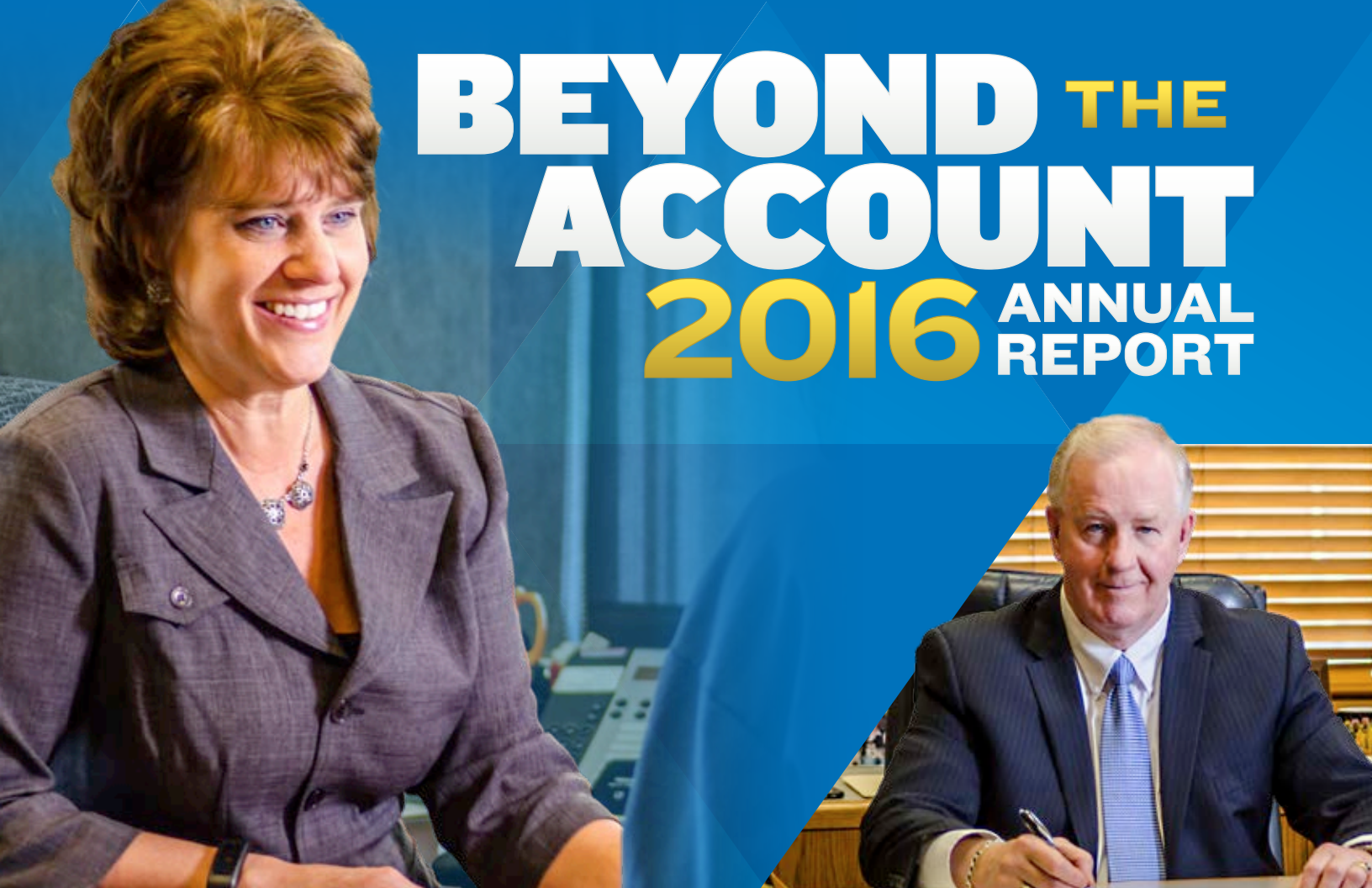




DACOTAH BANK[®]
*Here for you.*SM



BEYOND **THE** ACCOUNT **2016** ANNUAL REPORT

DACOTAH BANKS, INC.

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6201 15th Avenue
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ANNUAL MEETING

The annual stockholders' meeting will be held Thursday, May 25, 2017 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, insurance, mortgage 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

Dacotah Banks Inc. continues to be a banking organization that provides financial services in traditional ways. We continue to rely on our ability to gather deposits from the communities we serve and in turn invest in those communities through lending, charitable contributions and employee and corporate involvement. Growing loan volume and investing in these communities using local deposits have allowed the Company to again achieve record financial performance and record growth in 2016.

Consolidation of institutions continues in the banking industry as smaller banks find it increasingly difficult to stay competitive in the face of an increasing regulatory burden. We see a bright future for institutions our size and we remain committed to growth, both organically and through acquisitions. In considering acquisitions, we need to ensure shareholder value and the opportunity to grow our customer base. Our customers – and potential customers – have many banking and financial services options available to them from a number of providers, so we need to remain competitive and strive to be a provider of choice with the right products and services delivered to the right customers at the right time. We need to follow our Strategic Priorities, stay true to our Mission and remain attractive to our customers who demand products and services that satisfy their changing needs.

As we enter 2017, we are faced with challenges that center on a continuing low interest rate environment and slow economic growth. Weakness in the global economy, low commodity prices, soft bond yields and unrest in our political climate continue to put pressure on bank performance. Quality, relationship-driven loan volume is key and will remain critical to meeting our performance and growth goals in an increasingly complex and competitive industry.

FINANCIAL PERFORMANCE

Net income for 2016 is \$23.0 million, an amount that is 8.1 percent greater than net income in 2015, and is the highest in the Company's history. This was the result, however, of a number of non-recurring items. Unanticipated continued lower interest rates produced net interest income after provision that is \$2.2 million less than budget. Non-interest income exceeded plan by \$1.8 million and non-interest expense exceeded plan by \$1.3 million. The extraordinary non-interest income level was due primarily to adjustments to the cash value of life insurance policies owned by the Company, residential mortgage servicing fees and miscellaneous income. Non-interest expense was negatively impacted primarily by additional software expense attributable to the upgrade of several systems, but was helped by below-budget expenses for marketing.

The Company's net loan-to-asset and net loan-to-deposit ratios were both higher at the end of 2016, 78.9 percent and 91.7 percent respectively, compared to 77.0 percent and 89.3 percent respectively at the end of 2015. The Company's net interest yield on earning assets is 3.98 percent compared to 4.02 percent in 2015. Although somewhat lower, this does compare favorably to Dacotah Bank's peer group and had a positive effect on overall net income. Given the non-recurring items that bolstered net income in 2016 and moderate growth expected for 2017, record earnings for 2017 will be at best difficult to attain.

GROWTH

The Company experienced modest asset growth of approximately 2.8 percent (\$2.297 billion at the end of 2016 compared to \$2.234 billion at the end of 2015). The growth in assets was driven primarily by an increase in net loans of 5.3 percent over 2015. In addition, deposits grew 2.5 percent from \$1.927 billion at the end of 2015 to \$1.974 billion at the end of 2016. The Company's portfolio of investment securities decreased by 3.9 percent from \$290 million at the end of 2015 to \$279 million at the end of 2016. Emphasis was placed on increasing loans outstanding to offset lower interest rates on investment securities.

As we look to 2017, growth will be challenging. All banks appear to be very competitive on high-quality lending opportunities. Additionally, the agricultural economy continues to be less profitable with lower commodity prices forecast for all of 2017. Likewise, Dacotah Bank communities in or adjacent to oil production regions are still dealing with lower oil prices.

STRENGTH

Improved earnings and moderate growth during 2016 led to an increase in the Company's capital. On a consolidated basis, the Company's tier one ratio improved to 11.1 percent at the end of 2016 from 10.8 percent at the end of 2015. Tier 1 risk-based capital and total risk-based capital ratios which react to loan growth were 12.7 percent and 13.9 percent, respectively, at the end of 2016 compared to 12.2 percent and 13.4 percent, respectively, at the end of 2015.

One of the greatest sources of the Company's strength lies in our geographic diversity. While it is difficult to argue that the economies that comprise the Company's various markets are dramatically different from one another, we know from experience that when one corner of Dacotah Territory is experiencing an economic downturn, another corner is enjoying relative prosperity. In both 2015 and

LETTER TO SHAREHOLDERS

2016, the majority of the Company's 17 banking markets had improved earnings over the prior year, but the majority was made up of different markets in each of those years.

Loan quality decreased during 2016. This is primarily attributed to the current agricultural economy and reduction in oil prices in our Northern Region. Many of the Company's agricultural customers are experiencing operational losses due to lower commodity prices. In addition, the lower oil prices in the Northern Region contributed to lower occupancy in several multi-family and hotel projects. At the end of 2016, non-performing loans-to-average loans was .95 percent compared to .91 percent at the end of 2015, and the Company's allowance for loan and lease losses at the end of 2016 was \$26.2 million. This allowance is actually \$500,000 less than year-end 2015 and after a 2016 provision of \$3.3 million. This is due primarily to loan charge-offs of nearly \$4.1 million in 2016 which were concentrated in relatively larger entities. This higher charge-off volume resulted in a net loan charge off to total loans of .21 percent.

COMMENTS ON 2016

The earnings success of 2016 would not have occurred without a dedicated group of employees, a loyal customer base and very supportive Boards. As to employees, the first ever Dacotah Bank Academy class was completed. With the help and direction of MDA Consulting, 14 future leaders graduated in late September. The Academy projects focused on employee retention and future employee recruitment and were favorably received by management. Dacotah Bank Academy II is now moving forward.

Successful organizations need to understand what employees are "thinking." To this end, an employee survey was completed in May and prior to the strategic planning session held in July. Of 552 employees invited to complete the survey, 449 completed the on-line survey, representing a response rate of 81.34 percent. This level of participation is good in comparison to industry averages. Overall, the survey results were favorable, particularly in the areas of productivity, employee retention and answering the question "Do I Belong?" Areas still needing focus are employee involvement and communication.

Specifically to customers, significant changes to our deposit product offerings were successfully implemented mid-year 2016. The activity of bank employees working with Dacotah Bank customers to identify the most appropriate deposit products for their needs is difficult to measure; however, the training team and subsequent engagement of employees was excellent. The deposit product changes were relatively well-received by customers and should serve to strengthen long-term customer relationships while also increasing revenue.

In addition to the deposit product changes, the Marketing Department surveyed nearly 500 agricultural and commercial customers in June. Responses were analyzed and presented to Dacotah Bank employees. The survey indicated that about 40 percent of the Company's agricultural and commercial customers do not borrow money to operate and thus

may represent good opportunities for the Insurance and Trust and Wealth Management teams. Commercial clients reported convenience is more important to them than loan or deposit pricing. The research also validated that employees are exceeding customer expectations.

During 2016 the Company successfully reorganized the management team which includes the president and chief executive officer, executive vice president, chief financial officer, chief operating officer, chief financial services officer (a new position), chief credit officer, chief talent management officer and three regional presidents. Having the Markets and Central Bank Departments serving on the Steering Committee will improve communications and collaboration. Also in 2016, market presidents were named for the Aberdeen, Sioux Falls, Rapid City and Rolla Markets, creating additional capacity for the regional presidents to dedicate the time needed to properly manage the resources and lending function in their particular Region.

Regulatory examinations went well. Dacotah Bank continues to receive high marks for its compliance with the Community Reinvestment Act and other regulatory areas. Inasmuch as regulations within the banking industry can, at times, be challenging, the importance of good regulatory reviews cannot be overstated.

One final observation from 2016 is the continued need to focus on fraud prevention. Employees and customers need to be even more aware of protecting banking and other personal information. Fraud attempts clearly increased in 2016, but fortunately customer information was not compromised. The theme of this year's Annual Report is "Beyond the Account" and fraud prevention and resolution are excellent examples of the customer service and extraordinary effort delivered by employees.

LOOKING AHEAD

The Dacotah Banks, Inc. and Dacotah Bank Boards of Directors recently approved an updated Strategic Plan through 2018. Although the Mission remains the same – "To Exceed Customer Expectations" – the Vision has been updated as follows:

- **We will** be a well-capitalized, profitably-growing Company with \$3 billion in assets by December 31, 2018 and will maintain the organization and culture necessary to grow and to enhance the value of our **shareholders'** investment.
- **We will** leverage our relationships to deliver the right products and services to the right customers at the right time.
- **We will** work in a productive environment that promotes effective communication and encourages teamwork among our **employees**.
- **We will** look for opportunities to grow in our **communities** and to expand our presence throughout North Dakota, South Dakota, Minnesota and surrounding states.

LETTER TO SHAREHOLDERS

Management, employees and the Board of Directors will embrace the following Leadership Principles as means to achieve the Company's Mission and realize the Company's Vision:

- Innovating and Growing the Company's Business
- Coaching and Mentoring Employees
- Support of Enterprise-Wide Initiatives
- Effective management of all Elements of the Talent Management Cycle
- Teaming

In order that daily activities support the Company's Mission and Vision, the following Strategic Priorities together with specific Action Steps have been established:

- **Asset Quality**
Management of the loan portfolio so as to achieve the established Performance Goals and to improve the Bank's regulatory component rating for Asset Quality.
- **Enterprise Risk Management**
Management and oversight of a banking and financial services company that endeavors to grow in an increasingly complex industry.
- **Products and Services**
Delivery of products and services that meet the needs and wants of current and prospective customers.
- **Profitable Growth**
Management of assets, liabilities and capital so as to achieve profitable growth from year-to-year.
- **Talent Management**
Recruitment, compensation, development and retention of the talent necessary to operate a banking and financial services company that endeavors to grow in an increasingly complex industry.

With the aforementioned realignment of management and updated Strategic Plan, we firmly believe Dacotah Bank employees are ready for the challenge that lie ahead and we look forward to 2017 and beyond.

SHAREHOLDER VALUE

The book value per share of Dacotah Banks, Inc. common stock increased 7.3 percent from \$21.76 on December 31, 2015 to \$23.35 on December 31, 2016. Net income per share increased 7.8 percent during this same period. The Company also realized growth in its assets, loans and deposits again in 2016. Dividends totaling \$.40 per share were paid during 2016. This represents the highest dividend rate in the history of the company and the 28th consecutive year that cash dividends have been paid.

To achieve our strategic goals, we must deliver products and services in a manner acceptable to our customers and protect their personal information. The future of the banking industry is dependent on successfully melding the latest technologies and the highest level of customer service. We need to remain relevant in a complex industry and identify and capitalize on opportunities. We believe we are well positioned to do so.

Market complexities and the increasing value of Dacotah Banks Inc. common stock led the Board and management to conclude that the Company and its shareholders would be well-served by utilizing a banking industry specialist capable of providing brokerage services to our shareholders. Beginning in 2015 and throughout 2016, common stock transactions and the market-making services of FIG Partners, LLC ("FIG") have been available to shareholders. FIG has proven to be a useful, independent resource for trading and pricing, and financial and market information regarding your investment in Dacotah Banks, Inc.

In closing, we thank our 550 employees and an outstanding management team for their commitment, dedication and support of the Company and its vision for the future. We also thank the Dacotah Banks, Inc. and Dacotah Bank Boards of Directors for their guidance and willingness to serve the Company. We give special thanks to Robert B. Lamont II for his outstanding service to the Company as a member of the Dacotah Banks, Inc. Board of Directors from 2001 to 2016. To you, our shareholders, thank you for the investment you have made and the confidence you place in the continued growth of the Company. We look forward to 2017 and beyond.



A handwritten signature in blue ink, appearing to read 'Richard L. Westra'.

Richard L. Westra
Chairman of the Board

A handwritten signature in blue ink, appearing to read 'Joe A. Senger'.

Joseph A. Senger
President and CEO

Financial Highlights

(Dollars in Thousands, Except Per Share Data)

PERFORMANCE

	2016	2015	% Change
Net interest income.....	\$ 84,655	81,253	4.2%
Provision for loan losses.....	3,300	2,700	22.2
Non-interest income	18,222	16,845	8.2
Non-interest expense	64,225	61,817	3.9
Net income.....	22,969	21,244	8.1
Per share★	2.068	1.918	7.8
Cash dividends declared.....	4,440	3,988	11.4
Per share★	0.40	0.36	11.1
Net interest margin	3.98 %	4.02	(1.0)
Return on average assets.....	1.02	0.96	6.3
Return on average equity	9.12	9.10	0.2

AT DECEMBER 31ST

	2016	2015	% Change
Total assets	\$ 2,297,173	2,234,290	2.8%
Investment securities and deposits with banks.....	288,256	301,307	(4.3)
Loans, net.....	1,811,512	1,720,922	5.3
Deposits	1,974,415	1,926,890	2.5
Borrowings	38,000	44,000	(13.6)
Stockholders' equity	260,025	241,008	7.9
Book value per share★	23.35	21.76	7.3
Shares of common stock outstanding★.....	11,137	11,074	0.6
Tier I leverage.....	11.06 %	10.78	2.6
Total capital.....	13.92	13.43	3.6

★Share data for periods ending prior to 2016 are adjusted for the June 27, 2016 stock dividend

Selected Consolidated Financial Data

SELECTED CONSOLIDATED FINANCIAL CONDITION DATA

		December 31,			
	2016	2015	2014	2013	2012
		(Dollars in Thousands)			
Total assets	\$ 2,297,173	2,234,290	2,172,801	2,110,822	2,065,053
Loans, net	1,811,512	1,720,922	1,657,916	1,540,424	1,474,330
Investment securities	278,818	290,123	294,582	332,519	357,818
Deposits	1,974,415	1,926,890	1,890,339	1,860,232	1,825,560
Borrowings	38,000	44,000	37,000	20,000	21,005
Stockholders' equity	260,025	241,008	224,073	211,736	199,564

SELECTED CONSOLIDATED OPERATION DATA

		Years Ended December 31,			
	2016	2015	2014	2013	2012
		(Dollars in Thousands, Except Per Share Data)			
Interest income	\$ 92,751	88,281	84,102	82,993	84,802
Interest expense	8,096	7,028	7,222	9,607	16,055
Net interest income	84,655	81,253	76,880	73,386	68,747
Provision for loan losses	3,300	2,700	4,050	5,250	6,750
Net interest income after provision for loan losses	81,355	78,553	72,830	68,136	61,997
Non-interest income:					
Income from fiduciary activities	2,290	1,748	1,793	1,778	1,202
Service charges on deposit accounts	3,570	3,594	3,752	3,849	3,956
Insurance commissions	4,531	4,473	4,383	4,169	4,068
Fees on sale of residential mortgages	1,325	970	960	1,660	2,634
Other	6,506	6,060	5,971	5,223	4,109
Total non-interest income	18,222	16,845	16,859	16,679	15,969
Non-interest expense:					
Salaries and employee benefits	42,362	40,106	38,424	35,316	31,692
Occupancy, furniture and equipment, net	6,864	6,917	6,804	6,664	6,143
Other	14,999	14,794	15,343	14,727	12,748
Total non-interest expense	64,225	61,817	60,571	56,707	50,583
Income before income taxes	35,352	33,581	29,118	28,108	27,383
Income tax expense	12,383	12,337	10,527	9,726	9,529
Net income	22,969	21,244	18,591	18,382	17,854
Per share of common stock:					
Net income*	\$2.068	1.918	1.657	1.643	1.602
Cash dividends declared*	\$0.40	0.36	0.35	0.32	0.30

*Share data for periods ending prior to 2016 are adjusted for the June 27, 2016 stock dividend

Selected Consolidated Financial Data

SELECTED FINANCIAL RATIOS

At or for the years ended December 31,

2016	2015	2014	2013	2012
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PERFORMANCE RATIOS

Return on average assets	1.02%	0.96	0.89	0.90	0.93
Return on average stockholders' equity.....	9.12	9.10	8.46	8.93	9.31
Net interest margin.....	3.98	4.02	3.96	3.86	3.84
Non-interest income to average assets	0.81	0.76	0.81	0.81	0.83
Non-interest expense to average assets.....	2.84	2.80	2.89	2.76	2.64
Efficiency ratio	62.43	63.02	64.62	62.95	59.71

ASSET QUALITY RATIOS

Nonperforming loans to total loans.....	0.92%	0.89	0.76	1.06	1.61
Allowance for loan and lease losses to total loans	1.45	1.53	1.43	1.36	1.27
Allowance for loan and lease losses to net charge-offs	7.00x	289.86	19.08	7.41	3.13

CAPITAL RATIOS

Tier I leverage*	11.06%	10.78			
Tier I capital*	12.67	12.18			
Total capital*	13.92	13.43			
Tier I leverage			10.19%	9.88	9.61
Tier I risk-based capital.....			11.90	12.04	11.71
Total risk-based capital.....			13.15	13.29	12.89

*New capital ratios under Basel III



FRAUD AND SECURITY

According to the annual Javelin Strategy and Research study, 15.4 million victims of identity theft and credit card fraud lost more than \$16 billion in 2016. Dacotah Bank employees are focused beyond the account to help customers be safe and protect the company's information assets.

Bryan Phillips, director of information security for Dacotah Bank, says employees have become very alert to signs of fraud. "Successful training, experiences, and discussions about security confirm we have created that critical human layer of security."

Cyber security, data breaches, identity theft, credit card theft, and scams are in the news every day. Bryan is concerned many people don't know what happens after such an incident. "A piece of malware that infects a single computer can impact an entire network and traverse others; causing more breaches down the line. Bad guys may have set up shop and begun conducting reconnaissance on your private network without you knowing it." Cleanup can be a daunting task and have a long-lasting impact if these events are not properly addressed, he says. "Once a

successful attack occurs, future attacks can be even more targeted within an organization."

Phillips has been in the technical and security industry for more than twenty years but says 2016 was historical. "Business email account compromises worldwide seemed to have reached record levels that we have never seen before. My role in cyber security is to stay ahead of the bad actors and understand how it affects the bank and the customers we serve."

...

Relieved. That's the word personal banker Kayla Hook uses when she describes the reaction of customers when she and Dacotah Bank's risk management team prevent customers from giving money to scammers and fraudsters. "One of the biggest trends I saw in 2016 was an aggressive increase in check fraud. I find it rewarding to know I have helped someone whether it took two minutes or 45 minutes of my time. I genuinely care about our customers and that inspires me to exceed their expectations."

Kayla recalls getting a call at her customer service desk from the bank's online banking group. "They were curious about a new account opening by a customer using a new email address. We reached out to the customer and soon realized they were close to being scammed and had just gotten off the phone with the fraudster. We were able to close their account before anything bad happened."

Another customer service representative (CSR), Cynthia Peckham, advises people to be on alert. "It's incredible how much information can be learned about a person and used



▲ CYNTHIA PECKHAM



▲ CRYSTAL NEHLICH

fraudulently. They use that information to gain your trust and coach you on what to say at the bank.” She cautions people to be especially alert to telephone calls and emails. “You can’t always trust that other person.”

checks indicating they had won the Publishers Clearing House lottery!”

Crystal says education is a big part of her job now. “I tell customers to review their account activity regularly

“I find it rewarding to know I have helped someone whether it took two minutes or 45 minutes of my time. I genuinely care about our customers and that inspires me to exceed their expectations.”

Conversely, when bank employees try to help, customers often feel embarrassed about what they may have shared or done. “Then it can become hard for customers to give us information so we can help them. I have had to learn how to ask important questions and even involve co-workers to make sure we are doing our best to help our customer.”

...

Crystal Nehlich, a personal banker in Valley City, ND, has seen the same trends. “When I started at Dacotah Bank in 2003, fraud was not a big problem. It has quickly increased and is something we work on daily to protect our customers and our institution.”

Numerous scams and fraud activities surfaced in 2016. “We have seen an increase in tax fraud, debit card fraud, romance scams, lottery scams, and computer scams. We even had several customers come in with letters and

and if anything doesn’t seem right to let the bank know right away. If they have experienced fraud I help them get in touch with the appropriate authorities. We have even hosted presentations for the community to help them be aware of current scams.”

“We are so fortunate at Dacotah Bank to have a risk management department and systems in place to help monitor customer accounts for unusual activity.” She praises the risk management team of doing “a wonderful job catching fraudulent activity and advising us how to assist our customers.”

...

According to Kristen Fauth, senior vice president risk management, cybercrime is very difficult to investigate and solve. “Criminals are innovative but it’s good knowing we have helped law enforcement get some of them off the street!”



▲ KRISTEN FAUTH



▲ RAVONNE LUKONEN

Her department personnel were among the first to recognize debit card fraud occurring at local gas stations. "Card skimmers had been placed on pumps and our team could see data that triggered our suspicions."

With a background in audit, Kristen works closely with colleagues who are working directly with customers. RaVonne Lukonen, Dacotah Bank's retail market supervisor in Watertown, SD, has often collaborated with her. "It's been extremely rewarding to help keep customers and their information safe." Their mission is to prevent, protect, detect, and recover. "Every incident teaches us something new," RaVonne confessed.

One of their successful collaborations included seminar-style presentations to key groups in Watertown. High school students and senior citizens all received the same information from the duo because fraud and identity theft is a challenge for all age groups.

Fraud isn't always attempted by criminals from far away. RaVonne says she and Kristen have had to help customers dealing with possible fraud and elder abuse from family members. "The two are often interchanged." But their work is rewarding.

"There's a sense of pride in knowing we helped someone who may not have been able to protect themselves." According to Kristen, "It's a great service to customers."

...

The problem of fraud and financial abuse aimed at older citizens captured the attention of state government in 2016. Rick Rylance, senior vice president chief financial services officer, served on a Governor's elder abuse task force. "I was chairman of the South Dakota Bankers Association (SDBA) at the time and was appointed to the task force led by chief justice David Gilbertson. Our group had expertise in financial abuse, medical abuse, psychological abuse, abuse against disabled people, and emotional force."

"There's a sense of pride in knowing we helped someone who may not have been able to protect themselves. It's a great service to customers."

"Social media has contributed to fraud," Kristen says. "People post too much about their personal life and are very trusting. Many times an individual's social media sites are not secured by privacy settings. Their personal photos and references to their whereabouts during vacation time can often invite trouble."

As chairman of the financial elder abuse sub-committee, Rylance says his team was on a fast track to make changes to the way elder abuse is reported and processed. "In about six months' time the new bill was researched, written, passed the legislature, and funded." As SDBA chairman, Rick's primary intent was to protect financial institutions

BEYOND THE ACCOUNT



▲ RICK RYLANCE

in the state and work to provide them with access to law enforcement when financial fraud is suspected.

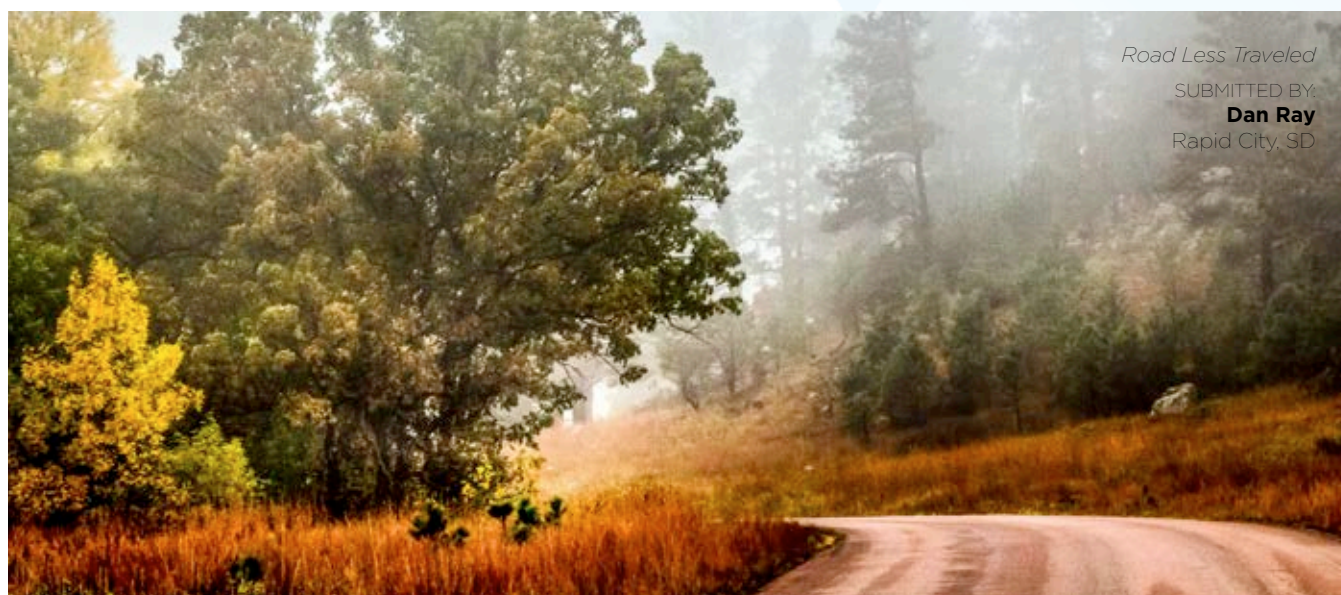
"There was no tracking and bank employees could not do anything if they suspected an elderly customer was being abused financially. There was nowhere to go." While banks must file a Suspicious Activity Report (SAR) with federal authorities on transactions over \$5,000 and may file a SAR for any amount, the new South Dakota law allows banks to share SARs with the state attorney general's office for any amount when elder abuse is suspected.

Anyone 60 or older is considered an elder by state law in South Dakota. In addition to creating a reporting process for banks, much like the mandatory reporting in the healthcare

field when abuse is suspected, the task force was successful in educating legislators and those in law enforcement and financial advisors. "We worked with the American Association of Retired Persons (AARP) and hosted public education forums and produced and distributed literature."

A special prosecutor and full-time assistant now work each case of reported elder abuse in the state. Rick is proud that the task force also put some teeth into the new law. "We were able to convince legislators to increase penalties for elder abuse from misdemeanor to felony. Twelve of our sixteen recommendations made it into state law."

More examples of bankers going beyond the account.



Road Less Traveled

SUBMITTED BY:

Dan Ray

Rapid City, SD

A Roadmap

to Serving Non-Traditional and Underbanked Customers

This map spotlights several innovative approaches to reaching the underbanked and other non-traditional borrowers—many of which have been honored through ABA's Community Commitment Awards program. Learn more at aba.com/communityengagement.

DACOTAH BANK

In partnership with the Federal Home Loan Bank of Des Moines and the Coalition of Indian Housing Authorities and Native Developers, Dacotah Bank provides down payment funds and zero-interest financing to support homeownership among Native American families in some of America's most impoverished communities.

HERITAGE BANK

In Tacoma, Wash., Heritage Bank offers incentive-driven children's savings accounts in the mixed-income, ethnically diverse neighborhood of New Salishan. Heritage Bank matches deposits of up to \$400 each year and provides additional incentives for goals like high school graduation. Students who participate throughout their elementary and middle school years, graduate from high school and successfully enter a post-secondary program will receive a balance of up to \$9,750.

GOLDEN PACIFIC BANK

Golden Pacific Bank in Sacramento, Calif., developed SmartBiz, the nation's first online and automated Small Business Administration loan application process. Businesses strapped for low-cost capital can apply and get loans of \$5,000 to \$150,000. SmartBiz offers pre-qualification in five minutes, approval in 30 minutes and funding in five to seven business days—far faster than many traditional SBA loan programs.



Indicates an ABA Community Commitment Award Winner



THEBANK OF EDWARDSVILLE

Three years ago, a bilingual staff member from TheBANK of Edwardsville approached a librarian in the St. Louis suburb of Fairmont City, Ill., looking to deepen the banking relationship of the residents in the 70 percent Hispanic market. The local library in 2015 became host to TheBANK of Edwardsville's newest branch—the first fully Spanish-English bilingual banking center in the St. Louis area.

UNIVERSITY BANK

Through its subsidiary University Islamic Financial, University Bank was the first depository institution to offer residential and commercial real estate financing in compliance with Islamic law, which generally prohibits the paying of interest. Through a residential *murabaha* contract, the bank buys the home on behalf of the buyer, who then makes installment payments toward a marked-up purchase price.

HARBORONE BANK

For a city of its size, Brockton, Mass., has one of the country's biggest concentrations of recent African immigrants—including the largest U.S. population of people with Cape Verdean ancestry. Immigrants' experiences with banks in their home countries have often left them distrusting, so HarborOne Bank reaches residents of Brockton through its HarborOne U program. The program has brought classes in English as a second language, U.S. citizenship, credit coaching, homeownership and financial management to thousands of participants—three quarters of whom are low- to moderate-income and nearly half of whom are Cape Verdean immigrants.

BANKPLUS

Ridgeland, Miss.-based BankPlus offers CreditPlus, a small-dollar loan program to break the payday lending cycle and help low-income borrowers start a savings plan. CreditPlus provides loans of \$500 or \$1,000 with a 5 percent interest rate and no closing costs or fees. With each new loan, the customer opens a checking or savings account; half of the loan is deposited there and held as security for the balance of the loan. Underwriting criteria include attendance at a CreditPlus financial literacy seminar offered for free by BankPlus expert staff.

BB&T

To reach members of multicultural communities where they are in BB&T's market area, the bank developed Bank on Your Success in 2014. The program provides video-based classes on banking basics, family budgeting and becoming a homeowner—all delivered to black, Latino and Asian American populations through houses of worship, community centers and international student associations. Each class is intended to last two hours, but enthusiastic participants and intense discussion means classes almost always run over.



▲ JARED VILHAUER



▲ ELLEN ELLIS

SERVICE TO COMMUNITY

Often unseen, employee service to their community is way beyond the account. Dacotah Bank helps local people with housing and wellness and people who are aging or need assistance due to physical challenges or mental illness.

Shelter is a primary human need and affordable housing is a high priority in Dacotah Territory. One of the many efforts Dacotah Bank's mortgage team made in 2016 was collaboration with Federal Home Loan Bank of Des Moines (FHLB) and their application process for affordable housing projects. Pages 13 and 14 of this annual report feature a map of the United States and a call-out to Dacotah Bank's work with FHLB, Coalition of Indian Housing Authorities, and Native Developers. With the help of Dacotah Bank, over \$1.5 million in housing grants were approved for affordable housing projects to Homes Are Possible Inc. (HAPI), Oglala Sioux (Lakota) Housing on the Pine Ridge Reservation, North Dakota Lutheran Social Services Housing and Sisseton Wahpeton Housing Authority (SWHA).

...

A recent market study reported a significant shortage of affordable housing in Rapid City and Box Elder, SD. In response to the data, Dacotah Bank's Jared Vilhauer, business banker, and Grandview LLC of Sioux Falls worked to form Northern Lights Limited Partnership. The joint venture resulted in construction of a 30-unit Low Income Housing Tax Credit (LIHTC) project in Box Elder.

According to Vilhauer, "It has been reported about 2,000 names are on the list for government housing assistance vouchers. After a number of years with the South Dakota Division of banking and Dacotah Bank's credit risk management group, I had a desire to work directly with clients and help them reach their goals. Partnering with the developer to reach their goals, knowing that the end product would provide a new, high quality, affordable housing option for dozens of local families was very rewarding."

The housing partnership between Grandview and Dacotah Bank also includes rehabilitation of a 17-unit complex in Yankton featuring new kitchen appliances, air conditioning, deadbolt locks, community room, laundry facilities, and 24-hour maintenance. "From the outset of this partnership, Dacotah Bank's commitment to these projects and the positive impacts they would have in their communities was evident, especially from our senior management. CEO, Joe Senger, and the company's senior compliance officer, Diana Pfister, were instrumental in developing this partnership" according to Vilhauer.

...

The energy and passion of Ellen Ellis, mortgage banker in Webster, is contagious. Her leadership on the Day County Housing Development Board has inspired others to 'Paint Day County' and host an annual 'Housing Day Block Party,' a free informational fair connecting home owners and renters who want to own a home with contractors, suppliers, landscapers, décor professionals, and lenders.

"I was excited about the opportunity to assist my community," she says. She and members of the Day County Economic Development Corporation recognized the deteriorating



▲ DICK GULMON



▲ SHELLEY DEUTSCH

condition of housing in the county. Two new spec homes and a helpful website later, the tide has turned.

"While working at the first home for Paint Day County, we discovered the home's electrical wiring needed updating to correct a very dangerous situation. We were able to secure a Rural Development Grant to re-wire the home and made it a safe environment for the homeowner!"

Ellis enthusiastically points out that "having the opportunity to assist homeowners in my community and improving living conditions is all the inspiration I need to continue volunteering!"

...

Not only do homes need to be in good shape, but people need to be healthy as well.

Dick Gulmon, Valley City market president for Dacotah Bank, has served on the city's Park District Board since 1984. He proudly describes how this North Dakota community of 6,500 people rallied around a public/private partnership to build a new facility, the Gaukler Family Wellness Center.

"The Park District developed a partnership with Valley City State University to utilize the facility for their Department of Kinesiology and Human Performance and Health and Physical Education for classrooms and offices for professors. The new wellness center has been a game changer for our community because it not only provides health, wellness, and education but is trending to be the new social place for people of all ages."

Gulmon quotes Henry Ford as saying, "Coming together is a beginning; keeping together is progress; and working together is success!" Valley City voters agreed to earmark

a percentage of the local sales tax for the project. The Valley City Barnes County Development Corporation, City Visitors Committee, City Food and Beverage Committee, Barnes County, Valley City State University students, Valley City Park District and a \$1 million North Dakota Heritage grant pulled together to provide \$10 million in funding for the project. Additionally, \$6 million was raised privately. A substantial loan from Dacotah Bank rounded out the necessary funding to get the job done.

Dick's inspiration to be involved comes from senior leadership at Dacotah Bank. "Without the guidance and assistance from Dacotah Bank's management team, the project might not have happened. I am grateful and feel very fortunate to be a part of Dacotah Bank and live in Valley City. When we work together for the betterment of the community, we all enjoy the quality of life and quality of place."

...

A life-long employee of Dacotah Bank, Shelley Deutsch began her banking career while attending college in Aberdeen. In 1980 she transferred to the firm's branch in Roslyn, SD and continues serving customers in the market today.

She also serves as a board member for the Strand Kjorsvig Living Center, the nursing home in Roslyn. Similar to the growing burdens of regulations on banks, rural nursing homes are challenged as well. "It is especially hard in a small town to have enough staff to provide the necessary care to residents. The cumbersome paperwork required to stay compliant with state and federal mandates make operating a care facility that much harder."

Shelley says she is inspired by her grandfather George Gilbertson. "He was a banker in Roslyn. When he passed



▲ WAYNE AVERY



▲ PAIGE BJORNSON

away, the family contributed money that helped update the nursing home's kitchen. He would have liked that."

The spring and fall kumla dinners help raise money for the nursing home. Each event starts at 6:00 AM for nearly two dozen volunteers with six hundred pounds of potatoes. Funds raised in 2016 helped buy a \$100,000 generator for the rest home. It was online in time for a December ice storm and provided comfort to the residents and people from the community who needed a warm place to stay.

"I appreciate Dacotah Bank and the encouragement I get to be involved in our community."



Since his days as a teller, Wayne Avery's banking career has spanned over 40 years. The senior business banker at Dacotah Bank in Brookings, SD remains active in numerous organizations. "With all the issues that tend to divide people these days, it's more important than ever for people to come together to support local efforts and causes they believe in."

In addition to his membership and service to Jaycees, Kiwanis Club, Brookings Area United Way, Pheasants Forever, and the Brookings Planning and Zoning Commission, Wayne is the chairman of the Advance Foundation.

Under his leadership, the Franklin House opened in 2016. The \$1 million residential facility provides housing for disabled citizens. Wayne says years of planning are paying dividends. "A friend of mine told me years ago that if you take part in organizations you should exhibit the same level of commitment that you would to your job!"



An important community within Dacotah Territory is the community of colleagues. For over twenty years, the company's advertising slogan has been '*Here for you.*' Like good friends, employees are here for customers and for each other.

In 2016, the company launched an internal initiative called the Academy. Fourteen future leaders worked as two teams on employee engagement and talent recruitment. Paige Bjornson, a senior business banker from Valley City, served as a team leader. "However, my most important role was as a student of learning and growth – to better know myself, to learn about and find success in working with teammates and peers, and to gain the confidence to propose significant change to the leaders of our company."

Paige's career in banking began shortly after college and has exposed her to many facets of the business; retail banking, compliance, credit analysis, risk management, security, advertising and marketing, education, human resources, information technology (IT), operations, and business banking.

"Today's employees are motivated by a sense of purpose and want a rewarding career path. We are witness to changing expectations of a new generation who demand information, communication, and feedback at their fingertips." She has been impressed by senior management's engagement with the Academy projects. "The Academy is about growing our leaders to assure Dacotah Bank's tremendous culture retains its core values."

The value of relationships is paramount for Paige. "Open your eyes and ears to intently learn and embrace the strengths and weaknesses of yourself and of others – and you will gain personal and professional growth."



▲ BLAKE ANDERSON

▲ WARD SCHUMACHER

SERVICE TO CUSTOMERS

For more than 130 years, the primary role of community banks in Dacotah Territory was to provide capital and give customers access to the nation's currency and payment system. Today, that role has expanded considerably beyond the account!



Dacotah Bank's first online banking customer went live in February of 1996. Blake Anderson, electronic banking manager, remembers the changes well. "I had been a mortgage banker with the company for two years when Mr. Richard Westra (current chairman of the board) asked if I would be interested in being a part of this new technology and I said yes!"

Today's online delivery of banking services has evolved to be more than just accessing account balances using a computer. "It now includes any device that you can use to electronically connect to your accounts and your banker via the internet." In December of 2016 alone, customers logged into online banking about 130,000 times. Blake's department also reported over 120,000 logins to the bank's mobile banking app during the same month.

A major change in the technology has been a consistent user experience according to Blake, "No matter if they use online or mobile to access their accounts, they get the same experience. Before 2016, online banking looked and navigated differently than mobile. Now they are almost identical in the way the end user interacts with their accounts."

Despite the automation and technology enjoyed by thousands of bank customers, Anderson still emphasizes personal customer service. "Every time I talk with a customer, internal or external customer, I want them to know that I care about them and their experience using the online or mobile system."

And if you have a question about online banking, Blake probably has or can get you an answer; after all, he still has the original internet banking manual from twenty years ago!



Another story of Dacotah Bank growing beyond the account features Ward Schumacher, the company's merchant solutions manager. "I was hired to launch and manage a Visa/MasterCard credit card program. At the time we contracted with the Independent Community Bankers of America (ICBA) and our merchant program was born."

The merchant card processing industry is flush with traveling reps and online marketers who often embellish their sales pitch and gloss over the details. Ward and Chris Fletcher, Dacotah Bank's primary sales and support professionals, take a different approach. "We aim to save our clients



▲ CHRIS FLETCHER



▲ JACKIE GAUER

money, save them time, or improve processes. And if we can't – we tell them. It's one of the main reasons we have such high retention rates." Ward is proud of the service they deliver. "A customer in Rapid City called me on three separate occasions to thank me for assisting her business, simplifying her process, and saving her money!"

Swiping your credit or debit card at a store or clinic seems

sources, including Chris' wife Kristen. "She is living proof that choosing a positive attitude every day goes a long way to turn any frown upside down! She inspires me to go above and beyond for each customer."

...

Jackie Gauer echoes this passion for great customer service. "I love my job because I love helping people!" As Dacotah

"Every time I talk with a customer, internal or external customer, I want them to know that I care about them and their experience using the online or mobile system."

simple enough. But Chris shares that the merchant payment business has seen change. "The introduction of the EMV chip (short for the Europay, MasterCard, and Visa standard for card payments) has really driven up the volume of transactions with credit card and debit cards. The added security feature gives cardholders peace of mind that their personal and card information is safe."

Local, personal customer service sets this team apart from their competition according to Chris. "One of our clients was getting error messages from his card system. Ward and I spent almost an entire afternoon at their business, troubleshooting a resolution. After working extensively with their telephone and internet service provider, we were able to deliver a solution that eliminated the error messages and restored full functionality."

Inspiration to deliver world class service comes from many

Bank's check imaging manager in the deposit operations group, Jackie says she jumped right in when the company introduced online deposit services for businesses. She realized the new technology would benefit clients.

"Online deposit service is a lot easier to use than people think," she says. "Using a scanner, clients automate their deposits as often as they want to; once or more daily, or even on weekends and holidays. Then, BOOM, your deposit is on the way to the bank. Clients say, 'that was really easy!'"

Chuck Haugen is her technology partner for online deposit services. He helps clients get set up to use the service. "I help keep servers maintained and help customers install the software and set up their scanners and train their users." Migrating to Windows 10 in 2016 was a big change but Chuck says "it went well."



▲ CHUCK HAUGEN



▲ KEVIN BURCKHARD

Jackie recalls a success story. “We have a customer with several locations. We installed scanners at each location and the online deposit service worked great!”

Chuck too remembers a customer service highlight. “Another client, one with several entities, was getting error messages. We drilled in and got everything to work – even without much support from the software vendor.”

Going beyond the account and above expectations is a theme within this service group. Chuck reports that even in this day and age, not everyone is comfortable with computers and technology. “Some people don’t know

sales and card services, better known as the sales team, Kevin is a great coach for colleagues and clients alike. “My time in the cash management area has given me the experience to help small businesses and agribusiness clients with managing their cash flow and helping them with efficient processes that save them time, save them money, and give them peace of mind.”

What excites Kevin the most is when a banker engages him early in the process of helping a client move relationships from another institution to Dacotah Bank. “There have been many examples of successfully helping customers join our bank. Our team approach really works well!” He

“At the end of the day, I feel good when I have helped my internal and external clients achieve their goals. I am confident they consider me and my team as a viable resource to make them successful.”

much about computers so I am able to remote in to their PC and help them – I can fix their issue!” He performs this so well that employees staffing Dacotah Bank’s Help Desk often hear a caller ask, “Is Chuck there?”

...

Business clients have needs that go beyond the account.

Kevin Burckhard has spent about half of his 21 years in banking at Dacotah Bank. As the director of the company’s

is proud to provide support to bankers and clients even if a loan is not part of the equation. “Business deposit services are equally important as the credit needs a client may have. My sales team and I can help bankers balance the full relationship potential with a customer.”

“At the end of the day, I feel good when I have helped my internal and external clients achieve their goals. I am confident they consider me and my team as a viable resource to make them successful.”



Independent Auditor's Report

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

Report on the Consolidated 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, 2016 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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, 2016 and 2015, 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 audited, in accordance with the auditing standards generally accepted in the United States of America, Dacotah Banks, Inc. and subsidiary's internal control over financial reporting as of December 31, 2016, 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 9, 2017, expressed an unmodified opinion.

Bismarck, North Dakota
March 9, 2017

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Consolidated Balance Sheets

DECEMBER 31, 2016 AND 2015

(Dollar Amounts in Thousands)

	2016	2015
ASSETS		
Cash and cash equivalents		
Cash due from banks	\$ 49,877	\$ 57,047
Interest-bearing deposits in banks	10,000	25,700
Total cash and cash equivalents	59,877	82,747
Time deposits in banks	9,438	11,184
Securities	278,818	290,123
Loans held for sale	506	1,093
Loans, net of allowance for loan and lease losses	1,811,512	1,720,922
Interest receivable	22,503	20,952
Premises and equipment, net	45,185	46,152
Foreclosed assets	1,290	1,048
Investment in life insurance contracts	41,828	36,923
Deferred income tax asset	13,648	13,158
Goodwill	6,415	6,415
Intangible assets	1,499	1,985
Mortgage servicing rights	785	-
Other assets	3,869	1,588
Total assets	\$ 2,297,173	\$ 2,234,290
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits	\$ 1,974,415	\$ 1,926,890
Borrowings	38,000	44,000
Interest payable	3,003	2,452
Accrued expenses and other liabilities	21,730	19,940
Total liabilities	2,037,148	1,993,282
STOCKHOLDERS' EQUITY		
Common stock, \$4 par value; 30,000,000 shares authorized, 14,285,980 shares issued and outstanding in 2016		
5,000,000 shares authorized, 1,428,598 shares issued and outstanding in 2015	57,144	5,714
Capital surplus	13,851	12,540
Retained earnings	206,301	239,202
Accumulated other comprehensive income	(1,190)	(224)
Treasury stock, 3,149,075 shares in 2016 and 321,206 shares in 2015, at cost	(16,081)	(16,224)
Total stockholders' equity	260,025	241,008
Total liabilities and stockholders' equity	\$ 2,297,173	\$ 2,234,290

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

YEARS ENDED DECEMBER 31, 2016 AND 2015
(Dollar Amounts in Thousands Except Per Share Data)

	2016	2015
INTEREST INCOME		
Loans	\$ 87,663	\$ 83,435
Securities		
Taxable	3,654	3,577
Exempt from federal income taxes	1,152	1,076
Deposits in banks	164	123
Federal funds sold	118	70
	<u>92,751</u>	<u>88,281</u>
INTEREST EXPENSE		
Deposits	7,022	6,119
Borrowings	1,074	909
	<u>8,096</u>	<u>7,028</u>
NET INTEREST INCOME	84,655	81,253
PROVISION FOR LOAN AND LEASE LOSSES	3,300	2,700
NET INTEREST INCOME AFTER PROVISION FOR LOAN AND LEASE LOSSES	81,355	78,553
NON-INTEREST INCOME		
Income from fiduciary activities	2,290	1,748
Service charges on deposit accounts	3,570	3,594
Insurance commissions	4,531	4,473
Fees on sale of residential mortgages	1,325	970
Servicing fees on residential mortgages	954	-
Other income	5,552	6,060
	<u>18,222</u>	<u>16,845</u>
NON-INTEREST EXPENSES		
Salaries and employee benefits	42,362	40,106
Occupancy, net	4,639	4,750
Furniture and equipment	2,225	2,167
FDIC assessment	1,077	1,243
Other expenses	13,922	13,551
	<u>64,225</u>	<u>61,817</u>
INCOME BEFORE INCOME TAXES	35,352	33,581
INCOME TAX EXPENSE	12,383	12,337
NET INCOME	\$ 22,969	\$ 21,244
PER SHARE OF COMMON STOCK		
Net income - basic	\$ 2.07	\$ 1.92
Cash dividends declared	\$ 0.40	\$ 0.36

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

	<u>2016</u>	<u>2015</u>
NET INCOME	\$ 22,969	\$ 21,244
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gains (losses) on securities:		
Unrealized holding (losses) gains arising during period	(1,480)	102
Tax benefit (expense)	<u>514</u>	<u>(35)</u>
Other comprehensive income	<u>(966)</u>	<u>67</u>
Comprehensive Income	<u><u>\$ 22,003</u></u>	<u><u>\$ 21,311</u></u>

Consolidated Statements of Stockholders' Equity

YEARS ENDED DECEMBER 31, 2016 AND 2015

(Dollar Amounts in Thousands)

	Total	Common Stock	Capital Surplus
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, \$0.36 per share	(3,988)	-	-
BALANCE, DECEMBER 31, 2015	241,008	5,714	12,540
Net income	22,969	-	-
Other comprehensive income	(966)	-	-
Stock transactions prior to stock dividend			
Executive incentive stock awards	1,111	-	863
Sale of treasury stock, net	139	-	227
Cash dividend declared, \$0.19 per share	(2,104)	-	-
Stock dividend June 27, 2016	-	51,430	-
Sale of treasury stock, net	204	-	221
Cash dividend declared, \$0.21 per share	(2,336)	-	-
BALANCE, DECEMBER 31, 2016	\$ 260,025	\$ 57,144	\$ 13,851

See Notes to Consolidated Financial Statements.

Consolidated Statements of Stockholders' Equity (continued)

Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Shares	
			Common	Treasury
\$ 221,946	\$ (291)	\$ (15,312)	1,429	320
21,244	-	-	-	-
-	67	-	-	-
-	-	(912)	-	1
(3,988)	-	-	-	-
239,202	(224)	(16,224)	1,429	321
22,969	-	-	-	-
-	(966)	-	-	-
-	-	248	-	(5)
-	-	(88)	-	(1)
(2,104)	-	-	-	-
(51,430)	-	-	12,857	2,842
-	-	(17)	-	(8)
(2,336)	-	-	-	-
\$ 206,301	\$ (1,190)	\$ (16,081)	14,286	3,149

Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31, 2016 AND 2015

(Dollar Amounts in Thousands)

	2016	2015
OPERATING ACTIVITIES		
Net income	\$ 22,969	\$ 21,244
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan and lease losses	3,300	2,700
Depreciation and amortization	6,183	5,425
Executive incentive stock awards	1,111	-
Expense (benefit) from deferred income taxes	24	(1,453)
(Gain) loss on sale of premises and equipment and foreclosed assets	(66)	212
Increase in investment in life insurance contracts	(1,250)	(566)
Decrease (increase) in loans held for sale	587	(1,093)
Increase in interest receivable	(1,551)	(2,197)
Increase in mortgage servicing rights	(785)	-
Increase in other assets, net	(2,281)	(135)
Increase (decrease) in interest payable	551	(10)
Increase in accrued expenses and other liabilities	1,791	1,013
Net cash from operating activities	30,583	25,140
INVESTING ACTIVITIES		
Proceeds from maturities and calls of securities available for sale, interest-bearing deposits with banks and federal funds sold	108,557	111,341
Purchases of securities available for sale and interest-bearing deposits with banks	(98,872)	(112,023)
Net increase in loans	(95,160)	(66,658)
Proceeds from sale of premises and equipment	33	37
Purchases of premises and equipment	(2,888)	(3,553)
Proceeds from sale of foreclosed assets	1,105	1,384
Purchase of intangible asset	-	(94)
Purchase of investment in life insurance contracts	(4,000)	-
Proceeds from death benefit of bank owned life insurance	344	192
Net cash used by investing activities	(90,881)	(69,374)
FINANCING ACTIVITIES		
(Decrease) increase in non-interest-bearing deposits, net	(13,781)	21,017
Increase in interest-bearing deposits, net	34,352	28,940
Increase (decrease) in certificates of deposits, net	26,954	(13,406)
Repayments of borrowings	(6,000)	(3,000)
Advances of borrowings	-	10,000
Sale (purchase) of treasury stock, net	343	(388)
Dividends paid to stockholders	(4,440)	(3,988)
Net cash from financing activities	37,428	39,175
NET CHANGE IN CASH AND CASH EQUIVALENTS	(22,870)	(5,059)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	82,747	87,806
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 59,877	\$ 82,747

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows (continued)

Supplemental disclosures of cash flow information:

	<u>2016</u>	<u>2015</u>
Cash payments for:		
Interest	\$ 7,545	\$ 7,038
Income taxes	11,464	14,927

Supplemental schedule of non-cash investing and financing activities:

	<u>2016</u>	<u>2015</u>
Other real estate acquired in settlement of loans	\$ 1,270	\$ 952
Stock dividend	51,430	-

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 46% and 47% of total loans as of December 31, 2016 and 2015. Loans for commercial purposes, including commercial real estate, comprised approximately 43% and 42% of total loans as of December 31, 2016 and 2015.

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 (Formerly FAS 114). Those loans not considered to be impaired are measured using ASC Subtopic 450-20 (Formerly 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.

Mortgage Servicing Rights

Mortgage servicing rights (MSRs) are capitalized as separate assets when loans are sold and servicing is retained. Under the Transfers and Servicing topic of the Codification, FASB ASC 860-50, servicing rights resulting from the sale of loans originated by the Company are initially measured at fair value at the date of transfer. The Company utilizes a third-party to determine the fair value of MSRs using a valuation model that calculates the present value of estimated future net servicing income. The third-party utilizes assumptions in the valuation model that market participants use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, cost to service, escrow account earnings and contractual servicing fee income. Gain or loss on sale of loans depends on (1) proceeds received and (2) the previous carrying amount of the financial assets transferred and any interests continued to be held based on relative fair value at the date of transfer.

The Company has elected to measure and carry MSRs related to residential mortgage loans using the fair value method. Under the fair value method, these MSRs are carried in the consolidated balance sheets at fair value and the changes in fair value, primarily due to changes in valuation inputs and assumptions and to the collection and realization of expected cash flows, are reported in noninterest income in the period in which the change occurs.

Investment in Low Income Housing Partnerships

At December 31, 2016, investments in low income housing partnerships include:

Whiting Court Limited Partnership, a partnership formed for the sole and exclusive purpose of acquiring, rehabilitating, developing, owning, operating, and managing a low-income residential rental project consisting of a multi-family housing complex with ten (10) 1-bedroom apartments and seven (7) 2-bedroom apartment units within one building in Yankton, South Dakota.

Northern Lights Limited Partnership, a partnership formed for the sole and exclusive purpose of acquiring, constructing, developing, owning, operating, and managing a low-income residential rental project consisting of a multi-family housing complex with six (6) 1-bedroom apartments, sixteen (16) 2-bedroom apartments, and eight (8) 3-bedroom units within one building in Box Elder, South Dakota.

Notes to Consolidated Financial Statements (continued)

The Company is a 99.99% limited partner in both low income housing partnerships. The investments in the partnerships are accounted for under the proportional amortization method, which provides for amortization in proportion to the tax credits allocated to the Company. Such amortization is reported as a component of income tax expense.

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.

Advertising Costs

Advertising costs are expensed as incurred. Advertising costs was approximately \$762 and \$1,050 for the years ended December 31, 2016 and 2015.

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:

	<u>2016</u>	<u>2015</u>
Average number of common shares outstanding (in thousands)	<u><u>11,107</u></u>	<u><u>11,077</u></u>

Notes to Consolidated Financial Statements (continued)

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.

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, 2016 and 2015 consist of the following:

	2016	2015
Securities available for sale, at fair value	\$ 266,019	\$ 277,832
Investments in government corporations, at cost	12,799	12,291
	<u>\$ 278,818</u>	<u>\$ 290,123</u>

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, 2016				
Securities Available For Sale				
U.S. Government and Federal Agency	\$ 138,580	\$ 173	\$ 757	\$ 137,996
State and Municipal	66,372	105	524	65,953
Mortgage-Backed	60,601	186	1,014	59,773
Other	2,297	-	-	2,297
	<u>\$ 267,850</u>	<u>\$ 464</u>	<u>\$ 2,295</u>	<u>\$ 266,019</u>
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
	<u>\$ 278,183</u>	<u>\$ 854</u>	<u>\$ 1,205</u>	<u>\$ 277,832</u>

Notes to Consolidated Financial Statements (continued)

Investment securities with a carrying value of \$147,554 and \$194,389 as of December 31, 2016 and 2015, 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, 2016 follows:

	Amortized Cost	Fair Value
Within one year	\$ 40,589	\$ 40,610
Over one through five years	205,588	203,919
Over five through ten years	13,490	13,308
Over ten years	8,183	8,182
	<u>\$ 267,850</u>	<u>\$ 266,019</u>

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 2016 and 2015.

Information pertaining to securities with gross unrealized losses at December 31, 2016 and 2015 aggregated by investment category and length of time that individual securities have been in a continuing loss position follows:

	<u>Less Than Twelve Months</u>		<u>Over Twelve Months</u>	
	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
DECEMBER 31, 2016				
Securities available for sale				
U.S. Government and Federal Agency	\$ 757	\$ 86,361	\$ -	\$ -
State and Municipal	519	42,152	5	1,166
Mortgage-Backed	914	41,893	100	2,960
	<u>\$ 2,190</u>	<u>\$ 170,406</u>	<u>\$ 105</u>	<u>\$ 4,126</u>

	<u>Less Than Twelve Months</u>		<u>Over Twelve Months</u>	
	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
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
	<u>\$ 896</u>	<u>\$ 144,135</u>	<u>\$ 309</u>	<u>\$ 20,214</u>

Notes to Consolidated Financial Statements (continued)

At December 31, 2016, one municipal security had an unrealized loss with aggregate depreciation of 5% or more from the Company's amortized cost basis caused by interest rate changes. At December 31, 2015, no securities had unrealized losses with aggregate depreciation of 5% or more from the Company's amortized cost basis. 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 bases, 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:

	<u>2016</u>	<u>2015</u>
Commercial	\$ 264,291	\$ 241,824
Commercial real estate	529,607	489,250
Agricultural	854,190	829,213
Residential real estate	124,020	126,042
Consumer	65,588	61,360
Total loans	<u>1,837,696</u>	<u>1,747,689</u>
Allowance for loan and lease losses	(26,165)	(26,667)
Accretable yield discount	(19)	(37)
Credit quality discount	<u>-</u>	<u>(63)</u>
Total loans, net	<u><u>\$ 1,811,512</u></u>	<u><u>\$ 1,720,922</u></u>

Commercial and agricultural lending are the primary lending activities of the Company as evidenced by the fact that 90% 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, 2016 and 2015, 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 \$21,193 and \$12,719 at December 31, 2016 and 2015. 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 \$1,185 and \$1,678 as of December 31, 2016 and 2015.

Changes in the allowance for loan and lease losses are as follows:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 26,667	\$ 24,059
Provision for loan and lease losses	3,300	2,700
Loans charged off	(4,128)	(1,327)
Recoveries	326	1,235
Balance, end of year	<u><u>\$ 26,165</u></u>	<u><u>\$ 26,667</u></u>

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, 2016 and 2015 and the recorded investments in loans and impairment methods as of December 31, 2016 and 2015 by portfolio segment.

DECEMBER 31, 2016	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Agricultural</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Total</u>
Allowance for Loan and Lease Losses						
Balance, beginning of year	\$ 4,800	\$ 5,579	\$ 13,093	\$ 2,131	\$ 1,064	\$ 26,667
Provision for loan and lease losses	1,546	2,317	(385)	(212)	34	3,300
Loans charged off	(1,368)	(1,499)	(1,098)	(16)	(147)	(4,128)
Recoveries	131	22	100	23	50	326
Balance, end of year	<u>\$ 5,109</u>	<u>\$ 6,419</u>	<u>\$ 11,710</u>	<u>\$ 1,926</u>	<u>\$ 1,001</u>	<u>\$ 26,165</u>
Individually evaluated for impairment	\$ 2,641	\$ 1,294	\$ 2,147	\$ 602	\$ 306	\$ 6,990
Collectively evaluated for impairment	<u>2,468</u>	<u>5,125</u>	<u>9,563</u>	<u>1,324</u>	<u>695</u>	<u>19,175</u>
Balance, end of year	<u>\$ 5,109</u>	<u>\$ 6,419</u>	<u>\$ 11,710</u>	<u>\$ 1,926</u>	<u>\$ 1,001</u>	<u>\$ 26,165</u>
Loans						
Individually evaluated for impairment	\$ 16,455	\$ 10,135	\$ 113,807	\$ 4,655	\$ 584	\$ 145,636
Collectively evaluated for impairment	<u>247,836</u>	<u>519,472</u>	<u>740,383</u>	<u>119,365</u>	<u>65,004</u>	<u>1,692,060</u>
Balance, end of year	<u>\$ 264,291</u>	<u>\$ 529,607</u>	<u>\$ 854,190</u>	<u>\$ 124,020</u>	<u>\$ 65,588</u>	<u>\$ 1,837,696</u>

Notes to Consolidated Financial Statements (continued)

DECEMBER 31, 2015	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Agricultural</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Total</u>
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	<u>\$ 4,800</u>	<u>\$ 5,579</u>	<u>\$ 13,093</u>	<u>\$ 2,131</u>	<u>\$ 1,064</u>	<u>\$ 26,667</u>
Individually evaluated for impairment	\$ 2,716	\$ 802	\$ 2,227	\$ 708	\$ 386	\$ 6,839
Collectively evaluated for impairment	<u>2,084</u>	<u>4,777</u>	<u>10,866</u>	<u>1,423</u>	<u>678</u>	<u>19,828</u>
Balance, end of year	<u>\$ 4,800</u>	<u>\$ 5,579</u>	<u>\$ 13,093</u>	<u>\$ 2,131</u>	<u>\$ 1,064</u>	<u>\$ 26,667</u>
Loans						
Individually evaluated for impairment	\$ 12,710	\$ 13,729	\$ 79,725	\$ 6,178	\$ 695	\$ 113,037
Collectively evaluated for impairment	<u>229,114</u>	<u>475,521</u>	<u>749,488</u>	<u>119,864</u>	<u>60,665</u>	<u>1,634,652</u>
Balance, end of year	<u>\$ 241,824</u>	<u>\$ 489,250</u>	<u>\$ 829,213</u>	<u>\$ 126,042</u>	<u>\$ 61,360</u>	<u>\$ 1,747,689</u>

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, 2016 and 2015 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, 2016					
Commercial	\$ 223,289	\$ 30,037	\$ 10,965	\$ -	\$ 264,291
Commercial Real Estate	491,425	29,779	8,403	-	529,607
Agricultural	589,313	158,707	106,170	-	854,190
	<u>\$ 1,304,027</u>	<u>\$ 218,523</u>	<u>\$ 125,538</u>	<u>\$ -</u>	<u>\$ 1,648,088</u>
	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
	<u>\$ 1,278,906</u>	<u>\$ 182,067</u>	<u>\$ 99,307</u>	<u>\$ 7</u>	<u>\$ 1,560,287</u>

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, 2016 and 2015:

	<u>Performing</u>	<u>Non-performing</u>	<u>Total</u>
DECEMBER 31, 2016			
Residential Real Estate	\$ 122,564	\$ 1,456	\$ 124,020
Consumer	65,196	392	65,588
	<u>\$ 187,760</u>	<u>\$ 1,848</u>	<u>\$ 189,608</u>
	<u>Performing</u>	<u>Non-performing</u>	<u>Total</u>
DECEMBER 31, 2015			
Residential Real Estate	\$ 124,366	\$ 1,676	\$ 126,042
Consumer	60,981	379	61,360
	<u>\$ 185,347</u>	<u>\$ 2,055</u>	<u>\$ 187,402</u>

The following tables summarize the aging of the past due loans by portfolio segment as of December 31, 2016 and 2015:

	<u>Still Accruing</u>		<u>Nonaccrual Balance</u>
	<u>30-89 Days Past Due</u>	<u>Over 90 Days Past Due</u>	
DECEMBER 31, 2016			
Commercial	\$ 341	\$ -	\$ 3,349
Commercial Real Estate	599	713	2,655
Agricultural	1,419	689	6,403
Residential Real Estate	652	75	1,381
Consumer	343	8	384
Total	<u>\$ 3,354</u>	<u>\$ 1,485</u>	<u>\$ 14,172</u>
	<u>Still Accruing</u>		<u>Nonaccrual Balance</u>
	<u>30-89 Days Past Due</u>	<u>Over 90 Days Past Due</u>	
DECEMBER 31, 2015			
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	<u>\$ 8,944</u>	<u>\$ 1,894</u>	<u>\$ 12,609</u>

Notes to Consolidated Financial Statements (continued)

The following table summarizes individually impaired loans by portfolio segment as of December 31, 2016 and 2015:

DECEMBER 31, 2016	Recorded Investment	Unpaid Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial	\$ 9,577	\$ 9,577	\$ -	\$ 7,247	\$ 439
Commercial Real Estate	6,515	6,515	-	7,359	287
Agricultural	71,078	71,078	-	72,304	2,266
Residential Real Estate	1,393	1,393	-	1,949	68
Consumer	7	7	-	9	1
	<u>\$ 88,570</u>	<u>\$ 88,570</u>	<u>\$ -</u>	<u>\$ 88,868</u>	<u>\$ 3,061</u>
DECEMBER 31, 2016	Recorded Investment	Unpaid Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded					
Commercial	\$ 6,878	\$ 6,878	\$ 2,641	\$ 9,212	\$ 270
Commercial Real Estate	3,620	3,620	1,294	5,239	154
Agricultural	42,729	42,729	2,147	42,752	1,185
Residential Real Estate	3,262	3,262	602	2,791	157
Consumer	577	577	306	642	39
	<u>\$ 57,066</u>	<u>\$ 57,066</u>	<u>\$ 6,990</u>	<u>\$ 60,636</u>	<u>\$ 1,805</u>
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
Residential Real Estate	3,692	3,692	-	3,598	191
Consumer	17	17	-	19	1
	<u>\$ 69,729</u>	<u>\$ 69,729</u>	<u>\$ -</u>	<u>\$ 62,919</u>	<u>\$ 2,819</u>
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
Residential Real Estate	2,486	2,486	708	2,422	110
Consumer	678	678	386	746	45
	<u>\$ 43,308</u>	<u>\$ 43,308</u>	<u>\$ 6,839</u>	<u>\$ 37,396</u>	<u>\$ 1,630</u>

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

Notes to Consolidated Financial Statements (continued)

The following table represents the effects of the troubled debt restructurings during the years ended December 31, 2016 and 2015. 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 2016 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.

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

<u>Allowance for Loan and Lease Losses</u>				
December 31, 2016	<u>Number of Modifications</u>	<u>Unpaid Principal Balance</u>	<u>Prior to Modification</u>	<u>At Year End</u>
Troubled debt restructurings				
Commercial Business	5	\$ 3,655	\$ -	\$ 16
Commercial Real Estate	4	1,640	-	1,067
Agricultural	29	13,309	43	173
Residential Real Estate	1	603	-	72
	<u>39</u>	<u>\$ 19,207</u>	<u>\$ 43</u>	<u>\$ 1,328</u>
Troubled debt restructurings that subsequently defaulted				
Commercial Business	5	\$ 1,719	\$ 777	\$ 795
Commercial Real Estate	1	123	-	18
Agricultural	2	376	23	44

<u>Allowance for Loan and Lease Losses</u>				
December 31, 2015	<u>Number of Modifications</u>	<u>Unpaid Principal Balance</u>	<u>Prior to Modification</u>	<u>At Year End</u>
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
	<u>34</u>	<u>\$ 11,804</u>	<u>\$ 867</u>	<u>\$ 736</u>
Troubled debt restructurings that subsequently defaulted				
Commercial Business	2	\$ 584	\$ 221	\$ 206
Residential Real Estate	1	488	-	-
Agricultural	2	411	76	47
Residential Real Estate	2	115	15	-

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, 2016.

Notes to Consolidated Financial Statements (continued)

NOTE 5 - PREMISES AND EQUIPMENT

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

	<u>2016</u>	<u>2015</u>
Land	\$ 7,334	\$ 7,134
Buildings and improvements	64,601	64,574
Furniture, fixtures and equipment	<u>23,175</u>	<u>23,209</u>
	95,110	94,917
Accumulated depreciation and amortization	<u>(49,925)</u>	<u>(48,765)</u>
	<u>\$ 45,185</u>	<u>\$ 46,152</u>

Depreciation and amortization charged to occupancy and furniture and equipment expense in the consolidated statements of income amounted to \$3,811 in 2016 and \$3,850 in 2015.

NOTE 6- GOODWILL AND INTANGIBLE ASSETS

The summary of the net carrying amount of the intangible assets as of December 31, 2016 and 2015 follows:

	<u>2016</u>	<u>2015</u>
Core deposit intangible	\$ 4,409	\$ 4,409
Accumulated amortization	<u>3,680</u>	<u>3,346</u>
	729	1,063
Insurance files	2,098	2,098
Accumulated amortization	<u>1,328</u>	<u>1,176</u>
	770	922
Goodwill	6,744	6,744
Accumulated amortization	<u>329</u>	<u>329</u>
	6,415	6,415
	<u>\$ 7,914</u>	<u>\$ 8,400</u>

There were no impairment losses related to the intangible assets during the years ended December 31, 2016 and 2015. 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 \$486 and \$621 for the years ended December 31, 2016 and 2015.

At December 31, 2016, the estimated amortization expense for intangible assets for the succeeding five years is as follows:

2017	\$ 331
2018	279
2019	281
2020	275
2021	212

NOTE 7- MORTGAGE SERVICING RIGHTS

Loans serviced for others are not included in the consolidated balance sheets. The risks inherent in mortgage servicing rights relate primarily to changes in prepayments that result from shifts in mortgage interest rates. The unpaid principal balances of loans serviced for others was approximately \$71,834 at December 31, 2016.

Notes to Consolidated Financial Statements (continued)

The fair value of these rights were \$785 at December 31, 2016. The fair value of servicing rights was determined using discount rates ranging from 9.50 percent to 12.50 percent, prepayment speeds ranging from 1.16 percent to 1.45 percent, depending on the stratification of the specific right, and anticipated credit losses of 1.03 percent.

The changes in mortgage servicing rights measured using the fair value method at December 31, 2016 and 2015 were as follows:

	2016	2015
Fair value as of the beginning of the period	\$ -	\$ -
Additions		
Purchases	-	-
Assumptions of servicing obligations	226	-
Servicing obligations that are the result of asset transfers	-	-
Subtractions		
Disposals	-	-
Changes in fair value due to changes in valuation inputs or assumptions used in the valuation model	559	-
Other changes	-	-
Fair value at the end of the period	\$ 785	\$ -

Contractually specified servicing fees, loan fees, and late fees are included in servicing fees on residential mortgages:

	2016	2015
Contractually specified servicing fees	\$ 124	\$ -
Loan Fees	44	-
Late Fees	1	-
	169	-

NOTE 8- INVESTMENT IN LOW INCOME HOUSING PARTNERSHIPS

Investments in low income housing partnerships consist of the following as of December 31, 2016 and 2015:

	2016	2015
Whiting Court limited partnership	\$ 312	\$ -
Northern Lights limited partnership	1,072	-
Balance, end of year	\$ 1,384	\$ -

Changes to the limited partnerships occurred during the year ended December 31, 2016:

	Whiting Court Limited Partnership	Northern Lights Limited Partnership
Balance, beginning of year	\$ -	\$ -
Initial contributions to limited partnerships	312	1,072
Balance, end of year	\$ 312	\$ 1,072

Total contributions and tax credits are projected to be \$933 and \$973 respectively for the Whiting Court limited partnership and \$3,062 and \$2,916 respectively for the Northern Lights limited partnership. Based on forecasts, the Company will be allocated low income housing tax credits by the partnerships starting in 2017 and ending in 2027.

Notes to Consolidated Financial Statements (continued)

NOTE 9 - DEPOSITS

A summary of the balances of deposits follows:

	2016	2015
Demand	\$ 528,110	\$ 541,891
Interest checking	290,378	294,186
Money market accounts	218,517	242,407
Premium money market accounts	415,760	353,710
Time, \$250,000 and over	87,724	73,065
Other time	433,926	421,631
	<u>\$ 1,974,415</u>	<u>\$ 1,926,890</u>

At December 31, 2016, the scheduled maturities of certificates of deposit were as follows:

2017	\$ 244,449
2018	82,549
2019	42,972
2020	99,888
2021	44,292
Thereafter	7,500
	<u>\$ 521,650</u>

NOTE 10 - BORROWINGS

Borrowings consist of Federal Home Loan advances totaling \$38,000 and \$44,000 as of December 31, 2016 and 2015. The contractual maturities of the borrowings are as follows: 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, 2016, mature from November 2017 through September 2022. All advances have fixed rate interest, ranging from 1.14% 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 \$577,289 and \$518,453 as of December 31, 2016 and 2015. 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 \$10,314 and \$9,805 as of December 31, 2016 and 2015. The net excess of pledged collateral over the outstanding indebtedness was \$271,498 as of December 31, 2016.

As of December 31, 2016 and 2015, the Company pledged loans totaling \$72,540 and \$82,018 for an available borrowing line of \$63,974 and \$70,562 under the Federal Reserve Bank's Borrower in Custody (BIC) program.

The Company also had an unsecured federal funds purchased borrowing capacity of \$70,000 and \$75,000 at December 31, 2016 and 2015, respectively.

NOTE 11 - 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 \$2,254 in 2016 and \$2,074 in 2015.

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 \$1,354 and \$1,564 in 2016 and 2015. Retirement payments of \$558 and \$439 were made in 2016 and 2015. The Company has life insurance policies in place to provide funding for these benefits. Cash surrender value of these policies was \$41,828 and \$36,923 at December 31, 2016 and 2015.

The Dacotah Banks, Inc. 2015 Stock Incentive Plan (the “Stock Plan”) authorized the issuance of up to 1,000,000 common shares for the grant of stock options and several other types of stock-based awards. The Company awarded 48,990 treasury shares in the form of fully vested incentive stock grants to executive officers of the Company in 2016. There were no stock awards in 2015. The fair market value of the stock award was \$22.70 per share or a total of \$1,111 at December 31, 2016. There were 818,290 and 867,280 unissued common shares remaining under the Stock Plan at December 31, 2016 and 2015.

NOTE 12 - INCOME TAXES

Income tax expense for the two years ended December 31, 2016 and 2015 were:

	<u>2016</u>	<u>2015</u>
Current		
Federal	\$ 10,970	\$ 12,110
State	<u>1,346</u>	<u>1,680</u>
	12,316	13,790
Deferred		
	<u>67</u>	<u>(1,453)</u>
	<u>\$ 12,383</u>	<u>\$ 12,337</u>

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:

	<u>2016</u>			<u>2015</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Total</u>	
Allowance for loan and lease losses	\$ 9,271	\$ -	\$ 9,271	\$ 9,603
Property and equipment	-	1,962	(1,962)	(1,978)
Accrued salary continuation provision	5,017	-	5,017	4,812
Unrealized (gain) loss on securities available for sale	642	-	642	128
Other	<u>774</u>	<u>94</u>	<u>680</u>	<u>593</u>
	<u>\$ 15,704</u>	<u>\$ 2,056</u>	<u>\$ 13,648</u>	<u>\$ 13,158</u>

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 \$15,704 will be principally realized.

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

	<u>2016</u>	<u>2015</u>
Federal statutory income tax rate	35.0%	35.0%
State income taxes, net of federal income tax benefit	2.5	3.3
Tax-exempt income	(1.6)	(1.5)
Non-deductible expenses incidental to business acquisitions	0.2	0.2
Other, net	<u>(1.1)</u>	<u>(0.1)</u>
	<u>35.0%</u>	<u>36.7%</u>

Notes to Consolidated Financial Statements (continued)

Income taxes payable of \$1,748 and \$853 is included in accrued expenses and other liabilities at December 31, 2016 and 2015. The Company complies with the accounting standards relating to uncertainty in income taxes. The Company had no unrecognized tax benefits as of December 31, 2016 and 2015. The Company recognized no interest and penalties on the underpayment of income taxes during the years ended December 31, 2016 and 2015, and had no accrued interest and penalties on the balance sheet as of December 31, 2016 and 2015. 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.

NOTE 13 - 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 1 capital 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, 2016 and 2015, management believes the Company and the Bank met all capital adequacy requirements to which they are subject. As of December 31, 2016, 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		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
DECEMBER 31, 2016						
Common Equity Tier 1						
Company	\$ 253,901	12.7%	>\$90,200	4.5%	N/A	N/A
Bank	\$ 246,546	12.3%	>\$89,874	4.5%	>\$129,818	6.5%
Total Capital (to risk weighted assets)						
Company	\$ 278,970	13.9%	>\$160,356	8.0%	N/A	N/A
Bank	\$ 271,525	13.6%	>\$159,776	8.0%	>\$199,720	10.0%
Tier I Capital (to risk weighted assets)						
Company	\$ 253,901	12.7%	>\$120,267	6.0%	N/A	N/A
Bank	\$ 246,546	12.3%	>\$119,832	6.0%	>\$159,776	8.0%
Tier I Capital (to average assets)						
Company	\$ 253,901	11.1%	>\$91,861	4.0%	N/A	N/A
Bank	\$ 246,546	10.8%	>\$91,407	4.0%	>\$114,259	5.0%
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%	>\$115,324	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%

NOTE 14 - 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, 2016 are as follows:

2017	\$ 157
2018	142
2019	142
2020	142
2021	142
Thereafter	142
	<u>\$ 867</u>

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:

	2016	2015
Bank premises	\$ 18	\$ 18
Office space	<u>169</u>	<u>159</u>
Total	<u>\$ 187</u>	<u>\$ 177</u>

Notes to Consolidated Financial Statements (continued)

NOTE 15 - 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, 2016 and 2015.

NOTE 16 - 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, 2016 and 2015, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2016	2015
Commitments to grant loans	\$ 408,955	\$ 384,006
Standby letters of credit	11,113	12,478
MPF credit enhancements	8,690	7,930

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.

Mortgage Partnership Finance (MPF) credit enhancements allow the Company to share the credit risk associated with home mortgage finance with Federal Home Loan Bank (FHLB). MPF provides Dacotah Bank the ability to originate, sell, and service fixed-rate, residential mortgage loans, and receive a Credit Enhancement Fee based on the performance of the loans. FHLB manages the liquidity, interest rate, and prepayment risks of the loans while the Company manages the credit risk of the loans. The Company will incur an obligation on a foreclosure loss only after a foreclosure loss exceeds the borrower's equity, any private mortgage insurance, and the funded first loss account. Based on the delinquency results for states where properties are located and the Company's historical loss experience, the estimated foreclosure losses are immaterial.

NOTE 17 - 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

Notes to Consolidated Financial Statements (continued)

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.

- 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, 2016 and 2015, 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, 2016 and 2015:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
DECEMBER 31, 2016				
Securities available for sale:				
U.S. Government and federal agency	\$ -	\$ 137,996	\$ -	\$ 137,996
State and municipal	-	65,673	-	65,673
Mortgage-backed	-	59,773	-	59,773
Other	-	2,577	-	2,577
Mortgage servicing rights	-	785	-	785
	<u>\$ -</u>	<u>\$ 266,804</u>	<u>\$ -</u>	<u>\$ 266,804</u>
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
	<u>\$ -</u>	<u>\$ 277,832</u>	<u>\$ -</u>	<u>\$ 277,832</u>

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 and are classified as Level 2 within the valuation hierarchy.

The Company utilizes a third-party to determine the fair value of mortgage servicing rights using a valuation model that calculates the present value of estimated future net servicing income. The third-party utilizes assumptions in the valuation model that market participants use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, costs to service, escrow account earnings, and contractual servicing income. These assumptions change from quarter to quarter as market conditions and projected interest rates change.

Notes to Consolidated Financial Statements (continued)

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:

	2016	2015	Valuation Technique	Unobservable Input	2016 Range (Weighted Average)	2015 Range (Weighted Average)
Impaired loans	\$50,076	\$36,469	Collateral Valuation	Discount from Market Value	0-100% 12%	0-100% 16%
Foreclosed assets	1,290	1,048	Collateral Valuation	Discount from Market Value	0-93% 56%	0-48% 19%
Total assets	<u>\$51,366</u>	<u>\$37,517</u>				

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:

	2016		2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Cash and cash equivalents	\$ 59,877	\$ 59,877	\$ 82,747	\$ 82,747
Time deposits in banks	9,438	9,438	11,184	11,184
Securities available for sale	266,019	266,019	277,832	277,832
Loans held for sale	506	506	1,093	1,093
Loans, net	1,811,512	1,820,447	1,720,922	1,725,930
Interest receivable	22,503	22,503	20,952	20,952
Mortgage servicing rights	785	785	-	-
Investments in life insurance contracts	41,828	41,828	36,923	36,923
Total financial assets	<u>\$ 2,212,468</u>	<u>\$ 2,221,403</u>	<u>\$ 2,151,653</u>	<u>\$ 2,156,661</u>
Financial Liabilities				
Deposits	\$ 1,974,415	\$ 1,830,254	\$ 1,926,890	\$ 1,925,830
Borrowings	38,000	38,965	44,000	44,351
Interest payable	3,003	3,003	2,452	2,452
Total financial liabilities	<u>\$ 2,015,418</u>	<u>\$ 1,872,222</u>	<u>\$ 1,973,342</u>	<u>\$ 1,972,633</u>

Notes to Consolidated Financial Statements (continued)

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.

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.

Mortgage servicing rights – Fair values are estimated using discounted cash flows based on current market rates of interest.

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.

Notes to Consolidated Financial Statements (continued)

NOTE 18- CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

BALANCE SHEETS

	December 31,	
	2016	2015
ASSETS		
Investment in subsidiary bank	\$ 252,293	\$ 235,880
Cash	4,598	1,596
Loans	844	952
Premises and equipment, net	1,029	951
Foreclosed assets	-	124
Investments in life insurance contracts	4,429	4,301
Other assets	1,183	1,810
Total assets	<u>\$ 264,376</u>	<u>\$ 245,614</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Other liabilities	<u>\$ 4,351</u>	<u>\$ 4,606</u>
STOCKHOLDERS' EQUITY		
Common stock, \$4 par value; 30,000,000 shares authorized, 14,285,980 shares issued and outstanding in 2016		
5,000,000 shares authorized, 1,428,598 shares issued and outstanding in 2015	57,144	5,714
Capital surplus	13,851	12,540
Retained earnings	206,301	239,202
Accumulated other comprehensive income	(1,190)	(224)
Treasury stock, 3,149,075 shares in 2016 and 321,206 shares in 2015	(16,081)	(16,224)
Total stockholders' equity	<u>260,025</u>	<u>241,008</u>
Total liabilities and stockholders' equity	<u>\$ 264,376</u>	<u>\$ 245,614</u>

Notes to Consolidated Financial Statements (continued)

INCOME STATEMENTS

	Years Ended December 31,	
	2016	2015
Dividend income from subsidiary bank	\$ 6,300	\$ 5,750
Management fees and other income	2,827	2,815
Total income	<u>9,127</u>	<u>8,565</u>
Salaries and employee benefits expense	1,853	1,827
Other expenses	1,015	1,047
Total expenses	<u>2,868</u>	<u>2,874</u>
Income before income taxes and equity in undistributed earnings of subsidiary	6,259	5,691
Income tax expense	<u>95</u>	<u>78</u>
Income before equity in undistributed earnings of subsidiary	6,354	5,769
Equity in undistributed earnings of subsidiary	<u>16,615</u>	<u>15,475</u>
Net income	<u>\$ 22,969</u>	<u>\$ 21,244</u>

Notes to Consolidated Financial Statements (continued)

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2016	2015
OPERATING ACTIVITIES		
Net income	\$ 22,969	\$ 21,244
Adjustments to reconcile net income to net cash from operating activities:		
Equity in undistributed earnings of subsidiary, net of cash dividends received	(16,693)	(18,382)
Depreciation and amortization	194	203
Increase in investment in life insurance contracts	(128)	(73)
Loss on sale of foreclosed assets	8	115
Executive incentive stock awards	1,111	-
Decrease in other assets, net	627	38
Decrease in other liabilities, net	(255)	(695)
Net Cash From Operating Activities	7,833	2,450
INVESTING ACTIVITIES		
Net decrease in loans	108	101
Proceeds from sale of premises and equipment	16	-
Purchases of premises and equipment, net	(288)	(85)
Proceeds from sale of foreclosed assets	116	638
Net Cash From (Used By) Investing Activities	(48)	654
FINANCING ACTIVITIES		
Purchase of treasury stock, net	(343)	(388)
Dividends paid	(4,440)	(3,988)
Net Cash Used By Financing Activities	(4,783)	(4,376)
NET CHANGE IN CASH	3,002	(1,272)
CASH, BEGINNING OF YEAR	1,596	2,868
CASH, END OF YEAR	\$ 4,598	\$ 1,596

Supplemental disclosures of cash flow information:

	2016	2015
Bank owned life insurance transferred from subsidiary through dividends	\$ -	\$ 2,908
Stock dividend	51,430	-

Dacotah Banks, Inc. Directors



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



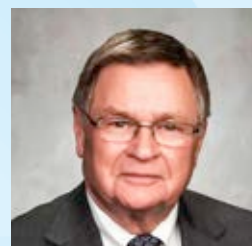
Joseph A. Senger
(2015*)
President and Chief
Executive Officer
Aberdeen, SD



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



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



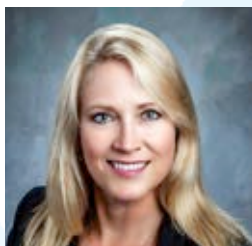
Rodney W. Fouberg,
(1984*),
Retired Chairman,
Dacotah Banks, Inc.
Aberdeen, SD



Robert B. Lamont, II
(2001*)
Private Investor
Aberdeen, SD
Retired Aug. 2016



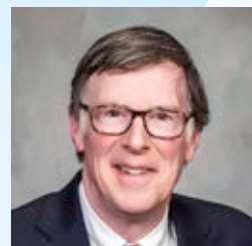
William S. Lamont
(1985*)
Planning Consultant
Lamont Associates
Aberdeen, SD



Lori Lamont Lange
(2016*)
District Sales
Manager, Avon
St. Cloud, MN



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



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



Robert J. Fouberg
Secretary

*Year first elected.

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

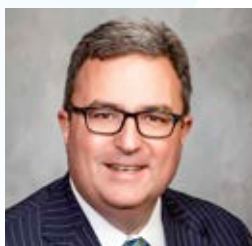
Dacotah Banks, Inc. Management



Richard L. Westra
Chairman of
the Board



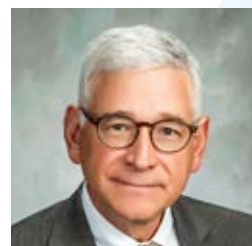
Joseph A. Senger
President and Chief
Executive Officer



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 Talent
Management

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
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Robert J. Fouberg
Secretary

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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



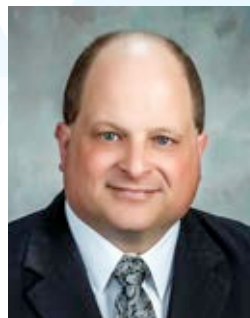
Bob L. Compton
Senior Vice
President Talent
Management



Michael K. Hollan
Senior Vice
President and
Chief Operations
Officer



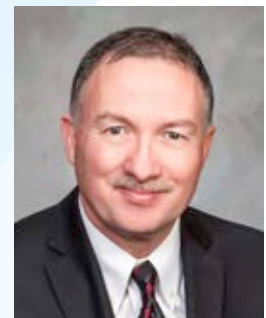
Rob D. Keil
Senior Vice
President Credit
Administration



Aaron L. McCardle
Senior Vice
President
Insurance Services



Diana L. Pfister
Senior Vice
President
Compliance



Steven M. Schaeffer
Senior Vice
President Trust
and Wealth
Management



Kristen N. Fauth
Vice President
Risk Management



Paul R. McDonald
Vice President
Marketing



Stacy J. Sandvig
Vice President
Treasury
Retired July 2016

Dacotah Bank Management

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Southeast Region



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Aberdeen, SD
Mid-Dakota Region



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Western Region



Daniel R. Vollmer
Minot, ND
Northern Region

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Dickinson, ND



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Morris, MN



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Randy L. Silver
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Matt J. Smith
Sioux Falls, SD



Kevin B. Wegehaupt
Sisseton, SD



Troy J. Zebroski
Watertown, SD

DACOTAH BANK

*Here for you.*SM

BANKING ♦ INSURANCE ♦ MORTGAGE ♦ TRUST

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Sioux Falls Silver Valley

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F - (605) 362-1331

Sioux Falls Town Centre

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