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DACOTAH TERRITORY

MANAGING WEALTH AND RISK

ANNUAL REPORT | 2015

DACOTAH BANK®

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BANKING • INSURANCE • MORTGAGE • TRUST

DACOTAH BANKS, INC.

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ANNUAL MEETING

The annual stockholders' meeting will be held Thursday, May 26, 2016 at 1:00 pm, at the Dakota Event Center (DEC) in Aberdeen, SD.

Dacotah Banks, Inc. is a one-bank holding company headquartered in Aberdeen, South Dakota. The Company is the sole shareholder of Dacotah Bank, a full-service commercial bank that offers banking, mortgage, insurance and trust and wealth management services throughout its thirty-four locations in Minnesota, North Dakota and South Dakota.

BANKING

Dacotah Bank offers something for every person and business. We work to find the precise features and benefits that fit each client's unique financial needs.

INSURANCE

Protecting families, businesses, and farms and ranches from loss requires experience. Dacotah Insurance has served over three generations of local customers for over 50 years – a Trusted Choice independent agency.

MORTGAGE

When our clients make their biggest investment for their family or their business, we are there with memorable customer service and a commitment to no surprises. Click2Start your loan online.

TRUST AND WEALTH MANAGEMENT

We help clients plan for the future, build net worth, and secure wealth. We manage money, farmland, and minerals and energy interests.

TO OUR SHAREHOLDERS

Low interest rates, lower economic growth, low inflation and low farm commodity prices continued in 2015. The future interest rate outlook continues to be influenced by global forces beyond the direct control of the Federal Reserve Board of Governors. Many financial institutions have struggled to maintain net interest margins due to their inability to attract sufficient loan volume. Recently, expectations for economic growth have been reduced and there is continued weakness signaled in the global economy for 2016. As a result, bond yields are not expected to rise significantly anytime soon. Quality relationship-driven loan volume is critical and Dacotah Banks, Inc. has been successful in achieving its loan growth goals.

Dacotah Banks, Inc. is a banking organization that is very traditional in nature. We gather core deposits from customers in our trade territories and in turn make loans to customers in the same communities. It is our ability to grow these loans, funded by relatively lower-cost deposits, that allows the Company to maintain a higher loan-to-deposit ratio than our peer banks. This in turn has been a significant factor in the Company's ability to generate record earnings and growth again in 2015.

The banking industry has again seen considerable consolidation in 2015. The number of banks in the United States is declining at a rate of 3.5% a year. Since 2007, the number of banks in Minnesota, North Dakota and South Dakota has declined by 25%, 19% and 21%, respectively. We remain committed to growth, both organically and through potential acquisitions when those opportunities provide added value and the potential for future growth in acquired locations. We need to stay competitive; and we need to continue to develop our corporate growth strategy, to plan for the future and to continue as the provider of choice to our changing customer base.

FINANCIAL PERFORMANCE

The Company's net income in 2015 was $21.2 million, an increase of 14% over 2014, and representing the highest earnings year in the Company's history. Earnings exceeded budget by $1.6 million. Significant items that were better than budget include interest expense ($1.2 million below budget), provision for loan and lease losses ($1.3 million below budget) and non-interest expense ($1.1 million below budget). In addition to the expense savings, total interest income exceeded the 2014 level by 6% or $4.4 million. Total non-interest income for 2015 was slightly lower (about .1%) than it was in 2014. Service charges on deposit accounts; and insurance and trust and wealth management income were below 2014 levels. Fees on the sale of residential real estate mortgages plus servicing fees on residential real estate mortgages improved nicely as compared to 2014.

The Company's loan-to-asset and loan-to-deposit ratios were both higher at the end of 2015, 77.0% and 89.3%, respectively, compared to 76.3% and 87.7%, respectively, at the end of 2014. Even though loan interest rate pressures continued, the Company's net interest yield on earning assets was 4.02% compared to 3.96% for 2014. Increased loan volume of nearly $65 million, lower interest expense and improved net interest yield all lead to much improved net income in 2015.

GROWTH

The Company experienced modest asset growth of approximately 3% percent in 2015 ($2.234 billion at the end of 2015 compared to $2.173 billion at the end of 2014). The growth in assets was driven primarily by an increase in net loans of 4% over 2014 levels. In addition, deposits grew 2% from $1.89 billion at the end of 2014 to $1.93 billion at the end of 2015. Such moderate growth is typical of comparable companies.

The majority of the Company's banking markets (12 of 17) had improved earnings in 2015 as compared to 2014. While 2016 brings questions, especially in the agricultural sector, we feel our personnel and processes are prepared to help the Company and our customers and again achieve modest growth in assets. In addition, several of our newer markets are poised for more substantial growth in loans and deposits. In one of those markets, Jamestown, North Dakota, we celebrated the grand opening of our new facility in August, 2015 (we had been operating out of a temporary facility since June, 2014).

STRENGTH

Improved earnings and moderate growth during 2015 again strengthened the Company's capital. On a consolidated basis, the Company's tier one leverage ratio improved to 10.78% at the end of 2015 from 10.19% at the end of 2014. Tier 1 risk-based capital and total risk-based capital ratios which react to loan growth were 12.18% and 13.43%, respectively, at the end of 2015 compared to 11.90% and 13.15%, respectively, at the end of 2014.

Overall loan quality decreased slightly during 2015. This is attributed primarily to the current agricultural economy. Many of the Company's agricultural customers are experiencing operational losses due to lower commodity prices. At the end of 2015, non-performing loans to average loans was .91% compared to .79% at the end of 2014, and the Company's allowance for loan and lease losses at the end of 2015 had increased to $26.67 million as compared to $24.06 million at the end of 2014.

COMMENTS ON 2015

As indicated, 2015 was a very profitable earnings year and this success does not occur without a very dedicated employee base. This said, it was apparent in early 2015, that Dacotah Bank was experiencing a somewhat higher employee turnover rate, particularly among the ranks of the Company's agricultural and business bankers. As a result, Dacotah Bank engaged WIPFLi, LLP ("WIPFLi"), one of the top-20 accounting and business consulting firms in the country, to thoroughly analyze employee salaries and benefits, with particular emphasis on agricultural and business bankers. The results received from WIPFLi indicated several salary gaps within our key lending core. As a result, the Company implemented a moderate incentive-based compensation plan for some lending positions.

In addition, MDA Leadership Consulting, Inc. ("MDA") was engaged to help create the first ever academy program for future Company leaders. Fifteen employees were selected from the various locations and departments to participate in this program. MDA also worked with the current executive team (Steering Committee and regional and market presidents) to provide better coaching and leadership skills throughout the company.

LOOKING AHEAD

We believe we are prepared for rising interest rates, continued poor agricultural commodity prices and low oil prices. The last several years of loan underwriting improvements and bank liquidity modeling are expected to pay dividends during this period of economic challenge.

In early 2016, a significant organizational structure change was implemented. The four regional presidents have been added to a new Steering Committee structure. In addition, market presidents were added in Aberdeen, Rapid City, Rolla and Sioux Falls to allow the regional presidents who until this point served also as market presidents, additional time to better manage their respective regions. This strategic move aligns well with the expected organic growth of existing markets. In addition, this strategic move further aligns central bank departments and the markets for future growth.

In addition to organic growth and regional alignment, a major refocus on non-interest income will occur in 2016. Fiserv, a global provider of products and services to financial services firms, was engaged on a consulting basis in 2015 to better define deposit product offerings at Dacotah Bank. All research was evaluated and it was apparent changes are needed in comparison to several banks within the Dacotah Bank footprint. In early 2016, teams were established to train employees on the new product offerings with implementation expected in the spring of 2016. The ultimate goals are greater customer satisfaction and increased non-interest income.

Additional emphasis has been placed on trust and wealth management, insurance and residential real estate services and product offerings. The infrastructure is in place to handle relatively significant increases in volume across all three areas and the Company expects increased revenues. Inasmuch as Dacotah Bank is very dependent on loan interest income, competitive pressures on loan volume dictate a need for increased non-interest income.

We believe that consolidation of the industry will continue, and we are seeing more banks looking for possible acquisitions. Dacotah Bank continues to pursue and evaluate opportunities and several opportunities were evaluated during 2015; however, none of the offered banks were a good fit for Dacotah Bank.

SHAREHOLDER VALUE

The book value per share of common stock increased by 7.8% from $202.05 on December 31, 2014 to $217.71 on December 31, 2015 and net income per share increased by over 15% during the same period. The Company experienced growth in assets, loans and deposits.

A great predictor of financial success is to stay current and follow through with your financial plans. This is not only true for individuals building financial wealth but also true for growing financial institutions. To stay current, change is necessary. Staying competitive requires change. We must continue to recognize what our customers want in terms of products and services and be able to deliver them in an acceptable manner. We need to continue to educate our staff as to change and provide the support necessary to stay current. Our strategy for the growth of, and the longer range strategic plan for the Company must embrace change. Not only must we concentrate on controlled, relationship-driven organic growth, but also growth through acquisition when deemed appropriate. Increased shareholder value comes from growing the Company in line with these principals. The future of the banking industry lies with staying current with technology and the impact it is having on the delivery of our products. We must also continue with our efforts to protect our customers' information and to control the growing risk of cybercrime and fraud attempts on our customer base. Dacotah Bank's, Inc. has implemented a number of initiatives to address these important issues. We believe we are well-positioned to address these issues and continue to grow and compete in this industry.

The Company's Boards of Directors and management continually look for ways to improve the performance of the Company and to enhance the value of your ownership. As a shareholder, access to resources to help you manage your investment in the Company is important. During 2015, it was concluded that both the Company and its shareholders would be well served by utilizing a banking industry specialist that could provide market-making services to our shareholders. FIG Partners, LLC is an Atlanta, Georgia-based broker-dealer that specializes in financial institutions and is a useful resource to our shareholders for financial, trading, pricing and market insight on Dacotah Banks Inc. Our arrangement with FIG is intended to provide that independent resource capable of providing you with up-to-date trading information on your Dacotah Banks Inc. shares.

During 2015, dividends were paid totaling $3.60 per share, the highest in the history of the Company. The payment of cash dividends in 2015 marks the 27th consecutive year of cash dividend payments.

In closing, we thank the nearly 550 Company employees for the dedication and hard work that made 2015 a very profitable year; very supportive Dacotah Banks, Inc. and Dacotah Bank Boards of Directors for the continued support and guidance; and you, our shareholders, for your trust and commitment to the Company.

Richard L. Westra
Chairman of the Board

Joseph A. Senger
President and CEO

Financial Highlights

(Dollars in Thousands, Except Per Share Data)

PERFORMANCE

PERFORMANCE	2015	2014	% Change
Net interest income	$ **81,253**	76,880	5.7%
Provision for loan losses	**2,700**	4,050	(33.3)
Non-interest income	**16,845**	16,859	(0.1)
Non-interest expense	**61,817**	60,571	2.1
Net income	**21,244**	18,591	14.3
Per share	**19.17**	16.57	15.7
Cash dividends declared	**3,988**	3,930	1.5
Per share	**3.60**	3.50	2.9
Net interest margin	**4.02** %	3.96	1.5
Return on average assets	**0.96**	0.89	7.9
Return on average equity	**9.10**	8.46	7.6

AT DECEMBER 31ST

AT DECEMBER 31ST	2015	2014	% Change
Total assets	$ **2,234,290**	2,172,801	2.8%
Investment securities and deposits with banks	**301,307**	301,475	(0.1)
Loans, net	**1,720,922**	1,657,916	3.8
Deposits	**1,926,890**	1,890,339	1.9
Borrowings	**44,000**	37,000	18.9
Stockholders' equity	**241,008**	224,073	7.6
Book value per share	**217.71**	202.05	7.8
Shares of common stock outstanding	**1,107**	1,109	(0.2)
Tier I leverage*	**10.78** %		
Total capital*	**13.43**		
Tier I leverage		10.19%	
Total risk-based capital		13.15	

*New capital ratios under Basel III

Selected Consolidated Financial Data

SELECTED CONSOLIDATED FINANCIAL CONDITION DATA

	December 31,				
	2015	2014	2013	2012	2011
	(Dollars in Thousands)				
Total assets	**$ 2,234,290**	2,172,801	2,110,822	2,065,053	1,905,762
Loans, net	**1,720,922**	1,657,916	1,540,424	1,474,330	1,365,830
Investment securities	**290,123**	294,582	332,519	357,818	325,556
Deposits	**1,926,890**	1,890,339	1,860,232	1,825,560	1,679,420
Borrowings	**44,000**	37,000	20,000	21,005	25,009
Stockholders' equity	**241,008**	224,073	211,736	199,564	184,082

SELECTED CONSOLIDATED OPERATION DATA

	Years Ended December 31,				
	2015	2014	2013	2012	2011
	(Dollars in Thousands, Except Per Share Data)				
Interest income	**$ 88,281**	84,102	82,993	84,802	86,656
Interest expense	**7,028**	7,222	9,607	16,055	20,002
Net interest income	**81,253**	76,880	73,386	68,747	66,654
Provision for loan losses	**2,700**	4,050	5,250	6,750	5,300
Net interest income after provision for loan losses	**78,553**	72,830	68,136	61,997	61,354
Non-interest income:					
Income from fiduciary activities	**1,748**	1,793	1,778	1,202	912
Service charges on deposit accounts	**3,594**	3,752	3,849	3,956	4,259
Insurance commissions	**4,473**	4,383	4,169	4,068	3,889
Fees on sale of residential mortgages	**970**	960	1,660	2,634	1,897
Other	**6,060**	5,971	5,223	4,109	4,152
Total non-interest income	**16,845**	16,859	16,679	15,969	15,109
Non-interest expense:					
Salaries and employee benefits	**40,106**	38,424	35,316	31,692	30,776
Occupancy, furniture and equipment, net	**6,917**	6,804	6,664	6,143	5,861
Other	**14,794**	15,343	14,727	12,748	14,308
Total non-interest expense	**61,817**	60,571	56,707	50,583	50,945
Income before income taxes	**33,581**	29,118	28,108	27,383	25,518
Income tax expense	**12,337**	10,527	9,726	9,529	8,972
Net income	**21,244**	18,591	18,382	17,854	16,546
Per share of common stock:					
Net income	**$19.17**	16.57	16.43	16.03	14.87
Cash dividends declared	**$3.60**	3.50	3.20	3.00	2.60

Selected Consolidated Financial Data

SELECTED FINANCIAL RATIOS

	At or for the years ended December 31,				
	2015	2014	2013	2012	2011
PERFORMANCE RATIOS					
Return on average assets	**0.96%**	0.89	0.90	0.93	0.91
Return on average stockholders' equity	**9.10**	8.46	8.93	9.31	9.37
Net interest margin	**4.02**	3.96	3.86	3.84	3.92
Non-interest income to average assets	**0.76**	0.81	0.81	0.83	0.83
Non-interest expense to average assets	**2.80**	2.89	2.76	2.64	2.80
Efficiency ratio	**63.02**	64.62	62.95	59.71	62.31
ASSET QUALITY RATIOS					
Nonperforming loans to total loans	**0.89%**	0.76	1.06	1.61	1.74
Allowance for loan and lease losses to total loans	**1.53**	1.43	1.36	1.27	1.32
Allowance for loan and lease losses to net charge-offs	**289.86x**	19.08	7.41	3.13	5.76
CAPITAL RATIOS					
Tier I leverage*	**10.78%**				
Tier I capital*	**12.18**				
Total capital*	**13.43**				
Tier I leverage		10.19%	9.88	9.61	9.17
Tier I risk-based capital		11.90	12.04	11.71	11.91
Total risk-based capital		13.15	13.29	12.89	13.16

*New capital ratios under Basel III

MONEY MANAGEMENT

The antique roll-top desk seemed oddly comfortable under the mountain of papers and home office supplies. Each time he sat down to pencil something in his calf book or jot down a note about the first planting date he thought, "someday I'll make some coffee and get all of this organized."

This evening, however, he just stood staring at the mound and honestly wondered just what was all there. Earlier in the day his Dacotah Bank Ag banker had been adding up his certificates of deposit and asked if he had a will.

Picking up a couple statements he thought, "Hmmm. IRA and Roth IRA. I know they are different but what are the biggest differences over the long haul?"

Asking for help was just not part of his genetic make-up but the banker's questions had gotten him to thinking…

Most people don't just wake up one morning and decide they need the services of a trust and wealth department. Sometimes it may be the realization they simply don't know the true value or features of the assets they have held for years.

It is no secret that some generations preferred to spread their holdings and investments around to ensure all their 'eggs were not in one basket.' However, at some point in time, it can become difficult to keep track of not only where accounts are, how values are changing, when it may be best to move money around in light of tax implications, and when to take advantage of changes in the market landscape.

Dacotah Bank's reputable and trusted bankers are often the first to recognize when a client may benefit from a consultation with someone about a better way to manage money. Reviewing estate planning concepts, tools, and techniques, especially with those who own farmland, can provide peace of mind; reduce anxiety and even fear of making a poor decision as age creeps in.

Most people don't just wake up one morning and decide they need the services of a trust and wealth department.

Money managers at the bank track all assets, cash and dividend income, and disbursements and payments made to cover expenses associated with land management, taxes and utilities.

IRAs, RMDs, POAs, POD, TOD, wills, living trusts, revocable trust, irrevocable trust, disbursements; terms that no longer seemed confusing and foreign.

The farm couple sat at the kitchen table. It had been a rewarding day in town. Now, thanks to the helpful advisor from the bank's trust and wealth management department, they had a clear understanding of how their land and investments had grown and could impact their lives in time.

Over in the corner, the old roll-top desk gleamed from a fresh dusting and seemed to smile approval…

ESTATE PLANNING

It was important that the advisor had listened to them so they could put their values in a trust

During the annual review of the farm's operating credit, the couple's Ag banker leaned forward across the desk and asked about their estate plan. The long pause in the room answered the question.

Together they had worked to teach their two grown children values about caring for land and the ethics of hard work. Now the realization set in that land ownership and philanthropy to charities was a lesson that needed teaching and possibly some planned reminders as well.

The fear of the two siblings arguing over land and other assets inspired them to take action. They anticipated one would never want to let the land go while the other would cash-out as soon as possible.

They agreed to meet with the bank's trust and wealth management advisors to explore goals and options.

For many families, planning for succession of a farm or business or independent wealth is often stimulated by a life-changing event. The farming couple in this true story did not wait for that to happen.

Strategic planning meetings with clients are focused on the value of planning ahead and how much control and flexibility a trust strategy can provide for passing assets to the next generation.

Such planning is much more than wishful thinking. It is executable action with benefits. In a typical situation, an advisor and clients will discuss what a future trustee may need to have in writing in order to fulfill their goals. Using qualitative concepts and quantitative models, the plan becomes tangible and understandable.

Using plain terms to translate complex financial planning tools, the advisor then helps the clients understand outcomes for future beneficiaries and provide perspective on what they may expect to control. And, perhaps more importantly, they will learn how to be comfortable letting go.

Over time and after careful due diligence, the couple in this story and their trust and wealth management advisor reached a point where they were pleased with their decisions and directions. They now had confidence and found peace in the legacy they had sculpted.

It was not important that they had listened to the advisor about the value of a trust. It was important that the advisor had listened to them so they could put their values in a trust…

BUSINESS INSURANCE

He slogged into the living room and crashed deep into the recliner. His bones were chilled and despite his fatigue he knew he would not be asleep for hours. His ice-covered gear was piled near the door and his Golden Retriever shied away from the smoky smelling heap.

As a volunteer fire fighter, his body had been spent on the all-night sub-zero battle against the downtown fire. Luckily the only injuries were strained backs from riding the hoses in the harsh north wind and the occasional bruise from slipping on the ice formed by the heavy watering.

As he let the pre-dawn coffee slowly thaw him from the inside out, he said a prayer and gave thanks for the decision he and his partner had made to conduct a total risk assessment of their business just months before.

For just as easily, he and his brotherhood of volunteers could have been working to save his business in that night's frigid air.

Despite what many would have you think, managing the risks a business faces is much more critical than going online and selecting point, click, and buy. As business moves faster and faster and becomes more convenient with the advent of the digital space, an opposite trend is emerging.

Business owners and managers are slowing down to fully understand and explore the best ways to mitigate potential risk from loss. Working closely with a team of trusted advisors, today's business leaders know expertise is invaluable; financial, legal, insurance, operational, compliance, technological, and relations with clients, employees, and government.

As Trusted Choice®, independent insurance producers, each professional on the Dacotah Bank team is experienced and trained to take the time to truly understand what perils could affect a business operation. While the easiest path is the leap to a policy quote, such a business model can leave a business dangerously short on protection.

In today's specialized market place, business leaders now have the unique luxury of working with their agent who in turn collaborates with niche carriers. Today's new brand of synergy creates an optimum level of protection at a cost effective value.

Today's new brand of synergy creates an optimum level of protection at a cost effective value.

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BUSINESS **INSURANCE** (CONTINUED)

Gone are the days of a free ball cap and a quote. The complexities of risks today require solutions for protections against liability claims, company vehicle insurance, crime protection including cyber liability coverage, and property insurance to restore a business' health in the event of fire, weather, or other damage.

Employee benefits packages are nearly as important in attracting and retaining top talent as base compensation and workers compensation. More evidence that an experienced firm with deep bench strength in key areas can be pivotal in protecting a growing or mature business.

Because in the business of business, the unexpected can always be expected…

Everyone in town would know about the fire by the time they arrived at work or school this morning. He would be late getting to work but his partner would expect that. Things at the office would be taken care of as they had a good partnership.

Now the townspeople would pull together to support the Main Street owner who's business had suffered the overnight fire. The structure could be rebuilt and the inventory could be replaced. But the owner and family were part of the community's fabric and future.

After all, a local business means more to the town than just a source of goods and services…

Gone are the days of a free ball cap and a quote.

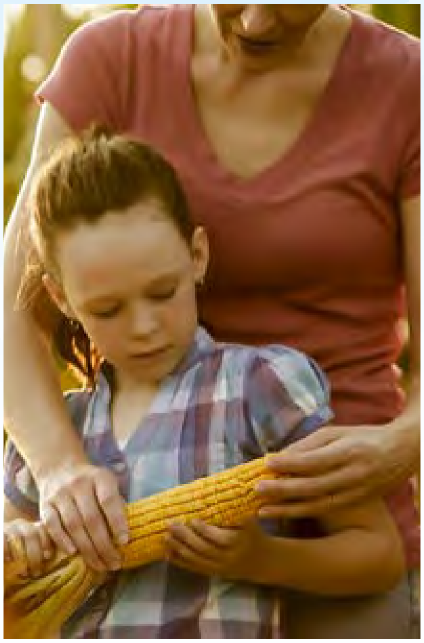
CHARITABLE **PLANNING**

Over time, the family's assets had grown and family members prospered. With a long history of charity and compassion, thoughts turned to planning, gifting, taxes, and the future. Over a desert of homemade apple rhubarb pie that Sunday afternoon priorities began to form for the next generation.

"We need to set something up so that the local groups we have supported don't just get cut off at the knees when we aren't around any longer," said the father.

The daughter who traveled the farthest to be home added, "Yes, but taxes can take a big bite out of inheritance even if the kids want to keep donating."

While pouring another glass of grandma's fresh lemonade, the youngest spoke at last, "I think we need to get some advice; but not from someone who is selling an investment product."



This story of a family wishing to maintain support for key charities, protect and grow a principal amount of assets for heirs, and manage tax liabilities most efficiently happens often in Dacotah Territory.

Philanthropy is a rewarding activity. The joy of helping others and sharing prosperity and good fortune goes beyond words.

However, there may be unique and often complex tools and strategies to consider while making sure intents and wishes are attained while preserving core assets. Experienced advisors like those of Dacotah Bank's trust and wealth management group have assisted countless clients in their quest to make dreams come true.

An attorney drafted a charitable lead trust and an irrevocable gift of $800,000 was made to fund the trust. The cash gift resulted in a federal tax income deduction of nearly $800,000 the first year.

Each year thereafter $48,000 is distributed to the deserving, qualified non-profit organizations of their choosing to continue the philanthropic mission of the family.

As the trustee, Dacotah Bank's trust and wealth management team manages the investment portfolio in a balance of stocks and bonds. This foresight of the family and expertise of the management group will result in $960,000 in distributions to charities over twenty years.

Additionally, heirs will receive the trust's remaining balance twenty years from inception free of federal estate tax.

When it comes to the business of charitable planning, experience and execution are key…

FARM AND RANCH MANAGEMENT

As she drove toward town she played out the annual "cash rent over coffee" conversation in her head. For a couple years now it had not been a discussion she looked forward to.

"I'm glad you had another good year on our ground. My husband would be proud you have done so well leasing it from me," she uttered with only a slight break in her voice.

But in her mind she generally had a different conversation. "Rangeland leases have gone up with the market for nearly all my neighbors. Just because I'm a widow and we have been friends for so many years doesn't mean our business shouldn't be treated like business."

But this kind of thing has been difficult to say out loud.

In Dacotah Territory, a large percentage of crop land and rangeland has been in the same family for a number of generations. Even though some family members move away or pass away, the land remains. This true story has become the script of many local families.

Managing the sustainability of the land in accordance with good practices in a profitable manner can be a major challenge. As families evolve to pursue urban careers and as agricultural programs change, it can be a hardship on the sole survivor or few remaining local elders.

A team of trusted advisors consisting of an attorney, tax consultant, and members of a trust and wealth management group collaborating for the best interests of the owners, their legacy, and heirs will breathe new life and transparency into family relationships.

Because when it comes to renting agricultural land for income, business is business…

She had left home early for this year's "cash rent over coffee conversation." Her first stop was to be at Dacotah Bank. There, she was going to meet with the local president and that helpful person from the trust and wealth management department.

They knew it was hard for her to discuss an increase in land rent with her tenants who were also good friends. But this time around she was comforted in knowing the details had been worked out in advance and to the satisfaction of everyone; professionally and respectfully.

When it comes to renting agricultural land for income, business is business.

After the meeting at the bank she was truly looking forward to lunch with her friends – lunch the way it used to be when her husband was at her side and the four of them would laugh and laugh…

FARM AND RANCH **INSURANCE**

Thunder continued to rumble in the east and the air smelled fresh and clean. But the aftermath of the storm was a tragic scene of twisted metal, fragments of splintered house siding and crumpled barn walls. The chipped foundations where grain bins had stood were stark and bare.

As he looked after the storm his eyes could trace the path across the fields in both directions where the wind had blown the standing crop flat. In the distance in the direction of town he could hear the faint wail of an emergency vehicle siren. Someone had been hurt or a fire had been started by lightning or a downed power line.

The business of farming is a rewarding career and lifestyle but has its risks. Livestock and commodity prices rise and fall. Feed, seed, fuel and other operating expenses seem to pinch margins harder every season. Shifting land prices impact collateral values. Government programs become more complex. And there is always the weather…

Managing risks in the business of agriculture takes a steady hand, a cool head, and a network of trusted, experienced advisors and family members.

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Insuring a way of life is too important to just price shop for the lowest premium.

FARM AND RANCH INSURANCE (CONTINUED)

Insuring a way of life is too important to just price shop for the lowest premium.

Since 1960, the Trusted Choice risk advisors on Dacotah Bank's insurance team have been at farm kitchen tables before and after summer storms, herd-depleting blizzards, and during blistering droughts; listening and learning what challenges each new season may bring.

The special relationship Ag clients and their trusted advisors have goes beyond office hours. It's a jaw busting ride across the expanse of a pasture in a pickup. It's a text message in the middle of a youngster's ballgame. It's a couple hours spent talking and touring the homestead to learn what the specific risks may be and how to avoid them or mitigate potential loss or expense.

The harvest's goal is profit. Insurance producers at Dacotah Bank are among the best trained in the business of agriculture. Working closely with the farm or ranch family and their credit advisor at the bank, each agent keeps their eye on balancing their client's goals against the risk of loss.

Managing risks on a farm or ranch is more than a multi-peril crop insurance policy. Vehicles and equipment are purchased, traded in or go out of service. Protection against injury and theft or damage of the rolling stock constantly needs to be updated and assessed.

Like any business, a farm or ranch has inventory and equipment, risks of liability, and the need to help family members and employees be insured against health, disability, long-term care in the event of rehabilitation or elder care and even death.

The smart work must be done up front; the assessment, the projections, the planning. As an independent insurance agency, Dacotah Insurance writes for a number of leading companies. The benefits are many. Not only is there potential to secure the most competitive premium, but when risks are assessed and mitigated through research by a professional who knows the farm's global picture, protection is more inclusive and better maintained.

Because in the business of farming and ranching, the unexpected can always be expected…

Two pickups were now pulling onto the place. The first was John, the nearest neighbor down the road and always the first to offer help.

The second was driven by the Dacotah Insurance agent.

Responding not only to a client but a friend…

Because in the business of farming and ranching, the unexpected can always be expected...

MINERALS AND ENERGY

For years, granddad had raised small grain on the family place in western North Dakota along with a small herd of beef cattle. Some years had been better than others.

As his daughter drove them along the gravel road, he marveled how the landscape had changed since he had moved off the ranch. Oil rigs, wind farms, truck traffic, and rural sub-divisions featuring manufactured housing dotted the fields and pastures.

Now his daughter and her husband were running things. They too had to manage against the swings in grain and livestock prices. But thanks to an attentive Ag banker at Dacotah Bank, their future looked brighter than his once had.

His blue eyes squinted against the sun and he tugged his hat lower. Remembering the oil boom nearly 40 years ago he also recalled the bust. This time, he reflected, it was different.

This time, he and his family hadn't tried to navigate the complex energy lease business alone.

The resume of Dacotah Bank's trust and wealth management advisor for clients holding land and mineral rights is impressive. The bench strength of experienced administrative professionals, legal advisors, and investment counselors creates a single source of knowledge and expertise.

Mineral ownership is complex and Dacotah Bank's priority is to break it down for better understanding for each client. Complex terminology, legal caveats and diverse ownership options may cause confusion, often resulting in decisions that will haunt a family for years, if not for generations to come.

When it comes to mineral leases and long-term revenue, experience is key.

Because when it comes to mineral leases and long-term revenue, experience is key…

While arranging an operating line of credit at Dacotah Bank a few years ago, talk had turned to the family's oil and mineral rights. The Ag banker was helpful and introduced granddad and his daughter and son-in-law to the local trust and wealth management advisor.

Recalling that initial introduction, the corner of granddad's mouth turned up ever so slightly. He began thinking of the discussions they had had and when his son and other daughter who had both moved out of state joined their discussions via conference calls at the bank. He was very pleased how the advisor listened to everyone's questions and concerns. The responses were spot on and business-like. Granddad liked that.

Today the land is producing not only revenue but wealth. As the pickup made its way down the county road he looked out the passenger window and nodded knowing his small patch of earth was in good hands…

FOUNDATION AND ENDOWMENT SERVICES

As she drove back to the office, she reflected on the foundation board meeting. It had gone well and leadership was doing a fine job.

Enrollment on campus was up. Success in the athletic programs was generating a lot of positive publicity for the school. But something was gnawing at her instincts.

She wondered, considering the majority of students attending were from the three state area and the vast majority of the major donors were local, how can we best leverage the talents of local investment advisors to help manage and grow the endowment?

Charitable foundations and endowments benefit numerous communities throughout Dacotah Territory – North Dakota, South Dakota, and western Minnesota.

A primary service enjoyed by such organizations provided by Dacotah Bank's trust and wealth management department is the day-to-day administration of asset fund accounts. Adhering to each foundation's investment policy is a top priority of the management team.

As money is received on a daily basis or distributed accordingly, the department's administrative professionals accurately account for the flow of dollars; payment of scholarships and grants as directed by the board of each foundation or endowment.

Such accountability within earshot is not only reassuring, but the local work ethic and high standards of the hometown advisors are parallel with members of the boards of schools, churches, and community foundations.

An extra ounce of care and concern in fund management is often a difference maker because the advisor lives in your community, worships at a nearby church, or attended the university they now serve.

She felt a great sense of community pride as she parked her car in the university's parking lot. Today's foundation board meeting was going to be especially interesting!

Asset advisors from Dacotah Bank's trust and wealth management department were on the agenda. It will be good to learn how a firm right here close to home could manage the foundation's assets…

An extra ounce of care and concern in fund management is often a difference maker.

DIRECTED TRUST SERVICES

Always one to do his homework, his fingers ran over the calculator keys for the third time just to be sure. He sat back in his leather chair in his office on the 12th floor and looked thoughtfully out the floor to ceiling window. He never got tired of the city's skyline.

"Good things often come in small packages." The old phrase popped into his head and he smiled. With less than three tenths of one percent of the nation's population, South Dakota, he had discovered online, had perhaps the best tax environment for his clients.

He reached forward again but this time his hands bypassed the calculator and settled on his keyboard. With a few strokes and a click he was back on the Dacotah Bank website…

More and more investment managers are exploring the tax-friendly advantages of South Dakota. Specifically, clients who need to consider sheltering wealth in a trust are discovering numerous benefits in the Land of Infinite Variety.

In its simplest form, a client of an investment firm doing business anywhere in the nation can work with Dacotah Bank's trust and wealth management department in South Dakota. A trustee for the client is named and work begins in concert between the trustee and the client's long-time investment advisor.

The win-win-win is exciting! Clients across the country benefit from the fact there is no state income tax, state estate tax, inheritance tax, trust tax, or state capital gains tax in South Dakota. Investment managers benefit by retaining their clients and growing their relationship with additional tools and rewards.

The win for Dacotah Bank is a diverse client base that is attractive to bright professionals working in the financial services sector. These career professionals often prefer the quality of life in or near their hometown.

One to always consider the best interests of his clients, his new relationship with the managers and advisors at Dacotah Bank's trust and wealth management group was like fresh air.

Not only had he discovered a new professional friendship with business people with the highest of standards, but his independent firm would continue to manage client investments while the bank's advisors would serve as a trustee and operate trust administration services.

As he settled back in his leather chair he realized the view was even better now…

More and more investment managers are exploring the tax-friendly advantages of South Dakota.

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Board of Directors
Dacotah Banks, Inc.
Aberdeen, South Dakota

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Dacotah Banks, Inc. and subsidiary, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dacotah Banks, Inc. and subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have also examined, in accordance with the attestation standards established by the American Institute of Certified Public Accountants, Dacotah Bank, Inc.'s internal control over financial reporting as of December 31, 2015, based on the criteria established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 11, 2016, expressed an unqualified opinion.

Eide Bailly LLP

Aberdeen, South Dakota
March 11, 2016

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Consolidated Balance Sheets

DECEMBER 31, 2015 AND 2014
(Dollar Amounts in Thousands)

	2015	2014
ASSETS		
Cash and cash equivalents		
Cash due from banks	**$ 57,047**	$ 66,006
Interest-bearing deposits in bank	**25,700**	21,800
Total cash and cash equivalents	**82,747**	87,806
Time deposits in banks	**11,184**	6,893
Securities	**290,123**	294,582
Loans held for sale	**1,093**	–
Loans, net of allowance for loan and lease losses	**1,720,922**	1,657,916
Interest receivable	**20,952**	18,755
Premises and equipment, net	**46,152**	46,520
Foreclosed assets	**1,048**	1,658
Investment in life insurance contracts	**36,923**	36,549
Deferred income tax asset	**13,158**	11,742
Goodwill	**6,415**	6,415
Intangible assets	**1,985**	2,512
Other assets	**1,588**	1,453
Total assets	**$ 2,234,290**	$ 2,172,801
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	**$ 1,926,890**	$ 1,890,339
Borrowings	**44,000**	37,000
Interest payable	**2,452**	2,462
Accrued expenses and other liabilities	**19,940**	18,927
Total liabilities	**1,993,282**	1,948,728
STOCKHOLDERS' EQUITY		
Common stock, $4 par value; 5,000,000 shares authorized, 1,428,598 shares issued and outstanding	**5,714**	5,714
Capital surplus	**12,540**	12,016
Retained earnings	**239,202**	221,946
Accumulated other comprehensive income	**(224)**	(291)
Treasury stock, 321,206 shares in 2015 and 319,602 shares in 2014, at cost	**(16,224)**	(15,312)
Total stockholders' equity	**241,008**	224,073
Total liabilities and stockholders' equity	**$ 2,234,290**	$ 2,172,801

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollar Amounts in Thousands Except Per Share Data)

	2015	2014
INTEREST INCOME		
Loans	$ 83,435	$ 79,339
Securities		
Taxable	3,577	3,547
Exempt from federal income taxes	1,076	1,016
Deposits in banks	123	114
Federal funds sold	70	86
	88,281	84,102
INTEREST EXPENSE		
Deposits	6,119	6,610
Borrowings	909	612
	7,028	7,222
NET INTEREST INCOME	81,253	76,880
PROVISION FOR LOAN AND LEASE LOSSES	2,700	4,050
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	78,553	72,830
NON-INTEREST INCOME		
Income from fiduciary activities	1,748	1,793
Service charges on deposit accounts	3,594	3,752
Insurance commissions	4,473	4,383
Fees on sale of residential mortgages	970	960
Other income	6,060	5,971
	16,845	16,859
NON-INTEREST EXPENSES		
Salaries and employee benefits	40,106	38,424
Occupancy, net	4,750	4,641
Furniture and equipment	2,167	2,163
FDIC assessment	1,243	1,321
Other expenses	13,551	14,022
	61,817	60,571
INCOME BEFORE INCOME TAXES	33,581	29,118
INCOME TAX EXPENSE	12,337	10,527
NET INCOME	$ 21,244	$ 18,591
PER SHARE OF COMMON STOCK		
Net income – basic	$ 19.17	$ 16.57
Cash dividends declared	$ 3.60	$ 3.50

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

	2015	2014
NET INCOME	**$ 21,244**	$ 18,591
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period	**102**	1,679
Tax (expense) benefit	**(35)**	(596)
Other comprehensive income	**67**	1,083
Comprehensive Income	**$ 21,311**	$ 19,674

Consolidated Statements of Stockholders' Equity

YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollar Amounts in Thousands)

	Total	Common Stock	Capital Surplus
BALANCE, DECEMBER 31, 2013	$ 211,736	$ 5,714	$ 11,545
Net income	18,591	–	–
Other comprehensive income	1,083	–	–
Executive incentive stock awards	182	–	143
Purchase of treasury stock, net	(3,589)	–	328
Cash dividend declared, $3.50 per share	(3,930)	–	–
BALANCE, DECEMBER 31, 2014	224,073	5,714	12,016
Net income	21,244	–	–
Other comprehensive income	67	–	–
Purchase of treasury stock, net	(388)	–	524
Cash dividend declared, $3.60 per share	(3,988)	–	–
BALANCE, DECEMBER 31, 2015	$ 241,008	$ 5,714	$ 12,540

See Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity (continued)

Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Shares Common	Shares Treasury
$ 207,285	$ (1,374)	$ (11,434)	1,429	306
18,591	–	–	–	–
–	1,083	–	–	–
–	–	39	–	(1)
–	–	(3,917)	–	15
(3,930)	–	–	–	–
221,946	(291)	(15,312)	1,429	320
21,244	–	–	–	–
–	67	–	–	–
–	–	(912)	–	1
(3,988)	–	–	–	–
$ 239,202	$ (224)	$ (16,224)	1,429	321

Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollar Amounts in Thousands)

	2015	2014
OPERATING ACTIVITIES		
Net income	**$ 21,244**	$ 18,591
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan and lease losses	**2,700**	4,050
Depreciation and amortization	**5,425**	6,361
Executive incentive stock awards	**-**	182
Benefit from deferred income taxes	**(1,453)**	(2,178)
Loss on sale of premises and equipment and foreclosed assets	**212**	136
Increase in investment in life insurance contracts	**(566)**	(1,139)
(Increase) decrease in loans held for sale	**(1,093)**	866
Increase in interest receivable	**(2,197)**	(945)
Increase in other assets, net	**(135)**	(184)
Decrease in interest payable	**(10)**	(910)
Increase in accrued expenses and other liabilities	**1,013**	3,445
Net cash from operating activities	**25,140**	28,275
INVESTING ACTIVITIES		
Proceeds from maturities and calls of securities available for sale, interest-bearing deposits with banks and federal funds sold	**111,341**	165,280
Purchases of securities available for sale and interest-bearing deposits with banks	**(112,023)**	(123,145)
Net increase in loans	**(66,658)**	(122,865)
Proceeds from sale of premises and equipment	**37**	44
Purchases of premises and equipment	**(3,553)**	(4,909)
Proceeds from sale of foreclosed assets	**1,384**	1,905
Purchase of intangible asset	**(94)**	-
Proceeds from death benefit of bank owned life insurance	**192**	-
Net cash used by investing activities	**(69,374)**	(83,690)
FINANCING ACTIVITIES		
Increase in non-interest-bearing deposits, net	**21,017**	39,922
Increase in interest-bearing deposits, net	**28,940**	64,355
Decrease in certificates of deposits, net	**(13,406)**	(74,170)
Repayments of borrowings	**(3,000)**	(3,000)
Advances of borrowings	**10,000**	20,000
Purchase of treasury stock, net	**(388)**	(3,589)
Dividends paid to stockholders	**(3,988)**	(3,930)
Net cash from financing activities	**39,175**	39,588
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(5,059)**	(15,827)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**87,806**	103,633
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 82,747**	$ 87,806

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows (continued)

Supplemental disclosures of cash flow information:

	2015	2014
Cash payments for:		
Interest	**$ 7,038**	$ 8,132
Income taxes	**14,927**	11,875

Supplemental schedule of non-cash investing and financing activities:

	2015	2014
Other real estate acquired in settlement of loans	**$ 952**	$ 457

Notes to Consolidated Financial Statements

NOTE 1 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Principal Business Activity

Dacotah Banks, Inc. (Company) is the parent holding company of Dacotah Bank which provides a full range of banking services to individuals and businesses through its market locations in Aberdeen, Brookings, Clark, Faulkton, Lemmon, Mobridge, Rapid City, Sioux Falls, Sisseton, Watertown, and Webster, South Dakota, and Dickinson, Jamestown, Minot, Rolla, and Valley City, North Dakota, and Morris, Minnesota. Trust services are provided to individuals and businesses throughout the Bank's footprint and general insurance operations are conducted in fifteen of the thirty-four locations. The Company's primary deposit products are demand deposits and certificates of deposit, and its primary lending products are commercial, agricultural, real estate mortgage, and consumer loans.

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary bank. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company and subsidiary bank employ, in all material respects, similar accounting policies.

Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan and lease losses.

Significant Group Concentrations of Credit Risk

Most of the Company's loans are with customers primarily located in Minnesota, North Dakota, and South Dakota. Concentrations of credit are present in the agricultural and commercial sectors. Due to the significant economic impact of these sectors on the markets served by the Company, all loans, regardless of type, are impacted when significant events occur within these industry sectors. Loans for agricultural purposes comprised approximately 47% and 46% of total loans as of December 31, 2015 and 2014. Loans for commercial purposes, including commercial real estate, comprised approximately 42% and 43% of total loans as of December 31, 2015 and 2014.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash and balances due from banks, federal funds sold and interest-bearing deposits in banks, all of which have original maturities of three months or less.

Time Deposits in Banks

Interest-bearing deposits in banks that are not classified as cash and cash equivalents mature within five years and are carried at cost.

Securities

The Company's securities are all classified and accounted for as securities available for sale. Securities classified as available for sale are those debt securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Securities available for sale are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains or losses on the sale and calls of securities are recorded on the trade date and are determined using the specific identification method.

The Company is required to hold Federal Reserve Bank stock in order to be a member of the Federal Reserve Bank System and, because of its borrowing arrangement with the Federal Home Loan Bank; the Company is required to own Federal Home Loan Bank stock. Since ownership in these institutions is restricted, these securities are carried at cost and evaluated periodically for impairment.

Notes to Consolidated Financial Statements (continued)

The Company adheres to required recognition and presentation of other-than-temporary impairment. The guidance specifies that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Fair Value Measurements

The Company determined the fair value of certain assets in accordance with a framework for measuring fair value under generally accepted accounting principles.

Fair value is defined as the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset. Level 3 inputs are unobservable inputs related to the asset.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans

Loans are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan and lease losses, and unearned discount.

Interest income is accrued on the unpaid principal balance. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Past due status is based on contractual terms of the loan. Loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All current year interest accrued but not collected for loans that are placed on non-accrual or charged-off is reversed against interest income. All prior year interest accrued but not collected is charged-off against the allowance for loan and lease losses. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The Company has determined that the accounting for nonrefundable fees and costs associated with originating or acquiring loans does not have a material effect on their financial statements. As such, these fees and costs have been recognized during the period they are collected and incurred, respectively.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses, ALLL, is established and maintained by a provision for loan and lease losses against the Company's earnings. The ALLL is an estimate of uncollectible amounts used to reduce the carrying value of loans and leases to the amount that is expected to be collected. In accordance with generally accepted accounting principles Dacotah Bank maintains a prudent, conservative, but not excessive, allowance for loan and lease losses. Loan and lease losses are charged against the ALLL when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the ALLL.

Dacotah Bank has designed and implemented an ALLL methodology and system to reasonably estimate its loan and lease losses as of each quarter and year-end. The determination of the amounts of the ALLL and provisions for loan and lease losses are based on management's current judgments about the credit quality of the loan portfolio, and consider all known relevant internal and external factors that affect loan collectability as of the reporting date. Losses are charged-off in the period in which loans or portions thereof are determined to be uncollectible.

Notes to Consolidated Financial Statements (continued)

ALLL estimates are based on a comprehensive, well-documented, and consistently applied analysis of the loan portfolio. An appropriate ALLL covers estimated credit losses on individually evaluated loans that are determined to be impaired as well as estimated credit losses inherent in the remainder of the loan and lease portfolio. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

To account for loans and the ALLL required, Dacotah Bank has separated loans into two distinct groups. Named after the accounting principles that prescribe them, Dacotah Bank measures individually-impaired loans according to Accounting Standards Codification (ASC) Subtopic 310-40 (Formally FAS 114). Those loans not considered to be impaired are measured using ASC Subtopic 450-20 (Formally FAS 5).

In general, loans are impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due, both principal and interest, according to the contractual terms of the original loan agreement.

Individually impaired loans have risk characteristics that are unique to the individual borrower and the Company applies measurement methods on a loan-by-loan basis. For loans that are individually evaluated and determined to be impaired, estimates reflect one of three measurement methods as of the evaluation date: (1) the present value of expected future cash flows discounted at the loan's effective interest rate, (2) the loan's observable market price, or (3) the fair value of the collateral if the loan is collateral dependent.

The Company groups non-impaired loans into homogenous groups based on similar risk characteristics using the loan groups established in the Call Report.

Quantitative factors, in the form of historical loss rates, are applied to each of the loan groups based on a 20-quarter, equally-weighted trailing average of net charge-offs. The most recent quarterly data included in the 20-quarter pool is the prior quarter's Call Report information.

Qualitative Factors, or "environmental factors," are utilized to provide an incurred loss method estimate based on management's subjective input. Environmental factors are used to reflect changes in the collectability of the portfolio not captured by the historical loss data. These factors augment actual loss experience and help to estimate the probability of loss within a loan portfolio based upon emerging or inherent risk trends.

Dacotah Bank uses the nine factors outlined in the 2006 Interagency Guidance for the allowance for loan and lease losses. Changes to any qualitative factor are the result of input provided by market staff, Credit Administration or management.

Management has determined that the development of well-supported and appropriate environmental factors for homogenous loan pools when determining the ALLL requires 1) meaningful and thoughtful consideration of all of the environmental factors to which a particular portfolio is currently vulnerable, 2) the ability to segment the loan portfolio into pools that behave similarly under certain economic conditions, 3) the development of supportable values for all environmental factors, and 4) the ability to fully understand the fundamental behaviors and underlying risk of each portfolio sector.

Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Notes to Consolidated Financial Statements (continued)

Investment in Life Insurance Contracts

Investment in life insurance contracts is stated at cash surrender value of various insurance policies. The income of the investment is included in non-interest income. The life insurance policies are intended to provide funding for salary continuation contracts for executive officers of the Company and its subsidiary.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation for buildings and improvements is provided generally by the straight-line method based on estimated useful lives of 10 to 50 years. Depreciation for furniture, fixtures and equipment is provided generally by the double-declining balance method based on estimated useful lives of five to seven years.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of the unrecovered loan balance or fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Goodwill and Other Intangible Assets

Intangible assets consist of goodwill and core deposits associated with the acquisition of banks and insurance agencies. Goodwill is not subject to amortization. Core deposits are amortized on an accelerated basis over 5 to 15 years. The Company assesses goodwill for impairment annually, and more frequently in certain circumstances. Goodwill is assessed for impairment on a reporting unit level by applying a fair-value-based test using discounted estimated future net cash flows. Impairment exists when the carrying amount of the goodwill exceeds its implied fair value.

Income Taxes

The Company and its subsidiary file a consolidated federal income tax return. The Company files separate state income tax returns. It is the policy of the Company to allocate federal income taxes or credits to each subsidiary on the basis of the subsidiary's taxable income or loss included in the consolidated return.

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

Notes to Consolidated Financial Statements (continued)

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs was approximately $1,050 and $1,120 for the years ended December 31, 2015 and 2014.

Comprehensive Income

The Company recognizes and includes revenue, expenses, gains and losses in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Earnings per Common Share

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period.

Earnings per common share have been computed based on the following:

	2015	2014
Average number of common shares outstanding (in thousands)	1,108	1,122

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on net income or stockholders' equity.

Subsequent Events

The Company has evaluated subsequent events through the date of the independent auditor's report which is the date the financial statements were available to be issued.

Notes to Consolidated Financial Statements (continued)

NOTE 2 – RESTRICTION ON CASH AND DUE FROM BANKS

Based on the type and amount of deposits received, the Company must maintain an appropriate amount of noninterest bearing cash balances in accordance with Federal Reserve Bank reserve requirements. The total of those reserve requirements was satisfied with vault cash.

NOTE 3 - SECURITIES

Debt and equity securities have been classified in the consolidated balance sheet according to management's intent. The carrying amounts of securities as of December 31, 2015 and 2014 consist of the following:

	2015	2014
Securities available for sale, at fair value	**$ 277,832**	$ 282,912
Investments in government corporations, at cost	**12,291**	11,670
	$ 290,123	$ 294,582

The amortized cost and fair value of securities available for sale with gross unrealized gains and losses are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2015				
Securities Available For Sale				
U.S. Government and Federal Agency	**$ 145,317**	**$ 169**	**$ 723**	**$ 144,763**
State and Municipal	**63,312**	**312**	**56**	**63,568**
Mortgage-Backed	**67,274**	**373**	**426**	**67,221**
Other	**2,280**	**-**	**-**	**2,280**
	$ 278,183	**$ 854**	**$ 1,205**	**$ 277,832**
DECEMBER 31, 2014				
Securities Available For Sale				
U.S. Government and Federal Agency	$ 169,939	$ 113	$ 1,197	$ 168,855
State and Municipal	51,825	334	61	52,098
Mortgage-Backed	60,429	606	248	60,787
Other	1,172	-	-	1,172
	$ 283,365	$ 1,053	$ 1,506	$ 282,912

Notes to Consolidated Financial Statements (continued)

Investment securities with a carrying value of $194,389 and $185,168 as of December 31, 2015 and 2014, respectively, were pledged to secure public deposits and for other purposes required by law.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2015 follows:

	Amortized Cost	Fair Value
Within one year	$ 13,632	$ 13,643
Over one through five years	220,065	219,772
Over five through ten years	36,826	36,720
Over ten years	7,660	7,697
	$ 278,183	$ 277,832

Mortgage-backed obligation are included in the preceding table based on management's estimates of remaining life, after considering prepayments.

There were no sales of securities during 2015 and 2014.

Information pertaining to securities with gross unrealized losses at December 31, 2015 and 2014 aggregated by investment category and length of time that individual securities have been in a continuing loss position follows:

	Less Than Twelve Months		**Over Twelve Months**	
	Gross Unrealized Losses	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**
DECEMBER 31, 2015				
Securities available for sale				
U.S. Government and Federal Agency	**$ 567**	**$ 94,136**	**$ 156**	**$ 11,842**
State and Municipal	**44**	**15,181**	**12**	**1,974**
Mortgage-Backed	**285**	**34,818**	**141**	**6,398**
	$ 896	**$ 144,135**	**$ 309**	**$ 20,214**

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
DECEMBER 31, 2014				
Securities available for sale				
U.S. Government and Federal Agency	$ 244	$ 72,290	$ 953	$ 61,274
State and Municipal	51	12,216	10	1,246
Mortgage-Backed	64	17,858	184	8,021
	$ 359	$ 102,364	$ 1,147	$ 70,541

Notes to Consolidated Financial Statements (continued)

At December 31, 2015 and 2014, no securities had unrealized losses with aggregate depreciation of 5% or more from the Company's amortized cost basis caused by interest rate changes. In analyzing an issuer's financial condition, management considers whether the securities are issued by federal, state and municipal governments or their agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired.

NOTE 4 - LOANS

A summary of the balances of loans follows:	**2015**	2014
Commercial	**$ 241,824**	$ 256,077
Commercial real estate	**489,250**	466,532
Agricultural	**829,213**	772,596
Residential real estate	**126,042**	128,180
Consumer	**61,360**	58,770
Total loans	**1,747,689**	1,682,155
Allowance for loan and lease losses	**(26,667)**	(24,059)
Accretable yield discount	**(37)**	(70)
Credit quality discount	**(63)**	(110)
Total loans, net	**$ 1,720,922**	$ 1,657,916

Commercial and agricultural lending are the primary lending activities of the Company as evidenced by the fact that 89% of the portfolio is comprised of the same. While the Company's philosophy is to provide this credit on a secured basis, the primary driver of repayment is cash flow.

The Company has maintained a diversified loan portfolio. At December 31, 2015 and 2014, there were no customer loan concentrations that exceeded 1.5% of total loans. However, a substantial portion of the Company's customers' ability to honor their loan agreements is influenced by the agricultural economy in the Company's rural markets and the commercial economy in the more populated markets such as Aberdeen, Rapid City, and Sioux Falls, South Dakota and Dickinson, Minot, and Valley City, North Dakota.

Total loans to directors, executive officers and principal stockholders of the Company's common stock including their affiliates were $12,719 and $10,930 at December 31, 2015 and 2014. Management believes that such loans were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral as those prevailing at the same time for comparable transactions with other customers and do not represent more than a normal risk of collection.

Included in loans are overdrafts of $1,678 and $1,628 as of December 31, 2015 and 2014.

Changes in the allowance for loan and lease losses are as follows:	**2015**	2014
Balance, beginning of year	**$ 24,059**	$ 21,270
Provision for loan and lease losses	**2,700**	4,050
Loans charged off	**(1,327)**	(1,688)
Recoveries	**1,235**	427
Balance, end of year	**$ 26,667**	$ 24,059

Notes to Consolidated Financial Statements (continued)

The following tables present the activity in the allowance for loan and lease losses for the years ended December 31, 2015 and 2014 and the recorded investments in loans and impairment methods as of December 31, 2015 and 2014 by portfolio segment.

DECEMBER 31, 2015	Commercial	Commercial Real Estate	Agricultural	Residential Real Estate	Consumer	Total
Allowance for Loan and Lease Losses						
Balance, beginning of year	$ 5,808	$ 8,358	$ 7,498	$ 921	$ 1,474	$ 24,059
Provision for loan and lease losses	(1,044)	(2,762)	5,458	1,277	(229)	2,700
Loans charged off	(857)	(18)	(93)	(94)	(265)	(1,327)
Recoveries	893	1	230	27	84	1,235
Balance, end of year	$ 4,800	$ 5,579	$ 13,093	$ 2,131	$ 1,064	$ 26,667
Individually evaluated for impairment	$ 2,716	$ 802	$ 2,227	$ 708	$ 386	$ 6,839
Collectively evaluated for impairment	2,084	4,777	10,866	1,423	678	19,828
Balance, end of year	$ 4,800	$ 5,579	$ 13,093	$ 2,131	$ 1,064	$ 26,667
Loans						
Individually evaluated for impairment	$ 12,710	$ 13,729	$ 79,725	$ 6,178	$ 695	$ 113,037
Collectively evaluated for impairment	229,114	475,521	749,488	119,864	60,665	1,634,652
Balance, end of year	$ 241,824	$ 489,250	$ 829,213	$ 126,042	$ 61,360	$ 1,747,689

Notes to Consolidated Financial Statements (continued)

DECEMBER 31, 2014	Commercial	Commercial Real Estate	Agricultural	Residential Real Estate	Consumer	Total
Allowance for Loan and Lease Losses						
Balance, beginning of year	$ 5,602	$ 7,146	$ 4,867	$ 2,397	$ 1,258	$ 21,270
Provision for loan and lease losses	658	1,531	2,999	(1,507)	369	4,050
Loans charged off	(656)	(322)	(406)	(78)	(226)	(1,688)
Recoveries	204	3	38	109	73	427
Balance, end of year	$ 5,808	$ 8,358	$ 7,498	$ 921	$ 1,474	$ 24,059
Individually evaluated for impairment	$ 2,340	$ 1,393	$ 1,953	$ 357	$ 439	$ 6,482
Collectively evaluated for impairment	3,468	6,965	5,545	564	1,035	17,577
Balance, end of year	$ 5,808	$ 8,358	$ 7,498	$ 921	$ 1,474	$ 24,059
Loans						
Individually evaluated for impairment	$ 8,080	$ 13,742	$ 41,268	$ 2,008	$ 698	$ 65,796
Collectively evaluated for impairment	247,997	452,790	731,328	126,172	58,072	1,616,359
Balance, end of year	$ 256,077	$ 466,532	$ 772,596	$ 128,180	$ 58,770	$ 1,682,155

Credit Quality Indicators

The Company maintains a risk rating system designed and implemented to assist the loan officers, management, and Board of Directors in measuring asset quality. A key element in the analysis of credit risk and associated portfolio management is the assignment of the appropriate risk rating grade. The risk rating as assigned, determines the level of credit approval authority required, the degree of monitoring expected, and important information pursuant to the management of the portfolio. Individual loan grades shall be assigned to commercial, commercial real estate, agricultural, and other loan types in accordance with the Company's loan rating system. These loans shall be evaluated on a case-by-case basis pursuant to the Company's underwriting principles and the borrower's ongoing performance. Risk rating grades shall thereon be assigned in accordance with the likelihood of default and loss associated with the loan. Consumer (installment and residential real estate) loans shall not be reviewed on a case-by-case basis; rather, assigned a pass grade (4) in the absence of detrimental criteria negatively affecting the credit.

The risk rating system utilizes a "dual" loan grading system that first grades individual credits based on the objective/financial performance compared to RMA industry standard data. Metrics used vary within different sectors (agriculture, commercial & industrial, commercial real estate, etc.) and NAICS classifications. The second set of components of all loan grades are subjective adjustments.

Notes to Consolidated Financial Statements (continued)

The Company's risk ratings range from Grade 1 (extremely low risk) to Grade 9 (Loss).

1 – 4 Pass Rated: *These grades represent desirable credit quality and include ratings of Superior Quality, Excellent Quality, Good Quality, and Satisfactory Quality.*

5 – Pass/Watch: *Mid-grade loans showing average financial condition but may be susceptible to changing economic conditions that would raise risk to a minor concern. Normal comfort levels can be achieved through monitoring financial statements & collateral coverage.*

6 – Special Mention: *Loans that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.*

7 – Substandard: *Loans inadequately protected by the current sound worth and paying capacity of the obligor or the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.*

8 – Doubtful: *Loans classified Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.*

9 – Loss: *Loans classified Loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.*

Based on the most recent analysis performed, the risk category of loans by portfolio segment as of December 31, 2015 and 2014 was as follows:

Credit risk profile by internally assigned grade – Commercial, Commercial Real Estate and Agricultural

	Pass Pass/Watch	Special Mention	Substandard	Doubtful	Total
DECEMBER 31, 2015					
Commercial	$ 213,579	$ 17,312	$ 10,926	$ 7	$ 241,824
Commercial Real Estate	442,050	34,065	13,135	-	489,250
Agricultural	623,277	130,690	75,246	-	829,213
	$ 1,278,906	$ 182,067	$ 99,307	$ 7	$ 1,560,287

	Pass Pass/Watch	Special Mention	Substandard	Doubtful	Total
DECEMBER 31, 2014					
Commercial	$ 237,774	$ 13,095	$ 5,041	$ 167	$ 256,077
Commercial Real Estate	435,843	24,969	5,720	-	466,532
Agricultural	695,262	52,338	24,988	8	772,596
	$ 1,368,879	$ 90,402	$ 35,749	$ 175	$ 1,495,205

Notes to Consolidated Financial Statements (continued)

Credit risk profile by class based on payment activity – Residential Real Estate and Consumer

Residential real estate and consumer loans are managed on a pool basis due to their homogeneous nature. Loans that are delinquent 90 days or more or are not accruing interest are considered nonperforming. The following tables present the recorded investments in residential real estate and consumer loans based on payment activity as of December 31, 2015 and 2014:

	Performing	Non-performing	Total
DECEMBER 31, 2015			
Residential Real Estate	$ 124,366	$ 1,676	$ 126,042
Consumer	60,981	379	61,360
	$ 185,347	$ 2,055	$ 187,402

	Performing	Non-performing	Total
DECEMBER 31, 2014			
Residential Real Estate	$ 126,789	$ 1,391	$ 128,180
Consumer	58,302	468	58,770
	$ 185,091	$ 1,859	$ 186,950

The following tables summarize the aging of the past due loans by portfolio segment as of December 31, 2015 and 2014:

	Still Accruing		
DECEMBER 31, 2015	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual Balance
Commercial	$ 3,734	$ 13	$ 2,177
Commercial Real Estate	956	-	4,879
Agricultural	1,501	1,761	3,619
Residential Real Estate	2,110	101	1,575
Consumer	643	19	359
Total	$ 8,944	$ 1,894	$ 12,609

	Still Accruing		
DECEMBER 31, 2014	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual Balance
Commercial	$ 1,290	$ -	$ 2,507
Commercial Real Estate	336	1,300	3,218
Agricultural	1,492	399	1,831
Residential Real Estate	684	127	1,264
Consumer	497	1	467
Total	$ 4,299	$ 1,827	$ 9,287

Notes to Consolidated Financial Statements (continued)

The following table summarizes individually impaired loans by portfolio sement as of December 31, 2015 and 2014:

DECEMBER 31, 2015	Recorded Investment	Unpaid Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial	$ 3,329	$ 3,329	$ -	$ 2,196	$ 191
Commercial Real Estate	9,246	9,246	-	5,929	410
Agricultural	53,445	53,445	-	51,177	2,026
Residental Real Estate	3,692	3,692	-	3,598	191
Consumer	17	17	-	19	1
	$ 69,729	$ 69,729	$ -	$ 62,919	$ 2,819

DECEMBER 31, 2015	Recorded Investment	Unpaid Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded					
Commercial	$ 9,381	$ 9,381	$ 2,716	$ 6,188	$ 347
Commercial Real Estate	4,483	4,483	802	2,875	277
Agricultural	26,280	26,280	2,227	25,165	851
Residental Real Estate	2,486	2,486	708	2,422	110
Consumer	678	678	386	746	45
	$ 43,308	$ 43,308	$ 6,839	$ 37,396	$ 1,630

(1) Represents the borrower's loan obligation, gross of any previously charged-off amounts.

DECEMBER 31, 2014	Recorded Investment	Unpaid Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial	$ 2,017	$ 2,017	$ -	$ 2,166	$ -
Commercial Real Estate	4,836	4,836	-	5,228	-
Agricultural	28,672	28,672	-	28,651	-
Residental Real Estate	2,852	2,852	-	2,702	-
Consumer	20	20	-	75	-
	$ 38,397	$ 38,397	$ -	$ 38,822	$ -

DECEMBER 31, 2014	Recorded Investment	Unpaid Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded					
Commercial	$ 6,063	$ 6,099	$ 2,340	$ 5,964	$ -
Commercial Real Estate	4,991	4,991	854	5,079	-
Agricultural	12,596	12,596	1,953	5,830	-
Residental Real Estate	3,071	3,071	895	3,662	-
Consumer	678	678	440	540	-
	$ 27,399	$ 27,435	$ 6,482	$ 21,075	$ -

Notes to Consolidated Financial Statements (continued)

The following table represents the effects of the troubled debt restructurings during the years ended December 31, 2015 and 2014. The loans were added due to extension of maturity, a reduction of the stated interest rate or a permanent reduction of the recorded investment in the loan.

During 2015 all additions to trouble debt restructuring were due to extended maturity date and other structural changes resulting in reduced payments.

During 2014 one residential real estate loan was added as troubled debt restructurings due to interest rate reduction below market rate and all other additions were due to extended maturity date and other structural changes resulting in reduced payments.

			Allowance for Loan and Lease Losses	
December 31, 2015	**Number of Modifications**	**Unpaid Principal Balance**	**Prior to Modification**	**At Year End**
Troubled debt restructurings				
Commercial Business	5	$ 1,239	$ 526	$ 507
Commercial Real Estate	2	280	119	100
Agricultural	25	10,011	213	124
Residential Real Estate	2	274	9	5
	34	$ 11,804	$ 867	$ 736
Troubled debt restructurings that subsequently defaulted				
Commercial Business	2	$ 584	$ 221	$ 206
Commercial Real Estate	1	488	–	–
Agricultural	2	411	76	47
Residential Real Estate	2	115	15	–

			Allowance for Loan and Lease Losses	
December 31, 2014	**Number of Modifications**	**Unpaid Principal Balance**	**Prior to Modification**	**At Year End**
Troubled debt restructurings				
Commercial Business	2	$ 174	$ 99	$ 99
Commercial Real Estate	1	90	–	–
Agricultural	6	3,423	37	39
Residential Real Estate	1	69	21	48
	10	$ 3,756	$ 157	$ 186
Troubled debt restructurings that subsequently defaulted				
Commercial Business	1	$ 27	$ 27	$ 27
Residential Real Estate	1	86	12	12

There are no commitments to lend additional funds to borrowers owing loans whose terms have been modified in troubled debt restructurings as of December 31, 2015.

Notes to Consolidated Financial Statements (continued)

NOTE 5 - PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment follows:

	2015	2014
Land	**$ 7,134**	$ 7,085
Buildings and improvements	**64,574**	62,467
Furniture, fixtures and equipment	**23,209**	22,950
	94,917	92,502
Accumulated depreciation and amortization	**(48,765)**	(45,982)
	$ 46,152	$ 46,520

Depreciation and amortization charged to occupancy and furniture and equipment expense in the consolidated statements of income amounted to $3,850 in 2015 and $3,925 in 2014.

NOTE 6- GOODWILL AND INTANGIBLE ASSETS

The summary of the net carrying amount of the intangible assets as of December 31, 2015 and 2014 follows:

	2015	2014
Core deposit intangible	**$ 4,409**	$ 4,409
Accumulated amortization	**3,346**	2,877
	1,063	1,532
Insurance files	**2,098**	2,004
Accumulated amortization	**1,176**	1,024
	922	980
Goodwill	**6,744**	6,744
Accumulated amortization	**329**	329
	6,415	6,415
	$ 8,400	$ 8,927

There were no impairment losses related to the intangible assets during the years ended December 31, 2015 and 2014. Impairment testing is performed annually on goodwill. If certain factors become present that could lead to impairment of core deposit intangible and insurance files, impairment testing will be performed at that time. Amortization expense for intangible assets was $621 and $754 for the years ended December 31, 2015 and 2014.

At December 31, 2015, the estimated amortization expense for intangible assets for the succeeding five years is as follows:

2016	$ 467
2017	331
2018	279
2019	281
2020	275

Notes to Consolidated Financial Statements (continued)

NOTE 7 - DEPOSITS

A summary of the balances of deposits follows:

	2015	2014
Demand	**$ 541,891**	$ 520,874
Interest checking	**294,186**	278,070
Money market accounts	**351,697**	341,741
Dacotah Gold money market accounts	**244,420**	241,552
Time, $250,000 and over	**73,065**	69,046
Other time	**421,631**	439,056
	$ 1,926,890	$ 1,890,339

At December 31, 2015, the scheduled maturities of certificates of deposit were as follows:

2016	$ 257,750
2017	108,422
2018	60,297
2019	29,422
2020	38,805
Thereafter	-
	$ 494,696

NOTE 8 - BORROWINGS

Borrowings consist of Federal Home Loan advances totaling $44,000 and $37,000 as of December 31, 2015 and 2014. The contractual maturities of the borrowings are as follows: 2016 - $6,000; 2017 - $6,000; 2018 - $7,000; 2019 - $10,000; 2020 - $5,000; 2021 - $5,000; 2022 - $5,000.

The Federal Home Loan Bank (FHLB) advances outstanding at December 31, 2015, mature from November 2016 through September 2022. All advances have fixed rate interest, ranging from 0.84% to 5.50%. The Company maintains a collateral pledge agreement with the Federal Home Loan Bank of Des Moines covering secured advances whereby the Company has agreed to retain, free of all other pledges, liens, and encumbrances, agricultural, residential, and commercial real estate loans totaling $518,453 and $510,070 as of December 31, 2015 and 2014. The pledged loans are discounted at a factor of 135% to 200% when aggregating the amount of loans required by the pledge agreement. In addition, these borrowings are collateralized by Federal Home Loan Bank stock of $9,805 and $9,184 as of December 31, 2015 and 2014. The net excess of pledged collateral over the outstanding indebtedness was $207,611 as of December 31, 2015.

As of December 31, 2015and 2014, the Company pledged loans totaling $82,018 and $84,878 for an available borrowing line of $70,562 and $71,963 under the Federal Reserve Bank's Borrower in Custody (BIC) program.

The Company also had an unsecured federal funds purchased borrowing capacity of $75,000 at December 31, 2015 and 2014, respectively.

NOTE 9 – EMPLOYEE BENEFIT PLANS

The Dacotah Banks, Inc. 401(k) Savings Plan covers substantially all employees of the Company and its subsidiary. Contributions to this defined contribution plan are based on percentages of eligible employee salaries. Amounts contributed under the plan shall not exceed the maximum amounts deductible for federal income tax purposes. Charges to employee benefits expense for the plan in the consolidated statements of income amounted to $2,074 in 2015 and $2,000 in 2014.

Notes to Consolidated Financial Statements (continued)

The Company has salary continuation contracts with executive officers of the Company and its subsidiary. The provision for salary continuation expense amounted to $1,564 and $2,549 in 2015 and 2014. Retirement payments of $439 and $192 were made in 2015 and 2014. The Company has life insurance policies in place to provide funding for these benefits. Cash surrender value of these policies was $36,923 and $36,549 at December 31, 2015 and 2014.

The Dacotah Banks, Inc. 2003 Stock Incentive Plan (the "Stock Plan") authorized the issuance of up to 100,000 common shares for the grant of stock options and several other types of stock-based awards. The Company awarded 1,047 treasury shares in the form of fully vested incentive stock grants to executive officers of the Company in 2014. The fair market value of the stock award was $174 per share for a total of $182 at December 31, 2014. There were 86,728 unissued common shares remaining under the Stock Plan at December 31, 2015 and 2014.

NOTE 10 - INCOME TAXES

Income tax expense for the two years ended December 31, 2015 and 2014 were:

	2015	2014
Current		
Federal	**$ 12,110**	$ 11,157
State	**1,680**	1,548
	13,790	12,705
Deferred		
Federal	**(1,453)**	(2,178)
	$ 12,337	$ 10,527

Deferred income taxes are provided for the temporary differences between the financial reporting and the tax basis of the Company's assets and liabilities. Temporary differences comprising the net deferred income tax asset on the consolidated balance sheet are as follows:

	2015			
	Assets	**Liabilities**	**Total**	2014
Allowance for loan and lease losses	**$ 9,603**	**$ -**	**$ 9,603**	$ 8,644
Property and equipment	**-**	**1,978**	**(1,978)**	(2,134)
Accrued salary continuation provision	**4,812**	**-**	**4,812**	4,397
Unrealized (gain) loss on securities available for sale	**128**	**-**	**128**	163
Other	**654**	**61**	**593**	672
	$ 15,197	**$ 2,039**	**$ 13,158**	$ 11,742

The Company has determined that it is not necessary to establish a valuation reserve for the deferred tax asset since it is more likely than not that the deferred tax asset of $15,197 will be principally realized.

The consolidated effective tax rates are reconciled to the statutory rate as follows:

	2015	2014
Federal statutory income tax rate	**35.0%**	35.0%
State income taxes, net of federal income tax benefit	**3.3**	3.4
Tax-exempt income	**(1.5)**	(1.7)
Non-deductible expenses incidental to business acquisitions	**0.2**	0.2
Other, net	**(0.1)**	(0.7)
	36.7%	36.2%

Notes to Consolidated Financial Statements (continued)

Income taxes payable of $853 and $2,049 is included in accrued expenses and other liabilities at December 31, 2015 and 2014. The Company complies with the accounting standards relating to uncertainty in income taxes. The Company had no unrecognized tax benefits as of December 31, 2015 and 2014. The Company recognized no interest and penalties on the underpayment of income taxes during the years ended December 31, 2015 and 2014, and had no accrued interest and penalties on the balance sheet as of December 31, 2015 and 2014. The Company has no tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase with the next twelve months. The Company's tax returns are subject to examination for the past three years by the Federal and State tax authorities.

NOTE 11 – MINIMUM REGULATORY CAPITAL REQUIREMENTS

In July 2013, the federal banking agencies published final rules (the "Basel III Capital Rules") that revised their risk-based and leverage capital requirements and their method for calculating risk-weighted assets to implement, in part, agreements reached by the Basel Committee and certain provisions of the Dodd-Frank Act. The Basel III Capital Rules apply to the banking organizations, including the Company and the Bank.

In connection with the effective date of Basel III, most banks are required to decide whether to elect to opt-out of the inclusion of Accumulated Other Comprehensive Income ("AOCI") in their Common Equity Tier 1 Capital. This is a one-time election and generally irrevocable. If electing to opt-out, most AOCI items will be treated, for regulatory capital purposes, in the same manner in which they were prior to Basel III. The Company has elected to opt-out of the inclusion.

Among other things, the Basel III Capital Rules: (i) introduce a new capital measure entitled "Common Equity Tier 1" ("CET1"); (ii) specify that tier 1 capital consist of CET1 and additional financial instruments satisfying specified requirements that permit inclusion in tier 1 capital; (iii) define CET1 narrowly by requiring that most deductions or adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions or adjustments from capital as compared to the existing regulations.

A minimum leverage ratio (tier 1capital as a percentage of total assets) of 4.0% is also required under the Basel III Capital Rules (even for highly rated institutions). The Basel III Capital Rules additionally require institutions to retain a capital conservation buffer of 2.5% above these required minimum capital ratio levels. Banking organizations that fail to maintain the minimum 2.5% capital conservation buffer could face restrictions on capital distributions or discretionary bonus payments to executive officers.

The Basel III Capital Rules became effective as applied to the Company and the Bank on January 1, 2015, with a phase in period that generally extends from January 1, 2015 through January 1, 2019.

The Company and the Bank are subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect of the financial statements of the Company and Bank. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of Common Equity Tier 1 Capital ("CET1"), Tier 1 Capital, Total Capital and leverage ratio of Tier 1 Capital. As of January 1, 2015 the requirements are:

- 4.5% based upon CET1
- 6.0% based upon tier 1 capital
- 8.0% based on total regulatory capital
- Leverage ratio of Tier 1 Capital assets equal to 4%

As of December 31, 2015 and 2014, management believes the Company and the Bank met all capital adequacy requirements to which they are subject. As of December 31, 2015, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank's category.

Notes to Consolidated Financial Statements (continued)

The actual capital amounts and ratios for the Company and the Bank are presented in the following table (in thousands):

	Actual		Mininum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions*	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
DECEMBER 31, 2015						
Common Equity Tier 1						
Company	**$ 234,023**	**12.2%**	**>$86,495**	**4.5%**	**N/A**	**N/A**
Bank	**$ 230,065**	**12.0%**	**>$86,198**	**4.5%**	**>$124,508**	**6.5%**
Total Capital (to risk weighted assets)						
Company	**$ 258,082**	**13.4%**	**>$153,770**	**8.0%**	**N/A**	**N/A**
Bank	**$ 254,042**	**13.3%**	**>$153,240**	**8.0%**	**>$191,550**	**10.0%**
Tier I Capital (to risk weighted assets)						
Company	**$ 234,023**	**12.2%**	**>$115,327**	**6.0%**	**N/A**	**N/A**
Bank	**$ 230,065**	**12.0%**	**>$114,930**	**6.0%**	**>$153,240**	**8.0%**
Tier I Capital (to average assets)						
Company	**$ 234,023**	**10.8%**	**>$86,835**	**4.0%**	**N/A**	**N/A**
Bank	**$ 230,065**	**10.6%**	**>$87,004**	**4.0%**	**>$108,755**	**5.0%**
DECEMBER 31, 2014						
Total Capital (to risk weighted assets)						
Company	$ 238,041	13.2%	>$144,791	8.0%	N/A	N/A
Bank	$ 235,681	13.0%	>$145,207	8.0%	>$181,509	10.0%
Tier I Capital (to risk weighted assets)						
Company	$ 215,400	11.9%	>$72,395	4.0%	N/A	N/A
Bank	$ 212,975	11.7%	>$72,603	4.0%	>$108,905	6.0%
Tier I Capital (to average assets)						
Company	$ 215,400	10.2%	>$84,537	4.0%	N/A	N/A
Bank	$ 212,975	10.1%	>$84,322	4.0%	>$105,402	5.0%

*To be well capitalized under prompt corrective acction provisions prior to January 1, 2015; and the new Basel III requirements after January 1, 2015.

NOTE 12 – OPERATING LEASES

The Company leases office space and bank premises under leases classified as operating leases.
Future minimum rental payments required under the above operating leases as of December 31, 2015 are as follows:

2016	$ 157
2017	142
2018	142
2019	142
2020	142
Thereafter	285
	$ 1,010

At the conclusion of the initial term and any succeeding renewal term, these leases will automatically renew for an additional year.
Rent expense for the above leases was as follows:

	2015	2014
Bank premises	**$ 18**	$ 18
Office space	**159**	159
Total	**$ 177**	$ 177

Notes to Consolidated Financial Statements (continued)

NOTE 13 – LITIGATION

The Company and the Bank are defendants in various matters of litigation incidental to their business. In the opinion of management, based upon the opinion of legal counsel, disposition of these matters will not materially affect the consolidated financial position of the Company as of December 31, 2015 and 2014.

NOTE 14 – OFF-BALANCE-SHEET ACTIVITIES

The Company is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest risk in excess of the amount recognized in the balance sheet. The Company's exposure to credit loss is represented by the contractual amount of these instruments. The Company uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2015 and 2014, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2015	2014
Commitments to grant loans	**$ 384,006**	$ 367,135
Standby letters of credit	**12,478**	10,862

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment.

Unfunded commitments under revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral supporting those commitments if deemed necessary.

NOTE 15 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. These techniques are significantly affected by the assumptions used, including the discount rate and estimate of future cash flows. Accordingly the fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. Fair value is a reasonable point within a range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Company groups its financial assets generally measured at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value.

Notes to Consolidated Financial Statements (continued)

- Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2: Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated to observable market data for substantially the full term of the asset or liability.
- Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities may include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level or input that is significant to the fair value measurement.

At December 31, 2015 and 2014, the Company had no liabilities measured at fair value on a recurring basis. The following table sets forth assets measured at fair value on a recurring basis at December 31, 2015 and 2014:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
DECEMBER 31, 2015				
Securities available for sale:				
U.S. Government and federal agency	**$ -**	**$ 144,763**	**$ -**	**$ 144,763**
State and municipal	**-**	**63,568**	**-**	**63,568**
Mortgage-backed	**-**	**67,221**	**-**	**67,221**
Other	**-**	**2,280**	**-**	**2,280**
	$ -	**$ 277,832**	**$ -**	**$ 277,832**
DECEMBER 31, 2014				
Securities available for sale:				
U.S. Government and federal agency	$ -	$ 168,855	$ -	$ 168,855
State and municipal	-	52,098	-	52,098
Mortgage-backed	-	60,787	-	60,787
Other	-	1,172	-	1,172
	$ -	$ 282,912	$ -	$ 282,912

The fair value of available-for-sale securities is estimated based on third-party pricing services information derived from comparison to similar securities traded in active markets.

Under certain circumstances the Company may make adjustments to fair value for assets and liabilities although they are not measured at fair value on an ongoing basis. The Company only had Level 3 financial assets measured at fair value on a nonrecurring basis, which is summarized below:

Notes to Consolidated Financial Statements (continued)

	2015	2014	Valuation Technique	Unobservable Input	2015 Range (Weighted Average)	2014 Range (Weighted Average)
Impaired loans	**$36,469**	$20,917	Collateral Valuation	Discount from Market Value	**0–100%** **16%**	0–100% 9%
Foreclosed assets	**1,048**	1,658	Collateral Valuation	Discount from Market Value	**0–48%** **19%**	0–59% 9%
Total assets	**$37,517**	$22,575				

The specific reserves for collateral-dependent impaired loans are determined based on the fair value of collateral method. Under the fair value of collateral method, the specific reserve is equal to the difference between the carrying value of the loan and the fair value of the collateral less estimated selling costs. When a specific reserve is required for an impaired loan, the impaired loan is essentially measured at fair value. When an estimate of fair value is used for other collateral supporting commercial loans based on an assumption not observable in the marketplace, such valuations have been classified as Level 3.

The fair value of foreclosed assets and collateral was determined based on appraisals with further adjustments made to the appraised values due to various factors, including the age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral. As these significant adjustments are based on unobservable inputs, the resulting fair value measurements have been categorized as Level 3 measurements.

The estimated fair values, and related carrying amounts, of the Company's financial instruments are as follows:

	2015		2014	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Cash and cash equivalents	**$ 82,747**	**$ 82,747**	$ 87,806	$ 87,806
Time deposits in banks	**11,184**	**11,184**	6,893	6,893
Securities available for sale	**277,832**	**277,832**	282,912	282,912
Loans held for sale	**1,093**	**1,093**	–	–
Loans, net	**1,720,922**	**1,725,930**	1,657,916	1,652,012
Interest receivable	**20,952**	**20,952**	18,755	18,755
Investments in life insurance contracts	**36,923**	**36,923**	36,549	36,649
Total financial assets	**$ 2,151,653**	**$ 2,156,661**	$ 2,090,831	$ 2,084,927
Financial Liabilities				
Deposits	**$ 1,926,890**	**$ 1,925,830**	$ 1,890,339	$ 1,890,683
Borrowings	**44,000**	**44,351**	37,000	37,498
Interest payable	**2,452**	**2,452**	2,462	2,462
Total financial liabilities	**$ 1,973,342**	**$ 1,972,633**	$ 1,929,801	$ 1,930,643

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and cash equivalents and time deposits in banks – The carrying amounts approximate fair values.

Securities available for sale – Fair values for securities available for sale are based on third-party pricing services information derived from comparison to similar securities traded in active markets.

Notes to Consolidated Financial Statements (continued)

Loans held for sale – Fair values of loans held for sale are based on commitments on hand from investors or prevailing market prices.

Loans - For all variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for fixed rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Investments in life insurance contracts - The carrying amounts approximate fair value.

Deposits - The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies their marginal cost using wholesale funds rates based on the expected duration of the certificate of deposit.

Borrowings - The fair value of the borrowings is based on the discounted value of the cash flows. The discount rate is estimated using the rates currently offered for fixed rate advances of similar remaining maturities.

Accrued interest - The carrying amounts of accrued interest approximate fair value.

Off-balance-sheet instruments – Fair values of off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The carrying amount and fair value of off-balance sheet instruments is not significant.

NOTE 16- CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

BALANCE SHEETS

	December 31,	
	2015	2014
ASSETS		
Investment in subsidiary bank	**$ 235,880**	$ 220,339
Cash	**1,596**	2,868
Loans	**952**	1,053
Foreclosed assets	**124**	877
Investments in life insurance contracts	**4,301**	1,320
Other assets	**2,761**	2,917
	$ 245,614	$ 229,374
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Other liabilities	**$ 4,606**	$ 5,301
STOCKHOLDERS' EQUITY		
Common stock, $4 par value; 5,000,000 shares authorized, 1,428,598 shares issued and outstanding	**5,714**	5,714
Capital surplus	**12,540**	12,016
Retained earnings	**239,202**	221,946
Accumulated other comprehensive income	**(224)**	(291)
Treasury stock, 321,206 shares in 2015 and 319,602 shares in 2014	**(16,224)**	(15,312)
Total stockholders' equity	**241,008**	224,073
	$ 245,614	$ 229,374

Notes to Consolidated Financial Statements (continued)

INCOME STATEMENTS

	Years Ended December 31, 2015	Years Ended December 31, 2014
Dividend income from subsidiary bank	**$ 5,750**	$ 5,300
Management fees and other income	**2,815**	3,190
Total income	**8,565**	8,490
Salaries and employee benefits expense	**1,827**	2,374
Other expenses	**1,047**	974
Total expenses	**2,874**	3,348
Income before income taxes and equity in undistributed earnings of subsidiary	**5,691**	5,142
Income tax expense	**78**	115
Income before equity in undistributed earnings of subsidiary	**5,769**	5,257
Equity in undistributed earnings of subsidiary	**15,475**	13,334
Net income	**$ 21,244**	$ 18,591

Notes to Consolidated Financial Statements (continued)

STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2015	2014
OPERATING ACTIVITIES		
Net income	**$ 21,244**	$ 18,591
Adjustments to reconcile net income to net cash from operating activities:		
Equity in undistributed earnings of subsidiary, net of cash dividends received	**(18,382)**	(13,334)
Depreciation and amortization	**203**	222
Increase in investment in life insurance contracts	**(73)**	(77)
Loss on sale of foreclosed assets	**115**	-
Executive incentive stock awards	**-**	182
Decrease (increase) in other assets, net	**38**	(250)
(Decrease) increase in other liabilities, net	**(695)**	940
Net Cash From Operating Activities	**2,450**	6,274
INVESTING ACTIVITIES		
Net decrease (increase) in loans	**101**	(153)
Purchases of premises and equipment, net	**(85)**	(176)
Purchases of foreclosed assets	**-**	(877)
Proceeds from sale of foreclosed assets	**638**	-
Net Cash From (Used By) Investing Activities	**654**	(1,206)
FINANCING ACTIVITIES		
Purchase of treasury stock, net	**(388)**	(3,589)
Dividends paid	**(3,988)**	(3,930)
Net Cash Used By Financing Activities	**(4,376)**	(7,519)
NET CHANGE IN CASH	**(1,272)**	(2,451)
CASH, BEGINNING OF YEAR	**2,868**	5,319
CASH, END OF YEAR	**$ 1,596**	$ 2,868

Supplemental disclosures of cash flow information:

	2015	2014
Bank owned life insurance transferred from subsidiary through dividends	**$ 2,908**	$ -

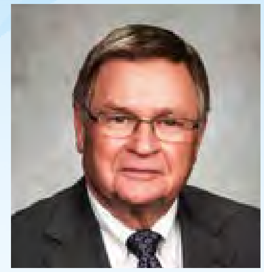
Dacotah Banks, Inc. Directors

Richard L. Westra (2005)*
Chairman of the Board
Aberdeen, SD

Joseph A. Senger (2015)*
President and Chief Executive Officer
Aberdeen, SD

Catherine O. Dutenhoffer (2012)*
Co-owner
Evolution Powersports
Watertown, SD

Kent E. Edson (1996)*
Retired President and Chief Financial Officer
Aberdeen, SD



Rodney W. Fouberg, (1984),*
Retired Chairman, Dacotah Banks, Inc.
Aberdeen, SD

Robert B. Lamont, II (2001)*
Private Investor
Aberdeen, SD

William S. Lamont (1985)*
Planning Consultant
Lamont Associates
Aberdeen, SD

Elizabeth A. Lewis (2014)*
Attorney
Woods, Fuller, Shultz & Smith P.C.
Sioux Falls, SD

Arthur R. Russo (1985)*
Partner
RhodesAnderson Insurance
Aberdeen, SD

Bradford J. Wheeler (1997)*
President
Wheeler Manufacturing, Inc.
Lemmon, SD

Robert J. Fouberg
Secretary

*Year first elected.

Dacotah Banks, Inc. Management

Richard L. Westra
Chairman of the Board

Joseph A. Senger
President and Chief Executive Officer

Robert J. Fouberg
Executive Vice President and General Counsel

Chad D. Bergan
Senior Vice President and Chief Financial Officer

Bob L. Compton
Senior Vice President Human Resources

Dacotah Bank Directors

Richard L. Westra
Chairman of the Board
Aberdeen, SD

Joseph A. Senger
President and Chief Executive Officer
Aberdeen, SD

Donna M. Boekelheide
Farming
Northville, SD

Paula Kay Carlson
Chief Loan Program and Services Officer
Great Lakes Educational Loan Services Inc.
Aberdeen, SD

Kent E. Edson
Retired CFO,
Dacotah Banks, Inc.
Aberdeen, SD

Rodney W. Fouberg
Retired Chairman,
Dacotah Banks, Inc.
Aberdeen, SD

Robert J. Gruman
Business Consultant
Bob Gruman Consulting
Aberdeen, SD

JoAnn R. Hooper
Certified Public Accountant
Valley City, ND

Dale A. Melius
Farming
Faulkton, SD

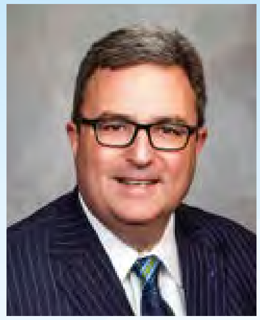
Arthur R. Russo
Partner
RhodesAnderson Insurance
Aberdeen, SD

Robert J. Fouberg
Secretary

Dacotah Bank Steering Committee

Richard L. Westra
Chairman of the Board

Joseph A. Senger
President and Chief Executive Officer



Robert J. Fouberg
Executive Vice President and General Counsel

Chad D. Bergan
Senior Vice President and Chief Financial Officer

Bob L. Compton
Senior Vice President Talent Management

Thomas Heisler, Jr
Senior Vice President Insurance Services
Retired 12/31/2015

Michael K. Hollan
Senior Vice President and Chief Operations Officer

Rob Keil
Senior Vice President Credit Administration

Diana L. Pfister
Senior Vice President Compliance

Steven M. Schaeffer
Senior Vice President Trust and Wealth Management

Aaron McCardle
Incoming Senior Vice President Insurance Services

Kristen Fauth
Vice President Risk Management

Paul R. McDonald
Vice President Marketing

Stacy J. Sandvig
Vice President Treasury

Dacotah Bank Management

REGIONAL PRESIDENTS

David W. Bangasser
Sioux Falls, SD
Southeast Region

Bradley D. Moore
Aberdeen, SD
Mid-Dakota Region

Richard J. Rylance
Rapid City, SD
Western Region

Daniel R. Vollmer
Minot, ND
Northern Region

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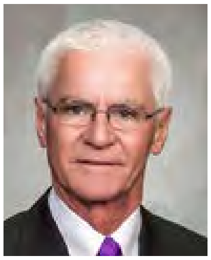
Lemmon, SD

Dick A. Gulmon
Valley City, ND

Kip J. Hansen
Watertown, SD

Casey L. Henderson
Jamestown, ND

Ryan Hertz
Minot, ND



Dwight D. Hossle
Faulkton, SD

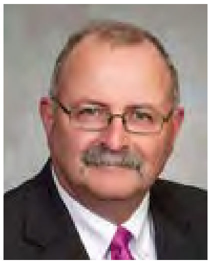
Thomas R. LaBrie
Clark, SD

Daniel N. Menking
Webster, SD

Jeff C. Moore
Dickinson, ND

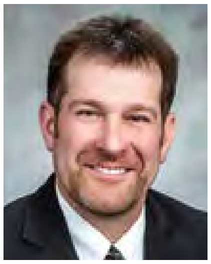
Larry D. Ringgenberg
Morris, MN

Darrell D. Schlepp
Mobridge, SD



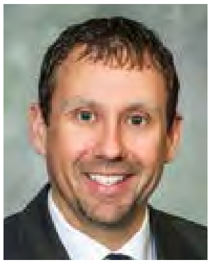
Kevin B. Wegehaupt
Sisseton, SD

INCOMING MARKET PRESIDENTS



Kelly Bursinger
Rolla, ND

Randy Silver
Rapid City, SD



Matt Smith
Sioux Falls, SD

DACOTAH BANK LOCATIONS

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Aberdeen, SD 57401-1500
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4324 Highway 281
PO Box 840
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Sioux Falls, SD 57104-6323
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Sioux Falls Town Centre
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