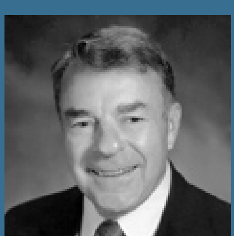
85 years of the DART DIFFERENCE



DART BANK
MASON • HOLT/S. LANSING • GRAND LEDGE

Dart Financial Corporation 85th Annual Report 2009

85

Our Mission

Our primary purposes are to meet the financial needs of our banking communities, protect and increase the value of stockholders' investments, and serve the community in financial and non-financial ways.

Our bank acknowledges the interdependence of all mankind in the world and reaches out beyond local areas in times of need.

We are committed to creating a workplace that nurtures the well-being and growth of our employees.

Letter to Shareholders

Peter Kubacki, Rollin Dart, and Richard Cheney

February 9, 2010

Dear Friends–Shareholders in Dart Financial Corporation:

The year 2009 was one of the most financially challenging in our history. Our net profit was $3,715 compared to $1,304,929 or $2.17 per share last year. While this year's profit was not significant, the achievement of any profit at all is meaningful.

Earlier we advised you of the sizable net loss for the first three quarters. Our fourth quarter saw efforts on the part of your employees that were absolutely outstanding! Sacrifices were made in many ways, but more importantly, new, creative ideas about doing business more effectively brought us into the black for the year. The Dart Bank values of Hard Work, Teamwork, Respect, and Relationships were especially evident.

Dividends of $300,000 were paid to shareholders during 2009 compared to $1,020,000 during 2008. As we have shared with you, the commanding need to preserve capital, in the face of this long-lasting recession, dictates that no dividends can be paid during 2010. The Board knows how very important that dividends are to you and you may be sure they will be paid when conditions warrant.

Shares have traded rarely this past year. The price level, based on this limited activity, falls in the $47.50 to $50.00 range. As you know, we do maintain a list of persons who have expressed interest in our shares and this list is available to any shareholder.

Our primary focus is on monitoring the condition of our loans. Our level of non-performing loans and other real estate owned has increased significantly. Michigan's economy continued to deteriorate this past year, especially the level of unemployment. Accordingly, demand for all kinds of real estate has steadily weakened. There is simply no market at all for certain types of commercial real estate.

As was reported to you earlier, strong action was taken during the year to increase our reserve for loan losses. During 2009 we provided $4.0 million for our reserve, an increase of $2.5 million over and above the prior year. This increased this reserve to $5.3 million. This is 2.8% of all loans. We work with borrowers in every possible way to ensure the best outcome.

There were some bright spots during the past year. Net interest income was 7% greater than in the prior year. Non-interest income was more than 25% higher than it was in 2008. Income from the mortgage department was very strong as lower interest rates were conducive to the refinancing of homes. Higher levels of earning assets and a lower cost of funds produced an improvement in net interest income.

Overall, non-interest expenses increased 8.7% over last year. Legal expense, costs for carrying foreclosed real estate and a greater than tenfold increase in FDIC insurance premiums were major factors. Higher levels in the cost of FDIC insurance will be with our industry for many years to come.

Efforts to control costs have been meaningful. The salaries of your officers were reduced and this will continue. When you spend time with your *Annual Report* you will observe other changes that were designed to save costs.

Your bank will observe an 85-year anniversary in April. On the cover of this year's report we feature photos of the five chief executive officers that have led and continue to lead your bank. We are thankful for all the hard working people who have served our communities throughout the 85 years, through good times and bad. All of our people make up and create the Dart Difference.

Our Annual Meeting will begin at 6:30 p.m. on March 23, 2010, a Tuesday, at the Delhi-South Lansing bank. Refreshments will follow the meeting and we look forward to seeing you.

With warm wishes we are,

Peter Kubacki

Peter Kubacki, President and CEO

Richard Cheney

Richard Cheney, Chairman of the Board

Rollin Dart, C.E., Community Relations Officer

Five-Year Comparative Balance Sheets

	As of December 31,				
Assets	2009	2008	2007	2006	2005
Cash and due from banks	$ 6,543,470	$ 4,909,218	$ 4,284,852	$ 6,298,695	$ 6,126,503
Federal funds sold	8,028,980	7,166,099	867,385	6,236,975	5,989,026
Cash and cash equivalents	14,572,450	12,075,317	5,152,237	12,535,670	12,115,529
Interest-bearing deposits	5,010,232	3,859,549	4,254,749	4,759,890	3,672,119
Investment securities	58,724,963	49,998,254	47,007,182	54,525,455	57,055,257
Federal Home Loan Bank stock	1,505,000	1,305,000	765,900	765,900	770,700
Net loans	183,099,902	186,624,645	171,604,594	148,078,954	135,489,709
Premises and equipment, net	4,862,431	4,886,299	4,798,834	4,742,780	4,887,563
Accrued interest receivable	1,200,681	1,204,076	1,214,897	1,133,872	1,028,221
Foreclosed and repossessed assets	1,035,543	89,700	345,226	502,800	830,954
Bank-owned life insurance	5,473,497	5,270,881	3,641,400	—	—
Prepaid FDIC insurance premium	1,533,967	42,118	5,809	5,795	6,349
Other assets	2,943,770	1,349,959	1,043,634	975,063	1,315,005
	$279,962,436	$266,705,798	$239,834,462	$228,026,179	$217,171,406
Liabilities and Shareholders' Equity					
Deposits					
Interest bearing	$193,571,945	$186,377,318	$175,157,715	$173,904,503	$162,867,332
Noninterest bearing	34,418,926	29,196,922	29,023,918	28,817,781	28,810,011
	227,990,871	215,574,240	204,181,633	202,722,284	191,677,343
FHLB advances	27,100,000	26,100,000	11,100,000	1,100,000	2,100,000
Accrued interest payable	496,050	566,422	723,497	713,313	567,274
Deferred compensation	296,893	341,910	384,819	406,691	411,651
Other liabilities	389,686	322,313	333,209	344,769	427,609
	256,273,500	242,904,885	216,723,158	205,287,057	195,183,877
Shareholders' equity					
Common stock	17,000,000	17,000,000	17,000,000	17,000,000	17,000,000
Retained earnings	6,127,221	6,423,506	6,138,577	6,017,256	5,154,972
Accumulated other comprehensive income (loss)	561,715	377,407	(27,273)	(278,134)	(167,443)
	23,688,936	23,800,913	23,111,304	22,739,122	21,987,529
Total liabilities and shareholders' equity	$279,962,436	$266,705,798	$239,834,462	$228,026,179	$217,171,406

Five-Year Comparative Statements of Income

	Years Ended December 31,				
Interest and dividend income	2009	2008	2007	2006	2005
Loans, including fees	$11,876,458	$12,121,214	$11,539,619	$10,219,867	$ 9,267,563
Investment securities	2,267,753	2,191,921	2,514,460	2,596,323	2,549,557
Federal funds sold and other	178,503	241,406	476,864	336,080	343,085
	14,322,714	14,554,541	14,530,943	13,152,270	12,160,205
Interest expense					
Deposits	4,769,938	5,858,200	6,834,067	5,669,805	4,631,101
FHLB advances and other	1,041,602	746,300	299,696	62,373	60,744
	5,811,540	6,604,500	7,133,763	5,732,178	4,691,845
Net interest income	8,511,174	7,950,041	7,397,180	7,420,092	7,468,360
Provision for (reduction of provision for) loan losses	4,000,840	1,457,685	595,710	(476,685)	123,280
Net interest income after provision for loan losses	4,510,334	6,492,356	6,801,470	7,896,777	7,345,080
Noninterest income	2,129,539	1,694,516	1,384,515	1,183,474	1,124,095
Noninterest expenses					
Compensation and benefits	3,617,933	3,634,680	3,592,009	3,529,286	3,342,030
Occupancy and equipment	1,043,703	891,180	934,693	1,031,648	879,799
Office supplies	130,990	164,230	207,043	147,021	183,500
Charitable contributions	71,108	95,371	85,698	94,095	100,432
Other	2,283,424	1,791,482	1,689,221	1,666,917	1,657,668
	7,147,158	6,576,943	6,508,664	6,468,967	6,163,429
(Loss) income before federal income taxes	(507,285)	1,609,929	1,677,321	2,611,284	2,305,746
Federal income tax (benefit) expense	(511,000)	305,000	356,000	639,000	557,000
Net income	$3,715	$1,304,929	$1,321,321	$1,972,284	$1,748,746

Rehmann

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INDEPENDENT AUDITORS' REPORT

February 17, 2010

Shareholders and Board of Directors
Dart Financial Corporation
Mason, Michigan

We have audited the accompanying consolidated balance sheets of ***Dart Financial Corporation*** as of December 31, 2009 and 2008, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2009 and 2008, and the consolidated 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.

Rehmann Robson

NEXIA INTERNATIONAL

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ASSETS	December 31, 2009	2008
Cash and due from banks	$ 6,543,470	$ 4,909,218
Federal funds sold	8,028,980	7,166,099
Cash and cash equivalents	**14,572,450**	**12,075,317**
Interest-bearing deposits	5,010,232	3,859,549
Investment securities:		
Available-for-sale, at estimated fair value	57,691,728	48,345,810
Held-to-maturity, at amortized cost	1,033,235	1,652,444
Federal Home Loan Bank stock, at cost	1,505,000	1,305,000
Net loans	183,099,902	186,624,645
Premises and equipment, net	4,862,431	4,886,299
Accrued interest receivable	1,200,681	1,204,076
Foreclosed and repossessed assets	1,035,543	89,700
Bank-owned life insurance	5,473,497	5,270,881
Prepaid FDIC insurance premium	1,533,967	42,118
Other assets	2,943,770	1,349,959
Total assets	**$ 279,962,436**	**$ 266,705,798**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Interest bearing	$ 193,571,945	$ 186,377,318
Noninterest bearing	34,418,926	29,196,922
Total deposits	**227,990,871**	**215,574,240**
FHLB advances	27,100,000	26,100,000
Accrued interest payable	496,050	566,422
Deferred compensation	296,893	341,910
Other liabilities	389,686	322,313
Total liabilities	**256,273,500**	**242,904,885**
Commitments and contingencies (Notes 14, 15, 16, and 17)		
Shareholders' equity		
Common stock, issued without par; 1,000,000 shares authorized, 600,000 shares issued and outstanding	17,000,000	17,000,000
Retained earnings	6,127,221	6,423,506
Accumulated other comprehensive income	561,715	377,407
Total shareholders' equity	**23,688,936**	**23,800,913**
Total liabilities and shareholders' equity	**$ 279,962,436**	**$ 266,705,798**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income

	Year Ended December 31, 2009	2008
Interest income		
Loans, including fees	$11,876,458	$12,121,214
Investment securities	2,267,753	2,191,921
Federal funds sold and other	178,503	241,406
Total interest income	**14,322,714**	**14,554,541**
Interest expense		
Interest expense on deposits	4,769,938	5,858,200
Interest expense on FHLB advances and other	1,041,602	746,300
Total interest expense	**5,811,540**	**6,604,500**
Net interest income	**8,511,174**	**7,950,041**
Provision for loan losses	4,000,840	1,457,685
Net interest income after provision for loan losses	**4,510,334**	**6,492,356**
Noninterest income	**2,129,539**	**1,694,516**
Noninterest expenses		
Compensation and benefits	3,617,933	3,634,680
Occupancy and equipment	1,043,703	891,180
Office supplies	130,990	164,230
Charitable contributions	71,108	95,371
Other	2,283,424	1,791,482
Total noninterest expenses	**7,147,158**	**6,576,943**
(Loss) income before federal income taxes	**(507,285)**	**1,609,929**
Federal income tax (benefit) expense	(511,000)	305,000
Net income	**$ 3,715**	**$ 1,304,929**
Net income per basic share of common stock	**$ 0.01**	**$ 2.17**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

	Year Ended December 31, 2009	2008
Unrealized holding gains on available-for-sale securities arising during the year	$ 375,606	$ 613,165
Reclassification adjustment for realized gains included in net income	(96,352)	-
Other comprehensive income before federal income taxes	279,254	613,165
Deferred federal income taxes related to other comprehensive income	(94,946)	(208,485)
Other comprehensive income	184,308	404,680
Net income	3,715	1,304,929
Comprehensive income	**$ 188,023**	**$ 1,709,609**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, January 1, 2008	**$ 17,000,000**	**$ 6,138,577**	**$ (27,273)**	**$ 23,111,304**
Comprehensive income	-	1,304,929	404,680	1,709,609
Cash dividends ($1.70 per share)	-	(1,020,000)	-	(1,020,000)
Balances, December 31, 2008	**17,000,000**	**6,423,506**	**377,407**	**23,800,913**
Comprehensive income	-	3,715	184,308	188,023
Cash dividends ($.50 per share)	-	(300,000)	-	(300,000)
Balances, December 31, 2009	**$ 17,000,000**	**$ 6,127,221**	**$ 561,715**	**$ 23,688,936**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2009	2008
Cash flows from operating activities		
Net income	$ 3,715	$ 1,304,929
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	524,350	465,718
Provision for loan losses	4,000,840	1,457,685
Increase in cash surrender value of BOLI	(202,616)	(229,481)
Deferred federal income tax benefit	(821,000)	(263,000)
Gain on sales of investments	(96,352)	-
Gain on sales of loans	(182,303)	(35,051)
Proceeds from sales of loans	17,522,985	5,445,584
Loss on sale of foreclosed assets	31,363	5,270
Net amortization of premiums on investment securities	103,727	65,799
Changes in operating assets and liabilities which used cash		
Accrued interest receivable and other assets	(1,057,783)	(385,802)
FDIC insurance premium	(1,491,849)	(36,309)
Accrued interest payable and other liabilities	(48,016)	(210,880)
Net cash provided by operating activities	**18,287,061**	**7,584,462**
Cash flows from investing activities		
Activity in available-for-sale securities		
Purchases	(28,282,566)	(18,361,933)
Sales, maturities, calls, and prepayments	19,246,972	14,804,930
Maturities, calls, and prepayments of held-to-maturity securities	580,765	1,113,296
Purchase of bank-owned life insurance	-	(1,400,000)
Net change in interest-bearing deposits	(1,150,683)	395,200
Loan principal originations and collections, net	(19,681,087)	(22,019,969)
Purchases and construction of premises and equipment	(307,062)	(408,369)
Proceeds from sales of foreclosed assets	887,102	381,956
Purchases of FHLB stock	(200,000)	(539,100)
Net cash used in investing activities	**(28,906,559)**	**(26,033,989)**
Cash flows from financing activities		
Acceptances and withdrawals of deposits, net	12,416,631	11,392,607
Proceeds from FHLB advances	5,000,000	15,000,000
Repayments of FHLB advances	(4,000,000)	-
Dividends paid	(300,000)	(1,020,000)
Net cash provided by financing activities	**13,116,631**	**25,372,607**
Net increase in cash and cash equivalents	**2,497,133**	**6,923,080**
Cash and cash equivalents, beginning of year	12,075,317	5,152,237
Cash and cash equivalents, end of year	**$ 14,572,450**	**$ 12,075,317**

The accompanying notes are an integral part of these consolidated financial statements.

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business and Concentrations of Risk

The 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 subsidiaries The Dart Mortgage Company, LLC and TDB Services, Inc. The Dart Mortgage Company, LLC was a mortgage banking company which was 99% owned by the Bank and 1% owned by TDB Services, Inc. TDB Services, Inc. is owned 100% by the Bank and its only business activity was its 1% ownership in The Dart Mortgage Company, LLC. Effective October 31, 2009, the Bank dissolved The Dart Mortgage Company, LLC; this dissolution had no effect on the consolidated financial statements. After the dissolution of The Dart Mortgage Company, LLC, TDB Services, Inc. became TDB Services, Inc. d/b/a The Dart Mortgage Company for branding purposes. TDB Services, Inc. no longer has any assets or operations. All significant intercompany balances 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. Active competition, principally from other commercial banks, savings banks, and credit unions, exists in all of the Bank's primary markets. The Bank's results of operations can be significantly affected by changes in interest rates or changes in the automotive, agricultural, higher education industries or state government which comprise a significant portion of the local economic environment.

The Bank's primary deposit products are interest and noninterest bearing checking accounts, savings accounts, and time deposits, and its primary lending products are real estate mortgages and commercial and consumer loans. Note 3 further describes the types of lending in which the Bank engages and Note 7 provides additional information on deposits. Note 2 describes the types of securities in which the Bank invests. While the Bank does not have significant business concentrations with or in any one industry, customer, or depositor, a substantial portion of commercial loans are collateralized by real estate.

The Bank is a state chartered bank and is a member of the Federal Deposit Insurance Corporation ("FDIC") Bank Insurance Fund. The Bank is subject to the regulations and supervision of the FDIC and state regulators and undergoes periodic examinations by these regulatory authorities (see Note 16). The Corporation is further subject to regulations of the Federal Reserve Board governing bank holding companies.

In preparing the accompanying consolidated financial statements, the Corporation has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2009, the most recent statement of financial position presented herein, through February 17, 2010, the date the accompanying consolidated financial statements were available to be issued. No significant such events or transactions occurred.

Summary of Significant Accounting Policies

Accounting policies used in preparation of the accompanying consolidated financial statements conform to predominant banking industry practices and are based on generally accepted accounting principles. The principles which materially affect the determination of the financial position or results of operations of the Corporation and its subsidiaries are summarized below.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the fair values of certain investment securities, and the valuation of foreclosed and repossessed assets.

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, such as the reporting entity's own data. The Corporation may choose to measure eligible assets or liabilities at fair value at specified election dates. Unrealized gains and losses on items for which the fair value measurement option has been elected are reported in earnings at each subsequent reporting date. The fair value option 1) may be applied instrument by instrument, with certain exceptions, allowing the Corporation to record identical financial assets and liabilities at fair value or by another measurement basis permitted under generally accepted accounting principles, 2) is irrevocable (unless a new election date occurs), and 3) is applied only to entire instruments and not to portions of instruments. At December 31, 2009 and 2008, and the Corporation had not elected the fair value option for any financial assets or liabilities not already required to be reported at fair value.

For assets and liabilities reported at fair value, it is the Corporation's policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements for those financial instruments for which there is an active market. In cases where the market for a financial asset or liability is not active, the Corporation includes appropriate risk adjustments that market participants would make for nonperformance and liquidity risks when developing fair value measurements. Fair value measurements for assets and liabilities for which limited or no observable market data exists are accordingly based primarily upon estimates, and are often calculated based on the economic and competitive environment, the characteristics of the asset or liability, and other factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values. For a further discussion of fair value measurement, refer to Note 18.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds are sold for a one-day period. The Bank maintains deposit accounts in various financial institutions which generally exceed FDIC insured limits or are not insured.

Interest-Bearing Deposits

Interest-bearing deposits in banks represent certificates of deposit that mature within 5 years and are carried at cost.

Investment Securities

Investment securities that the Bank has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. All other securities are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses, net of the effect of deferred income taxes, excluded from earnings and reported as a net amount in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains or losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Investment securities are reviewed quarterly for possible other-than-temporary impairment ("OTTI"). In determining whether an other-than-temporary impairment exists for debt securities, management must assert that: 1) it does not have the intent to sell the security, and 2) it is more likely than not that the Bank will not have to sell the security before recovery of its cost basis. Declines in the fair value of held-to-maturity and available-for-sale debt securities below their cost that are deemed to be other than temporary, if any, are reflected in earnings as realized losses to the extent the impairment is related to credit risk. The amount of the impairment related to other risk factors (interest rate or market risks) is recognized in other comprehensive income.

Restricted Investments

The Bank is a member of the Federal Home Loan Bank System and is required to invest in capital stock of the Federal Home Loan Bank of Indianapolis ("FHLB"). The amount of the required investment is based upon the balance of the Bank's outstanding home mortgage loans or advances from the Federal Home Loan Bank and is carried at cost plus the value assigned to stock dividends.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is 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.

Loans and Related Income

Loans that the Bank has the positive intent and ability to hold for the foreseeable future or until maturity or pay-off are generally reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any unamortized deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct loan origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. 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 and interest is considered doubtful.

All interest accrued in the current year but not collected for loans that are placed on non-accrual or charged-off status 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 principal and interest amounts contractually due are brought current and future payments are reasonably assured. For impaired loans not classified as nonaccrual, interest income continues to be accrued over the term of the loan based on the principal amount outstanding.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectability of the loan balance is confirmed. Subsequent recoveries, if any, are generally credited 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 specific component relates to loans that are classified as doubtful, substandard, or special mention. For such loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is generally maintained to cover uncertainties that could affect management's estimate of probable losses. 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.

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.

Loan Servicing

Servicing assets are recognized as separate assets when mortgaging servicing rights are acquired through purchase or through 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 cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is estimated based generally on market prices for comparable mortgage servicing contracts, when available. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. 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. 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.

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.

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.

FDIC Insurance Premium

In 2009, the Bank was required to prepay quarterly FDIC risk-based assessments for the fourth quarter of 2009 and each of the quarters in the years ending December 31, 2010, 2011, and 2012. The assessments for 2010 through 2012 are included on the Corporation's December 31, 2009 consolidated balance sheet as a prepaid asset, and will be expensed quarterly on a ratable basis through December 31, 2012.

Bank-Owned Life Insurance (BOLI)

Effective October 2007 and February 2008, the Bank purchased insurance policies on the lives of certain key officers. Bank-owned life insurance is reported at its cash surrender value, or the amount that can be realized, as of the date of the consolidated balance sheets, and is included in other assets on the accompanying consolidated balance sheets (see Notes 10 and 11).

Advertising Costs

All advertising costs, amounting to $115,379 and $165,039 in 2009 and 2008, respectively, are expensed as incurred.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the federal income tax effects of the temporary differences between the book and tax bases of various assets and liabilities and gives current recognition to changes in federal income tax rates and laws. Valuation allowances are established, where necessary, to reduce deferred tax assets to the amount expected to be realized.

Off-Balance-Sheet Credit-Related Financial Instruments

In the ordinary course of business, the Bank enters into commitments to extend credit, including commitments under commercial letters of credit and standby letters of credit. Such financial instruments are considered to be guarantees; however, as the amount of the liability related to such guarantees on the commitment date is considered insignificant, these commitments are generally recorded only when they are funded.

Net Income Per Share

Net income per basic share of common stock represents income available to common shareholders divided by the weighted-average number of common shares outstanding, which was 600,000 shares during each year.

2. INVESTMENT SECURITIES

The amortized cost and fair value of non-trading investment securities, including gross unrealized gains and losses, are as follows as of December 31:

2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale				
Government-sponsored enterprises	$ 16,269,561	$ 125,435	$ 182,323	$ 16,212,673
State and municipal	19,705,177	465,233	38,951	20,131,459
Mortgage-backed securities	20,864,899	528,495	45,798	21,347,596
Total available-for-sale	**56,839,637**	**1,119,163**	**267,072**	**57,691,728**
Held-to-Maturity				
State and municipal	933,000	80,038	-	1,013,038
Mortgage-backed securities	100,235	4,191	-	104,426
Total held-to-maturity	**1,033,235**	**84,229**	**-**	**1,117,464**
Total	**$ 57,872,872**	**$ 1,203,392**	**$ 267,072**	**$ 58,809,192**

2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale				
Government-sponsored enterprises	$ 11,704,456	$ 158,012	$ 2,345	$ 11,860,123
State and municipal	19,008,798	251,170	108,498	19,151,470
Mortgage-backed securities	17,059,719	294,689	20,191	17,334,217
Total available-for-sale	**47,772,973**	**703,871**	**131,034**	**48,345,810**
Held-to-Maturity				
State and municipal	1,465,946	44,588	-	1,510,534
Mortgage-backed securities	186,498	5,966	133	192,331
Total held-to-maturity	**1,652,444**	**50,554**	**133**	**1,702,865**
Total	**$ 49,425,417**	**$ 754,425**	**$ 131,167**	**$ 50,048,675**

Investment securities with carrying values of approximately $17,660,000 and $26,754,000 at December 31, 2009 and 2008, respectively, were pledged to secure public deposits or for other purposes as permitted or required by law.

The amortized cost and fair values of available-for-sale securities and held-to-maturity securities by contractual maturity at December 31, 2009 is summarized as follows:

	Amortized Cost	Fair Value
Available-for-Sale		
Due in one year or less	$ 999,629	$ 1,027,524
Due after one year through five years	2,453,761	2,550,620
Due after five years through ten years	12,136,770	12,252,777
Due after ten years	20,384,578	20,513,211
Subtotal	35,974,738	36,344,132
Mortgage-backed securities	20,864,899	21,347,596
Total	**$ 56,839,637**	**$ 57,691,728**
Held-to-Maturity		
Due in one year or less	$ 67,000	$ 68,243
Due after one year through five years	282,000	305,239
Due after five years through ten years	434,000	478,317
Due after ten years	150,000	161,239
Subtotal	933,000	1,013,038
Mortgage-backed securities	100,235	104,426
Total	**$ 1,033,235**	**$ 1,117,464**

Because of their variable payments, mortgage-backed securities are not reported by a specific maturity period group.

Proceeds from sales of available-for-sale securities amounted to $2,981,966 and $ -0- in 2009 and 2008, respectively. Gross realized gains amounted to $96,352 and $ -0- in 2009 and 2008, respectively. There were no gross realized losses during either year.

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:

	Less Than Twelve Months		Over Twelve Months		
2009	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Total Unrealized Losses**
Securities available-for-sale					
Government-sponsored enterprises	$ 182,323	$ 9,316,746	$ -	$ -	$ 182,323
State and municipal	38,951	2,637,559	-	-	38,951
Mortgage-backed securities	45,798	4,644,012	-	-	45,798
Total securities available-for-sale	**$ 267,072**	**$ 16,598,317**	**$ -**	**$ -**	**$ 267,072**
Securities held-to-maturity					
Mortgage-backed securities	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
2008					
Securities available-for-sale					
Government-sponsored enterprises	$ 2,345	$ 1,565,890	$ -	$ -	$ 2,345
State and municipal	81,710	4,645,149	26,788	470,506	108,498
Mortgage-backed securities	16,341	2,088,092	3,850	913,640	20,191
Total securities available-for-sale	**$ 100,396**	**$ 8,229,131**	**$ 30,638**	**$ 1,384,146**	**$ 131,034**
Securities held-to-maturity					
Mortgage-backed securities	**$ 133**	**$ 73,595**	**$ -**	**$ -**	**$ 133**

Management has asserted that it does not have the intent to sell investment securities in an unrealized loss position and that it is more likely than not that the Bank will not have to sell such securities before recovery of their cost basis; therefore, the Corporation does not consider these investments to be other-than-temporarily impaired at December 31, 2009.

3. LOANS

The Bank grants commercial, consumer, and residential mortgage loans to customers primarily in certain South Central Michigan counties, principally Ingham, Eaton, and Clinton. The ability of the Bank's debtors to honor their contracts is generally dependent upon the real estate and general economic conditions in this area. While substantially all of the consumer and residential mortgage loans are secured by various forms of collateral including real estate and consumer property, with a significant portion of commercial loans secured primarily by real estate and personal guarantees, borrower cash flow is the primary source of repayment. A small portion of loans are unsecured.

Major loan classifications are summarized as follows as of December 31:

	2009	2008
Mortgage loans on real estate		
Residential 1-4 family	$ 59,712,525	$ 66,142,586
Commercial	92,118,863	88,054,375
Construction	5,541,312	5,192,710
Equity lines of credit	3,815,923	3,149,301
Total mortgage loans on real estate	161,188,623	162,538,972
Commercial	19,712,643	18,987,651
Consumer installment loans	7,553,958	7,671,392
Total loans	188,455,224	189,198,015
Less		
Allowance for loan losses	5,340,000	2,550,000
Net deferred loan origination fees	15,322	23,370
Net loans	**$ 183,099,902**	**$ 186,624,645**

At December 31, 2009 scheduled maturities of loans with fixed rates of interest are summarized as follows:

One year or less	$ 11,469,338
One to five years	98,614,146
Over five years	39,188,179
Total	**$ 149,271,663**

Variable rate loans of $39,183,561 reprice annually or more frequently.

The following is a summary of information pertaining to impaired and non-accrual loans as of December 31 or for the year then ended:

	2009	2008
Impaired loans:		
Total impaired loans with a valuation allowance	$ 5,762,417	$ 2,190,427
Valuation allowance related to impaired loans	$ 2,508,091	$ 611,035
Average investment in impaired loans	$ 6,094,179	$ 2,475,251

	2009	2008
Interest income recognized on impaired loans	$ 255,794	$ 118,208
Interest income recognized on a cash basis on impaired loans	$ -	$ -
Nonperforming loans:		
Loans on nonaccrual status	$ 7,294,135	$ 4,117,183
Loans past due over 90 days still on accrual	$ 1,673	$ -

No additional funds were committed to be advanced in connection with impaired loans.

Nonperforming loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

4. ALLOWANCE FOR LOAN LOSSES

The following is a summary of the changes in the allowance for loan losses during the years ended December 31:

	2009	2008
Balance, beginning of year	**$ 2,550,000**	**$ 1,800,000**
Loans charged off	(1,380,873)	(794,409)
Recoveries	170,033	86,724
Net charge offs	(1,210,840)	(707,685)
Provision for loan losses	4,000,840	1,457,685
Balance, end of year	**$ 5,340,000**	**$ 2,550,000**

5. LOAN 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 for others are not included on the accompanying consolidated balance sheets. The unpaid principal balances of mortgages and other loans serviced for others were approximately $31,757,000 and $19,625,000 at December 31, 2009 and 2008, respectively.

The net carrying values of mortgage servicing rights were approximately $193,000 and $94,000 at December 31, 2009 and 2008, respectively. The activity pertaining to mortgage servicing rights was not significant during the years then ended.

6. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment is as follows at December 31:

	2009	2008
Land and improvements	$ 2,002,710	$ 2,002,710
Buildings and improvements	4,005,284	3,935,986
Furniture and equipment	3,237,208	3,070,761
Total premises and equipment	9,245,202	9,009,457
Less accumulated depreciation	4,382,771	4,123,158
Premises and equipment, net	**$ 4,862,431**	**$ 4,886,299**

Depreciation expense amounted to $330,930 and $320,904 in 2009 and 2008, respectively.

7. DEPOSITS

The following is a summary of the distribution of deposits at December 31:

	2009	2008
Interest bearing		
NOW accounts	$ 16,654,786	$ 15,159,079
Savings	64,203,319	55,460,262
Time, $100,000 and over	52,719,698	52,265,421
Other time	59,994,142	63,492,556
Total interest bearing	193,571,945	186,377,318
Noninterest bearing demand	34,418,926	29,196,922
Total deposits	**$ 227,990,871**	**$ 215,574,240**

Interest expense on time deposits issued in denominations of $100,000 or more was $1,919,769 and $2,183,216 in 2009 and 2008, respectively.

Scheduled maturities of time deposits for each of the five years succeeding December 31, 2009 and thereafter are summarized as follows:

2010	$ 60,976,821
2011	18,922,217
2012	15,090,822
2013	10,879,762
2014	6,676,897
Thereafter	167,321
Total	**$ 112,713,840**

8. FEDERAL INCOME TAXES

The provision for federal income taxes consists of the following components for the years ended December 31:

	2009	2008
Currently payable	$ 310,000	$ 568,000
Deferred benefit	(821,000)	(263,000)
Total (benefit) provision	**$ (511,000)**	**$ 305,000**

A reconciliation of the provision for federal income taxes and the amount computed by applying the statutory federal income tax rates to income before federal income taxes is as follows for the years ended December 31:

	2009	2008
Income taxes (benefit) at statutory rate	$ (172,000)	$ 547,000
Effect of tax-exempt interest income	(313,000)	(225,000)
Effect of nondeductible interest expense	32,000	31,000
Other reconciling amounts	(58,000)	(48,000)
Income taxes (benefit) reported	**$ (511,000)**	**$ 305,000**

The components of the net deferred tax asset included on the consolidated balance sheets within other assets resulted from the following temporary differences between the carrying amounts of assets and liabilities for federal income tax and financial reporting purposes as of December 31:

	2009	2008
Deferred tax assets:		
Allowance for loan losses	$ 1,519,290	$ 697,701
Deferred compensation	100,944	116,249
Other	253,669	156,279
Total deferred tax assets	**1,873,903**	**970,229**
Deferred tax liabilities:		
Premises and equipment	(355,773)	(320,788)
Mortgage servicing rights	(65,744)	(32,096)
Prepaid expenses	(54,895)	(40,854)
FHLB stock	(25,645)	(25,645)
Unrealized gain on available-for-sale securities	(289,711)	(194,765)
Total deferred tax liabilities	**(791,768)**	**(614,148)**
Net deferred tax asset	**$ 1,082,135**	**$ 356,081**

The Corporation and its subsidiaries are subject to U.S. federal income tax. The Corporation is no longer subject to examination by taxing authorities for years before 2006. There are no material uncertain tax positions requiring recognition in the Corporation's consolidated financial statements. The Corporation does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense. The Corporation does not have any amounts accrued for interest and penalties at December 31, 2009 and is not aware of any claims for such amounts by federal income tax authorities.

9. FHLB ADVANCES

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 agency securities with combined carrying values of approximately $42,430,000 and $55,248,000 at December 31, 2009 and 2008, respectively. During 2008, the Bank increased the amount of collateral pledged to the FHLB to increase the Bank's borrowing limit to create the possibility of additional liquidity. Required principal payments are $5,000,000 in 2010, $8,000,000 in 2011, $5,000,000 in 2012, $9,000,000 in 2013, and $100,000 in 2021. Interest is charged on these advances at fixed annual rates ranging from 2.74% to 4.92%. At December 31, 2009, the Bank also had $13,900,000 in borrowing availability under short-term lines of credit.

10. EMPLOYEE BENEFIT PLANS

Profit Sharing

The Bank sponsors a profit sharing plan covering employees who work 1,000 or more hours per year, have one or more years of continuous service, and are 21 or older. Contributions to the plan are based on a percentage of eligible salaries, limited to the amount deductible for federal income tax purposes. Contributions to the profit sharing plan are determined annually by the Board of Directors. The cost of the plan was $ -0- and $122,000 in 2009 and 2008, respectively.

Deferred Compensation

The Bank also maintains two executive deferred compensation plans for certain officers and directors. The first plan includes participants that elected to defer compensation over eight years in exchange for a predetermined benefit after retirement. During 2003, a second plan was implemented to fund a defined contribution for selected employees at the discretion of the Board of Directors. Plan expenses are allocated over years of service or based upon the current amount of the defined contributions. Expense for these plans was approximately $19,000 and $22,000 in 2009 and 2008, respectively.

Bank-Owned Life Insurance

Effective October 2007, the Bank invested $3,600,000 in a single premium, bank-owned, endorsement split-dollar, whole life insurance program. Effective February 2008, the Bank invested $1,400,000 in a separate single premium, bank-owned, endorsement split-dollar, whole life insurance program. Bank-owned life insurance is an alternative investment vehicle, generally non-liquid, which may produce additional earnings to offset, and later fund, various employee supplemental benefit expenses. The cash surrender value of these policies were approximately $5,474,000 and $5,271,000 at December 31, 2009 and 2008, respectively. 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, which was approximately $203,000 and $229,000 in 2009 and 2008, respectively, is included in noninterest income in the accompanying consolidated statements of 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.

11. NONINTEREST INCOME

Noninterest income consists of the following amounts for the years ended December 31:

	2009	2008
Fees and service charges	$ 1,218,778	$ 1,236,010
Increase in cash surrender value of BOLI	202,616	229,481
Gain on sales of loans	182,303	35,051
Other	525,842	193,974
Total noninterest income	**$ 2,129,539**	**$ 1,694,516**

12. RELATED PARTY TRANSACTIONS

Loans

In the ordinary course of business, the Bank grants loans to certain directors and executive officers and their affiliates. Annual activity approximated the following amounts during the years ended December 31:

	2009	2008
Beginning balance, January 1	$ 1,771,000	$ 1,865,000
New loans	240,000	238,000
Repayments	(829,000)	(332,000)
Ending balance, December 31	**$ 1,182,000**	**$ 1,771,000**

Deposits

Deposits of Bank directors and executive officers and their affiliates were approximately $1,471,000 and $1,621,000 at December 31, 2009 and 2008, respectively.

Leases

The Bank rents storage space on a month-to-month basis from one of the Corporation's Directors for approximately $4,000 annually.

13. SUPPLEMENTAL CASH FLOWS INFORMATION

Non-Cash Investing Activities

During 2009 and 2008, collateral was foreclosed and repossessed related to outstanding loans of approximately $1,864,000 and $132,000, respectively, which amounts were then transferred to foreclosed and repossessed assets.

Other Cash Flows Information

Cash paid for interest and federal income taxes amounted to the following during the years ended December 31:

	2009	2008
Interest	$ 5,881,912	$ 6,761,575
Federal income taxes	$ 629,000	$ 775,441

14. OFF-BALANCE SHEET ACTIVITIES

Credit-Related Financial Instruments

The Bank is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policy in making commitments, including collateral, as it does for on-balance sheet instruments; no significant losses are anticipated as a result of these commitments.

At December 31, 2009 and 2008, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2009	2008
Unfunded commitments under lines of credit	$ 11,804,106	$ 19,133,778
Commitments to grant loans	492,990	9,415,145
Commitments under overdraft protection agreements	3,574,426	3,405,379
Commercial and standby letters of credit	272,984	158,364

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

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

Commercial and standby letters-of-credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Essentially all letters-of-credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments if deemed necessary and at December 31, 2009 and 2008 such collateral amounted to approximately $659,000 and $201,000, respectively. Guarantees that are not derivative contracts are recorded on the Bank's consolidated balance sheet at their fair value at inception. The Bank considers standby letters of credit to be guarantees; however, since the amount of the estimated liability related to such guarantees on the commitment date is not significant, a liability related to such guarantees is not recognized at December 31, 2009 or 2008.

15. DERIVATIVE INSTRUMENTS

Interest Rate Risk Management – Derivative Instruments not Designated as Hedging Instruments

Certain derivative instruments do not, or are not designated to, meet the accounting criteria for hedging requirements. Where applicable, these undesignated derivative instruments are recognized on the consolidated balance sheet at fair value, with changes in fair value recorded in other noninterest income.

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. There were no undesignated mortgage loan commitments at December 31, 2009 and 2008.

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 undesignated forward loan sale commitments was not significant at December 31, 2009 and 2008.

The fair values 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.

Collateral Requirements

To reduce credit risk related to the use of derivative instruments, the Bank might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Bank's credit evaluation of the customer. If the counterparty does not have the right and ability to redeem the collateral or the Bank is permitted to sell or re-pledge the collateral on short notice, the Bank records the collateral on the consolidated balance sheet at fair value with a corresponding obligation to return it.

16. REGULATORY REQUIREMENTS

Capital Requirements

The Corporation (on a consolidated basis) and the Bank are subject to various regulatory capital requirements, including restrictions on dividends, administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, capital, and certain off-balance-sheet items as defined in the regulations and calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measurements established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2009 and 2008, that the Corporation and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2009, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Corporation's on a consolidated basis, and the Bank's, actual capital amounts and ratios as of December 31, 2009 and 2008 are also presented in the following table.

As of December 31, 2009	Actual Amount	Actual Ratio	Minimum Capital Requirement Amount	Minimum Capital Requirement Ratio	Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
	(Dollars in thousands)					
Total capital to risk weighted assets						
Corporation	$ 25,347	13.33%	$ 15,210	8.0 %	$ N/A	N/A%
Bank	25,341	13.33	15,210	8.0	19,013	10.0
Tier 1 capital to risk weighted assets						
Corporation	22,934	12.06	7,605	4.0	N/A	N/A
Bank	22,928	12.06	7,605	4.0	11,408	6.0
Tier 1 capital to average assets						
Corporation	22,934	8.24	11,132	4.0	N/A	N/A
Bank	22,928	8.24	11,132	4.0	13,914	5.0
As of December 31, 2008						
Total capital to risk weighted assets						
Corporation	$ 25,656	13.81%	$ 14,867	8.0%	$ N/A	N/A%
Bank	25,647	13.80	14,867	8.0	18,585	10.0
Tier 1 capital to risk weighted assets						
Corporation	23,330	12.55	7,434	4.0	N/A	N/A
Bank	23,321	12.55	7,434	4.0	11,151	6.0
Tier 1 capital to average assets						
Corporation	23,330	8.92	10,461	4.0	N/A	N/A
Bank	23,321	8.92	10,461	4.0	13,076	5.0

Restrictions on Cash and Amounts Due from Banks

The Bank is required by regulatory agencies to maintain legal cash reserves based on the level of certain customer deposits. Required reserve balances were $911,000 and $930,000 at December 31, 2009 and 2008, respectively.

Regulatory Capital Transfers

During 2008, the Bank effected capital transfers of $3,000,000 from retained earnings to common stock in order to increase its legal lending limit.

Other Matters

In November 2009, the Bank's Board of Directors issued a resolution committing the Bank to certain actions intended to improve and increase, among other things, the Bank's capital levels, asset quality, and earnings. Among other actions, such resolution committed the Bank to continue the suspension of shareholder dividends through 2010.

17. CONTINGENCIES

Litigation

The Corporation is a party to litigation arising during the normal course of business. There were no claims outstanding as of December 31, 2009 that in management's opinion would have a material effect on the consolidated financial statements.

Environmental Issues

As a result of acquiring real estate in foreclosure proceedings, the Bank is subject to potential claims and possible legal proceedings involving environmental matters. No such claims have been asserted at December 31, 2009.

18. FAIR VALUE

The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Investments in available-for-sale securities and certain liabilities are recorded at fair value on a recurring basis. Additionally, from time to time, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as held-for-sale loans, investments in foreclosed assets, mortgage servicing rights, and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write-downs of individual assets.

Fair Value Hierarchy

Fair value measurement standards established a framework for measuring fair value. That framework provides 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 fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The assets' or liabilities' fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, as well as a description of the methods and significant assumptions used to estimate fair value disclosures for financial instruments not recorded at fair value in their entirety on a recurring basis. For financial assets and liabilities recorded at fair value, the description includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

Cash and Cash Equivalents: The carrying amounts of cash and short-term instruments, including Federal funds sold, approximate fair values.

Interest-Bearing Deposits in Banks: The carrying amounts of interest-bearing deposits maturing within ninety days approximate their fair values. Fair values of other interest-bearing deposits are estimated using discounted cash flow analysis based on current rates for similar types of deposits.

Investment Securities: Investment securities classified as available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss and liquidity assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, that are traded by dealers or brokers in active over-the-counter markets, and money market funds. Level 2 securities include U.S. Treasury securities, mortgage-backed securities issued by government-sponsored entities, municipal bonds, and corporate debt securities traded in active markets. Securities classified as Level 3 would include securities, if any, in less liquid markets, including illiquid markets in some instances.

Federal Home Loan Bank Stock: The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans (e.g., real estate mortgage, agricultural, commercial, and installment) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The resulting amounts are adjusted to estimate the effect of declines, if any, in the credit quality of borrowers since the loans were originated. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

The Corporation does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with accounting standards for subsequent measurement of receivables. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2009, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation classifies the impaired loan as nonrecurring Level 2. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation classifies the impaired loan as nonrecurring Level 3.

Accrued Interest Receivable: The carrying amounts reported on the consolidated statements of financial position for accrued interest receivable approximate their fair value.

Foreclosed and Repossessed Assets: Upon transfer from the loan portfolio, foreclosed and repossessed assets are adjusted to and subsequently carried at the lower of carrying value or fair value less costs to sell. Fair value is based upon independent market prices, appraised values of the collateral, or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation classifies the foreclosed asset as a nonrecurring Level 2 valuation. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation classifies the foreclosed asset as a nonrecurring Level 3 valuation.

Mortgage Servicing Rights: Mortgage servicing rights are subject to impairment testing. A valuation model, which utilizes a discounted cash flow analysis using interest rates and prepayment speed assumptions currently quoted for comparable instruments and a discount rate determined by management, is used for impairment testing. If the valuation model reflects a value less than the carrying value, mortgage servicing rights are adjusted to fair value through a valuation allowance as determined by the model. As such, the Corporation classifies mortgage servicing rights subjected to nonrecurring fair value adjustments as Level 3. At December 31, 2009 and 2008, there was no impairment recorded for mortgage servicing rights and, therefore, no mortgage servicing rights assets were recorded at fair value on a nonrecurring basis.

Interest and Noninterest Bearing Deposits: The fair values for demand deposits (i.e., interest and noninterest bearing checking, savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for interest-bearing deposits (time deposits) with defined maturities are based on the discounted value of contractual cash flows, using interest rates currently being offered for deposits of similar maturities. The fair values for variable-interest rate certificates of deposit approximate their carrying value.

FHLB Advances: The fair values of advances from the FHLB are estimated using discounted cash flow analyses based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

Accrued Interest Payable: The carrying amounts reported on the consolidated balance sheets approximate fair values.

Off-Balance Sheet Credit-Related Instruments: The Bank's unused loan commitments, standby letters of credit, and undisbursed loans have no carrying amount and have been estimated to have no realizable fair value. Historically, a majority of the unused loan commitments have not been drawn upon and, generally, the Bank does not receive fees in connection with these commitments.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table sets forth by level, within the fair value hierarchy, the recorded amount of assets and liabilities measured at fair value on a recurring basis as of December 31:

	Assets at Fair Value			
December 31, 2009	**Total**	**Level 1**	**Level 2**	**Level 3**
Investment securities available-for-sale:				
Government-sponsored enterprises	$ 16,212,673	$ -	$ 16,212,673	$ -
State and municipal	20,131,459	-	20,131,459	-
Mortgage-backed securities	21,347,596	-	21,347,596	-
Total assets at fair value	**$ 57,691,728**	**$ -**	**$ 57,691,728**	**$ -**
December 31, 2008				
Investment securities available-for-sale:				
Government-sponsored enterprises	$ 11,860,123	$ -	$ 11,860,123	$ -
State and municipal	19,151,470	-	19,151,470	-
Mortgage-backed securities	17,334,217	-	17,334,217	-
Total assets at fair value	**$ 48,345,810**	**$ -**	**$ 48,345,810**	**$ -**

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The following table presents the carrying value of those assets measured at fair value on a nonrecurring basis, for which impairment was recognized during the respective year.

December 31, 2009	**Total Carrying Value**	**Level 1**	**Level 2**	**Level 3**
Loans (1)	$ 5,762,417	$ -	$ 3,690,731	$2,071,686
Foreclosed and repossessed assets (2)	878,785	-	828,785	-
December 31, 2008				
Loans (1)	$ 2,190,427	$ -	$ 1,140,615	$1,049,812
Foreclosed and repossessed assets (2)	14,800	-	14,800	-

(1) Impaired loans, which are measured for impairment using the estimated fair value of the collateral for collateral dependent loans, had a carrying amount of $5,762,417 at December 31, 2009, resulting in an additional provision for loan losses of $1,897,056 during 2009. Impaired loans had a carrying amount of $2,190,427 at December 31, 2008, which resulted in an additional provision for loan losses of $336,929 during 2008.

(2) Foreclosed assets, which are carried at the lower of carrying value or estimated fair value less costs to sell, were written down from cost to $828,785 at December 31, 2009 resulting in a charge of $486,764 to earnings during the year then ended. Foreclosed assets were written down to $14,800 at December 31, 2008, resulting in a charge of $12,064 to earnings during the year then ended.

Estimated Fair Values of Financial Instruments Not Recorded at Fair Value in their Entirety on a Recurring Basis

Disclosure of the estimated fair values of financial instruments, which differ from carrying values, often requires the use of estimates. In cases where quoted market values in an active market are not available, the Corporation uses present value techniques and other valuation methods to estimate the fair values of its financial instruments. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used.

The carrying amount and estimated fair value of financial instruments not recorded at fair value in their entirety on a recurring basis on the Corporation's consolidated balance sheets are summarized as follows (in thousands) as of December 31:

	2009		2008	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets				
Cash and due from banks	$ 6,543	$ 6,543	$ 4,909	$ 4,909
Federal funds sold	8,029	8,029	7,166	7,166
Interest-bearing deposits with banks	5,010	5,083	3,860	3,895
Investment securities	58,725	58,809	49,998	50,049
Loans, net	183,100	185,601	186,625	191,255
FHLB stock	1,505	1,505	1,305	1,305
Mortgage servicing rights	193	193	94	94
Accrued interest receivable	1,201	1,201	1,204	1,204
Financial liabilities				
Interest bearing deposits	193,572	193,921	186,377	187,201
Noninterest bearing deposits	34,419	34,419	29,197	29,197
FHLB advances	27,100	27,702	26,100	26,641
Accrued interest payable	496	496	566	566

* * * * *

2009 Management Team

Trina Austin	*Assistant Manager/Holt*
Debra Borst	*Accounting Officer*
Colleen Briggs	*Consumer Lender*
Scott Cameron	*Credit Analyst*
Scott Cornell	*IT Officer*
Melanie Dart	*Business Development Associate*
Rollin Dart	*Chairman Emeritus/Community Relations Officer*
Mark Emmert	*Vice President*
Craig Goble	*Vice President*
Cindy Hamilton	*Vice President*
Kimberly Harless	*Office Manager/Holt*
Mark Howe	*Vice President*
Tammy Jenks	*Assistant Manager/Grand Ledge*
Peter Kubacki	*President and CEO*
Devin Lavengood	*Office Manager/Grand Ledge*
Nanette Listing	*Assistant Vice President*
Debra Mack	*Assistant Vice President*
Michelle Memenga	*Assistant Manager/Mason*
Debra Miles	*Vice President*
John Morris	*Commercial Loan Officer*
Charles Parker	*Special Assets Workout Officer*
Sally Rae	*Executive Vice President*
Karla Spoor	*Assistant Vice President*
Sharon Thompson	*Assistant Vice President*
Mary Tressel	*Special Assets Officer*
Brian Vicary	*Office Manager/Mason*
Timothy Walling	*Vice President*
Jacob Walters	*Senior Credit Analyst/Lender*
Susan Webster	*Loan Operations Officer*

Dart Bankers

	Years of Service
Norene Akom	41
Joy Allaire	12
Shannon Arnett	1
Trina Austin	9
Britney Barry	3
Debra Borst	24
Colleen Briggs	30
Pennie Brownlee	7
Elfriede Cairns	8
Scott Cameron	1
Jennifer Campbell	4
Michelle Carpenter	17
Miranda Cloud	3
Scott Cornell	4
Douglas Crips	2
Melanie Dart	4
Rollin Dart	47
John Dodge	1
Diana Ebare	24
Lindsey Edmiston	1
Mark Emmert	5
Ed Evert	7
Loretta Farnsworth	45
Deborah Fedewa	1
Robin Ferrin	1
Crystal Gabrielse	1
Craig Goble	22
Cindy Hamilton	4
Kimberly Harless	4
Melissa Hathaway	1
Larry Howe	11
Mark Howe	24
Jon Howland-Dart	1
Connie Ireland	16
Janice Jacobs	3
Tammy Jenks	5
Cathy Kinney	1
Natasha Kirchmeier	7
Julie Konen	
Peter Kubacki	2
Andrea Lake	1
Amy Lane	5
Stephanie LaPratt	9
Devin Lavengood	3
Nanette Listing	4
Debra Mack	
Sally Mangles	11
Vicie McClung	12
Angela McPhail	5
Michelle Memenga	1
Debra Miles	22
Becky Moore	6
John Morris	4
Michael Mulholland	
Teri Myers	2
Heather Newman	3
Shannon Orlowski	3
Tara Owens	11
Charles Parker	
Sheila Pawlowski	3
Sandi Petherbridge	1
Jill Raab	11
Sally Rae	32
Kenton Rawlinson	
Mary Ribby	11
Lori Sallek	5
Diana Soule	13
Karla Spoor	18
Sharon Thompson	30
Barb Titus	23
Debra Town	9
Mary Tressel	12
Devon Upton	30
Brian Vicary	
Kendra Waldie	3
Kevin Waldie	1
Timothy Walling	1
Heather Walters	9
Jacob Walters	3
Gretchen Warner	2
Susan Webster	1
Judi Wentland	7

Dart Bank has a written Affirmative Action Compliance Plan on equal employment opportunity.
It is designed to provide guidance to management with respect to the bank's commitment to full implementation of its Equal Opportunity/Affirmative Action policy.

Donations 2009 (Partial List)

Alzheimer's Association

American Cancer Society

American Red Cross

Angel House (Child and Family Services)

Boy Scouts of America

Camp Highfields

Capital Area Community Services, Inc.

Capital Area Humane Society

CARE

CareFree Medical and Dental

Chosen Vision

Church World Service

City Rescue Mission of Lansing

Doctors Without Borders

Eaton Community Hospice

Father John's Fund, Inc.

Grand Ledge Emergency Assistance

Grand Ledge Music Boosters

Greater Lansing Housing Coalition

Habitat for Humanity

Haven House

Holt Community Food Bank

Holt Education Foundation

Junior Achievement

Lansing Area Safety Council

Lansing Community College Foundation

Lansing Symphony Orchestra

Loaves & Fishes Ministry

Mason Area Historical Society

Mason Public Schools Educational Foundation

Meals On Wheels

Michigan Council on Economic Education

Michigan Harvest Gathering

Mother Teresa House

Muscular Dystrophy Association

Oak Park YMCA—Invest in Youth

Old Newsboys Association

Prison Fellowship Ministries

Salvation Army

Siren/Eaton Shelter

South Side Community Kitchen

The Hundred Club

United Way

Volunteers of America

WKAR Public Radio

World Vision

Young Life

Youth Haven Ranch

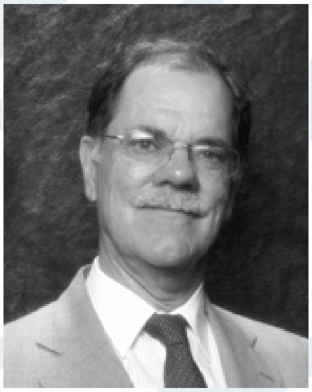

RICHARD L. CHENEY
Chairman


MELANIE S. DART
Vice Chairman


PETER A. KUBACKI
President and CEO


JOHN O. GRETTENBERGER


MARK S. HENNE


BLAKE D. MULDER


JOHN L. NOUD


DARWIN L. SHAVER

Dart Bank Values

Community • Hard Work • Honesty • Integrity • Loyalty

Relationships • Respect • Stability • Teamwork

85 years of the DART DIFFERENCE

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