

DART FINANCIAL CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018
(With Independent Auditor's Report Thereon)

DART FINANCIAL CORPORATION

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Balance Sheets.....	3
Consolidated Statements of Income	4
Consolidated Statements of Comprehensive Income	5
Consolidated Statements of Shareholders' Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	9

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 are comprised of the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, shareholders' 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 consolidated financial position of Dart Financial Corporation as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.



Troy, Michigan
February 8, 2019

DART FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2018 AND 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Cash and cash due from banks	\$ 6,682,373	\$ 5,336,969
Restricted cash	2,753,000	2,509,000
Federal funds sold	21,352,479	6,215,238
	<hr/>	<hr/>
Total cash and cash equivalents (note 1)	30,787,852	14,061,207
Interest bearing deposits	2,497,750	2,497,750
Investment securities (note 2):		
Available-for-sale	37,866,250	52,753,716
Held-to-maturity	250,000	290,049
Federal Home Loan Bank stock, at cost	3,029,500	2,804,500
Mortgage loans held-for-sale (note 1)	7,257,073	8,833,605
Loans receivable, net (note 3)	338,521,730	285,242,762
Premises and equipment, net (note 5)	13,935,313	14,472,339
Accrued interest receivable	1,235,356	1,147,670
Bank-owned life insurance (note 10)	8,954,669	8,695,139
Mortgage servicing rights (note 4)	7,272,484	5,242,175
Other assets (notes 14 and 15)	2,802,369	2,036,842
	<hr/>	<hr/>
Total assets	\$ 454,410,346	\$ 398,077,754

<u>Liabilities and Shareholders' Equity</u>	<u>2018</u>	<u>2017</u>
Deposits (note 6):		
Interest bearing	\$ 248,258,506	\$ 211,152,889
Non-interest bearing	92,907,642	88,833,483
Total deposits	341,166,148	299,986,372
Borrowed funds (note 7)	71,465,000	58,100,000
Deferred compensation (note 10)	825,951	660,366
Deferred taxes (note 8)	974,477	371,572
Accrued interest payable and other liabilities	2,291,001	1,878,395
Total liabilities	416,722,577	360,996,705
Commitments and contingent liabilities (note 11)		
Shareholders' equity (note 12):		
Common stock, no par; 5,000,000 shares authorized; issued and outstanding 1,149,968 and 1,197,500 in 2018 and 2017, respectively	15,510,560	16,918,375
Retained earnings	22,847,940	20,091,955
Accumulated other comprehensive (loss) income	(670,731)	70,719
Total shareholders' equity	37,687,769	37,081,049
Total liabilities and shareholders' equity	<u>\$ 454,410,346</u>	<u>\$ 398,077,754</u>

See accompanying notes to consolidated financial statements

DART FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Interest income:		
Loans	\$ 16,045,130	\$ 12,924,598
Investment securities	1,344,827	1,556,049
Federal funds sold	170,390	134,453
Total interest income	17,560,347	14,615,100
Interest expense:		
Deposits	1,926,655	1,195,208
FHLB advances	1,249,117	923,699
Total interest expense	3,175,772	2,118,907
Net interest income	14,384,575	12,496,193
Provision for loan losses	18,600	110,400
Net interest income after provision for loan losses	14,365,975	12,385,793
Non-interest income (note 16)	13,900,392	14,225,545
Non-interest expenses:		
Compensation and benefits	15,260,140	14,656,584
Occupancy	2,137,516	1,906,479
Advertising	598,891	539,945
Legal and professional	634,933	636,813
Office supplies	113,274	109,955
Charitable contributions	129,935	140,693
Amortization of mortgage servicing rights	1,729,968	1,271,945
Other	3,114,145	3,060,913
Total non-interest expenses	23,718,802	22,323,327
Earnings before federal income taxes	4,547,565	4,288,011
Federal income taxes (note 8)	758,437	719,305
Net income	\$ 3,789,128	\$ 3,568,706
Net income per basic share of common stock	\$ 3.29	\$ 2.98

See accompanying notes to consolidated financial statements

DART FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Net income	\$ 3,789,128	\$ 3,568,706
Other comprehensive (loss) income:		
Unrealized holding (losses) gains on available-for-sale securities arising during the year	(870,383)	195,058
Reclassification adjustment for realized gains included in net income	(68,161)	-
Tax effect	<u>197,094</u>	<u>(40,962)</u>
Total other comprehensive (loss) income	<u>(741,450)</u>	<u>154,096</u>
Comprehensive income	<u>\$ 3,047,678</u>	<u>\$ 3,722,802</u>

See accompanying notes to consolidated financial statements

DART FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2018 AND 2017

	Common Stock	Retained Earnings	Accumulated Other Compre- hensive Income/(Loss)	Total Shareholders' Equity
Balance - January 1, 2017	\$ 17,000,000	\$ 17,481,749	\$ (83,377)	\$ 34,398,372
Repurchase and retirement of shares	(81,625)	-	-	(81,625)
Comprehensive income	-	3,568,706	154,096	3,722,802
Cash dividends paid (\$0.80 per share)	-	(958,500)	-	(958,500)
Balance - December 31, 2017	16,918,375	20,091,955	70,719	37,081,049
Repurchase and retirement of shares	(1,407,815)	-	-	(1,407,815)
Comprehensive income (loss)	-	3,789,128	(741,450)	3,047,678
Cash dividends paid (\$0.89 per share)	-	(1,033,143)	-	(1,033,143)
Balance - December 31, 2018	<u>\$ 15,510,560</u>	<u>\$ 22,847,940</u>	<u>\$ (670,731)</u>	<u>\$ 37,687,769</u>

See accompanying notes to consolidated financial statements

DART FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Net income	\$ 3,789,128	\$ 3,568,706
Adjustments:		
Depreciation	909,063	700,031
Provision for loan losses expense	18,600	110,400
Increase in cash surrender value of bank-owned life insurance	(259,530)	(279,340)
Decrease in deferred taxes	799,999	245,446
Net amortization of premiums on investments	352,938	424,965
Gain on sales of investments	(68,161)	-
Gain on sales of mortgage loans	(4,813,151)	(6,475,566)
Origination of mortgage loans - held-for-sale	(258,563,241)	(251,307,490)
Proceeds from mortgage loans - held-for-sale	264,952,924	264,813,547
Amortization of mortgage servicing rights	1,729,968	1,271,945
Capitalization of mortgage servicing rights	(3,760,277)	(2,843,230)
Changes in operating assets and liabilities:		
Increase in accrued interest receivable and other assets	(853,216)	(507,312)
Increase in accrued interest payable and other liabilities	578,191	504,205
Total adjustments	1,024,107	6,657,601
Net cash provided from operating activities	4,813,235	10,226,307

See accompanying notes to consolidated financial statements

DART FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from investing activities:		
Activity in available-for-sale securities:		
Purchases	\$ -	\$ (4,776,672)
Sales, maturities, calls and prepayments	13,664,144	8,151,382
Activity in held-to-maturity securities:		
Purchases	-	(250,000)
Maturities, calls and prepayments	40,049	35,535
Decrease in interest bearing deposits, net	-	1,746,145
Increase in loans receivable, net	(53,297,568)	(50,665,258)
Acquisition of property and equipment	(372,033)	(861,980)
Purchase of FHLB stock	(225,000)	-
	(40,190,408)	(46,620,848)
Net cash used in investing activities		
Cash flows from financing activities:		
Proceeds from borrowings	21,400,000	6,000,000
Repayments of borrowings	(8,035,000)	(11,000,000)
Acceptances and withdrawals of deposits, net	41,179,776	22,006,124
Repurchase and retirement of shares	(1,407,815)	(81,625)
Dividends paid	(1,033,143)	(958,500)
	52,103,818	15,965,999
Net cash provided from financing activities		
Net increase (decrease) in cash, cash equivalents and restricted cash	16,726,645	(20,428,542)
Cash, cash equivalents and restricted cash - beginning	14,061,207	34,489,749
Cash, cash equivalents and restricted cash - ending	\$ 30,787,852	\$ 14,061,207
<u>Supplemental Information</u>		
Interest paid	\$ 3,047,212	\$ 2,119,932
Federal income taxes paid	\$ 150,000	\$ 50,000

See accompanying notes to consolidated financial statements

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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. The fully consolidated entry is referred to as “Dart Financial Corporation”. 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 four full-service offices located in Mason, Holt, Lansing, and Grand Ledge, Michigan. The Bank also has three home loan centers located in Grand Rapids, Lansing, and Chelsea, Michigan. The Bank engages in mortgage banking activities and as such, acquires, sells, and services one-to-four family residential mortgage loans. 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.

Cash Equivalents

The consolidated statements 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, 2018 AND 2017

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.

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 \$2,753,000 and \$2,509,000 at December 31, 2018 and 2017, respectively.

Interest Bearing Deposits in Banks

Interest bearing deposits in banks are time deposits with financial institutions with an original maturity in excess of 90 days. These deposits are all 100% insured as no deposit to one individual institution exceeds \$250,000.

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.

Investment securities classified as available-for-sale are measured at fair value as of the consolidated balance sheet date.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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

Investment Securities (Continued)

Unrealized gains and losses on available-for-sale investments are reported as a separate component of shareholders' equity. Realized gains and losses on disposition, if any, are computed using the specific identification method. Investments are adjusted for the amortization of premiums and accretion of discounts as an adjustment to interest income on investments over the term of the investment by a method which approximates the interest method.

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, and (iii) that the Bank has the intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Federal Home Loan Bank Stock

As a member of the FHLB, the Bank is required to invest in stock of the FHLB. The FHLB stock is carried at cost and its disposition is restricted. Based on its restricted nature, no ready market exists for this investment and it has no quoted market value.

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

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.

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.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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

Loans (Continued)

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.

Certain direct loan origination costs are deferred and recognized as an adjustment to interest income over the contractual life of the loans.

Forward Loan Sales Commitments

The Bank carefully evaluates all loan sale agreements to determine whether they meet the definition of a derivative under the derivatives and hedging accounting guidance as facts and circumstances may differ significantly. If agreements qualify, to protect against the price risk inherent in derivative loan commitments, the Bank uses both “mandatory delivery” and “best efforts” forward loan sale commitments to mitigate the risk of potential decreases in the value of loans that would result from the exercise of derivative loan commitments. Mandatory delivery contracts are accounted for as derivative instruments. Accordingly, forward loan sale commitments are recognized at fair value on the balance sheet in other assets with changes in their fair value recorded in non-interest income.

Allowance for Loan Losses

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.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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

Allowance for Loan Losses (Continued)

For purposes of determining the allowance, the Bank has segmented certain loans in the portfolio by product type. Loans are divided into the following segments: Commercial, Real estate and Consumer. The Bank further disaggregates these segments into classes based on the associated risks within those segments. Real estate loans are divided into three classes: Mortgage, Home equity line-of-credit (HELOC), and Home equity term.

The allowance consists of specific, general, and unallocated components. The specific component covers impaired loans and troubled debt restructurings and the specific allowances are established for these loans based on a thorough analysis of the most probable source of repayments, including the present value of the loan's expected future cash flows, the loan's estimated market value, or the estimated fair value of the underlying collateral. 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.

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 installment 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 decreased collateral values.

Mortgages: 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.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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

Allowance for Loan Losses (Continued)

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.

Installment: The installment 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.

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. Under GAAP, the unallocated portion of the allowance should be recaptured through income, however, the Bank believes that the unallocated portion is necessary to account for any margin of error resulting from the allowance calculation.

Loan Segment Allowance Methodology

For loans not individually evaluated, the Bank determines the allowance on a collective basis utilizing historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. As of December 31, 2018 and 2017, the historical loss time frame for each class was 8 years and 7 years calculated using rolling quarterly data, respectively.

Troubled Debt Restructurings

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, 2018 AND 2017

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

Allowance for Loan Losses (Continued)

Loan Charge-off Policies

The Bank's quality control process includes preparing lists to monitor and track delinquent loans. Tracking the loans on these lists enables management to assess the performance of the loan portfolio and act to mitigate risk therein through necessary changes in policy and procedures. The quality control process also serves as a tool to assist the Bank in identifying loans for charge-off on a timely basis.

Loans are generally charged-off when 90 days past due for unsecured loans and 120 days past due for secured loans.

Consumer and Real Estate Credit Quality Indicators

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, non-accrual amounts, and actual losses incurred.

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, non-accrual loans and loans modified under troubled debt restructurings that are past due in accordance with the loans' original contractual terms are considered to be in a non-performing status for purposes of credit quality evaluation.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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

Allowance for Loan Losses (Continued)

Commercial Credit Quality Indicators

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 watch 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. Watch 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, 2018 AND 2017

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 \$4,813,151 and \$6,475,566 for the years ended December 31, 2018 and 2017, respectively, and is included in 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.

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, 2018 AND 2017

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, 2018 AND 2017

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 consolidated 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, 2014.

Recent Accounting Pronouncements

On January 5, 2016, the FASB issued Accounting Standards Update (ASU) 2016-01, *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. 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.

Accounting for Financial Instruments - Credit Losses - In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses*. The ASU introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses. The FASB's CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models in current GAAP, which generally require that a loss be incurred before it is recognized.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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

Recent Accounting Pronouncements (Continued)

The CECL model represents a significant change from existing GAAP, and may result in material changes to the Bank's accounting for loans. The Bank has not determined the effect that ASU 2016-13 will have on its consolidated financial statements and its related disclosures. The ASU will take effect for fiscal years beginning after December 15, 2021. Early application is permitted for annual periods beginning January 1, 2020.

Lease Accounting - In February 2016, the FASB issued ASU 2016-02, *Leases*, which is intended to increase transparency and comparability of accounting for lease transactions. The ASU will require lessees to recognize most leases on the balance sheet as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. The guidance is effective December 31, 2020 with an option to early adopt. The Bank is evaluating whether to early adopt and the effect that ASU 2016-02 will have on its consolidated financial statements, regulatory capital and related disclosures.

Net Income Per Share

Net income per basic share of common stock represents income available to common stockholders divided by the number of common shares outstanding, which was 1,149,968 shares and 1,197,500 shares at December 31, 2018 and 2017, respectively.

Stock Repurchase Program

The Corporation has a stock repurchase program to allow for outstanding shares of stock to be repurchased and retired by the Corporation. Repurchases are limited to 2,500 shares per stockholder per year without Board approval, and are done at 95% of book value. 47,532 shares were repurchased for \$1,407,815 in 2018 and 2,500 shares were repurchased for \$81,625 in 2017. As of December 31, 2018, there were no outstanding repurchase commitments.

Reclassification

Certain amounts as reported in the 2017 consolidated financial statements have been reclassified to conform with the 2018 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, 2018, the most recent consolidated balance sheet presented herein, through February 8, 2019, the date these consolidated financial statements were available to be issued.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 2 - Investment Securities

Investment securities at December 31, 2018 and 2017 are summarized as follows:

	December 31, 2018			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	
Available-for-sale:				
State and municipal bonds	\$ 18,984,960	\$ 68,508	\$ (277,760)	\$ 18,775,708
Small Business Administration (SBA) pools	1,995,052	11,455	-	2,006,507
U.S. Government collateralized mortgage obligations (CMO)	856,687	-	(6,016)	850,671
Mortgage-backed securities	16,878,578	-	(645,214)	16,233,364
Total available- for-sale	\$ 38,715,277	\$ 79,963	\$ (928,990)	\$ 37,866,250
Held-to-maturity:				
Subordinated note	250,000	-	-	250,000
Total held-to- maturity	\$ 250,000	\$ -	\$ -	\$ 250,000

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 2 - Investment Securities (Continued)

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Available-for-sale:				
State and municipal bonds	\$ 27,886,832	\$ 411,547	\$ (88,062)	\$ 28,210,317
Small Business Administration (SBA) pools	2,398,329	13,481	(800)	2,411,010
U.S. Government collateralized mortgage obligations (CMO)	1,217,265	3,966	(2,859)	1,218,372
Mortgage-backed securities	<u>21,161,772</u>	<u>45,753</u>	<u>(293,508)</u>	<u>20,914,017</u>
Total available- for-sale	<u>\$ 52,664,198</u>	<u>\$ 474,747</u>	<u>\$ (385,229)</u>	<u>\$ 52,753,716</u>
Held-to-maturity:				
State and municipal bonds	\$ 40,000	\$ 1,151	\$ -	\$ 41,151
Mortgage-backed Securities	49	-	-	49
Subordinated note	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>250,000</u>
Total held-to- maturity	<u>\$ 290,049</u>	<u>\$ 1,151</u>	<u>\$ -</u>	<u>\$ 291,200</u>

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 2 - Investment Securities (Continued)

Investment securities with carrying values of approximately \$18,100,000 and \$22,900,000 at December 31, 2018 and 2017, 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, 2018, 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	\$ 402,631	\$ 402,964	\$ -	\$ -
Due in one year to five years	1,926,978	1,937,653	-	-
Due in five years to ten years	8,431,790	8,376,148	250,000	250,000
Due in more than ten years	8,223,561	8,058,943	-	-
Mortgage-backed securities CMO and SBA	<u>19,730,317</u>	<u>19,090,542</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 38,715,277</u>	<u>\$ 37,866,250</u>	<u>\$ 250,000</u>	<u>\$ 250,000</u>

During 2018 and 2017, proceeds from sales of available-for-sale securities amounted to approximately \$8,350,000 and \$-0-, respectively. Gross realized gains amounted to \$68,161 and \$-0- for the years ended December 31, 2018 and 2017, respectively.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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, 2018:

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
State and municipal bonds	\$ 4,068,279	\$ (93,139)	\$ 7,092,255	\$ (184,621)	\$ 11,160,534	\$ (277,760)
Small Business Administration pools	-	-	-	-	-	-
U.S. Government collateralized mortgage obligations	476,275	(2,589)	374,395	(3,427)	850,670	(6,016)
Mortgage-backed securities	<u>1,928,573</u>	<u>(34,776)</u>	<u>14,304,791</u>	<u>(610,438)</u>	<u>16,233,364</u>	<u>(645,214)</u>
	<u>\$ 6,473,127</u>	<u>\$ (130,504)</u>	<u>\$ 21,771,441</u>	<u>\$ (798,486)</u>	<u>\$ 28,244,568</u>	<u>\$ (928,990)</u>

As of December 31, 2018, the Corporation's investment security portfolio consisted of 92 securities, 64 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, 2018.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 3 - Loans Receivable

Loans receivable at December 31, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Commercial	\$171,446,466	\$151,500,839
Real estate:		
Mortgage	139,551,371	112,273,906
Home equity lines-of-credit	17,327,329	16,241,165
Home equity term	<u>7,632,968</u>	<u>3,610,385</u>
Total real estate	164,511,668	132,125,456
Consumer:		
Installment	<u>5,357,230</u>	<u>4,323,144</u>
Total	341,315,364	287,949,439
Net deferred loan origination costs and fees	923,454	671,334
Less allowance for losses on loans	<u>(3,717,088)</u>	<u>(3,378,011)</u>
Loans receivable, net	<u>\$338,521,730</u>	<u>\$285,242,762</u>

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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, 2018 and 2017:

	December 31, 2018				
	<u>Commercial</u>	<u>Real Estate</u>	<u>Consumer</u>	<u>Unallocated</u>	<u>Total</u>
Allowance for loan losses:					
Beginning balance	\$ 1,975,026	\$ 1,047,679	\$ 41,682	\$ 313,624	\$ 3,378,011
Charge-offs	(70,437)	-	(52,413)	-	(122,850)
Recoveries	373,895	67,820	1,612	-	443,327
Provision (reversal)	(449,882)	128,136	61,178	279,168	18,600
Ending balance	1,828,602	1,243,635	52,059	592,792	3,717,088
Ending balance individually evaluated for impairment	204,976	61,063	2,408	-	268,447
Ending balance collectively evaluated for impairment	<u>\$ 1,623,626</u>	<u>\$ 1,182,572</u>	<u>\$ 49,651</u>	<u>\$ 592,792</u>	<u>\$ 3,448,641</u>
Loans:					
Ending balance individually evaluated for impairment	\$ 8,273,157	\$ 1,171,462	\$ 296,124	\$ -	\$ 9,740,743
Ending balance collectively evaluated for impairment	163,173,309	163,340,206	5,061,106	-	331,574,621
Total recorded investment in loans	<u>\$ 171,446,466</u>	<u>\$ 164,511,668</u>	<u>\$ 5,357,230</u>	<u>\$ -</u>	<u>\$ 341,315,364</u>

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 3 - Loans Receivable (Continued)

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

	December 31, 2017				
	Commercial	Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:					
Beginning balance	\$ 1,633,719	\$ 1,016,527	\$ 18,234	\$ 600,256	\$ 3,268,736
Charge-offs	(12,126)	(121,551)	-	-	(133,677)
Recoveries	85,854	46,098	600	-	132,552
Provision (reversal)	<u>267,579</u>	<u>106,605</u>	<u>22,848</u>	<u>(286,632)</u>	<u>110,400</u>
Ending balance	1,975,026	1,047,679	41,682	313,624	3,378,011
Ending balance individually evaluated for impairment	<u>339,129</u>	<u>114,796</u>	<u>2,777</u>	<u>-</u>	<u>456,702</u>
Ending balance collectively evaluated for impairment	<u>\$ 1,635,897</u>	<u>\$ 932,883</u>	<u>\$ 38,905</u>	<u>\$ 313,624</u>	<u>\$ 2,921,309</u>
Loans:					
Ending balance individually evaluated for impairment	\$ 7,240,283	\$ 1,551,991	\$ 308,587	\$ -	\$ 9,100,861
Ending balance collectively evaluated for impairment	<u>144,260,556</u>	<u>130,573,465</u>	<u>4,014,557</u>	<u>-</u>	<u>278,848,578</u>
Total recorded investment in loans	<u>\$ 151,500,839</u>	<u>\$ 132,125,456</u>	<u>\$ 4,323,144</u>	<u>\$ -</u>	<u>\$ 287,949,439</u>

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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, 2018 and 2017:

	December 31, 2018				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	\$ 5,409,432	\$ 5,409,432	\$ -	\$ 5,066,194	\$ -
Real estate:					
Mortgage	549,266	549,266	-	551,413	-
Home equity - term	8,228	8,228	-	10,126	-
Consumer:					
Installment	245,596	245,596	-	249,578	-
With an allowance recorded:					
Commercial	\$ 2,863,725	\$ 2,863,725	\$ 204,976	\$ 2,690,527	\$ -
Real estate:					
Mortgage	595,112	595,112	59,875	779,715	-
Home equity - term	18,856	18,856	1,188	20,473	-
Consumer:					
Installment	50,528	50,528	2,408	52,778	-
Total:					
Commercial	\$ 8,273,157	\$ 8,273,157	\$ 204,976	\$ 7,756,721	\$ -
Real estate	\$ 1,171,462	\$ 1,171,462	\$ 61,063	\$ 1,361,727	\$ -
Consumer	\$ 296,124	\$ 296,124	\$ 2,408	\$ 302,356	\$ -

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 3 - Loans Receivable (Continued)

Impaired Loans (Continued)

	December 31, 2017				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	\$ 4,722,955	\$ 4,722,955	\$ -	\$ 5,637,453	\$ -
Real estate:					
Mortgage	553,560	553,560	-	696,168	-
Home equity - term	12,023	12,023	-	6,012	-
Consumer:					
Installment	253,559	253,559	-	257,673	-
With an allowance recorded:					
Commercial	\$ 2,517,328	\$ 2,517,328	\$ 339,129	\$ 5,136,929	\$ -
Real estate:					
Mortgage	964,319	964,319	114,796	1,134,386	-
Home equity - term	22,089	22,089	-	11,045	-
Consumer:					
Installment	55,028	55,028	2,777	54,778	-
Total:					
Commercial	\$ 7,240,283	\$ 7,240,283	\$ 339,129	\$ 10,774,382	\$ -
Real estate	\$ 1,551,991	\$ 1,551,991	\$ 114,796	\$ 1,847,611	\$ -
Consumer	\$ 308,587	\$ 308,587	\$ 2,777	\$ 312,451	\$ -

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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, 2018 and 2017, and based on the most recent analysis performed, the risk category of loans by class of commercial loans is as follows:

	<u>2018</u> Commercial Loans
Pass	\$ 156,896,061
Watch	5,514,004
Substandard	9,036,401
Doubtful	-
Loss	-
Total	<u>\$ 171,446,466</u>

	<u>2017</u> Commercial Loans
Pass	\$ 137,692,981
Watch	6,364,553
Substandard	7,443,305
Doubtful	-
Loss	-
Total	<u>\$ 151,500,839</u>

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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, 2018 and 2017:

	December 31, 2018	
	Performing Loans	Non-Performing Loans
Real estate:		
Mortgage	\$ 139,546,181	\$ 5,190
Home equity lines-of-credit	17,327,329	-
Home equity term	7,632,968	-
Consumer:		
Installment	5,357,230	-
Total	\$ 169,863,708	\$ 5,190
	December 31, 2017	
	Performing Loans	Non-Performing Loans
Real estate:		
Mortgage	\$ 112,273,906	\$ -
Home equity lines-of-credit	16,241,165	-
Home equity term	3,610,385	-
Consumer:		
Installment	4,323,144	-
Total	\$ 136,448,600	\$ -

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 3 - Loans Receivable (Continued)

Age Analysis of Past Due Loans

The following tables present the aging of the recorded investment in past due loans at December 31, 2018 and 2017:

	December 31, 2018					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans
Commercial	\$ 408,393	\$ 4,755	\$ 415,266	\$ 828,414	\$ 170,618,052	\$ 171,446,466
Real estate:						
Mortgage	677,922	-	5,190	683,112	138,868,259	139,551,371
Home equity lines-of-credit	-	-	-	-	17,327,329	17,327,329
Home equity term	-	-	-	-	7,632,968	7,632,968
Consumer:						
Installment	26,221	2,098	-	28,319	5,328,911	5,357,230
Total	\$ 1,112,536	\$ 6,853	\$ 420,456	\$ 1,539,845	\$ 339,775,519	\$ 341,315,364
	December 31, 2017					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans
Commercial	\$ 559,254	\$ 313,359	\$ 108,583	\$ 981,196	\$ 150,519,643	\$ 151,500,839
Real estate:						
Mortgage	547,862	-	-	547,862	111,726,044	112,273,906
Home equity lines-of-credit	-	-	-	-	16,241,165	16,241,165
Home equity term	-	-	-	-	3,610,385	3,610,385
Consumer:						
Installment	-	-	-	-	4,323,144	4,323,144
Total	\$ 1,107,116	\$ 313,359	\$ 108,583	\$ 1,529,058	\$ 286,420,381	\$ 287,949,439

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 3 - Loans Receivable (Continued)

Troubled Debt Restructurings

The consolidated statement of income impact of approved TDRs was immaterial for consolidated financial statement disclosure for the years ended December 31, 2018 and 2017. Subsequently defaulted is defined as reaching 90 days past due during the first 12 months subsequent to approval.

The following tables present TDR activity by class of loans as of December 31, 2018 and 2017:

		December 31, 2018		
		Number of Loans	Pre-Modification Outstanding Investment	TDRs Which Subsequently Defaulted
Commercial	1	\$	990,734	\$ -
Real estate:				
Mortgage	1		11,632	-
Consumer:				
Installment	2		18,694	-
		December 31, 2017		
		Number of Loans	Pre-Modification Outstanding Investment	TDRs Which Subsequently Defaulted
Commercial	13	\$	3,051,092	\$ -
Real estate:				
Mortgage	1		132,035	-
Home equity term	1		9,741	-

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 3 - Loans Receivable (Continued)

Non-accrual Loans

Loans on which the accrual of interest has been discontinued or reduced amounted to approximately \$553,926 and \$689,989 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017, approximated \$689,832,000 and \$514,366,000, respectively; such loans are not included on the accompanying consolidated balance sheets. The Bank maintained custodial balances in connection with loan servicing of approximately \$1,700,000 and \$1,850,000 at December 31, 2018 and 2017, respectively. The custodial balances are not recorded in the Bank's cash or deposit account balances. The following is an analysis of the changes in capitalized mortgage servicing rights:

	2018	2017
Balance - beginning	\$ 5,242,175	\$ 3,670,890
Capitalized costs	3,760,277	2,843,230
Scheduled amortization	(1,729,968)	(1,271,945)
Balance - ending	\$ 7,272,484	\$ 5,242,175

Note 5 - Premises and Equipment

Premises and equipment are carried at cost, less accumulated depreciation, and are summarized at December 31, 2018 and 2017 by major classification as follows:

	2018	2017
Land	\$ 3,512,101	\$ 3,325,534
Office buildings	11,947,881	11,920,019
Furniture, fixtures and equipment	4,133,819	4,012,544
Total cost	19,593,801	19,258,097
Less accumulated depreciation	(5,658,488)	(4,785,758)
Undepreciated cost	\$ 13,935,313	\$ 14,472,339

Depreciation expense charged to operations amounted to \$909,063 and \$700,031 for the years ended December 31, 2018 and 2017, respectively.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 6 - Deposits

Deposits at December 31, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
NOW accounts	\$ 20,955,632	\$ 20,607,851
Savings and money market	123,742,298	117,273,844
Time deposits, \$100,000 and over	75,660,338	46,401,751
Time deposits, under \$100,000	<u>27,900,238</u>	<u>26,869,443</u>
Total interest bearing	248,258,506	211,152,889
Non-interest bearing demand deposits	<u>92,907,642</u>	<u>88,833,483</u>
Total deposits	<u>\$341,166,148</u>	<u>\$299,986,372</u>

At December 31, 2018, the scheduled maturities of time deposits with a remaining term of more than one year were:

Year Ending December 31st:

2019	\$ 54,474,217
2020	26,348,232
2021	13,621,075
2022	4,414,588
2023	3,448,696
Thereafter	<u>1,253,768</u>
Total	<u>\$103,560,576</u>

The aggregate amount of certificates in denominations of \$250,000 or more at December 31, 2018 and 2017 is approximately \$15,592,000 and \$5,764,000, respectively.

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 \$118,520,000 and \$105,681,000 at December 31, 2018 and 2017, respectively. Interest is charged on these advances at fixed annual rates ranging from 1.07% to 4.51%. Total borrowings from FHLBI amounted to \$70,100,000 and \$58,100,000 at December 31, 2018 and 2017, respectively.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 7 - Borrowed Funds (Continued)

In July 2018, the Corporation borrowed \$1,400,000 from a bank to facilitate the repurchase of shares. Interest is charged at a fixed annual rate of 5.5% and is due July 25, 2023. The loan is collateralized by the Corporation's shares in the Bank. The unpaid principal balance as of December 31, 2018 is \$1,365,000.

The amounts of principal payments coming due during the five years ending December 31, 2023 are as follows:

2019	\$ 15,000,000
2020	15,000,000
2021	15,100,000
2022	6,000,000
2023	9,365,000

The Bank's unused lines-of-credit for short-term borrowings totaled \$43,900,000 and \$38,400,000 at December 31, 2018 and 2017, respectively.

Note 8 - Federal Income Taxes

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

	2018	2017
Current income taxes	\$ (41,562)	\$ 473,859
Deferred expense	799,999	245,446
Federal income taxes	\$ 758,437	\$ 719,305

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. The effect of change in tax rates is a result of the change in the federal income tax rate to 21% for deferred tax assets and liabilities as a result of the Tax Cuts and Jobs Act:

Income tax at statutory rate	\$ 954,989	\$ 1,457,924
Effect of tax-exempt interest income	(152,782)	(334,294)
Effect of change in tax rates	-	(350,000)
Effect of nondeductible expenses	(38,258)	23,149
Other, net	(5,512)	(77,474)
Federal income taxes	\$ 758,437	\$ 719,305

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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 balance sheets, resulted from the following temporary differences between the carrying amounts of assets and liabilities for federal income tax and financial reporting purposes:

	<u>2018</u>	<u>2017</u>
Deferred tax assets:		
Allowance for loan losses	\$ 435,989	\$ 433,081
Deferred compensation	173,450	138,677
Non-accrued interest	228,698	206,813
Unrealized loss on available-for-sale securities	178,296	-
Alternative minimum tax credit	14,692	585,363
Other	<u>207,353</u>	<u>63,757</u>
Total deferred tax assets	1,238,478	1,427,691
Deferred tax liabilities:		
Premises and equipment	(454,309)	(485,855)
Mortgage servicing rights	(1,527,222)	(1,100,857)
Deferred origination costs	(201,021)	(152,852)
Other	(30,403)	(40,900)
Unrealized gain on available-for-sale securities	<u>-</u>	<u>(18,799)</u>
Total deferred tax liabilities	<u>(2,212,955)</u>	<u>(1,799,263)</u>
Net deferred income taxes	<u>\$ (974,477)</u>	<u>\$ (371,572)</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 \$1,231,000 and \$836,000 at December 31, 2018 and 2017, respectively.

Deposits

Deposits of Bank directors and executive officers and their affiliates were approximately \$4,584,000 and \$3,261,000 at December 31, 2018 and 2017, respectively.

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 10 - Employee Benefit Plan

Defined Contribution 401(k) Plan and Profit Sharing Plans

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 \$237,931 and \$258,600 for the years ended December 31, 2018 and 2017, respectively.

The Bank maintains profit sharing plans with payments based on the financial results of the Bank. Total expenses related to the profit sharing plans amounted to \$1,434,137 and \$1,482,281 for the years ended December 31, 2018 and 2017, 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.

The Bank has 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 \$181,599 and \$163,200 for the years ended December 31, 2018 and 2017, 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, 2018 AND 2017

Note 11 - Commitments and Contingent Liabilities

The principal commitments of the Bank are as follows:

Lease Commitments

At December 31, 2018 and 2017, the Bank was obligated under noncancellable operating leases for office space. Net rent expense under the operating leases, included in expenses, was approximately \$304,900 and \$305,600 for the years ended December 31, 2018 and 2017, respectively.

The projected minimum rental payments under the terms of the leases at December 31, 2018 are as follows:

Year Ending December 31st:

2019	\$	245,653
2020		234,350
2021		205,860
2022		205,860
2023		51,465

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 sheets.

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, 2018 and 2017 were as follows:

Loan Commitments

	<u>Contract Amount</u>	
	<u>2018</u>	<u>2017</u>
Unfunded commitments under lines-of-credit	\$ 38,333,035	\$ 39,142,640
Commitments to grant loans	6,140,130	7,418,500
Commitments under overdraft protection agreements	3,287,630	3,223,473

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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. 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 regulatory accounting practices. Failure to meet minimum capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Corporation on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Corporation must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in at the rate of 0.625% per year from 0.0% in 2015 to 2.50% on January 1, 2019. The capital conservation buffer is 1.875% and 1.25% for 2018 and 2017, respectively. The net unrealized gain or loss on available-for-sale securities is included in computing regulatory capital. Management believes as of December 31, 2018, the Corporation and Bank meet all capital adequacy requirements to which they are subject.

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 tables) 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).

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 12 - Regulatory Capital (Continued)

As of December 31, 2018 and 2017, 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 tables. 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, 2018 and 2017 are presented in the following tables:

	Actual Amount	Actual Ratio	Minimum Required for Capital Adequacy Purposes Ratio	Minimum Required for Capital Adequacy Purposes Plus Capital Conservation Buffer	Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions Ratio
<u>2018</u>					
Total Capital (to Risk-Weighted Assets) Bank	\$ 41,662,000	12.13%	8.00%	9.88%	10.00%
Tier 1 Capital (to Risk-Weighted Assets) Bank	37,945,000	11.05%	6.00%	7.88%	8.00%
Common Equity Tier 1 (to Risk-Weighted Assets) Bank	37,945,000	11.05%	4.50%	6.38%	6.50%
Tier 1 Capital (to Average Assets) Bank	37,945,000	8.53%	4.00%	4.00%	5.00%

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 12 - Regulatory Capital (Continued)

	Actual Amount	Actual Ratio	Minimum Required for Capital Adequacy Purposes Ratio	Minimum Required for Capital Adequacy Purposes Plus Capital Conservation Buffer	Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions Ratio
<u>2017</u>					
Total Capital (to Risk-Weighted Assets) Bank	\$ 38,832,000	12.83%	8.00%	9.25%	10.00%
Tier 1 Capital (to Risk-Weighted Assets) Bank	35,454,000	11.72%	6.00%	7.25%	8.00%
Common Equity Tier 1 (to Risk-Weighted Assets) Bank	35,454,000	11.72%	4.50%	5.75%	6.50%
Tier 1 Capital (to Average Assets) Bank	35,454,000	9.06%	4.00%	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, 2018 AND 2017

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 that 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, 2018 AND 2017

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, 2018 and 2017 are summarized as follows:

	Fair Value Measurements at December 31, 2018, 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:				
State and municipal	\$ -	\$ 18,775,708	\$ -	\$ 18,775,708
Small Business Administration	-	2,006,507	-	2,006,507
Collateralized mortgage obligations	-	850,671	-	850,671
Mortgage-backed securities	-	16,233,364	-	16,233,364
	<u>-</u>	<u>37,866,250</u>	<u>-</u>	<u>37,866,250</u>
Total investments at fair value	<u>\$ -</u>	<u>\$ 37,866,250</u>	<u>\$ -</u>	<u>\$ 37,866,250</u>
Mortgage loans held-for sale	<u>\$ -</u>	<u>\$ 7,257,073</u>	<u>\$ -</u>	<u>\$ 7,257,073</u>

	Fair Value Measurements at December 31, 2017, 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:				
State and municipal	\$ -	\$ 28,210,317	\$ -	\$ 28,210,317
Small Business Administration	-	2,411,010	-	2,411,010
Collateralized mortgage obligations	-	1,218,372	-	1,218,372
Mortgage-backed securities	-	20,914,017	-	20,914,017
	<u>-</u>	<u>52,753,716</u>	<u>-</u>	<u>52,753,716</u>
Total investments at fair value	<u>\$ -</u>	<u>\$ 52,753,716</u>	<u>\$ -</u>	<u>\$ 52,753,716</u>
Mortgage loans held-for sale	<u>\$ -</u>	<u>\$ 8,833,605</u>	<u>\$ -</u>	<u>\$ 8,833,605</u>

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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, 2018 and 2017 are summarized as follows:

	Fair Value Measurements at December 31, 2018, 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	\$ -	\$ -	\$ 4,523,502	\$ 4,523,502

	Fair Value Measurements at December 31, 2017, 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	\$ -	\$ -	\$ 8,644,159	\$ 8,644,159

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, 2018 AND 2017

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. The notional amount of undesignated mortgage loan commitments and fair value of such commitments are disclosed in the table on the following page.

The fair value of derivative loan commitments has two components. The first is the change in secondary market prices since the time that the rate lock was granted. The second is the estimated gain on sale that will be realized as the rate lock leads to a funded loan which is then sold into the secondary market.

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).

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 14 - Derivative Instruments (Continued)

Forward Loan Sale Commitments (Continued)

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 undesignated forward cash sale commitments and the fair value of such commitments are disclosed in the table below.

The fair value of the asset derivative and liability derivative shown below do not fully reflect the efficiency of the hedging structure because the liability derivative (customer rate locks) reflect the eventual gain or sale income when the yet to be funded loan is finally sold into the secondary market.

	2018		2017	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Assets included in other assets (value of):				
Interest rate lock commitments	\$ 14,399,913	\$ 250,193	\$ 15,746,181	\$ 214,056
Forward contracts	-	-	8,500,000	6,797
Total assets	\$ 14,399,913	\$ 250,193	\$ 24,246,181	\$ 220,853
Liabilities included in other assets (value of):				
Interest rate lock commitments	\$ 381,522	\$ (1,385)	\$ 294,400	\$ (636)
Forward contracts	20,500,000	(181,406)	14,000,000	(30,000)
Total liabilities	\$ 20,881,522	\$ (182,791)	\$ 14,294,400	\$ (30,636)
Total net included in other assets	\$ 35,281,435	\$ 67,402	\$ 38,540,581	\$ 156,154

DART FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Note 15 - Lender Risk Account

The Bank participates in the Federal Home Loan Bank of Indianapolis' (FHLBI) Mortgage Purchase Program (MPP). As a participant in this program, FHLBI will fund upfront 1.20% of the principal balance of a loan upon its sale in order to protect against future losses on those loans. This upfront funding is put into an account at FHLBI in the name of the Bank known as the Lender Risk Account (LRA). Loans sold under the MPP are pooled together and evaluated as a collective whole. When losses occur on these loans, the LRA will be used to offset those losses. Balances in the LRA will be distributed to the Bank over a period of 30 years from the closing of a pool adjusted for the impact of realized losses. For 2018 and 2017, the Bank recorded the present value of the LRA balance based on these terms. The Bank utilized an estimated loss rate of 0.60% and a discount rate of 3.50% in this calculation. The Bank recorded a long-term asset in the amount of \$1,079,758 and \$716,109, which is included in other assets as of December 31, 2018 and 2017, respectively. Gains resulting from additions to the LRA are recorded in gain on sale of loans.

Note 16 - Non-Interest Income

Non-interest income consists of the following amounts for the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Fees and service charges	\$ 4,190,709	\$ 3,504,391
Gain on sale of loans	4,813,151	6,475,566
Increase in cash surrender value of BOLI	259,636	279,341
Gain on mortgage servicing rights	3,760,276	2,847,655
Other	<u>876,620</u>	<u>1,118,592</u>
Total non-interest income	<u>\$ 13,900,392</u>	<u>\$ 14,225,545</u>

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