

University Bancorp, Inc.

ANNUAL REPORT

2008

- Total Assets up 46.6% to \$129.3 mm
- Net Interest & Financing Income up 32.0% to \$4.53 mm
 - Loans and financings up 50.9%
 - Assets managed pass \$5.0 billion

UNIVERSITY BANCORP, INC.
Business of the Company

University Bancorp, Inc., a Delaware Corporation (the "Corporation"), operates as a bank holding company through its wholly owned subsidiary, University Bank, of Ann Arbor, Michigan.

University Bank (the "Bank") is a \$129 million asset, FDIC-insured, locally owned and managed Community Bank.

The Bank owns 80% of **Midwest Loan Services** ("Midwest"), of Houghton, Michigan, a residential mortgage subservicing firm, which primarily serves the credit union industry. Midwest manages \$5.9 billion of mortgages for 270 credit unions across the nation.

The Bank provides Sharia'a compliant financial products through **University Islamic Financial Corporation** an 80%-owned subsidiary.

University Bank division **University Lending Group** provides FHA residential lending on a wholesale basis to other financial institutions and mortgage brokers.

The Bank sells insurance and investment products through its wholly-owned subsidiary, **University Insurance & Investment Services, Inc.**

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Contents of the University Bancorp, Inc. and Subsidiaries Audited Consolidated Financial Statements for the Years Ended December 31, 2008 and 2007

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UNIVERSITY BANCORP INC.'s MISSION STATEMENT

"We will be a niche-oriented provider of financial services, which uses the highest ethical standards and proven and experienced management."

Ann Arbor-based University Bancorp owns 100% of University Bank[®] a community bank founded in 1890. University Bank, together with its subsidiaries, holds and manages a total of over \$6.0 billion in loans and assets. University Bank is an FDIC-insured, locally owned and managed community bank, and is the only financial institution headquartered in Washtenaw County rated "Outstanding" by the FDIC for Community Service and Community Reinvestment through its creative and innovative services to meet the financial needs of its community.

* * *

PRESIDENT'S MESSAGE

University Bank had audited net income of \$73,140 in 2008. Highlights for the year include:

- Mortgage subservicing managed under contract increased to \$5 billion;
- Our new residential mortgage wholesale operation closed its first loan in July 2008 and originated \$133.4 million of mortgage loans, primarily through the Federal Housing Administration;
- Our Islamic banking operations had another record year in growth of deposits and financings;
- Community Banking continues to grow despite the business recession while lending to the local community;

Key metrics for the year ended December 31, 2008 were:

- Total employees in Michigan rose to 155 up about 50%;
- Total Assets increased to \$129.3 million up 46.6%
- Net Interest Income increased to \$4.53 million up 32.0%
- Loans and financings +50.9%
- Islamic profit sharing deposits +43.9%
- Islamic financings in portfolio and managed +104.1%
- Net interest and financing income +34.1%

We are pleased to have had essentially a break-even profit result in 2008, a year that was challenging for our industry and that we made progress in so many important metrics. The bank's business units are currently firing on all cylinders. Since year-end, we have increased our subservicing under management to \$5.9 billion and had two record monthly profits, our mortgage wholesale unit is closing on \$50 million of mortgages per month and having record profits, and our Islamic banking unit is having record financing closings about double last year's pace and record profits and Community Banking grew its local loan portfolio to new heights and has growing profits.

During 2008, University Bank increased its business by between 34% and 104% depending upon the metric used. We also successfully launched a new wholesale mortgage lending unit that has achieved substantial volumes and profitability and increased our staff to support the higher

level of business by 50%. Our bottom-line result was restrained however, by start-up costs and other one-time investments to build our business and the economic conditions in our local market area. We increased our reserves to take this into account by over a half million dollars.

University Bank also announced that it entered into a formal agreement on February 12, 2009 with the Federal Deposit Insurance Corporation and the State of Michigan Office of Financial and Insurance Regulation to assist in improving aspects of its operations. The agreement was proposed by the regulatory agencies as a means of strengthening University Bank as a result of University Bank's most recent supervisory examination in June of 2008. During the regulatory audit process, specific areas of improvement were addressed by the Bank's management team and the examiners. Many of the issues addressed in the agreement related to Compliance errors and actions to strengthen the bank's overall Compliance program, the International Trade department that the bank discontinued, and the potential volatility in increasing interest rate scenarios of a portfolio of about \$20 million of long term fixed rate Freddie Mac and Fannie Mae issued Mortgage Backed Securities that were then sold at a profit versus our original cost in early January this year.

Among the staff hired during 2008, the bank added a full-time expert bank compliance lawyer who was previously with the largest bank headquartered in Michigan and hired a full-time internal auditor. To beef up its compliance efforts, the bank implemented additional software programs to automate many of the paperwork compliance tasks previously handled in a manual process, going forward. While some of these matters were already being attended to by management and the board prior to June 2008, University Bank is committed to implementing the actions advised by the FDIC and OFIR to further strengthen the overall regulatory compliance function of the organization and looks forward to future consultations with the FDIC's and OFIR's compliance experts and their expert assistance and input on future improvements.

One of the operational benchmarks in the agreement is the goal that the Bank should exceed a minimum tier-one capital adequacy ratio of eight percent at March 31, 2009 and eight and a quarter percent for the remaining term of the agreement and a thirteen percent total risk-based capital ratio. In this time of economic turmoil the bank's board of directors believes that it is a good idea to have extra bank capital just in case. Historically, the Bank's ratios have typically been near or above these thresholds. The Bank's ratio is well above the five-percent minimum used by bank examiners to define a well-capitalized bank.

The agreement represents a formal commitment by University Bank, the board and management to collectively work with the regulators to aggressively address areas that by working and consulting with each other can be improved in the organization. The Bank's board of directors and senior management team has already implemented the majority of the solutions advised by the FDIC and OFIR and in some cases we have even gone beyond what was recommended to further strengthen the bank's compliance programs. In addition, the Bank remains proactive in developing additional policies, procedures and plans with the goal of further improving the overall strength of the bank.

University Bank had essentially a break-even profit result in 2008 and has seen strong profits in 2009. Our bank is safe, strong and solid and is making profits even in these economically challenging times.

Other recent important developments include University Bank receiving a major industry award in February 2009, the American Bankers Association's 2009 Community Bank Award for its work in 2008 in expanding homeownership opportunities. The award is a testament to the bank's management team and their foresight. Also, University Bank won an award as one of the 12 fastest

growing businesses in the Ann Arbor region by the regional economic development agency Ann Arbor SPARK. The bank's past major awards include the U.S. Banker magazine's Community Bankers of the Year Award in 2006 and the FDIC's Outstanding Rating for Community Service and Community Reinvestment. These major industry awards are a testament to the track record of University Bank, its long term involvement in helping grow our community and the fact that our business units are implementing strong business plans and are well managed.

During 2008, I was also made the President of the Ann Arbor Economic Development Corporation board. I already had been serving the community as the Vice-Chairman of the Washtenaw County Economic Development Corporation board and have been donating my time in these efforts in an effort to help create local quality jobs.

IN CONCLUSION

A Reminder to Our Shareholders. The Bank is very interested in doing business with our shareholders. We encourage shareholders to learn more about our deposit, loan, investment and insurance products at 1-800-DO-TRY-US. We find that we can save nearly everyone money on these services or increase the returns on their investments. Do you need to refinance or finance the purchase of a new home? Need a new deposit account? Do you want free billpay? Do you want free internet banking or free telephone banking? Does your business need a free courier to pick up its deposits? Do you want a credit card where the interest is tax deductible, the rate is based on prime rate and the miles you earn are redeemable on the airline of your choice when you redeem the points all for no annual fee? Why not give us a try? Isn't it worth a few minutes of your time to check into what we can do for you since you are a part owner of the Bank?

Thanks. I wish to thank the employees of the Company for their loyal support, hard work and dedication over the past year. This Company's achievements are due to the efforts and loyalty of its employees, and to the support of our directors, business associates and stockholders. Lastly, thanks are also due to our customers for their continued loyalty, trust and support.

Sincerely,



Stephen Lange Ranzini,
President and Chief Executive Officer
University Bancorp, Inc.

Ann Arbor, Michigan
March 31, 2009
Email: ranzini@university-bank.com

CAUTIONARY STATEMENT: This annual report contains certain forward-looking statements that involve risks and uncertainties. Forward-looking statements include, but are not limited to, statements concerning future growth in assets and net income, the sustainability of past results, and other expectations and/or goals. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those expressed or implied by such forward-looking statements, including, but not limited to, economic, competitive, governmental and technological factors affecting our operations, markets, products, services, interest rates and fees for services. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this annual report.

PRODUCTS

Studies indicate that only four key products truly tie a customer to a bank: checking accounts, home mortgage loans, insurance and investment services. Here is how University Bank and its subsidiaries provide these services:

Checking accounts

Special checking programs for small businesses and non-profits from University Bank

Free checking: no minimum balances and no fees from University Bank

NOW Checking: Interest-bearing checking from University Bank

Money Market Deposit Account: interest rates that exceed Wall Street money market funds with up to three checks per month

Islamic Alternatives for customers of University Islamic Financial

Home mortgages

FHA/FNMA/FHLMC: standard home mortgages up to \$417,000 from University Bank, Midwest Loan Services and University Lending Group

Jumbo: home mortgages of more than \$417,000 from University Bank

First-Time Homebuyer: low downpayment mortgages from University Bank

Home Construction: from University Bank

Islamic Alternatives for customers of University Islamic Financial

Insurance

Life Insurance: individual, key person or second survivor from University Insurance Center

Annuities: tied to fixed interest rates, or the stock market from University Insurance Center

Health Insurance: from University Insurance Center

Business Insurance: from University Insurance Center

Auto/Vehicle Insurance: from University Insurance Center

Home Owners Insurance: from University Insurance Center

Renters Insurance: from University Insurance Center

Company Benefits Programs: from University Insurance Center

Investment Services

Mutual Funds: from University Insurance & Investments

Discount Brokerage: from University Insurance & Investments

Money Management: from University Insurance & Investments

IRAs (Standard, Roth, SEP, Education): from University Insurance & Investments

Beyond the core services, University Bank also offers the following services: Small Business Loans; Business Receivable-Backed Lending; Commercial Real Estate Loans; Certificates of Deposit; Home Equity Lines; Home Improvement Loans; VISA Home Equity Gold Card; Car/Vehicle Loans; Foreign Exchange; Cashier's Checks/Money Orders; Savings Bonds; Notary Services.

We encourage shareholders to learn more about our deposit, loan, investment and insurance products.

NONDEPOSIT INVESTMENT AND INSURANCE PRODUCTS SOLD BY UNIVERSITY INSURANCE & INVESTMENT SERVICES AND UNIVERSITY INSURANCE CENTER ARE NOT FDIC INSURED NOT GUARANTEED BY ANY BANK OR GOVERNMENT AGENCY AND MAY LOSE VALUE.



**Directors and Officers
University Bancorp, Inc.**

Board of Directors

Gary Baker, Director, IT Transformation Services; AlixPartners, LLC

Charles McDowell, Chairman; Director, Northern Michigan Foundation and former Chairman & CEO of Northwestern State Bank in Elk Rapids, Michigan

Dr. Joseph Lange Ranzini, Director; General Surgeon in Private Practice

Paul Lange Ranzini, Director; Ph.D. Candidate in Musicology at the University of Chicago, President of American Institute of Musicology, a professional musicology publishing house and Managing Editor, A-R Editions, a professional musicology publishing house

Stephen Lange Ranzini, Director, President & Chief Executive Officer; President and Chairman, University Bank, University Islamic Financial, Michigan Business Development Company, Northern Michigan Foundation and CityFed Financial Corp. and Chairman of Midwest Loan Services, University Insurance & Investment Services and Jove Corporation

Michael Talley, Director; Vice President, Ladenburg Thalmann & Company, a brokerage firm, Member, Financial Services Technology Consortium's Security & Enterprise Architecture Committees

Officers

Dennis Agresta, Chief Accounting Officer

Charles McDowell, Chairman

Stephen Lange Ranzini, President, Chief Executive Officer & Secretary

Michael Talley, Lead Independent Director & Chairman of the Audit & Compensation Committees

**Directors and Officers
University Bank**



Board of Directors

Nicholas Fortson, Director, former University Bank Chief Executive Officer & Treasurer; former Chief Financial Officer of University Bancorp

Charles McDowell, Chairman of the Audit Committee and Lead Independent Director; Director, Northern Michigan Foundation and former Chairman & CEO Northwestern State Bank in Elk Rapids, Michigan

Rev. Willie Powell, Director; Executive Director, City of Ann Arbor Employees Retirement System

Stephen Lange Ranzini, Director, President & Chief Executive Officer; President and Chairman, University Bank, University Islamic Financial, Michigan Business Development Company, Northern Michigan Foundation and CityFed Financial Corp. and Chairman of Midwest Loan Services, University Insurance & Investment Services and Jove Corporation

John J.H. ("Joe") Schwarz, M.D., Director; Otolaryngologist, Former Congressman, Chairman of the Board of the Alumni Association of the University of Michigan

Officers

Dennis Agresta, Executive Vice President - Accounting Manager & Cashier

Louise Collins, Esq., General Counsel, Chief Compliance Officer & Secretary

Cathy Revord, Vice President, Human Resources Manager

Darnell Grant, Security Officer & IT Manager

Edie Kingsley, President & Chief Executive Officer, University Insurance Center

Peggy Lamb, Senior Vice President – Collections

Melanie Myjak, Internal Auditor

Brian Picknell, Vice President - Commercial Lending

Julie Price, Executive Vice President, Islamic Banking & Mortgage Education Officer

Stephen Lange Ranzini, Chairman & President

John Scott, Vice President, Mortgage Operations

Stacy Shepanski, Executive Vice President - Consumer Lending & Deposits, Bank Secrecy Act & Office of Foreign Asset Control Officer

John Sickler, Executive Vice President – Commercial Islamic Lending

Ken Sprinkles, Assistant Vice President – Asset Management

Raymond Velasco, Vice President – Branch Manager

**Directors and Officers
University Islamic Financial**



Board of Directors

Nicholas Fortson, Director, former Chief Executive Officer & Treasurer
Stephen Lange Ranzini, Chairman & President
Julie Price, Director, Executive Vice President – Islamic Banking & Mortgage Education Officer
John Sickler, Director, Executive Vice President – Residential Lending

Officers

Tracy Garland, Vice President – Internal Sales & Operations
Julie Price, Executive Vice President, Islamic Banking & Mortgage Education Officer
Stephen Lange Ranzini, Chairman & President
Amjad Quadri, Vice President – National Director of Sales

**Directors and Officers
Midwest Loan Services**



Midwest
LOAN SERVICES INC.



Board of Directors

Edward Burger, CEO & President, Midwest Loan Services
Nicholas Fortson, Director; former Chief Executive Officer & Treasurer of University Bank
Stephen Lange Ranzini, Chairman; Chairman & President of University Bank
John Sickler, Director; Executive Vice President – Commercial Islamic Lending of University Bank &
Executive Vice President, Commercial Islamic Banking of University Islamic Financial Corporation
Julie Price, Executive Vice President, Islamic Banking & Mortgage Education Officer

Officers

Glenda Britz, Senior Associate Originations
Edward Burger, CEO & President
Janet Burger, Senior Associate Administration & Loan Set-Up
Deric Garnell, Senior Associate Customer Service & Loss Mitigation
Lynn Justinak, Senior Associate Processing
Rick Marshall, Director - National Business Development
Peggy Panke, Senior Associate Escrows
Jon Rastello, Servicing Manager
Craig Tarvainen, Senior Associate Information Systems
Kathy Tollefson, Senior Associate Default Management
Laura Zerbst, Treasurer

Common Stock and Dividend Information

The Company's Common Stock trades on The Pink Sheets under the symbol UNIB. As of the March 31, 2009 we had approximately 622 stockholders including approximately 483 beneficial owners of shares held by brokerage firms or other institutions.

	<u>High</u>	<u>Low</u>
<u>2009</u>		
First Quarter	\$1.60	\$0.55
<u>2008</u>		
Fourth Quarter	1.45	0.52
Third Quarter	2.00	1.03
Second Quarter	1.98	1.67
First Quarter	2.10	1.66
<u>2007</u>		
Fourth Quarter	2.20	1.72
Third Quarter	2.20	1.63
Second Quarter	2.05	1.60
First Quarter	2.10	1.80

No cash dividends have been paid on our common stock. We do not currently anticipate declaring or paying dividends in 2009. We plan to reevaluate our dividend policy prior to year-end 2009.

UNIVERSITY BANCORP, INC.

Corporate Information

Corporate Office

University Bancorp, Inc.
2015 Washtenaw Avenue
Ann Arbor, Michigan 48104
Telephone (734) 741-5858 xt226

University Bank Offices:

Ann Arbor Main Office
2015 Washtenaw Avenue
Ann Arbor, Michigan 48104
Telephone (734) 741-5858

Midwest Loan Services

616 Sheldon Ave., Ste. 300
Houghton, MI 49931
Telephone (906) 487-5870

Investor Contact

Stephen Lange Ranzini, President & CEO
University Bancorp, Inc.
2015 Washtenaw Avenue
Ann Arbor, Michigan 48104
Telephone (734) 741-5858 xt226
Email address: ranzini@university-bank.com

Independent Certified Public Accountants

UHY
26200 American Dr
Southfield, Michigan 48034

General Counsel

Varnum, Riddering, Schmidt & Howlett LLP
Harvey Koning, Esq.
333 Bridge St. N.W., Bridgewater Place
Grand Rapids, Michigan 49504

Transfer Agent

Computershare
350 Indiana Street, Suite 800
Golden, Colorado 80401

Free additional information:

Please see our Investor Relations web page at www.university-bank.com/bancorp.htm, which has all of our press releases, recent articles, comprehensive statistical information about the company, a Frequently Asked Questions (FAQ) list and links to useful information sources such as a current stock quote and all of our Securities and Exchange Commission filings.

Contact us at:

2015 Washtenaw Avenue

Ann Arbor, Michigan 48104

Email address: ranzini@university-bank.com

Phone number: (734) 741-5858 xt226

Fax number: (734) 741-5859

Toll free number (888) DO-TRY-US

**THIS STATEMENT HAS NOT BEEN REVIEWED OR CONFIRMED FOR ACCURACY
OR RELEVANCE BY THE FEDERAL DEPOSIT INSURANCE CORPORATION**

Any prediction of the future contained in this annual report is inherently not assured and any prediction in this annual report is intended to be covered by the Safe Harbor provisions of Section 21E of the Securities Exchange Act of 1934.