

Making *more* possible

DART FINANCIAL CORPORATION 89TH ANNUAL REPORT 2013



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.

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*“Making More Possible...
By listening to our customers and helping them
to reach their goals and dreams.”*

—Tammy Jenks, Assistant Manager

Letter *to Shareholders*



John Grettenberger, Rollin Dart, and Peter Kubacki

Dear Friends—Shareholders in Dart Financial Corporation:

Your employees and directors are *extremely* pleased to give you the results for 2013! The net profit for the year was \$2,374,065 or \$1.98 per share. This represents a 41% increase from last year. These results are just a few pennies per share shy of the all-time record set in 2002. The return on average equity for 2013 is 8.52% compared to 5.95% for 2012.

The story of our profit improvement can be found in two lines on the income statement. The provision for loan loss expense was down \$952,000 from the prior year. Net loan charge-offs were lower and other measures of quality are improved requiring that we set aside less this past year. Also, other measurements of the quality of the loan portfolio showed improvement throughout the year requiring us to set aside less. The second area in profit improvement is a \$236,000 reduction in non-interest expenses. Here too, these cost reductions are due to improvements in our loan quality. Collection and legal

costs for managing non-performing loan relationships or expenses related to holding and managing foreclosed real estate were much lower. FDIC insurance costs were down 19% from last year and this too can be tied to improvements in asset quality.

While fee income does not show a large increase from the prior year its level in 2013 is a new record. The low rate environment for mortgages persisted through the first three quarters of the year and allowed us an increase in mortgage related fees. The reduction in residential lending activity in the fourth quarter due to increased rates allowed our loan personnel to implement the policies and procedures to be compliant with the new rules for making what are known as Qualified Mortgages. This new regulation comes from the Consumer Financial Protection Bureau, a new regulator created by the Dodd-Frank Wall Street Reform legislation. In our 2010 annual report we expressed concern over the types of legislation we would see in future years. Making what are termed Qualified Mortgages and adhering to the “ability to repay” rules will be a challenge for all community banks. Making residential loans has been and will continue to be an important part of our business.

Very pleasing was an increase in our net loans of nearly \$2.2 million in 2013, the first increase in four years. Our bankers are increasingly on the street looking for loan opportunities and we are seeing results. You will note a reduction in total shareholders’ equity in 2013 and that warrants some explanation. The line item in the equity section titled Accumulated Other Comprehensive (Loss) Income shifted from a positive figure to negative over the course of this past year. The shift is due to the downward change in value in our long-term investment security holdings due to the increase in interest rates in 2013. Our investment holdings consist of government or government agency securities, highly rated municipal bonds and insured deposits at other financial institutions. Actual losses on the profit and loss statement would only be incurred if investments are sold. It is our intent to hold these investments for the long-term. A key measure of capital followed by bankers and regulators is

*“Making More Possible...
By making dreams come true.”*

—Trina Austin, Assistant Manager

a ratio called the Tier 1 Leverage Capital Ratio. This ratio is a conservative measure of capital-to-assets. At year-end this ratio was at 10.6%, the highest level it has been this century.

During the year two regular dividend payments and a special dividend payment were made to you. These payments amounted to \$.625 per share compared to \$.25 last year, more than doubling your cash return. Dividends distributed in 2013 amounted to approximately one-third of earnings. Going forward your board of directors will be evaluating the payment of a dividend on a quarterly basis. A Dividend Reinvestment Plan was approved by shareholders and implemented in the fourth quarter. This plan allows shareholders to use dividends or contribute new funds to purchase additional Dart shares cost effectively. If you haven't enrolled I invite you to speak with our Investor Relations Representative. Shares used to fund the plan are presently purchased from existing shareholders. We have been communicating to you on a quarterly basis as to the value of Dart Financial Corporation shares as determined by CAMELS Consulting Group, LLC. At year-end each share of Dart stock has been valued at \$27.75 compared to \$23.94 last year. The number of shares that traded in 2013 was more than double the previous year. Our efforts to increase liquidity in shares are gaining momentum. In addition to finding new loan and deposit clients our officers are attempting to qualify prospects as new shareholders. Prospect referrals from existing shareholders are appreciated. Also, please let us know if you would like to add to your existing holdings.

Last year we spoke to you of the property purchased next to our Mason office. Our present facility here is forty-five years old and even with the neighboring Administration Building we find ourselves without sufficient space. Planning for a new headquarters and banking office will take time as we want the building to be useful for many years. This planning is just beginning. As with any older building the one we purchased has some environmental blemishes that need to be attended to prior to demolition and new construction. We are

pursuing the clean-up of the site through a Brownfield Development Plan. To date we have received approvals from the City of Mason and Ingham County for this plan. We hope to remediate the environmental issues with the property and demolish the building in 2014. New banking competition has come and is coming to Mason. Investment in a new building will insure that we have an efficient and effective facility to serve our clients for many years to come.

“Making more possible”, our current marketing tagline is meant to empower the reader to imagine what that means. Perhaps it is how Dart Bank has impacted their lives, their community, or perhaps a relative or friend. For those who do not know us, we are hoping it will stimulate their curiosity to imagine the ways we may be able to do MORE for them. An impact has been made with our employees as well. They were asked how they feel we make more possible-the responses have been heartfelt.

The Annual Meeting of Shareholders will be held at our Delhi-South Lansing Bank beginning at 6:30 p.m. on Tuesday, March 25, 2014. By attending you will have a chance to meet and question directors and bank officers as well as renew acquaintances with fellow shareholders. As always refreshments will be served.

With warm wishes we are,



Peter Kubacki, President and CEO



John Grettenberger, Chairman of the Board



Rollin Dart, C.E., Community Relations Officer

Five-Year *Comparative Balance Sheets*

	As of December 31,				
Assets	2013	2012	2011	2010	2009
Cash and due from banks	\$ 10,587,463	\$ 19,599,228	\$ 12,714,501	\$ 8,141,379	\$ 6,543,470
Federal funds sold	<u>3,036,996</u>	<u>8,902,407</u>	<u>8,569,024</u>	<u>2,785,631</u>	<u>8,028,980</u>
Cash and cash equivalents	13,624,459	28,501,635	21,283,525	10,927,010	14,572,450
Interest-bearing deposits	4,584,680	3,937,053	1,531,535	2,428,033	5,010,232
Investment securities	89,016,086	85,663,782	75,556,414	62,543,028	58,724,963
Federal Home Loan Bank stock	1,355,000	1,355,000	1,355,000	1,432,400	1,505,000
Net loans	146,245,403	144,056,999	157,478,236	164,596,340	183,099,902
Premises and equipment, net	4,043,821	4,239,776	4,463,946	4,608,357	4,862,431
Accrued interest receivable	1,138,477	1,085,850	1,233,982	1,129,565	1,200,681
Foreclosed and repossessed assets	301,531	775,304	968,638	2,370,012	1,035,543
Bank-owned life insurance	6,856,515	6,317,804	5,885,609	5,681,184	5,473,497
Prepaid FDIC insurance premium	49,624	348,490	693,095	1,138,450	1,533,967
Other assets	<u>3,796,414</u>	<u>2,606,092</u>	<u>2,788,495</u>	<u>3,158,774</u>	<u>2,943,770</u>
	<u>\$ 271,012,010</u>	<u>\$ 278,887,785</u>	<u>\$ 273,238,475</u>	<u>\$ 260,013,153</u>	<u>\$ 279,962,436</u>
Liabilities and Shareholders' Equity					
Deposits					
Interest bearing	\$ 165,698,067	\$ 168,369,764	\$ 173,508,754	\$ 173,215,288	\$ 193,571,945
Noninterest bearing	<u>56,559,582</u>	<u>54,934,016</u>	<u>46,322,657</u>	<u>39,938,498</u>	<u>34,418,926</u>
	222,257,649	223,303,780	219,831,411	213,153,786	227,990,871
FHLB advances	21,100,000	25,100,000	24,100,000	22,100,000	27,100,000
Accrued interest payable	124,902	198,251	265,908	339,900	496,050
Deferred compensation	161,238	175,820	197,268	244,216	296,893
Other liabilities	<u>742,157</u>	<u>1,022,714</u>	<u>1,270,251</u>	<u>387,401</u>	<u>389,686</u>
	<u>244,385,946</u>	<u>249,800,565</u>	<u>245,664,838</u>	<u>236,225,303</u>	<u>256,273,500</u>
Shareholders' equity					
Common stock	17,000,000	17,000,000	17,000,000	17,000,000	17,000,000
Retained earnings	11,911,747	10,287,682	8,901,475	6,608,149	6,127,221
Accumulated other comprehensive income (loss)	<u>(2,285,683)</u>	<u>1,799,538</u>	<u>1,672,162</u>	<u>179,701</u>	<u>561,715</u>
	<u>26,626,064</u>	<u>29,087,220</u>	<u>27,573,637</u>	<u>23,787,850</u>	<u>23,688,936</u>
Total liabilities and shareholders' equity	<u>\$ 271,012,010</u>	<u>\$ 278,887,785</u>	<u>\$ 273,238,475</u>	<u>\$ 260,013,153</u>	<u>\$ 279,962,436</u>

Five-Year *Comparative Statements of Income*

	Years Ended December 31,				
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Interest and dividend income					
Loans, including fees	\$ 8,223,664	\$ 9,199,273	\$ 10,260,476	\$ 11,014,466	\$ 11,876,458
Investment securities	2,524,435	2,411,318	2,609,253	2,550,397	2,267,753
Federal funds sold and other	79,146	46,753	57,436	121,751	178,503
	<u>10,827,245</u>	<u>11,657,344</u>	<u>12,927,165</u>	<u>13,686,614</u>	<u>14,322,714</u>
Interest expense					
Deposits	1,330,437	1,768,698	2,287,692	3,591,912	4,769,938
FHLB advances and other	390,656	600,580	719,190	907,366	1,041,602
	<u>1,721,093</u>	<u>2,369,278</u>	<u>3,006,882</u>	<u>4,499,278</u>	<u>5,811,540</u>
Net interest income	9,106,152	9,288,066	9,920,283	9,187,336	8,511,174
Provision for (reduction of provision for) loan losses	<u>163,745</u>	<u>1,116,138</u>	<u>1,019,314</u>	<u>3,577,200</u>	<u>4,000,840</u>
Net interest income after provision for loan losses	8,942,407	8,171,928	8,900,969	5,610,136	4,510,334
Noninterest income	<u>2,188,849</u>	<u>2,124,858</u>	<u>1,760,403</u>	<u>2,070,434</u>	<u>2,129,539</u>
Noninterest expenses					
Compensation and benefits	4,656,994	4,233,348	4,240,379	3,709,545	3,617,933
Occupancy and equipment	939,314	1,214,261	1,168,936	1,157,702	1,043,703
Office supplies	110,716	117,542	110,353	123,399	130,990
Charitable contributions	98,874	94,353	71,953	65,477	71,108
Other	<u>2,373,293</u>	<u>2,756,075</u>	<u>2,299,425</u>	<u>2,453,519</u>	<u>2,283,424</u>
	<u>8,179,191</u>	<u>8,415,579</u>	<u>7,891,046</u>	<u>7,509,642</u>	<u>7,147,158</u>
Income (loss) before federal income taxes	2,952,065	1,881,207	2,770,326	170,928	(507,285)
Federal income tax (benefit) expense	<u>578,000</u>	<u>195,000</u>	<u>477,000</u>	<u>(310,000)</u>	<u>(511,000)</u>
Net income	<u>\$ 2,374,065</u>	<u>\$ 1,686,207</u>	<u>\$ 2,293,326</u>	<u>\$ 480,928</u>	<u>\$ 3,715</u>



*“Making More Possible...
By providing our shareholders with a profitable investment.”*

—Debra Miles, VP, CFO

Dart *Bankers*

	Years of Service		Years of Service		Years of Service
Noreen Akom.....	45	Mark Emmert.....	9	Aubrey Orr	1
Joy Allaire.....	16	Ed Evert.....	11	Bethany Orr	1
Shannon Arnett.....	5	Bryan Grisdale		Tara Owens	15
Trina Austin.....	13	Emily Groll	2	Charles Parker II.....	4
Angele Bancroft.....		Cindy Hamilton.....	8	Sheila Pawlowski.....	7
Morgan Blackburn.....		Kimberly Harless.....	8	Sandi Petherbridge.....	5
Lauren Boehlke	3	Larry Howe.....	15	Lori Pfof.....	1
Danielle Boyle	2	Mark Howe.....	28	Jill Raab	15
Barbara Brevick.....	3	Connie Ireland.....	7	Sally Rae.....	36
Colleen Briggs.....	34	Janice Jacobs.....	7	Kylie Rogers-Strahan	1
Pennie Brownlee.....	11	Tammy Jenks.....	9	Lori Sallek	9
Danielle Bull		Eric Kibbey		Cassie Short.....	
Elfriede Cairns	12	Natasha Kirchmeier	11	Diana Soule	
Jennifer Campbell.....	8	Cami Kocsis.....	1	Andrea Spitzer.....	2
Michelle Carpenter.....	21	Julie Konen.....	4	Karla Spoor	33
Hillary Coleman.....		Peter Kubacki.....	6	Melanie Squires	2
Scott Cornell.....	8	Nancy Lanz		Amy Stevens.....	
Douglas Crips.....	6	Stephanie LaPratt	13	Emily Thelen	
Lori Crooks.....	2	Devin Lavengood	7	Debra Town.....	13
Cindy Crowner	1	Nanette Listing.....	8	Mary Tressel.....	16
Melanie Dart	8	Debra Mack.....	4	Katie Trudell.....	1
Rollin Dart.....	51	Sally Mangles.....	15	Kendra Waldie	7
Jamie Davis		Jennifer Marsh	2	Kevin Waldie.....	5
Jena Dieter.....	1	Brittany Martinson	2	Heather Walters	13
John Dodge	5	Casie Mason.....		Susan Webster.....	5
Tammy Dorin		Vicie McClung	16	Autumn Welk.....	
Ellen Dral.....	3	Debra Miles	26	Lena Xiong	
Diana Ebare.....	28	Becky Moore	10	Aaron Young.....	
Lindsey Edmiston.....	5	John Morris	8		

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.

Management *Team*

Trina Austin	Assistant Manager/Holt Office
Colleen Briggs	Consumer Loan Officer/CRA Officer
Danielle Bull	Credit Manager
Michelle Carpenter	Business Services Officer
Scott Cornell	Vice President/IT Officer
Cindy Crowner	Assistant Vice President/Grand Ledge Office Manager
Rollin Dart	Chairman Emeritus, Community Relations Officer
Melanie Dart	Business Development Associate
Jamie Davis	Assistant Vice President/Commercial Lender
Mark Emmert	Vice President/Special Assets Officer
Cindy Hamilton	Vice President/Loan Department Administrator
Kimberly Harless	Assistant Vice President/Holt Office Manager
Mark Howe	Vice President/Commercial Lender
Tammy Jenks	Assistant Manager/Grand Ledge Office
Natasha Kirchmeier	Accounting Supervisor
Peter Kubacki	President & CEO
Devin Lavengood	Assistant Vice President/Commercial-Ag Lender
Nanette Listing	Assistant Vice President/Operations Officer
Debra Mack	Vice President/Audit/Compliance/BSA
Jennifer Marsh	Vice President/Commercial Lender
Debra Miles	Vice President/Chief Financial Officer
John Morris	Vice President/Commercial Lender
Tara Owens	Mortgage Department Manager
Charles Parker II	Assistant Vice President/Special Assets Workout Officer
Lori Pfof	Mason Office Manager
Sally Rae	Executive Vice President
Karla Spoor	Vice President/Human Resources
Melanie Squires	Assistant Manager/Mason Office
Mary Tressel	Special Assets Officer
Kevin Waldie	BSA Support/Internal Auditor
Susan Webster	Assistant Vice President/Loan Operations Officer

Donations *2013 (partial list)*

Alzheimer's Association	Junior Achievement
American Cancer Society	Lansing Area Safety Council
American Red Cross	Lansing Community College Foundation
Boy Scouts of America	Lansing Symphony Orchestra
Capital Area Community Services, Inc.	Loaves & Fishes Ministry
Capital Area Humane Society	Mason Area Historical Society
CARE	Mason Public Schools Educational Foundation
CareFree Medical and Dental	Meals On Wheels
Child and Family Services (Angel House)	Michigan Harvest Gathering
Children's Miracle Network	Mother Teresa House
Chosen Vision	Muscular Dystrophy Association
Church World Service	Oak Park YMCA
City Rescue Mission of Lansing	Old Newsboys Association
Doctors Without Borders	Prison Fellowship Ministries
Eaton Community Palliative Care	Salvation Army
Grand Ledge Emergency Assistance	Siren/Eaton Shelter
Grand Ledge Education Foundation	South Side Community Kitchen
Grand Ledge Food Bank	The Hundred Club
Grand Ledge Music Boosters	United Way
Greater Lansing Housing Coalition	Volunteers of America
Habitat for Humanity	WKAR Public Radio
Haven House	World Vision
Highfields	Young Life
Holt Community Food Bank	Youth Haven Ranch
Holt Education Foundation	



*"Making More Possible...
By focusing on making every customer that walks
through the door know that Dart Bank really cares
about them and their family."*

—Jena Dieter, Personal Banker

Board *of Directors*



JOHN O.
GRETTEBERGER
Chairman



MELANIE S. DART
Vice Chairman



PETER A. KUBACKI
President and CEO



KIRA
CARTER-ROBERTSON



MARK S. HENNE



BLAKE D. MULDER



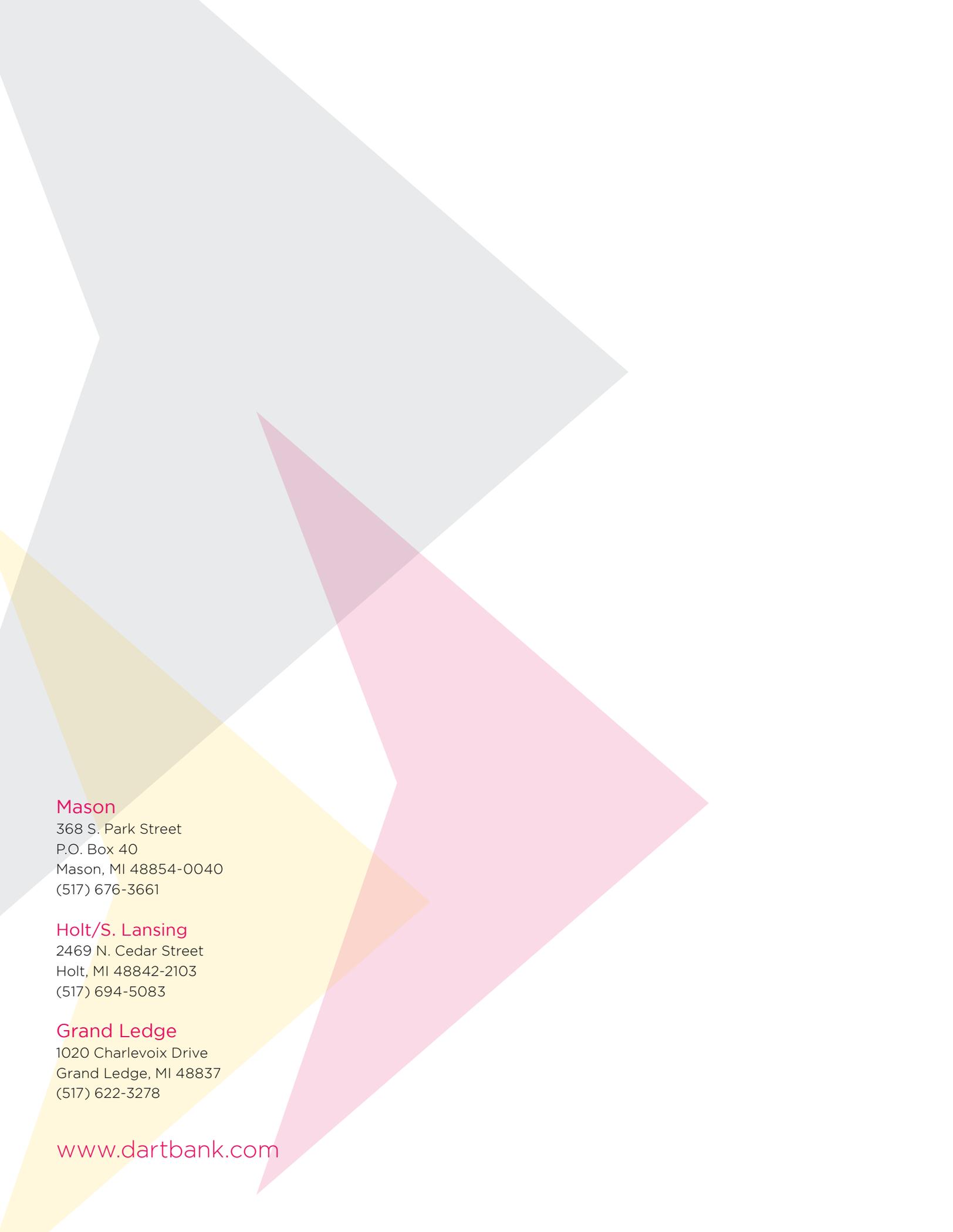
JOHN L. NOUD



DARWIN L. SHAVER

Dart Bank *Values*

Community • Hard Work • Honesty • Integrity • Loyalty
Relationships • Respect • Stability • Teamwork



Mason

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Holt/S. Lansing

2469 N. Cedar Street
Holt, MI 48842-2103
(517) 694-5083

Grand Ledge

1020 Charlevoix Drive
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(517) 622-3278

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