\$54,785	\$2,069	1.92%	C
Kirkwood Bancorporation Co.	Bismarck	ND	7.2%	\$257,307	\$1,888	3.62%	C

<u>Financial Institution</u>	<u>City</u>	<u>St.</u>	<u>BOLI as % of Capital</u>	<u>Assets (\$000s)</u>	<u>BOLI (\$000s)</u>	<u>BOLI Net Interest</u>	<u>Method<sup>3</sup></u>
KodaBank	Drayton	ND	15.4%	\$135,964	\$2,065	3.87%	D
McIntosh County Bank	Ashley	ND	39.9%	\$87,792	\$3,377	2.09%	C
Merchants State Bank	Freeman	SD	16.8%	\$143,105	\$2,214	3.31%	C
Meta Financial Group, Inc.	Sioux Falls	SD	21.8%	\$1,657,305	\$33,831	3.46%	B
Miner County Bank	Howard	SD	34.5%	\$41,819	\$1,561	4.14%	C
Northland Financial	Steele	ND	7.2%	\$186,550	\$1,102		X
Peoples State Bank	Westhope	ND	18.7%	\$69,071	\$1,324	2.95%	A
Pioneer Bank & Trust	Spearfish	SD	13.4%	\$542,140	\$6,678	3.91%	C
Quoin Financial Bank	Miller	SD	21.4%	\$139,741	\$3,099	3.58%	C
Security First Bank of North Dakota	Mandan	ND	16.6%	\$159,798	\$2,815	3.45%	C
State Bank of Bottineau	Bottineau	ND	41.7%	\$55,600	\$1,962	3.70%	C
Strasburg State Bank	Strasburg	ND	21.4%	\$58,326	\$1,069	2.79%	C
Sunrise Bank Dakota	Onida	SD	23.1%	\$63,404	\$1,245	3.31%	D
The Bank of Tioga	Tioga	ND	27.4%	\$127,276	\$2,694	3.42%	C
The Citizens State Bank of Finley	Finley	ND	13.1%	\$127,652	\$1,327	2.87%	C
The First National Bank in Sioux Falls	Sioux Falls	SD	7.6%	\$992,771	\$11,443	2.95%	A
Union State Bank of Hazen	Hazen	ND	19.7%	\$109,161	\$2,070	2.27%	C
Unison Bank	Jamestown	ND	16.3%	\$213,002	\$3,157	3.44%	C
United Community Bank of North Dakota	Minot	ND	7.6%	\$269,541	\$1,697	3.29%	C

<sup>1</sup>Peer Group DACB is all 62 North & South Dakota Community Banks with less than \$2 billion in assets and more than \$1 million of BOLI;

<sup>2</sup> for the 12-month period ending 6/30/13;

<sup>3</sup>**Method A:** This method is used where net interest income is available and generally matches increases in cash values and there are no apparent significant BOLI purchases or deaths during the year.

**Method B:** This method annualizes reported BOLI net interest income for 3 out of 4 quarters. It is used where there are apparent BOLI purchases or obvious death claims in only one quarter and there is sufficient information to exclude net death proceeds from net interest income in 3 out of 4 quarters.

**Method C:** This method assumes that the percentage growth in cash values during the year is a result of interest earnings credited to the policies. It is used where net interest income information is not available (or is reported on a gross basis), there are no apparent death claims or BOLI purchases during the year and quarterly returns are fairly consistent from one period to the next.

**Method D:** This method annualizes quarterly changes in reported cash values for 3 out of 4 quarters. It is used where net interest income is not available (or is reported on a gross basis) and there are apparent death claims or BOLI purchases in one quarter.

**Method E:** This method annualizes reported BOLI net interest income for 2 out of 4 quarters. It is used where net interest income for BOLI is available and there are apparent death claims or significant BOLI purchases in 2 out of 4 quarters.

**Method F:** This method annualizes quarterly changes in reported cash values for 2 out of 4 quarters. It is used where net interest income is not available (or is reported on a gross basis) and there are apparent death claims or BOLI purchases in 2 out of 4 quarters.

**Method G:** This method annualizes the quarterly returns for only a single quarter. It is typically used for the first full quarter of reported BOLI non-interest income for a first time BOLI purchase.

**Method H:** This method annualizes the quarterly cash value returns for only a single quarter. It is typically used for banks that do not report BOLI non-interest income for a first time BOLI purchase.

**Method I:** This method annualizes the quarterly returns based upon changes in general account and hybrid account cash values but ignores changes in separate account cash values were the changes are volatile. It uses either Method C, D, F or H.

**Method X:** This method omits information whenever there is insufficient information to estimate net interest returns with a high degree of accuracy. This may result for a variety of reasons, such as BOLI purchases in at least 3 out of 4 quarters, erratic reported net interest returns or unusual patterns of cash value growth. This effectively removes BOLI informally funding multiple investment choice nonqualified deferred compensation plans from our interest rate averages.

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