DACOTAH BANK ®

Dacotah Banks, Inc.
Consolidated Financial Statements
December 31, 2020 and 2019

CPAs & BUSINESS ADVISORS

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, 2020 and 2019, 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, 2020 and 2019, 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, 2020, 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 12, 2021, expressed an unmodified opinion.

Eide Bailly LLP

Minneapolis, Minnesota
March 12, 2021

(Dollar Amounts in Thousands)

	2020	2019
Assets		
Cash and cash equivalents		
Cash due from banks	$ 75,705	$ 52,758
Interest-bearing deposits in banks	295,000	136,500
Total cash and cash equivalents	370,705	189,258
Time deposits in banks	11,963	12,413
Securities	289,413	259,894
Loans held for sale	1,268	1,750
Loans, net of allowance for loan and lease losses	2,261,554	2,078,878
Interest receivable	24,489	28,758
Premises and equipment, net	55,111	53,047
Foreclosed assets	1,400	776
Investment in life insurance contracts	56,127	53,055
Deferred income tax asset	9,740	9,034
Goodwill	10,248	6,415
Intangible assets	1,170	604
Mortgage servicing rights	1,806	1,262
Other assets	8,200	6,149
Total assets	$ 3,103,194	$ 2,701,293
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$ 2,699,041	$ 2,319,064
Borrowings	17,000	22,000
Interest payable	3,696	6,026
Accrued expenses and other liabilities	29,754	27,916
Total liabilities	2,749,491	2,375,006
Stockholders' Equity		
Common stock, $4 par value; 30,000,000 shares authorized, 14,285,980 shares issued and outstanding	57,144	57,144
Capital surplus	19,965	17,877
Retained earnings	290,069	266,534
Accumulated other comprehensive income	5,756	1,792
Treasury stock, 3,059,862 shares in 2020 and 3,049,660 shares in 2019, at cost	(19,231)	(17,060)
Total stockholders' equity	353,703	326,287
Total liabilities and stockholders' equity	$ 3,103,194	$ 2,701,293

(Dollar Amounts in Thousands Except Per Share Data)

	2020	2019
Interest Income		
Loans	$ 111,502	$ 109,206
Securities		
Taxable	5,014	5,174
Exempt from federal income taxes	1,140	1,159
Deposits in banks	307	303
Federal funds sold	668	2,147
	118,631	117,989
Interest Expense		
Deposits	14,284	22,252
Borrowings	909	1,088
	15,193	23,340
Net Interest Income	103,438	94,649
Provision for Loan and Lease Losses	8,800	3,000
Net Interest Income After Provision for Loan and Lease Losses	94,638	91,649
Non-Interest Income		
Income from trust activities	2,316	2,312
Service charges on deposit accounts	2,372	3,063
Insurance commissions	4,557	4,570
Fees on sale of residential mortgages	4,804	1,683
Servicing fees on residential mortgages	1,254	288
Other income	9,024	9,298
	24,327	21,214
Non-Interest Expenses		
Salaries and employee benefits	53,331	49,789
Occupancy, net	5,180	4,964
Furniture and equipment	2,493	1,930
FDIC assessment	499	346
Other expenses	18,739	16,591
	80,242	73,620

(Dollar Amounts in Thousands Except Per Share Data)

	2020	2019
Income Before Income Taxes	$ 38,723	$ 39,243
Income Tax Expense	9,120	8,550
Net Income	$ 29,603	$ 30,693
Per Share of Common Stock		
Net income - basic	$ 2.64	$ 2.74
Cash dividends declared	$ 0.54	$ 0.53

(Dollar Amounts in Thousands)

	2020	2019
Net Income	$ 29,603	$ 30,693
Other Comprehensive Income:		
Unrealized losses on securities:		
Unrealized holding gains arising during period	5,017	4,414
Tax expense	(1,053)	(929)
Other comprehensive income	3,964	3,485
Comprehensive Income	$ 33,567	$ 34,178

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2020 and 2019
(Dollar and Share Amounts in Thousands)

					Accumulated Other		Shares	
	Total	Common Stock	Capital Surplus	Retained Earnings	Comprehensive Income (Loss)	Treasury Stock	Common	Treasury
Balance, December 31, 2018	$ 295,750	$ 57,144	$ 15,612	$ 241,776	$ (1,693)	$ (17,089)	14,286	3,118
Net income	30,693	-	-	30,693	-	-	-	-
Other comprehensive income	3,485	-	-	-	3,485	-	-	-
Executive incentive stock awards	1,880	-	1,566	-	-	314	-	(56)
Sale of treasury stock, net	414	-	699	-	-	(285)	-	(12)
Cash dividend declared, $0.53 per share	(5,935)	-	-	(5,935)	-	-	-	-
Balance, December 31, 2019	326,287	57,144	17,877	266,534	1,792	(17,060)	14,286	3,050
Net income	29,603	-	-	29,603	-	-	-	-
Other comprehensive income	3,964	-	-	-	3,964	-	-	-
Executive incentive stock awards	1,036	-	867	-	-	169	-	(29)
Purchase of treasury stock, net	(1,119)	-	1,221	-	-	(2,340)	-	39
Cash dividend declared, $0.54 per share	(6,068)	-	-	(6,068)	-	-	-	-
Balance, December 31, 2020	$ 353,703	$ 57,144	$ 19,965	$ 290,069	$ 5,756	$ (19,231)	14,286	3,060

Dacotah Banks, Inc.

Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019
(Dollar Amounts in Thousands)

	2020	2019
Operating Activities		
Net income	$ 29,603	$ 30,693
Adjustments to reconcile net income to net cash from operating activities:		
Provision for loan and lease losses	8,800	3,000
Depreciation and amortization	5,823	4,564
Executive incentive stock awards	1,036	1,880
Benefit from deferred income taxes	(1,682)	(561)
Loss on sale of premises and equipment and foreclosed assets	15	89
Increase in investment in life insurance contracts	(1,399)	(1,162)
Decrease (increase) in loans held for sale	482	(1,146)
Decrease (increase) in interest receivable	4,780	(1,400)
(Increase) decrease in mortgage servicing rights	(544)	136
Increase in other assets, net	(2,032)	(132)
(Decrease) increase in interest payable	(2,394)	406
Increase in accrued expenses and other liabilities	1,879	946
Net Cash from Operating Activities	44,367	37,313
Investing Activities		
Proceeds from maturities and calls of securities available for sale and time deposits in banks	89,753	70,327
Purchases of securities available for sale and time deposits in banks	(104,428)	(78,263)
Net increase in loans	(170,006)	(64,262)
Proceeds from sale of premises and equipment	-	13
Purchases of premises and equipment	(6,123)	(11,886)
Proceeds from sale of foreclosed assets	2,636	1,144
Purchases of subsidary bank, net of cash aquired	15,874	-
Purchases of subsidary insurance agency, net of cash aquired	(618)	-
Purchase of investment in life insurance contracts	(2,000)	(8,483)
Proceeds from death benefit of bank owned life insurance	327	869
Net Cash used by Investing Activities	(174,585)	(90,541)
Financing Activities		
Increase in non-interest-bearing deposits, net	178,710	11,956
Increase in interest-bearing deposits, net	292,495	70,753
(Decrease) increase in certificates of deposits, net	(147,353)	19,521
Repayments of borrowings	(5,000)	(10,000)
(Purchase) sale of treasury stock, net	(1,119)	413
Dividends paid to stockholders	(6,068)	(5,935)
Net Cash from Financing Activities	311,665	86,708
Net Change in Cash and Cash Equivalents	181,447	33,480
Cash and Cash Equivalents, Beginning of Year	189,258	155,778
Cash and Cash Equivalents, End of Year	$ 370,705	$ 189,258

(Dollar Amounts in Thousands)

Supplemental disclosures of cash flow information:

	2020	2019
Cash payments for:		
Interest	$ 17,524	$ 22,934
Income taxes	10,474	8,562

Supplemental schedule of non-cash investing and financing activities:

	2020	2019
Other real estate acquired in settlement of loans	$ 3,275	$ 41

See Note 2 regarding non-cash transactions included in the acquisition of the First State Bank of Claremont.

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, 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 40% and 45% of total loans as of December 31, 2020 and 2019 respectively. Loans for commercial purposes, including commercial real estate, comprised approximately 51% and 45% of total loans as of December 31, 2020 and 2019 respectively.

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 debt 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.

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.

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

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

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

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

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

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

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

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

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

Credit Related Financial Instruments

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

Transfers of Financial Assets

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

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, core deposits, and insurance files associated with the acquisition of banks and insurance agencies. Goodwill is not subject to amortization. Core deposits and insurance files 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

Investments in low income housing partnerships as of December 31, 2020 and 2019 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 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.
- Roseland Heights 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 consisting of 36 units within six (6) buildings in Sioux Falls, South Dakota.

The Company is a 99.99% limited partner in each of the 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. The investment in low income housing partnerships is included in other assets in the consolidated balance sheet.

These investments do not have readily determinable fair values and are considered restricted investments. These restricted investments are measured under the practicability exception which allows these investments to be measured at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Any impairment would be recorded through earnings with related disclosures to be made.

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 its 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 bases 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 percent; 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 percent 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 were approximately $1,056 and $717 for the years ended December 31, 2020 and 2019.

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:

	2020	2019
Average number of common shares outstanding (in thousands)	11,229	11,201

Subsequent Events

The Company has evaluated subsequent events through March 12, 2021, which is the date the financial statements were available to be issued.

(Dollar Amounts in Thousands)

Note 2 – Acquisition of the First State Bank of Claremont

On July 3, 2020, the Company completed its purchase of assets and assumption of liabilities of the First State Bank of Claremont for $9,418. First State Bank of Claremont's Groton and Langford locations fit well in the middle of Dacotah Bank's existing footprint. Closely surrounding First State Bank of Claremont's locations are branches in Aberdeen, Clark, New Effington, Roslyn, Sisseton and Webster. Along with the geographic alignment of locations, the customer base is a natural fit as well. Groton and Langford are agricultural-centric communities. The fair value of consideration paid exceeded the estimated value of the First State Bank of Claremont's net assets acquired resulting in the establishment of goodwill and core deposit intangibles in the amount of $4,154. The goodwill arising from the acquisition consists of synergies and economies of scale expected from combining the operations of the Company and the First State Bank of Claremont. The goodwill and core deposit intangibles are expected to be fully deductible for tax purposes.

The following summarizes the fair values of the assets acquired and liabilities assumed at the acquisition date:

Fair value of assets purchased		
Cash due from banks	$	1,697
Interest-bearing deposits in banks		23,595
Total cash and cash equivalents		25,292
Securities		10,336
Loans		24,227
Interest receivable		511
Premises and equipment		1,098
Other assets		19
Total assets purchased		61,483
Fair value of liabilities assumed		
Deposits		55,724
Interest payable		65
Accrued expenses and other liabilities		430
Total liabilities assumed		56,219
Net assets acquired		5,264
Purchase consideration		9,418
Intangibles created		
Goodwill		3,833
Core deposit premium		321
Total intangibles created by the purchase	$	4,154
Net cash received as result of purchase	$	15,874

Concurrent with the acquisition of the First State Bank of Claremont, Dacotah Bank acquired the insurance files of the Stohr Insurance Agency, a South Dakota general partnership, for a cash purchase price of $618. The insurance files intangibles will be amortized on a straight-line basis over 15 years.

(Dollar Amounts in Thousands)

Note 3 - Restrictions on Cash and Cash Equivalents

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

Note 4 - Securities

Debt securities have been classified in the consolidated balance sheet according to management's intent. The carrying amounts of securities as of December 31, 2020 and 2019 consist of the following:

	2020	2019
Securities available for sale, at fair value	$ 278,108	$ 246,868
Investments in government corporations, at cost	11,305	13,026
	$ 289,413	$ 259,894

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, 2020				
Securities available for sale:				
U.S. Government and federal agency	$ 47,917	$ 1,858	$ -	$ 49,775
State and municipal	61,572	703	-	62,275
Mortgage-backed	158,892	4,752	29	163,615
Other	2,443	-	-	2,443
	$ 270,824	$ 7,313	$ 29	$ 278,108
December 31, 2019				
Securities available for sale:				
U.S. Government and federal agency	$ 66,404	$ 969	$ 20	$ 67,353
State and municipal	52,398	206	6	52,598
Mortgage-backed	123,540	1,347	227	124,660
Other	2,257	-	-	2,257
	$ 244,599	$ 2,522	$ 253	$ 246,868

(Dollar Amounts in Thousands)

Investment securities with a carrying value of $177,500 and $176,748 as of December 31, 2020 and 2019, 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, 2020 follows:

	Amortized Cost	Fair Value
Within one year	$ 28,279	$ 28,463
Over one through five years	192,853	198,939
Over five through ten years	30,395	31,254
Over ten years	19,297	19,452
	$ 270,824	$ 278,108

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

There were no sales of securities during 2020 and 2019.

(Dollar Amounts in Thousands)

Information pertaining to securities with gross unrealized losses at December 31, 2020 and 2019 aggregated by investment category and length of time that individual securities have been in a continuing loss position follows:

	Less Than Twelve Months		Twelve Months And Over	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2020				
Securities available for sale:				
U.S. Government and federal agencies	$ -	$ -	$ -	$ -
State and municipal	-	-	-	-
Mortgage backed	29	10,342	-	-
	$ 29	$ 10,342	$ -	$ -

	Less Than Twelve Months		Twelve Months And Over	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2019				
Securities available for sale:				
U.S. Government and federal agencies	$ -	$ -	$ 20	$ 13,986
State and municipal	1	2,058	5	4,641
Mortgage backed	141	28,064	86	8,883
	$ 142	$ 30,122	$ 111	$ 27,510

At December 31, 2020 and 2019, no US Government and federal agencies, state and municipal, or mortgage-backed 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.

(Dollar Amounts in Thousands)

Note 5 - Loans

A summary of the balances of loans follows:

	2020	2019
Commercial	$ 428,102	$ 305,288
Commercial real estate	748,660	649,634
Agricultural	925,286	955,426
Residential real estate	110,489	120,313
Consumer	88,057	80,700
Total loans	2,300,594	2,111,361
Allowance for loan and lease losses	(39,040)	(32,483)
Total loans, net	$ 2,261,554	$ 2,078,878

Commercial and agricultural lending are the primary lending activity of the Company as evidenced by the fact that approximately 91% and 90% of the portfolio is comprised of the same as of December 31, 2020 and 2019 respectively. 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, 2020 and 2019, 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, Jamestown, 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 $4,382 and $6,385 at December 31, 2020 and 2019. 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 $1,638 and $1,556 as of December 31, 2020 and 2019.

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

	2020	2019
Balance, beginning of year	$ 32,483	$ 30,369
Provision for loan and lease losses	8,800	3,000
Loans charged off	(2,646)	(1,762)
Recoveries	403	876
Balance, end of year	$ 39,040	$ 32,483

(Dollar Amounts in Thousands)

The following tables present the activity in the allowance for loan and lease losses for the years ended December 31, 2020 and 2020 and the recorded investments in loans and impairment methods as of December 31, 2020 and 2019 by portfolio segment.

December 31, 2020	Commercial	Commercial Real Estate	Agricultural	Residential Real Estate	Consumer	Total
Allowance for Loan and Lease Losses						
Balance, beginning of year	$ 3,447	$ 10,314	$ 16,240	$ 1,619	$ 863	$ 32,483
Provision for loan and lease losses	2,426	2,996	2,613	77	688	8,800
Loans charged off	(837)	(662)	(882)	(115)	(150)	(2,646)
Recoveries	154	3	119	51	76	403
Balance, end of year	$ 5,190	$ 12,651	$ 18,090	$ 1,632	$ 1,477	$ 39,040
Individually evaluated for impairment	$ 667	$ 4,882	$ 3,972	$ 325	$ 610	$ 10,456
Collectively evaluated for impairment	4,523	7,769	14,118	1,307	867	28,584
Balance, end of year	$ 5,190	$ 12,651	$ 18,090	$ 1,632	$ 1,477	$ 39,040
Loans						
Individually evaluated for impairment	$ 8,978	$ 33,491	$ 142,256	$ 2,794	$ 869	$ 188,388
Collectively evaluated for impairment	419,124	715,169	783,030	107,695	87,188	2,112,206
Balance, end of year	$ 428,102	$ 748,660	$ 925,286	$ 110,489	$ 88,057	$ 2,300,594

(Dollar Amounts in Thousands)

December 31, 2019	Commercial	Commercial Real Estate	Agricultural	Residential Real Estate	Consumer	Total
Allowance for Loan and Lease Losses						
Balance, beginning of year	$ 3,594	$ 9,143	$ 15,190	$ 1,543	$ 899	$ 30,369
Provision for loan and lease losses	627	1,237	1,237	(65)	(36)	3,000
Loans charged off	(943)	(81)	(622)	-	(116)	(1,762)
Recoveries	169	15	435	141	116	876
Balance, end of year	$ 3,447	$ 10,314	$ 16,240	$ 1,619	$ 863	$ 32,483
Individually evaluated for impairment	$ 1,046	$ 5,195	$ 3,188	$ 396	$ 204	$ 10,029
Collectively evaluated for impairment	2,401	5,119	13,052	1,223	659	22,454
Balance, end of year	$ 3,447	$ 10,314	$ 16,240	$ 1,619	$ 863	$ 32,483
Loans						
Individually evaluated for impairment	$ 12,865	$ 38,302	$ 123,006	$ 3,442	$ 432	$ 178,047
Collectively evaluated for impairment	292,423	611,332	832,420	116,871	80,268	1,933,314
Balance, end of year	$ 305,288	$ 649,634	$ 955,426	$ 120,313	$ 80,700	$ 2,111,361

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.

(Dollar Amounts in Thousands)

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 that 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 and 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 are 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, 2020 and 2019 was as follows:

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

December 31, 2020	Pass Pass/Watch	Special Mention	Substandard	Doubtful	Total
Commercial	$ 374,312	$ 45,925	$ 7,865	$ -	$ 428,102
Commercial real estate	659,873	55,298	33,489	-	748,660
Agricultural	670,065	113,431	141,790	-	925,286
	$ 1,704,250	$ 214,654	$ 183,144	$ -	$ 2,102,048

December 31, 2019	Pass Pass/Watch	Special Mention	Substandard	Doubtful	Total
Commercial	$ 258,205	$ 35,409	$ 11,674	$ -	$ 305,288
Commercial real estate	570,657	40,675	38,302	-	649,634
Agricultural	706,689	131,292	117,445	-	955,426
	$ 1,535,551	$ 207,376	$ 167,421	$ -	$ 1,910,348

(Dollar Amounts in Thousands)

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, 2020 and 2019:

December 31, 2020	Performing	Nonperforming	Total
Residential Real Estate	$ 109,747	$ 742	$ 110,489
Consumer	87,912	145	88,057
	$ 197,659	$ 887	$ 198,546

December 31, 2019	Performing	Nonperforming	Total
Residential Real Estate	$ 118,947	$ 1,366	$ 120,313
Consumer	80,559	141	80,700
	$ 199,506	$ 1,507	$ 201,013

The following tables summarize the aging of the past due loans by portfolio segment as of December 31, 2020 and 2019:

	Still Accruing		
December 31, 2020	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual Balance
Commercial	$ 310	$ 67	$ 1,909
Commercial Real Estate	738	-	3,105
Agricultural	1,194	178	22,315
Residential Real Estate	804	56	686
Consumer	161	-	145
Total	$ 3,207	$ 301	$ 28,160

(Dollar Amounts in Thousands)

December 31, 2019	Still Accruing 30-89 Days Past Due	Still Accruing Over 90 Days Past Due	Nonaccrual Balance
Commercial	$ 1,380	$ 73	$ 3,172
Commercial Real Estate	4,626	43	7,041
Agricultural	5,348	930	17,578
Residential Real Estate	895	26	1,340
Consumer	673	29	112
Total	$ 12,922	$ 1,101	$ 29,243

The following tables summarize individually impaired loans by portfolio segment as of December 31, 2020 and 2019:

December 31, 2020	Recorded Investment	Unpaid Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial	$ 6,397	$ 6,397	$ -	$ 7,629	$ 319
Commercial Real Estate	12,161	12,161	-	12,098	499
Agricultural	120,736	120,736	-	116,555	5,847
Residential Real Estate	1,677	1,677	-	1,509	79
Consumer	60	60	-	80	3
	$ 141,031	$ 141,031	$ -	$ 137,871	$ 6,747

December 31, 2020	Recorded Investment	Unpaid Principal Balance (1)	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded					
Commercial	$ 2,581	$ 2,581	$ 667	$ 4,162	$ 128
Commercial Real Estate	21,330	21,330	4,882	22,132	1,578
Agricultural	21,520	21,520	3,972	23,931	940
Residential Real Estate	1,118	1,118	325	1,041	43
Consumer	808	808	610	518	26
	$ 47,357	$ 47,357	$ 10,456	$ 51,784	$ 2,715

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

(Dollar Amounts in Thousands)

December 31, 2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial	$ 8,847	$ 8,847	$ -	$ 7,706	$ 506
Commercial Real Estate	11,902	11,902	-	13,136	653
Agricultural	105,782	105,782	-	85,134	5,186
Residential Real Estate	1,839	1,839	-	2,310	99
Consumer	43	43	-	44	2
	$ 128,413	$ 128,413	$ -	$ 108,330	$ 6,446

December 31, 2019	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an allowance recorded					
Commercial	$ 4,018	$ 4,018	$ 1,046	$ 3,082	$ 174
Commercial Real Estate	26,400	26,400	5,195	24,359	1,093
Agricultural	17,224	17,224	3,188	17,902	773
Residential Real Estate	1,603	1,603	396	1,113	66
Consumer	389	389	204	329	31
	$ 49,634	$ 49,634	$ 10,029	$ 46,785	$ 2,137

(Dollar Amounts in Thousands)

The following table represents the effects of the troubled debt restructurings during the years ended December 31, 2020 and 2019. 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 2020 and 2019 all additions to troubled debt restructuring were due to interest rate modifications below market levels, amortizations that exceed policy for the type of collateral, and term out of stale operating line of credit debt due to losses in operations.

			Allowance for Loan and Lease	
December 31, 2020	Number of Modifications	Unpaid Principal Balance	Prior to Modification	At Year End
Troubled debt restructurings				
Commercial Business	2	$ 198	$ -	$ 108
Commercial Real Estate	3	953	-	417
Agricultural	9	8,572	-	268
Residential real estate	1	76	46	50
	15	$ 9,799	$ 46	$ 843

There were no troubled debt restructurings that subsequently defaulted in 2020.

			Allowance for Loan and Lease	
December 31, 2019	Number of Modifications	Unpaid Principal Balance	Prior to Modification	At Year End
Troubled debt restructurings				
Commercial Business	6	$ 2,323	$ 56	$ 143
Commercial Real Estate	4	3,207	-	190
Agricultural	13	13,578	113	342
	23	$ 19,108	$ 169	$ 675

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, 2020.

(Dollar Amounts in Thousands)

Note 6 - Premises and Equipment

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

	2020	2019
Land	$ 9,316	$ 9,083
Buildings and improvements	82,237	77,908
Furniture, fixtures and equipment	28,487	25,220
	120,040	112,211
Accumulated depreciation and amortization	(64,929)	(59,164)
	$ 55,111	$ 53,047

Depreciation and amortization charged to occupancy and furniture and equipment expense in the consolidated statements of income amounted to $5,017 in 2020 and $3,938 in 2019.

During 2019, the Company entered into a contract for a remodeling project of the Midwest Building in Aberdeen. The total commitment on this project was approximately $2,367 and was completed in 2020.

Note 7 - Goodwill and Intangible Assets

The summary of the net carrying amount of the intangible assets as of December 31, 2020 and 2019 follows:

	2020	2019
Core deposit intangible	$ 4,633	$ 4,409
Accumulated amortization	4,253	4,139
	380	270
Insurance files	2,734	2,115
Accumulated amortization	1,944	1,781
	790	334
Goodwill	10,577	6,744
Accumulated amortization	329	329
	10,248	6,415
	$ 11,418	$ 7,019

There were no impairment losses related to the intangible assets during the years ended December 31, 2020 and 2019. 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 $277 and $282 for the years ended December 31, 2020 and 2019, respectively.

(Dollar Amounts in Thousands)

At December 31, 2020, the estimated amortization expense for intangible assets for the succeeding five years is as follows:

2021	$	307
2022		160
2023		144
2024		90
2025		68

Note 8 – 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 were approximately $281,188 and $163,512 at December 31, 2020 and 2019, respectively.

The fair value of these rights was $1,806 and $1,262 at December 31, 2020 and December 31, 2019. The fair value of servicing rights was determined using discount rates ranging from 9.00 percent to 12.00 percent, prepayment speeds ranging from 2.24 percent to 3.60 percent, depending on the stratification of the specific right, and anticipated credit losses of 2.55 percent.

The changes in mortgage servicing rights measured using the fair value method at December 31, 2020 and 2019 were as follows:

	2020	2019
Fair value as of the beginning of the period	$ 1,262	$ 1,398
Additions		
Assumptions of servicing obligations	885	318
Subtractions		
Changes in fair value due to changes in valuation inputs or assumptions used in the valuation model	(341)	(454)
Fair value at the end of the period	$ 1,806	$ 1,262

(Dollar Amounts in Thousands)

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

Contractually specified servicing fees	$ 524	$ 357
Loan fees	183	62
Late fees	3	4
	$ 710	$ 423

Note 9 – Investment in Low Income Housing Partnerships

Investments in low income housing partnerships consist of the following as of December 31, 2020 and 2019:

	2020	2019
Whiting Court limited partnership	$ 781	$ 853
Northern Lights limited partnership	2,534	2,697
Roseland Heights limited partnership	1,417	509
Balance, end of year	$ 4,732	$ 4,059

Changes to the limited partnerships occurred during the year ended December 31, 2020 and 2019:

	2020	2019
Balance, begnning of year	$ 4,059	$ 3,814
Contributions to limited partnerships	909	509
Decreases in partnership capital account	(236)	(264)
Balance, end of year	$ 4,732	$ 4,059

Tax credits are projected to be $882, $2,736, and $4,048 respectively for the Whiting Court, Northern Lights, and Roseland Heights limited partnerships. The Company will utilize low income housing tax credits from the partnerships which began in 2018 and will end in 2031.

Investment in Low Income Housing Partnerships are included with other assets on the consolidated balance sheet.

(Dollar Amounts in Thousands)

Note 10 - Deposits

A summary of the balances of deposits follows:

	2020	2019
Demand	$ 786,476	$ 564,870
Interest checking	441,619	319,591
Money market accounts	286,057	226,602
Premium money market accounts	619,244	502,497
Time, $250,000 and over	125,129	156,169
Other time	433,016	541,835
Brokered deposits	7,500	7,500
	$ 2,699,041	$ 2,319,064

At December 31, 2020, the scheduled maturities of certificates of deposit were as follows:

2021	$ 373,673
2022	80,738
2023	46,304
2024	42,365
2025	22,565
	$ 565,645

Note 11 - Borrowings

Borrowings consist of Federal Home Loan advances totaling $17,000 as of December 31, 2020 and $22,000 as of December 31, 2019. The contractual maturities of borrowings are as follows: 2021 - $8,000; 2022 - $5,000; and 2023 - $4,000.

The Federal Home Loan Bank (FHLB) advances outstanding at December 31, 2020 mature from July 2021 through July 2023. All advances have fixed rate interest, ranging from 2.63% to 2.95%. 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 $544,388 and $563,463 as of December 31, 2020 and 2019. 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 $8,723 and $10,505 as of December 31, 2020 and 2019. The net excess of pledged collateral over the outstanding indebtedness was $266,353 as of December 31, 2020.

During 2020, the Company entered into a Standby Letter of Credit Reimbursement Agreement with FHLB. The Irrevocable Standby Letter of Credit has an initial maximum credit of $35,000. The Company had irrevocable letters of credit from FHLB totaling $35,000 at December 31, 2020. The same assets as discussed above secure the letters of credit. The letters of credit are used as collateral on South Dakota public deposits.

As of December 31, 2020 and 2019, the Company pledged loans totaling $117,477 and $116,761 for an available borrowing line of $101,848 and $101,298 under the Federal Reserve Bank's Borrower in Custody (BIC) program.

The Company also had an unsecured federal funds purchased borrowing capacity of $75,000 at December 31, 2020 and 2019, respectively.

Note 12 - 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 $2,903 in 2020 and $2,634 in 2019.

The Company has salary continuation contracts with executive officers of the Company and its subsidiary. Accrued salary continuation liabilities totaled $17,608 at December 31, 2020 and $16,995 at December 31,2019. The provision for salary continuation expense amounted to $1,521 and $1,647 in 2020 and 2019. Retirement payments of $910 and $742 were made in 2020 and 2019. The Company has life insurance policies in place to provide funding for these benefits. Cash surrender value of these policies was $56,127 and $53,055 at December 31, 2020 and 2019.

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 29,100 treasury shares in the form of fully vested incentive stock grants to executive officers of the Company in 2020. The fair market value of the stock award was $35.60 per share or a total of $1,036 at December 31, 2020. Respectively, there were 717,430 and 746,530 of unissued common shares remaining under the Stock Plan as of December 31, 2020 and 2019.

(Dollar Amounts in Thousands)

Note 13 - Income Taxes

Income tax expense for the two years ended December 31, 2020 and 2019 were:

	2020	2019
Current		
Federal	$ 8,329	$ 7,081
State	2,473	2,030
	10,802	9,111
Deferred	(1,682)	(561)
	$ 9,120	$ 8,550

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:

	2020			
	Assets	Liabilities	Total	2019
Allowance for loan and lease losses	$ 9,780	$ -	$ 9,780	$ 6,959
Property and equipment	-	3,066	(3,066)	(1,495)
Accrued salary continuation provision	4,411	-	4,411	3,641
Unrealized (gain) loss on securities available for sale	-	1,530	(1,530)	(479)
Mortgage servicing rights	-	452	(452)	(270)
Other	691	94	597	678
	$ 14,882	$ 5,142	$ 9,740	$ 9,034

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 $14,882 will be principally realized.

(Dollar Amounts in Thousands)

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

	2020	2019
Federal statutory income tax rate	21.0%	21.0%
State income taxes, net of federal income tax benefit	5.1	4.1
Tax-exempt income	(1.0)	(1.0)
Non-deductible expenses incidental to business acquisitions	0.3	0.1
Low income housing credit	(1.0)	(1.0)
Other, net	(0.8)	(1.4)
	23.6%	21.8%

Income taxes payable of $2,687 and $2,087 is included in accrued expenses and other liabilities at December 31, 2020 and 2019. The Company complies with the accounting standards relating to uncertainty in income taxes. The Company had no unrecognized tax benefits as of December 31, 2020 and 2019. The Company recognized no interest and penalties on the underpayment of income taxes during the years ended December 31, 2020 and 2019 and had no accrued interest and penalties on the balance sheet as of December 31, 2020 and 2019. 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 14 - Minimum Regulatory Capital Requirements

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

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

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

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

The 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, 2020 and 2019, management believes the Company and the Bank met all capital adequacy requirements to which they are subject. As of December 31, 2020, 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.

(Dollar Amounts in Thousands)

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

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2020						
Common Equity Tier 1						
Company	$ 337,047	14.1%	>$107,946	4.5%	N/A	N/A
Bank	324,617	13.6%	>107,334	4.5%	>$155,038	6.5%
Total capital (to risk weighted assets)						
Company	367,143	15.3%	>191,905	8.0%	N/A	N/A
Bank	354,545	14.9%	>190,816	8.0%	>238,520	10.0%
Tier I capital (to risk weighted assets)						
Company	337,047	14.1%	>143,928	6.0%	N/A	N/A
Bank	324,617	13.6%	>143,112	6.0%	>190,816	8.0%
Tier I capital (to average assets)						
Company	337,047	10.9%	>123,489	4.0%	N/A	N/A
Bank	324,617	10.6%	>122,660	4.0%	>153,325	5.0%
December 31, 2019						
Common Equity Tier 1						
Company	$ 317,476	13.8%	>$103,276	4.5%	N/A	N/A
Bank	307,374	13.5%	>102,785	4.5%	>$148,468	6.5%
Total capital (to risk weighted assets)						
Company	346,210	15.1%	>183,603	8.0%	N/A	N/A
Bank	335,974	14.7%	>182,730	8.0%	>228,412	10.0%
Tier I capital (to risk weighted assets)						
Company	317,476	13.8%	>137,702	6.0%	N/A	N/A
Bank	307,374	13.5%	>137,047	6.0%	>182,730	8.0%
Tier I capital (to average assets)						
Company	317,476	11.9%	>107,080	4.0%	N/A	N/A
Bank	307,374	11.5%	>106,530	4.0%	>133,163	5.0%

Note 15 – Revenue Recognition

The Company has adopted the provisions of FASB Accounting Standards Codification Topic 606, Revenue from Contracts with Customers (Topic 606), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets. The majority of the Company's revenues are not subject to ASC 606, including revenue generated from financial instruments, such as interest and dividend income, including loans and securities, as these activities are subject to other U.S. Generally Accepted Accounting Principles ("GAAP"). Revenue generating activities that are within the scope of ASC 606 are presented within non-interest income and are recognized as revenue as the Company satisfies its obligation to the customer. Descriptions of revenue generating activities that are within the scope of ASC 606, which are presented in the Consolidated Statements of Income as components of other income are as follows:

Income from Trust Activities - The Company provides customers with sound financial solutions and comprehensive trust and wealth management products. Income from trust activities is primarily comprised of fees earned from the management and administration of trusts and other customer assets. The Company's performance obligation is generally satisfied over time and the resulting fees are recognized quarterly, based upon the quarter-end market value of the assets under management and the applicable fee rate. Payment is generally received within a few days of quarter-end through a direct charge to the customer's account. The Company does not earn performance-based incentives. Optional services such as farm management services and tax return preparation services are also available to existing trust and wealth management customers. The Company's performance obligation for these transactional-based services is generally satisfied and related revenue recognized, as incurred with payment received shortly after services are rendered.

Service Charges on Deposit Accounts – Service charges on deposit accounts consist of account analysis fees, monthly service fees, check orders, and other deposit account related fees. Revenue is recognized when the performance obligation is satisfied, which is received monthly through a direct charge to customers' accounts or when a transaction has been completed, such as a wire transfer. Payment for such performance obligations are typically received at the time the performance obligations are satisfied.

Insurance Commissions – The Company earns commissions on various insurance products it sells to customers. The Company acts an intermediary between the Company's customer and the insurance carrier. The Company's performance obligation is generally satisfied upon the issuance of the insurance policy. Shortly after the policy is issued, the respective carrier remits the commission payment to the Company, and the Company recognizes the revenue.

Fees on Sale of Residential Mortgages – The Company sells its residential mortgage to various third-party investors. The Company's performance obligation is generally satisfied upon the closing of the loan and submission of the appropriate underwriting documentation. Following approval by the purchasing third party investor, fee income is remitted to the Company, and the Company recognizes the revenue.

Other Income - The Company generates a majority of its other non-interest income from card services, which includes interchange revenue, merchant services revenue, ATM fees, and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as Visa. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

(Dollar Amounts in Thousands)

Note 16 – Contingencies and Commitments

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, 2020 and 2019.

Consistent with the Company's rich history of community involvement, the Company has committed to various community projects and contributions totaling $5,858 over the next several years.

Note 17 - 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, 2020 and 2019, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2020	2019
Commitments to grant loans	$ 550,599	$ 460,717
Standby letters of credit	12,844	11,001
MPF credit enhancements	3,574	3,308

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 18 - Fair Value of Financial Instruments

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

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

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

- 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.

(Dollar Amounts in Thousands)

- 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, 2020 and 2019, 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, 2020 and 2019:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
December 31, 2020				
Securities available for sale:				
U.S. Government				
and federal agency	$ -	$ 49,775	$ -	$ 49,775
State and municipal	-	62,275	-	62,275
Mortgage-backed	-	163,615	-	163,615
Other	-	2,443	-	2,443
Mortgage servicing rights	-	1,806	-	1,806
	$ -	$ 279,914	$ -	$ 279,914
December 31, 2019				
Securities available for sale:				
U.S. Government				
and federal agency	$ -	$ 67,503	$ -	$ 67,503
State and municipal	-	52,501	-	52,501
Mortgage-backed	-	124,510	-	124,510
Other		2,354		2,354
Mortgage servicing rights	-	1,262	-	1,262
	$ -	$ 248,130	$ -	$ 248,130

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.

(Dollar Amounts in Thousands)

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:

	2020	2019	Valuation Technique	Unobservable Input	2020 Range (Weighted Average)	2019 Range (Weighted Average)
Impaired loans	$ 36,901	$ 39,605	Collateral Valuation	Discount from Market Value	0-100% 22%	0-100% 20%
Foreclosed assets	1,400	776	Collateral Valuation	Discount from Market Value	0-68% 48%	0-68% 62%
Total assets	$ 38,301	$ 40,381				

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.

(Dollar Amounts in Thousands)

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

		Fair Value Measurements			
	Carrying Amount	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
December 31, 2020					
Financial Assets					
Cash and cash equivalents	$ 370,705	$ 370,705	$ -	$ -	$ 370,705
Time deposits in banks	11,963	-	11,963	-	11,963
Securities	289,413	-	289,413	-	289,413
Loans held for sale	1,268	-	1,268	-	1,268
Loans, net	2,261,554	-	-	2,275,314	2,275,314
Interest receivable	24,489	-	-	24,489	24,489
Mortgage servicing rights	1,806	-	1,806	-	1,806
Total financial assets	$ 2,961,198	$ 370,705	$ 304,450	$ 2,299,803	$ 2,974,958
Financial Liabilities					
Deposits	$ 2,699,041	$ -	$ 2,516,300	$ -	$ 2,516,300
Borrowings	17,000	-	17,576	-	17,576
Interest payable	3,696	-	3,696	-	3,696
Total financial liabilities	$ 2,719,737	$ -	$ 2,537,572	$ -	$ 2,537,572

(Dollar Amounts in Thousands)

	Carrying Amount	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
December 31, 2019					
Financial Assets					
Cash and cash equivalents	$ 189,258	$ 189,258	$ -	$ -	$ 189,258
Time deposits in banks	12,413	-	12,413	-	12,413
Securities	259,894	-	259,894	-	259,894
Loans held for sale	1,750	-	1,750	-	1,750
Loans, net	2,078,878	-	-	2,071,093	2,071,093
Interest receivable	28,758	-	-	28,758	28,758
Mortgage servicing rights	1,262	-	1,262	-	1,262
Total financial assets	$ 2,572,213	$ 189,258	$ 275,319	$ 2,099,851	$ 2,564,428
Financial Liabilities					
Deposits	$ 2,319,064	$ -	$ 2,138,194	$ -	$ 2,138,194
Borrowings	22,000	-	22,369	-	22,369
Interest payable	6,026	-	6,026	-	6,026
Total financial liabilities	$ 2,347,090	$ -	$ 2,166,589	$ -	$ 2,166,589

(Dollar Amounts in Thousands)

Note 19 - Condensed Financial Information of Parent Company

Balance Sheets

	December 31, 2020	December 31, 2019
Assets		
Investments in subsidiary bank	$ 340,908	$ 315,819
Cash	5,310	5,055
Loans	636	737
Premises and equipment, net	6,535	4,742
Investment in life insurance contracts	5,695	5,019
Other assets	1,592	914
	$ 360,676	$ 332,286
Liabilities and Stockholders' Equity		
Liabilities		
Other Liabilities	$ 6,973	$ 5,999
Stockholders' Equity		
Common stock, $4 par value; 30,000,000 shares authorized, 14,285,980 shares issued and outstanding	57,144	57,144
Capital surplus	19,965	17,877
Retained earnings	290,069	266,534
Accumulated other comprehensive income (loss)	5,756	1,792
Treasury stock, 3,059,862 shares in 2020 and 3,049,660 shares in 2019, at cost	(19,231)	(17,060)
Total stockholders' equity	353,703	326,287
Total liabilities and stockholders' equity	$ 360,676	$ 332,286

(Dollar Amounts in Thousands)

Income Statements

	Years Ended December 31, 2020	Years Ended December 31, 2019
Dividend income received from subsidiary bank	$ 8,625	$ 8,000
Management fees and other income	3,318	3,057
Total income	11,943	11,057
Salaries and employee benefits expense	2,205	2,170
Other expenses	1,381	871
Total expenses	3,586	3,041
Income before income taxes and equity in undistributed earnings of subsidiary	8,357	8,016
Income tax expense	121	60
Income before equity in undistributed earnings of subsidiary	8,478	8,076
Equity in undistributed earnings of subsidiary	21,125	22,617
Net income	$ 29,603	$ 30,693

(Dollar Amounts in Thousands)

Statements of Cash Flows

	Years Ended December 31, 2020	Years Ended December 31, 2019
Operating Activities		
Net income	$ 29,603	$ 30,693
Adjustments to reconcile net income to net cash from operating activities:		
Equity in undistributed earnings of subsidiary, net of cash dividends received	(21,125)	(22,617)
Depreciation and amortization	537	224
Increase in investment in life insurance contracts	(176)	(175)
Loss on sale of premises and equipment	-	1
Executive incentive stock awards	1,036	1,880
(Increase) decrease in other assets, net	(678)	3
Increase in other liabilities, net	974	70
Net Cash from Operating Activities	10,171	10,079
Investing Activities		
Net decrease in loans	101	144
Purchases of premises and equipment, net	(2,330)	(1,840)
Purchase of investment in life insurance contracts	(500)	(196)
Net Cash used by Investing Activities	(2,729)	(1,892)
Financing Activities		
(Purchase) sale of treasury stock, net	(1,119)	413
Dividends paid	(6,068)	(5,935)
Net Cash used by Financing Activities	(7,187)	(5,522)
Net Change in Cash	255	2,665
Cash, Beginning of Year	5,055	2,390
Cash, End of Year	$ 5,310	$ 5,055

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