

DART FINANCIAL CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015
(With Independent Auditor's Report Thereon)

DART FINANCIAL CORPORATION

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INDEPENDENT AUDITOR'S REPORT

To the Audit Committee and Board of Directors
of **Dart Financial Corporation**

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Dart Financial Corporation, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, 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 consolidated 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 audits 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. 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.

Auditor's Responsibility (Continued)

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 Dart Financial Corporation as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Troy, Michigan
February 11, 2016

DART FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2015 AND 2014

<u>Assets</u>	<u>2015</u>	<u>2014</u>
Cash and cash due from banks	\$ 25,173,960	\$ 7,860,223
Federal funds sold	20,715,317	2,513,147
Total cash and cash equivalents (note 1)	45,889,277	10,373,370
Interest bearing deposits	3,740,145	4,735,373
Investment securities (note 2):		
Available-for-sale	64,842,674	75,027,531
Held-to-maturity	379,404	464,232
Federal Home Loan Bank stock, at cost	1,589,500	1,356,100
Mortgage loans held-for-sale	7,640,982	22,653,427
Loans receivable, net (note 3)	179,906,934	160,882,508
Premises and equipment, net (note 5)	7,180,865	4,270,170
Accrued interest receivable	964,018	1,073,436
Foreclosed assets	73,760	23,223
Bank-owned life insurance (note 10)	7,353,912	7,108,840
Prepaid FDIC insurance premiums	40,757	46,143
Deferred taxes (note 8)	695,754	1,230,957
Mortgage servicing rights (note 4)	1,650,764	168,782
Other assets	481,963	800,336
Total assets	<u>\$ 322,430,709</u>	<u>\$ 290,214,428</u>

<u>Liabilities and Stockholders' Equity</u>	<u>2015</u>	<u>2014</u>
Deposits (note 6):		
Interest bearing	\$ 181,745,506	\$ 164,650,674
Non-interest bearing	72,280,089	64,373,066
	<u>254,025,595</u>	<u>229,023,740</u>
Total deposits		
Borrowed funds (note 7)	34,100,000	28,100,000
Accrued interest payable	94,850	98,140
Deferred compensation	380,517	262,180
Other liabilities	931,065	1,805,334
	<u>289,532,027</u>	<u>259,289,394</u>
Total liabilities		
Commitments and contingent liabilities (note 11)		
Stockholders' equity (note 12):		
Common stock, no par; 5,000,000 shares authorized; issued and outstanding 1,200,000 in 2015 and 2014	17,000,000	17,000,000
Retained earnings	15,556,781	13,463,566
Accumulated other comprehensive income	341,901	461,468
	<u>32,898,682</u>	<u>30,925,034</u>
Total stockholders' equity		
Total liabilities and stockholders' equity	<u>\$ 322,430,709</u>	<u>\$ 290,214,428</u>

See accompanying notes to consolidated financial statements

DART FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Interest income:		
Loans	\$ 9,335,948	\$ 8,414,143
Investment securities	2,030,104	2,435,530
Federal funds sold	77,365	85,428
Total interest income	11,443,417	10,935,101
Interest expense:		
Deposits	840,117	887,015
FHLB advances	517,757	429,441
Total interest expense	1,357,874	1,316,456
Net interest income	10,085,543	9,618,645
(Recapture of) provision for loan losses	(646,400)	408,600
Net interest income after (recapture of) provisions for loan losses	10,731,943	9,210,045
Non-interest income (note 15)	10,415,527	6,503,623
Non-interest expenses:		
Compensation and benefits	11,293,321	8,510,072
Occupancy	1,532,444	1,361,638
Office supplies	166,615	123,835
Charitable contributions	99,508	93,973
Other	3,954,267	2,857,331
Total non-interest expenses	17,046,155	12,946,849
Earnings before federal income taxes	4,101,315	2,766,819
Federal income taxes (note 8)	910,100	615,000
Net income	\$ 3,191,215	\$ 2,151,819
Net income per basic share of common stock	\$ 2.66	\$ 1.79

See accompanying notes to consolidated financial statements

DART FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Net income	\$ 3,191,215	\$ 2,151,819
Unrealized holding (losses) gains on available-for-sale securities arising during the year	(30,457)	4,469,925
Reclassification adjustment for realized gains included in net income	<u>(150,705)</u>	<u>(307,575)</u>
Other comprehensive (loss) income before related deferred federal income benefit (taxes)	(181,162)	4,162,350
Deferred federal income benefit (taxes)	<u>61,595</u>	<u>(1,415,199)</u>
Other comprehensive (loss) income	<u>(119,567)</u>	<u>2,747,151</u>
Comprehensive income	<u>\$ 3,071,648</u>	<u>\$ 4,898,970</u>

See accompanying notes to consolidated financial statements

DART FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2015 AND 2014

	Common Stock	Retained Earnings	Accumulated Other Compre- hensive Income/(Loss)	Total Stockholders' Equity
Balance - January 1, 2014	\$ 17,000,000	\$ 11,911,747	\$ (2,285,683)	\$ 26,626,064
Comprehensive income	-	2,151,819	2,747,151	4,898,970
Cash dividends paid (\$0.500 per share)	-	(600,000)	-	(600,000)
Balance - December 31, 2014	17,000,000	13,463,566	461,468	30,925,034
Comprehensive income (loss)	-	3,191,215	(119,567)	3,071,648
Cash dividends paid (\$0.915 per share)	-	(1,098,000)	-	(1,098,000)
Balance - December 31, 2015	<u>\$ 17,000,000</u>	<u>\$ 15,556,781</u>	<u>\$ 341,901</u>	<u>\$ 32,898,682</u>

See accompanying notes to consolidated financial statements

DART FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash flows from operating activities:		
Net income	\$ 3,191,215	\$ 2,151,819
Adjustments:		
Depreciation	456,825	352,199
(Recapture of) provision for loan losses expense	(646,400)	408,600
Increase in cash surrender value of bank-owned life insurance	(245,072)	(252,325)
Decrease in deferred taxes	596,798	125,000
Net amortization of premiums on investments	340,711	384,791
Gain on sales of investments	(150,705)	(307,575)
Gain on sales of mortgage loans	(5,201,058)	(3,636,742)
Origination of held-for-sale mortgage loans	(267,201,737)	(158,141,075)
Proceeds from sales of held-for-sale mortgage loans	287,415,240	139,124,390
Recoveries on charged-off loans	311,793	361,404
Gain on sale of foreclosed assets	(177,396)	(67,269)
Amortization of mortgage servicing rights	305,248	91,801
Capitalization of mortgage servicing rights	(1,787,230)	33,921
Changes in operating assets and liabilities:		
Decrease (increase) in accrued interest receivable and other assets	427,791	(4,541)
Decrease in prepaid FDIC insurance	5,386	3,481
(Decrease) increase in accrued interest payable and other liabilities	(759,222)	1,137,357
Total adjustments	13,690,972	(20,386,583)
Net cash provided from (used in) operating activities	16,882,187	(18,234,764)

See accompanying notes to consolidated financial statements

DART FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash flows from investing activities:		
Activity in available-for-sale securities:		
Purchases	\$ (6,801,171)	\$ (8,898,713)
Sales, maturities, calls and prepayments	16,614,861	26,381,090
Maturities, calls, and prepayments of held-to-maturity securities	84,827	127,080
Decrease (increase) in interest bearing deposits, net	995,228	(150,693)
Increase in loans receivable, net	(18,763,579)	(15,626,109)
Acquisition of property and equipment	(3,367,520)	(578,549)
Proceeds from sales of foreclosed assets	200,619	564,578
Purchase of FHLB stock	(233,400)	(1,100)
Net cash (used in) provided from investing activities	(11,270,135)	1,817,584
Cash flows from financing activities:		
Proceeds from FHLB advances	10,000,000	7,000,000
Repayments of FHLB advances	(4,000,000)	-
Acceptances and withdrawals of deposits, net	25,001,855	6,766,091
Dividends paid	(1,098,000)	(600,000)
Net cash provided from financing activities	29,903,855	13,166,091
Net increase (decrease) in cash and cash equivalents	35,515,907	(3,251,089)
Cash and cash equivalents - beginning	10,373,370	13,624,459
Cash and cash equivalents - ending	\$ 45,889,277	\$ 10,373,370
<u>Supplemental Information</u>		
Assets acquired in settlement of loans	\$ 73,760	\$ 219,000
Interest paid	\$ 843,407	\$ 913,777
Federal income taxes paid	\$ 353,293	\$ 734,379

See accompanying notes to consolidated financial statements

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 1 - Nature of Business and Significant Accounting Policies

Nature of Business and Basis of Presentation

The accompanying consolidated financial statements include the accounts of Dart Financial Corporation, a registered bank holding company (the “Corporation”), and its wholly-owned subsidiary The Dart Bank (the “Bank”) and the Bank’s subsidiary Dart Financial Services, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Bank is an independently-owned community bank engaged in the business of retail and commercial banking services through its three full-service offices located in Mason, Holt and Grand Ledge, Michigan. Active competition, principally from other commercial banks, exists in all of the Bank’s primary markets. The Bank is subject to the regulations and supervision of the federal and state regulators and undergoes periodic examinations by these regulatory authorities. The Corporation is further subject to regulations of the Federal Reserve Board governing bank holding companies.

In 2014, the Bank added a mortgage banking division to its operations. The employees of this group were acquired from another financial institution in a transaction that does not constitute a business combination. This addition significantly increased the Bank’s mortgage related products and its activity on the secondary market.

Cash Equivalents

The statement of cash flows classify changes in cash or cash equivalents (short-term, highly liquid investments readily convertible into cash with an original maturity of three months or less) according to operating, investing or financing activities. Financial instruments which potentially subject the Bank to concentrations of credit risk consist principally of cash and temporary cash investments. At times, the Bank’s cash and temporary cash investments may exceed federally insured limits. The Bank places its temporary cash investments with high-credit, quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. The Bank believes no significant concentration of credit risk exists with respect to these cash investments.

Concentrations of Risk

The Bank’s primary deposit products are interest and non-interest bearing checking accounts, savings accounts and time deposits. The Bank maintains correspondent banking relationships and transacts daily federal funds sales on an unsecured basis with regional correspondent banks. Note 2 discusses the types of investment securities in which the Bank invests and Note 3 discusses the types of lending in which the Bank engages. The Bank’s results of operations can be significantly affected by changes in interest rates or changes in the automotive, agricultural, or higher education industries or state government which comprise a significant portion of the local economic environment.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Estimates

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during each reporting period. Actual results could differ from the estimates.

Comprehensive Income

Accounting principles generally require the recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported in a separate component of comprehensive income.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, amounts due from banks (including cash items in the process of clearing) and interest bearing deposits in banks with an original maturity of 90 days or less, and federal funds sold. Generally, federal funds are sold for one day periods.

Restrictions on Cash and Due from Banks

The Bank is required to maintain reserve funds in cash and or on deposit with the Federal Reserve Bank. The reserve requirement was \$1,875,000 and \$1,679,000 at December 31, 2015 and 2014, respectively.

Interest Bearing Deposits in Banks

Interest bearing deposits in banks represent certificates of deposit and are carried at cost.

Investment Securities

Securities classified as held-to-maturity are those debt securities the Bank has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. These securities are carried at cost, adjusted for amortization of premium and accretion of discount, computed using the interest method, over their contractual lives.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Investment Securities (Continued)

Securities classified as available-for-sale are equity securities with readily determinable fair values and those debt securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. These securities are carried at estimated fair value based on information provided by a third-party pricing service with any unrealized gains or losses excluded from net income and reported in accumulated other comprehensive income, which is reported as a separate component of shareholders' equity, net of the related deferred tax effect.

Dividend and interest income, including amortization of premium and accretion of discount arising at acquisition, from all categories of investment securities are included in interest income in the consolidated statements of income.

Gains and losses realized on sales of investment securities, determined using the adjusted cost basis of the specific securities sold, are included in non-interest income in the consolidated statements of income. Additionally, declines in the estimated fair value of individual investment securities below their cost that are other-than-temporary are reflected as realized losses in the consolidated statements of income. Factors affecting the determination of whether an other-than-temporary impairment has occurred include, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near term prospects of the issuer, (iii) that the Bank does not intend to sell these securities, and (iv) it is more likely than not that the Bank will not be required to sell before a period of time sufficient to allow for any anticipated recovery in fair value.

Restricted stock is stock from the Federal Home Loan Bank of Indianapolis which is restricted as its marketability. Because no ready market exists for this investment and it has no quoted market value, the Bank's investment in this stock is carried at cost.

Mortgage Loans Held-for-Sale

Mortgage loans held-for-sale are marked-to-market. Market price is determined on the aggregate basis based on commitments from investors to purchase such loans upon prevailing market rates.

Loans and Allowance for Loan Loss

Loans that the Bank has the intent and ability to hold for the foreseeable future are stated at unpaid principal balances, less an allowance for loan losses and net deferred loan origination fees and discounts. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans and Allowance for Loan Loss (Continued)

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 the process of collection. Credit card loans and other personal loans are typically charged-off no later than 120 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged-off is reversed against interest income. 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 allowance for loan losses (“allowance”) is an estimate of loan losses inherent in the Bank’s loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Loan losses are charged off against the allowance when the Bank determines the loan balance to be uncollectible. Cash received on previously charged-off amounts is recorded as a recovery to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management’s periodic assessment of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general, and unallocated components. The general component covers non-impaired loans and is based on historical losses adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Bank. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans and Allowance for Loan Loss (Continued)

The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral, less costs to sell, if the loan is collateral dependent. A loan is collateral dependent if its repayment is expected to be provided solely by the underlying collateral.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

The Bank evaluates the credit quality of loans in the consumer loan portfolio based primarily on the aging status of the loan and payment activity. Accordingly, nonaccrual loans and loans modified under troubled debt restructurings of the originated portfolio past due in accordance with the loans' original contractual terms are considered to be in a nonperforming status for purposes of credit quality evaluation.

Under certain circumstances, the Bank will provide borrowers relief through loan restructurings. A loan restructuring represents a troubled debt restructuring ("TDR") if for economic or legal reasons related to the borrower's financial difficulties the Bank grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans and Allowance for Loan Losses (Continued)

The Bank assigns a risk rating to all loans except pools of homogeneous loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Bank's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate, and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, defined as follows:

Pass: A pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.

Watch: Loans classified as special mention have a potential weakness that deserves management's close attention, but does not warrant substandard classification. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the Bank's credit position at some future date. Special mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Substandard: Loans classified as substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well-defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as loss are considered uncollectible and are charged-off immediately.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Loans and Allowance for Loan Losses (Continued)

The majority of the Bank's consumer and residential loan portfolio comprises secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the consumer and residential loan portfolios is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Bank's special assets department for resolution, which generally occurs fairly rapidly and often through repossession and foreclosure. Credit quality for the entire consumer and residential loan portfolio is measured by the periodic delinquency rate, nonaccrual amounts, and actual losses incurred.

The Bank maintains a separate general valuation allowance for each portfolio segment. These portfolio segments include commercial, residential real estate, home equity lines-of-credit, home equity term, and other consumer with risk characteristics described as follows:

Commercial: Commercial loans not secured by real estate generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in decrease collateral values.

Residential Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments.

Home Equity Lines-of-Credit: Home equity lines-of-credit possess a higher inherent risk than other types of loans secured by real estate due to the Bank likely holding a second lien position. Additionally, there is no requirement for the pay down of the principal balance during the draw period of five years or greater.

Home Equity Term: Home equity term loans possess a higher inherent risk than other types of loans secured by real estate; however, they are slightly less risky than home equity lines-of-credit since monthly payments are applied to the principal balance.

Other Consumer: The other consumer loan portfolio usually comprises a large number of small loans, including automobile, personal loans, bounce protection, etc. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Transfers of Financial Assets

Transfers of financial assets, including mortgage loans held-for-sale, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is determined to be surrendered when 1) the assets have been legally isolated from the Bank, 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 Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. Total gain on sales of mortgage loans held-for-sale amounted to \$5,201,058 and \$3,636,742 for the years ended December 31, 2015 and 2014, respectively, and is included in other non-interest income. Other than servicing on some, as disclosed in Note 4, the Bank has no substantive continuing involvement related to these loans.

Servicing

Servicing assets are recognized as separate assets when mortgage servicing rights are acquired through purchase or through the sale of financial assets. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, a portion of the loan amount is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses.

Servicing assets or liabilities are amortized in proportion to and over the period of net servicing income or net servicing loss and are assessed for impairment or increased obligation based on fair value of rights compared to amortized cost at each reporting date. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Bank later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income. Capitalized servicing rights are reported in other assets on the consolidated balance sheets.

Servicing fee income is recorded for fees earned for servicing loans for others. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recognized as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income, a component of non-interest income.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Foreclosed and Repossessed Assets

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

Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation. Depreciation is computed principally by the straight-line method based upon the useful lives of the related assets which generally range from 3 to 40 years. Major improvements are capitalized and appropriately amortized based upon the useful lives of the related assets using the straight-line method. Maintenance, repairs, and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized. Management annually reviews these assets to determine whether carrying values have been impaired.

Bank-Owned Life Insurance (BOLI)

The Bank holds life insurance policies purchased on the lives of key members of management, including certain retired executives. In the event of death of one of these individuals, the Bank, as beneficiary of the policies, would receive a specified cash payment equal to the face value of the policy. Such policies are recorded at their cash surrender value, or the amount that can be currently realized as of the consolidated balance sheet date. The change in cash surrender value is an adjustment of premiums paid in determining the net expense or income recognized under the contracts for the year and is included in non-interest income.

Fair Value Measurements

The Bank follows the guidance for fair value measurements. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Federal Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the consolidated financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. In addition, deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Corporation does not have uncertain tax positions that are deemed material, and did not recognize any adjustments for unrecognized tax benefits. The Bank's policy is to recognize interest and penalties on income taxes in other non-interest expenses. The Bank remains subject to examination for income tax returns for the years ending after December 31, 2011.

Recent Accounting Pronouncements

On January 5, 2016, the FASB issued Accounting Standards Update 2016-01, *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities* (the ASU). Changes to the current GAAP model primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The classification and measurement guidance will be effective for non-public business entities in fiscal years beginning after December 15, 2018, or they may early adopt for periods after December 15, 2017. The Bank is currently evaluating the impact of the ASU.

Entities that are not public business entities will no longer be required to disclose the fair value of financial instruments carried at amortized cost. The ASU also eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value. Entities that are not public business entities can early adopt the provision permitting the omission of fair value disclosures for financial instruments at amortized cost. Early adoption of these provisions can be elected for all financial statements of fiscal years and interim periods that have not yet been made available for issuance. Accordingly, the Bank has removed the disclosures related to the fair value of these financial instruments.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Net Income Per Share

Net income per basic share of common stock represents income available to common shareholders divided by the number of common shares outstanding, which was 1,200,000 shares at December 31, 2015 and 2014.

Reclassification

Certain amounts as reported in the 2014 consolidated financial statements have been reclassified to conform with the 2015 presentation. Total shareholders' equity and net income are unchanged due to these reclassifications.

Subsequent Events

In preparing these consolidated financial statements, the Bank has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2015, the most recent consolidated balance sheet presented herein, through February 11, 2016, the date these consolidated financial statements were available to be issued.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 2 - Investment Securities

Investment securities at December 31, 2015 and 2014 are summarized as follows:

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Available-for-sale:				
U.S. Government and Federal agency securities	\$ 16,969,407	\$ -	\$ (362,579)	\$ 16,606,828
State and municipal bonds	24,358,258	858,847	(76,484)	25,140,621
Small Business Administration pools	3,499,366	40,578	(777)	3,539,167
U.S. Government collateralized mortgage obligations (CMO)	2,117,785	25,412	-	2,143,197
Mortgage-backed securities	17,378,818	145,042	(110,999)	17,412,861
Total available- for-sale	\$ 64,323,634	\$ 1,069,879	\$ (550,839)	\$ 64,842,674
Held-to-maturity:				
State and municipal bonds	\$ 377,000	\$ 35,591	\$ -	\$ 412,591
Mortgage-backed securities	2,404	40	-	2,444
Total held-to- maturity	\$ 379,404	\$ 35,631	\$ -	\$ 415,035

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 2 - Investment Securities (Continued)

	2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Available-for-sale:				
U.S. Government and Federal agency securities	\$ 22,461,886	\$ -	\$ (626,832)	\$ 21,835,054
State and municipal bonds	24,169,168	1,148,173	(78,212)	25,239,129
Small Business Administration pools	5,447,178	79,342	(16,855)	5,509,665
Corporate bonds	250,000	-	(5,388)	244,612
U.S. Government collateralized mortgage obligations (CMO)	2,656,206	23,446	(4,498)	2,675,154
Mortgage-backed securities	<u>19,342,891</u>	<u>265,004</u>	<u>(83,978)</u>	<u>19,523,917</u>
Total available- for-sale	<u>\$ 74,327,329</u>	<u>\$ 1,515,965</u>	<u>\$ (815,763)</u>	<u>\$ 75,027,531</u>
Held-to-maturity:				
State and municipal bonds	\$ 459,000	\$ 44,023	\$ -	\$ 503,023
Mortgage-backed securities	<u>5,232</u>	<u>165</u>	<u>-</u>	<u>5,397</u>
Total held-to- maturity	<u>\$ 464,232</u>	<u>\$ 44,188</u>	<u>\$ -</u>	<u>\$ 508,420</u>

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 2 - Investment Securities (Continued)

Investment securities with carrying values of approximately \$32,500,000 and \$23,140,000 at December 31, 2015 and 2014, respectively, were pledged to secure public deposits or for other purposes as permitted or required by law.

The amortized cost and approximate fair value of investment securities at December 31, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Available-for-Sale		Securities to be Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ -	\$ -	\$ 87,000	\$ 88,960
Due in one year to five years	5,578,099	5,655,918	215,000	235,455
Due in five years to ten years	9,530,314	9,563,068	75,000	88,176
Due in more than ten years	29,718,618	30,067,631	-	-
Mortgage-backed securities and CMO	<u>19,496,603</u>	<u>19,556,057</u>	<u>2,404</u>	<u>2,444</u>
Total	<u>\$ 64,323,634</u>	<u>\$ 64,842,674</u>	<u>\$ 379,404</u>	<u>\$ 415,035</u>

During 2015 and 2014, proceeds from sales of available-for-sale securities amounted to \$4,868,253 and \$18,389,765, respectively. Gross realized gains amounted to \$150,705 and \$307,575 for the years ended December 31, 2015 and 2014, respectively.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 2 - Investment Securities (Continued)

Information pertaining to securities with unrealized losses aggregated by investment category and the length of time that individual securities have been in a continuous loss position is summarized as follows at December 31, 2015:

Description of Securities	Continuing Unrealized Losses For Less Than 12 Months		Continuing Unrealized Losses For 12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government and Federal agency securities	\$ 497,422	\$ (2,579)	\$ 16,109,407	\$ (360,000)	\$ 16,606,829	\$ (362,579)
State and municipal bonds	3,408,610	(34,992)	2,066,167	(41,491)	5,474,777	(76,483)
Small Business Administration pools	-	-	651,204	(778)	651,204	(778)
Mortgage-backed securities	<u>2,946,736</u>	<u>(18,149)</u>	<u>4,235,522</u>	<u>(92,850)</u>	<u>7,182,258</u>	<u>(110,999)</u>
	<u>\$ 6,852,768</u>	<u>\$ (55,720)</u>	<u>\$ 23,062,300</u>	<u>\$ (495,119)</u>	<u>\$ 29,915,068</u>	<u>\$ (550,839)</u>

As of December 31, 2015, the Corporation's investment security portfolio consisted of 153 securities, 46 of which were in an unrealized loss position. The majority of unrealized losses are related to the Bank's mortgage-backed, government-sponsored enterprises, and state and municipal securities. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Corporation does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Corporation does not consider these securities to be other-than-temporarily impaired at December 31, 2015.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 3 - Loans Receivable

Loans receivable at December 31, 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Commercial	\$116,607,012	\$115,959,463
Consumer:		
Mortgages	53,319,803	37,563,997
Home equity	10,609,117	8,652,631
Other	<u>2,807,349</u>	<u>2,723,255</u>
Total consumer loans	66,736,269	48,939,883
Less:		
Allowance for losses on loans	3,389,771	3,963,709
Net deferred loan origination fees	<u>46,576</u>	<u>53,129</u>
Loans receivable, net	<u>\$179,906,934</u>	<u>\$160,882,508</u>

DART FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 3 - Loans Receivable (Continued)

Allowance for Loan Losses and Recorded Investment in Loans

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method at December 31, 2015 and 2014. The Bank has also included all mortgage loans held-for-sale within the mortgage loan classification at their original cost and not at their fair market value for the year ended December 31, 2014. Loans held-for-sale have been removed from the allowance for loan losses for the year ended December 31, 2015.

	December 31, 2015						
	Commercial	Mortgage	Installment	Home Equity Lines-of-Credit	Home Equity Term	Unallocated	Total
Allowance for loan losses:							
Beginning balance	\$ 2,526,849	\$ 996,269	\$ 12,082	\$ 54,600	\$ 2,504	\$ 371,405	\$ 3,963,709
Charge-offs	(142,325)	-	(97,006)	-	-	-	(239,331)
Recoveries	187,960	25,918	89,847	-	8,068	-	311,793
Provision	(399,800)	(389,744)	4,467	(25,203)	(2,208)	166,088	(646,400)
Ending balance	2,172,684	632,443	9,390	29,397	8,364	537,493	3,389,771
Ending balance individually evaluated for impairment	993,603	268,522	3,403	-	-	-	1,265,528
Ending balance collectively evaluated for impairment	1,179,081	363,921	5,987	29,397	8,364	537,493	2,124,243
Loans:							
Ending balance individually evaluated for impairment	\$ 10,697,451	\$ 2,546,145	\$ 76,785	\$ -	\$ -	\$ -	\$ 13,320,381
Ending balance collectively evaluated for impairment	105,909,561	50,773,658	2,730,564	7,820,872	2,788,245	-	170,022,900
Accrued interest receivable	396,888	120,320	6,857	22,088	-	-	546,153
Net deferred loan fees	(29,623)	(13,545)	(713)	(1,987)	(708)	-	(46,576)
Total recorded investment in loans	\$ 116,974,277	\$ 53,426,578	\$ 2,813,493	\$ 7,840,973	\$ 2,787,537	\$ -	\$ 183,842,858

DART FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

Note 3 - Loans Receivable (Continued)

Allowance for Loan Losses and Recorded Investment in Loans (Continued)

	December 31, 2014							Total
	Commercial	Mortgage	Installment	Home Equity Lines-of-Credit	Home Equity Term	Unallocated		
Allowance for loan losses:								
Beginning balance	\$ 3,429,413	\$ 559,441	\$ 16,757	\$ 9,005	\$ 6,916	\$ 419,468	\$	4,441,000
Charge-offs	(996,574)	(187,074)	(31,881)	(25,147)	(6,619)	-	-	(1,247,295)
Recoveries	296,513	7,500	57,286	105	-	-	-	361,404
Provision	(202,503)	616,402	(30,080)	70,637	2,207	(48,063)	-	408,600
Ending balance	2,526,849	996,269	12,082	54,600	2,504	371,405	-	3,963,709
Ending balance individually evaluated for impairment	724,095	349,196	2,639	-	-	-	-	1,075,930
Ending balance collectively evaluated for impairment	\$ 1,802,754	\$ 647,073	\$ 9,443	\$ 54,600	\$ 2,504	\$ 371,405	\$	2,887,779
Loans:								
Ending balance individually evaluated for impairment	\$ 11,521,683	\$ 3,165,999	\$ 53,786	\$ -	\$ -	\$ -	\$	14,741,468
Ending balance collectively evaluated for impairment	104,437,781	56,415,594	2,669,469	6,727,631	1,925,000	-	-	172,175,475
Accrued interest receivable	430,698	118,866	7,850	16,905	6,015	-	-	580,334
Net deferred loan fees	(32,960)	(16,935)	(774)	(1,912)	(548)	-	-	(53,129)
Total recorded investment in loans	\$ 116,357,202	\$ 59,683,524	\$ 2,730,331	\$ 6,742,624	\$ 1,930,467	\$ -	\$	187,444,148

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 3 - Loans Receivable (Continued)

Impaired Loans

Loan impairment is measured by estimating the expected future cash flows or by valuing the underlying collateral. The following tables present loans individually evaluated for impairment by class of loans as of December 31, 2015 and 2014:

	December 31, 2015				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	\$ 3,512,603	\$ 3,512,603	\$ -	\$ 2,912,246	\$ -
Mortgage	615,877	615,877	-	497,600	-
Installment	18,821	18,821	-	9,761	-
Home equity lines-of-credit	-	-	-	-	-
Home equity term	-	-	-	-	-
With an allowance recorded:					
Commercial	\$ 7,184,848	\$ 7,184,848	\$ 993,603	\$ 8,197,321	\$ -
Mortgage	1,930,268	1,930,268	268,522	2,358,473	-
Installment	57,964	57,964	3,403	55,525	-
Home equity lines-of-credit	-	-	-	-	-
Home equity term	-	-	-	-	-
Total:					
Commercial	\$ 10,697,451	\$ 10,697,451	\$ 993,603	\$ 11,109,567	\$ -
Mortgage	\$ 2,546,145	\$ 2,546,145	\$ 268,522	\$ 2,856,073	\$ -
Installment	\$ 76,785	\$ 76,785	\$ 3,403	\$ 65,286	\$ -
Home equity lines-of-credit	\$ -	\$ -	\$ -	\$ -	\$ -
Home equity term	\$ -	\$ -	\$ -	\$ -	\$ -

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 3 - Loans Receivable (Continued)

Impaired Loans (Continued)

	December 31, 2014				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	\$ 2,311,889	\$ 2,311,889	\$ -	\$ 4,478,142	\$ -
Mortgage	379,322	379,322	-	618,943	-
Installment	700	700	-	6,323	-
Home equity lines-of-credit	-	-	-	-	-
Home equity term	-	-	-	55,246	-
With an allowance recorded:					
Commercial	\$ 9,209,794	\$ 9,209,794	\$ 724,095	\$ 7,670,803	-
Mortgage	2,786,677	2,786,677	349,196	2,313,883	-
Installment	53,086	53,086	2,639	40,270	-
Home equity lines-of-credit	-	-	-	-	-
Home equity term	-	-	-	20,792	-
Total:					
Commercial	\$ 11,521,683	\$ 11,521,683	\$ 724,095	\$ 12,148,945	\$ -
Mortgage	\$ 3,165,999	\$ 3,165,999	\$ 349,196	\$ 2,932,826	\$ -
Installment	\$ 53,786	\$ 53,786	\$ 2,639	\$ 46,593	\$ -
Home equity lines-of-credit	\$ -	\$ -	\$ -	\$ -	\$ -
Home equity term	\$ -	\$ -	\$ -	\$ 76,038	\$ -

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 3 - Loans Receivable (Continued)

Credit Quality Indicators

The Bank categorizes commercial loans into five risk categories as defined in Note 1. At December 31, 2015 and 2014, and based on the most recent analysis performed, the risk category of loans by class of commercial loans is as follows:

	December 31, 2015				
	<u>Pass</u>	<u>Watch</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
Commercial	<u>\$ 100,534,267</u>	<u>\$ 6,345,848</u>	<u>\$ 9,902,920</u>	<u>\$ 191,242</u>	<u>\$ 116,974,277</u>
	December 31, 2014				
	<u>Pass</u>	<u>Watch</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
Commercial	<u>\$ 96,777,411</u>	<u>\$ 7,354,059</u>	<u>\$ 12,225,732</u>	<u>\$ -</u>	<u>\$ 116,357,202</u>

DART FINANCIAL CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 3 - Loans Receivable (Continued)

Credit Quality Indicators (Continued)

The Bank considers the performance of the loan portfolio and its impact on the allowance for loan losses. For mortgages, installment, and home equity loan classes, the Bank evaluates credit quality based on the aging status of the loan. The following tables present the recorded investment in these loan classes as of December 31, 2015 and 2014:

	December 31, 2015				
	Mortgage	Installment	Home Equity Lines-of-Credit	Home Equity Term	Total
Performing	\$ 53,336,383	\$ 2,750,522	\$ 7,840,973	\$ 2,787,537	\$ 66,715,415
Non-performing	90,195	62,971	-	-	153,166
Total	<u>\$ 53,426,578</u>	<u>\$ 2,813,493</u>	<u>\$ 7,840,973</u>	<u>\$ 2,787,537</u>	<u>\$ 66,868,581</u>
	December 31, 2014				
	Mortgage	Installment	Home Equity Lines-of-Credit	Home Equity Term	Total
Performing	\$ 59,153,700	\$ 2,664,013	\$ 6,739,903	\$ 1,930,467	\$ 70,488,083
Non-performing	529,824	66,318	2,721	-	598,863
Total	<u>\$ 59,683,524</u>	<u>\$ 2,730,331</u>	<u>\$ 6,742,624</u>	<u>\$ 1,930,467</u>	<u>\$ 71,086,946</u>

DART FINANCIAL CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

Note 3 - Loans Receivable (Continued)

Troubled Debt Restructurings

The following tables present modified loans by class of loans which were troubled debt restructurings as of December 31, 2015 and 2014:

	2015			2014		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded
Troubled debt restructurings:						
Commercial	3	\$ 489,373	\$ 481,123	6	\$ 2,472,156	\$ 2,362,701
Mortgage	-	-	-	1	108,031	105,313
Installment	2	43,596	41,228	2	42,150	33,307
	5	\$ 532,969	\$ 522,351	9	\$ 2,622,337	\$ 2,501,321

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 3 - Loans Receivable (Continued)

Non-Accrual Loans

Loans on which the accrual of interest has been discontinued or reduced amounted to approximately \$710,032 and \$1,551,140 for the years ended December 31, 2015 and 2014, respectively.

Note 4 - Mortgage Servicing

The Bank services loans for others which generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and taxing authorities, and processing foreclosures. Loans serviced as of December 31, 2015 and 2014, approximated \$177,468,000 and \$38,407,000, respectively; such loans are not included on the accompanying consolidated balance sheets. Total mortgage servicing right assets recorded as of December 31, 2015 and 2014 amounted to \$1,650,764 and \$168,782, respectively. Gain on mortgage servicing rights for mortgages sold with servicing retained was \$1,787,230 and \$33,921 for the years ended December 31, 2015 and 2014, respectively, and is included in other non-interest income.

Note 5 - Premises and Equipment

Premises and equipment are carried at cost, less accumulated depreciation and amortization, and are summarized at December 31, 2015 and 2014 by major classification as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 2,247,432	\$ 2,247,432
Office buildings	7,177,844	3,996,169
Furniture, fixtures and equipment	<u>2,884,240</u>	<u>2,962,689</u>
Total cost	12,309,516	9,206,290
Less accumulated depreciation	<u>(5,128,651)</u>	<u>(4,936,120)</u>
Undepreciated cost	<u>\$ 7,180,865</u>	<u>\$ 4,270,170</u>

Included in office buildings are construction-in-progress related to the construction of a new headquarters located in Mason, Michigan. The total amount of construction-in-progress amounted to \$3,448,818 and \$252,110 for the years ended December 31, 2015 and 2014, respectively. The total estimated remaining cost to complete construction is \$4,300,000. Depreciation expense charged to operations amounted to \$456,189 and \$352,199 for the years ended December 31, 2015 and 2014, respectively.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 6 - Deposits

Deposits at December 31, 2015 and 2014 are summarized as follows:

	2015	2014
NOW accounts	\$ 20,885,580	\$ 20,000,302
Savings and money market	107,560,425	93,260,993
Time deposits, \$100,000 and over	20,687,902	19,934,273
Time deposits, under \$100,000	32,611,599	31,455,106
Total interest bearing	181,745,506	164,650,674
Non-interest bearing demand deposits	72,280,089	64,373,066
Total deposits	\$254,025,595	\$229,028,312

At December 31, 2015, the scheduled maturities of time deposits with a remaining term of more than one year were:

Year Ending <u>December 31st:</u>	
2016	\$ 17,259,947
2017	21,528,127
2018	7,021,956
2019	3,767,955
2020	3,636,037
Thereafter	85,479
Total	\$ 53,299,501

Note 7 - Borrowed Funds

Federal Home Loan Bank advances are collateralized by a blanket lien on all qualified 1 to 4 family whole mortgage loans and U.S. government-sponsored enterprises securities with combined carrying values of approximately \$43,072,000 and \$38,026,000 at December 31, 2015 and 2014, respectively. Interest is charged on these advances at fixed annual rates ranging from 0.53% to 4.51%.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 7 - Borrowed Funds (Continued)

The amounts of principal payments coming due during the five years ending December 31, 2020 and thereafter are as follows:

2016		\$ 8,000,000
2017		-
2018		8,000,000
2019		15,000,000
2020		-
Thereafter		<u>3,100,000</u>
Total		<u>\$ 34,100,000</u>

The Bank's unused lines-of-credit for short-term borrowings totaled \$23,300,000 and \$25,900,000 at December 31, 2015 and 2014, respectively.

Note 8 - Federal Income Taxes

The provision for federal income taxes consists of the following components:

	<u>2015</u>	<u>2014</u>
Currently payable	\$ 313,302	\$ 490,000
Deferred expense	<u>596,798</u>	<u>125,000</u>
Federal income taxes	<u>\$ 910,100</u>	<u>\$ 615,000</u>

A reconciliation between federal income taxes reported and the amount computed by applying the statutory federal income tax rate of 34% to earnings before federal income taxes is as follows:

Income tax at statutory rate	\$ 1,394,447	\$ 940,700
Effect of tax-exempt interest income	(407,857)	(419,082)
Effect of nondeductible expenses	14,744	14,522
Other, net	<u>(91,234)</u>	<u>78,860</u>
Federal income taxes	<u>\$ 910,100</u>	<u>\$ 615,000</u>

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 8 - Federal Income Taxes (Continued)

The components of the net deferred income tax asset (liability) included within other assets (liabilities) in the accompanying consolidated statements of financial condition, resulted from the following temporary differences between the carrying amounts of assets and liabilities for federal income tax and financial reporting purposes:

	<u>2015</u>	<u>2014</u>
Deferred tax assets:		
Allowance for loan losses	\$ 752,051	\$ 875,478
Deferred compensation	129,376	89,141
Non-accrued interest	334,199	377,367
Other	<u>388,500</u>	<u>417,336</u>
Total deferred tax assets	1,604,126	1,759,322
Deferred tax liabilities:		
Premises and equipment	(145,883)	(183,737)
Mortgage servicing rights	(540,479)	(57,386)
Prepaid expenses	(22,448)	(26,083)
FHLB stock	(23,089)	(23,090)
Unrealized gain on available-for-sale securities	<u>(176,473)</u>	<u>(238,069)</u>
Total deferred tax liabilities	<u>(908,372)</u>	<u>(528,365)</u>
Net deferred income taxes	<u>\$ 695,754</u>	<u>\$ 1,230,957</u>

Note 9 - Related Party Transactions

Loans

In the ordinary course of business, the Bank grants loans to certain directors and executive officers and their affiliates. Such loans aggregated approximately \$451,006 and \$69,200 at December 31, 2015 and 2014, respectively.

Deposits

Deposits of Bank directors and executive officers and their affiliates were approximately \$2,885,949 and \$1,622,000 at December 31, 2015 and 2014, respectively.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 10 - Employee Benefit Plan

Defined Contribution 401(k) Plan

The Bank sponsors a defined contribution plan qualified under Section 401(k) of the Internal Revenue Code. Under the terms of the Plan, employees may make contributions to the plan and the Bank matches 50% of the first 6% of employees' salary contributions. The Bank made matching contributions of \$189,486 and \$134,507 for the years ended December 31, 2015 and 2014, respectively. Additionally, the Bank made discretionary profit-sharing contributions of \$745,482 and \$357,021 for the years ended December 31, 2015 and 2014, respectively.

Deferred Compensation

The Bank also maintains an executive deferred compensation plan for certain officers and directors. The plan includes participants that elected to defer compensation over eight years in exchange for a predetermined benefit after retirement. Plan expenses are allocated over years of service or based upon the current amount of the defined contributions. In 2014, the Bank implemented a Supplemental Executive Retirement Plan (SERP) covering certain key management employees. Vesting occurs over a period of five to ten years. The plans are unfunded arrangements with no assets pledged to cover the future expenses. Expense for the plans were \$135,804 and \$125,677 for the years ended December 31, 2015 and 2014, respectively.

Bank-Owned Life Insurance (BOLI)

The Bank has invested in single premium, bank-owned, endorsement split-dollar, whole life insurance programs. Bank owned life insurance is an alternative investment vehicle which may produce additional earnings to offset, and later fund, various employee supplemental benefit expenses. The earnings on the policies are not taxed unless withdrawn or surrendered prior to the death of the insured. The increase in cash surrender value of the policies is included in non-interest income.

The benefit promised by the Bank to the covered officers is a \$25,000 death benefit; such benefit expires if the officers' employment is terminated for any reason other than death, including voluntary or involuntary termination or retirement. Based primarily on the ages of the covered officers, the Bank believes that the payment of such benefits is not probable; accordingly, the Bank has not recorded a liability for such benefits.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 11 - Commitments and Contingent Liabilities

The principal commitments of the Bank are as follows:

Lease Commitments

At December 31, 2015 and 2014, the Bank was obligated under noncancellable operating leases for office space. Net rent expense under the operating leases, included in expenses, was approximately \$346,700 and \$294,500 for the years ended December 31, 2015 and 2014, respectively.

The projected minimum rental payments under the terms of the leases at December 31, 2015 are as follows:

Year Ending December 31st:

2016	\$	243,793
2017		78,638
2018		25,425

In the normal course of business, there are outstanding commitments, contingent liabilities and other financial instruments that are not reflected in the accompanying consolidated financial statements. These include commitments to extend credit and standby letters-of-credit, which are some of the instruments used by the Bank to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other parties to the financial instrument for these commitments is represented by the contractual amounts of those instruments. The Bank uses the same credit policies in making commitments as it does for on-balance sheet instruments. These commitments as of December 31, 2015 and 2014 were as follows:

Loan Commitments

	<u>Contract Amount</u>	
	<u>2015</u>	<u>2014</u>
Unfunded commitments under lines-of-credit	\$ 24,420,580	\$ 24,798,391
Commitments to grant loans	10,599,927	6,108,480
Commitments under overdraft protection agreements	3,115,962	3,182,051
Commercial and standby letters-of-credit	434,166	252,592

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 11 - Commitments and Contingent Liabilities (Continued)

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. Certain commitments have fixed expiration dates, or other termination clauses, and may require payment of a fee. Many of the commitments are expected to expire without being drawn upon; accordingly, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral or other security obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include deposits held in financial institutions; U.S. Treasury securities; other marketable securities; accounts receivable; inventory; property and equipment; personal residences; income-producing commercial properties and land under development. Personal guarantees are also obtained to provide added security for certain commitments.

Standby letters-of-credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third-party. Those guarantees are primarily issued to guarantee the installation of real property improvements and similar transactions. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral and obtains personal guarantees supporting those commitments for which collateral or other security is deemed necessary.

Note 12 - Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by the federal 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 on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet items as calculated under U.S. GAAP, regulatory reporting requirements and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined) to risk-weighted assets (as defined), common equity Tier 1 capital (as defined) to total risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2015 and 2014, that the Bank meets all capital adequacy requirements to which it is subject.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 12 - Regulatory Capital (Continued)

As of December 31, 2015 and 2014, the most recent notification from the regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, common equity Tier 1 risk based capital and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification which management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios at December 31, 2015 and 2014 are presented in the following tables:

	Actual Amount	Actual Ratio	Minimum Required for Capital Adequacy Purposes Ratio	Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions Ratio
<u>Rules in effect beginning on January 1, 2015</u>				
<u>2015</u>				
Total Capital (to Risk-Weighted Assets) Bank	\$ 35,352	15.74%	8.00%	10.00%
Tier 1 Capital (to Risk-Weighted Assets) Bank	32,538	14.49%	4.00%	6.00%
Common Equity Tier 1 (to Risk-Weighted Assets) Bank	32,538	14.49%	4.50%	6.50%
Tier 1 Capital (to Average Assets) Bank	32,538	10.34%	4.00%	5.00%

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 12 - Regulatory Capital (Continued)

	Actual Amount	Ratio	Minimum Required for Capital Adequacy Purposes Ratio	Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions Ratio
<u>Rules in effect prior to January 1, 2015</u>				
<u>2014</u>				
Total Capital (to Risk-Weighted Assets) Bank	\$ 32,764	16.69%	8.00%	10.00%
Tier 1 Capital (to Risk-Weighted Assets) Bank	30,291	15.43%	4.00%	6.00%
Tier 1 Capital (to Average Assets) Bank	30,291	10.71%	4.00%	5.00%

Federal and state banking regulations place certain restrictions on the amount of loans or advances that can be extended to the Corporation by the Bank and dividends that can be paid to the Corporation by the Bank. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of the Bank, and loans or advances are limited to 10% of the Bank's capital stock and surplus on a secured basis. In addition, dividends paid by the Bank to the Corporation would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 13 - Fair Value Measurements

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below:

Basis of Fair Value Measurements

- Level 1 - Valuation is based on quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market.
- Level 2 - Valuation is based on inputs other than quoted market 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; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
- Level 3 - Valuation is generated from model-based techniques use at least one significant assumption not observable in the market. Level 3 assets and liabilities include financial instruments whose value is determined by using pricing models, discounted cash flow methodologies, or similar techniques.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 13 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis at December 31, 2015 and 2014 are summarized as follows:

	Fair Value Measurements at December 31, 2015, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
Investment securities available-for-sale:				
U.S. Government securities	\$ -	\$ 16,606,828	\$ -	\$ -
State and municipal	-	25,140,621	-	-
Small Business Administration	-	3,539,167	-	-
Collateralized mortgage obligations	-	2,143,197	-	-
Mortgage-backed securities	-	<u>17,412,861</u>	-	-
Total investments at fair value	<u>\$ -</u>	<u>\$ 64,842,674</u>	<u>\$ -</u>	<u>\$ -</u>
Mortgage loans held-for sale	<u>\$ -</u>	<u>\$ 7,640,982</u>	<u>\$ -</u>	<u>\$ -</u>

	Fair Value Measurements at December 31, 2014, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
Investment securities available-for-sale:				
U.S. Government securities	\$ -	\$ 21,835,054	\$ -	\$ -
State and municipal	-	25,239,129	-	-
Small Business Administration	-	5,509,665	-	-
Corporate bonds	-	244,612	-	-
Collateralized mortgage obligations	-	2,675,154	-	-
Mortgage-backed securities	-	<u>19,523,917</u>	-	-
Total investments at fair value	<u>\$ -</u>	<u>\$ 75,027,531</u>	<u>\$ -</u>	<u>\$ -</u>
Mortgage loans held-for sale	<u>\$ -</u>	<u>\$ 22,653,427</u>	<u>\$ -</u>	<u>\$ -</u>

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 13 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis at December 31, 2015 and 2014 are summarized as follows:

	Fair Value Measurements at December 31, 2015, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
Impaired loans	\$ -	\$ -	\$ 13,320,381	\$ 13,320,381
Foreclosed assets	-	-	73,760	73,760
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,394,141</u>	<u>\$ 13,394,141</u>

	Fair Value Measurements at December 31, 2014, Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Carrying Value
Impaired loans	\$ -	\$ -	\$ 14,741,468	\$ 14,741,468
Foreclosed assets	-	-	23,223	23,223
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,764,691</u>	<u>\$ 14,764,691</u>

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or market value. Foreclosed assets are valued at the time of transfer from the loan portfolio, at the market value, less the cost to sell. Market value is measured based on the value of the collateral securing the loans and is classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. The value of real estate collateral is determined based on appraisal by qualified licensed appraisers hired by the Bank. The value of business equipment, inventory and accounts receivable collateral is based on the net book value on the business' financial statements and, if necessary, discounted based on management's review and analysis. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified previously.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 14 - Derivative Instruments

Derivative Loan Commitments

Mortgage loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held-for-sale upon funding. The Bank enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Bank to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate-lock.

Outstanding derivative loan commitments expose the Bank to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate-lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases.

Forward Loan Sale Commitments

To protect against the price risk inherent in derivative loan commitments, the Bank utilizes both “mandatory delivery” and “best efforts” forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments.

With a “mandatory delivery” contract, the Bank commits to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. If the Bank fails to deliver the amount of mortgages necessary to fulfill the commitment by the specified date, it is obligated to pay a “pair-off” fee, based on then-current market prices, to the investor to compensate the investor for the shortfall.

With a “best efforts” contract, the Bank commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded (e.g., on the same day the lender commits to lend funds to a potential borrower).

The Bank expects that these forward loan sale commitments will experience changes in fair value opposite to the change in fair value of derivative loan commitments. The notional amount of fixed rate forward loan sale commitments was \$4,331,926 and \$736,300 as of December 31, 2015 and 2014, respectively.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

Note 14 - Derivative Instruments (Continued)

Forward Loan Sale Commitments (Continued)

The fair value of the rate-lock loan commitments related to the origination or acquisition of mortgage loans that will be held-for-sale and the forward loan sale commitments are deemed insignificant by management and, accordingly, are not recognized in these consolidated financial statements.

Note 15 - Non-Interest Income

Non-interest income consists of the following amounts for the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Fees and service charges	\$ 2,085,700	\$ 1,925,680
Gain on sale of loans	5,201,058	3,636,742
Increase in cash surrender value of BOLI	245,072	252,325
Gain on mortgage servicing rights	1,787,230	33,921
Other	<u>1,096,467</u>	<u>654,955</u>
Total non-interest income	<u>\$ 10,415,527</u>	<u>\$ 6,503,623</u>

***** End of Notes *****

