

# **University Bancorp, Inc.**

## ANNUAL REPORT

2002

- Our profit increases 167.6%
- Midwest Loan Services' two divisions grow 66% and 88%

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.

**University Bank** (the "Bank") is a \$45 million asset, FDIC-insured, locally owned and managed Community Bank.

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

The Bank owns 80% of **Midwest Loan Services**, of Houghton, Michigan, a residential mortgage subservicing firm.

The Company owns 6.1% of **Michigan BIDCO, Inc.**, a Business and Industrial Development Company, which invests in businesses in Michigan through loans and equity participations with the objective of making shareholder profits while fostering job growth and economic development.

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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."*

\* \* \*

### PRESIDENT'S MESSAGE

University Bancorp reported consolidated net income for the year ended December 31, 2002 of \$205,597, or \$0.05 per share. This was a 167.06% increase over 2001 year-end results of a net loss of (\$306,573), or (\$0.13) per share. Fourth quarter 2002 net income established a new record of \$308,130 or \$0.08 per share compared to a loss of (\$183,906) or (\$0.06) per share for the comparable quarter in 2001. Return on average shareholders' equity was 7.43% for the year ended December 31, 2002 compared to a negative 12.49% for the year ended December 31, 2001. Return on average assets for the same comparable years were 0.47% and negative 0.67%, respectively.

We've been on a road to recovery for the past several years and are thrilled to have turned a significant corner relative to core profitability in 2002. This is the Company's first profitable year since opening University Bank in Ann Arbor in 1996. Having achieved sustainable profitability at the Bank, our skilled team has accomplished what many thought could not be done. Considering the challenges that confronted us when we started down this path in the late 1990s, we are truly accomplishing a remarkable banking turnaround story.

The following table summarizes the pre-tax income (loss) of each profit center of the Company for the years ended December 31, 2002 and 2001 (in thousands):

#### Twelve months ended December 31, 2002 and 2001 Pre-tax Income (Loss) Summary

	2002	2001
Community Banking	\$ 20	\$(414)
Midwest Loan Services	281	237
Merchant Banking (Michigan BIDCO)	0	(115)
Corporate Office	(95)	(15)
Total	\$206	\$(307)

### Community Banking

**University Bank.** The Bank's main office in Ann Arbor opened February 6, 1996. University Bank operates as a full service community bank and is insured by the Federal Deposit Insurance Corporation. Total assets increased to \$46.2 at December 31, 2002 from \$45.6 million at year-end 2001. University Bank meets the FDIC promulgated definition for a "well capitalized" institution with a Tier 1 leverage capital ration of 7.89% and a Total Risk Based capital ratio of 11.13% at December 31, 2002.

**Net Interest Income.** For the year ended December 31, 2002, the Bank's net interest margin was 5.19% compared to 4.37% for the previous year. A large part of the credit for this

improvement lies with the strategy and efforts to increase core deposits of Rebecca David, the Bank's CEO, who joined the Bank in late 2000. A key component of our new strategy has been to focus on improving net interest income using deposit sales personnel who are compensated 100% by commission. Net interest income improved 23.99% in year-to-year comparisons, rising to \$2,155,289 for the year ended December 31, 2002 compared to \$1,738,240 the prior year. For the fourth quarters ended December 31, 2002 and 2001, net interest income was \$474,007 and \$424,324, respectively, an improvement of 11.71%. While Community Banking experienced a decline in interest on loans during the unprecedented low interest rate environment of the past year, it enjoyed a 34.65% increase in interest on securities and a 42.42% savings in interest expense. Total loans declined slightly (5.24%) and were \$33,191,034 and \$35,026,024 at December 31, 2002 and 2001, respectively. The high level of refinancing decreased Community Banking's core loan portfolio in 2002. Additionally, given Community Banking's focus on improving asset quality and the ongoing business depression, we would much prefer "quality over quantity" and accept that this will likely result in slower portfolio growth, especially in the commercial real estate portfolio, in the coming year. During 2002 we expanded our base of low cost core deposits by \$7.56 million, or 31.3% and decreased our dependency on higher cost liabilities. Expanding the base of core deposits also allowed us to realize a 76.95% reduction in interest expense on other borrowings. We have radically reduced our levels of brokered funds and will continue to do so as we attract accounts from area non-profits and small businesses through our aggressive business development program.

**Non-Interest Income** at Community Banking was \$677,999 for 2002 compared to \$484,103 in 2001, a 40.1% improvement. We certainly benefited from the huge refinance boom this year, however there was growth across the board in all areas. Since we know that the current level of mortgage origination income may not be sustainable without some new initiatives to gain additional market share, we are working to build additional sources of on-going fee income for the Bank by expanded existing programs and new niche programs. One such new program in 2002 is Business Manager, our receivable based lending program, which added \$133,220 to interest income and continues to grow this year. Another successful new program launched in 2002, the Jack Henry Bounce protection program, increased fee income by about \$4,000 a month from September 1<sup>st</sup>, though the initial start-up expenses offset the increased fee income received in 2002. This ongoing higher level of fee income will also have a positive impact on 2003's results.

**Non-Interest Expenses** at Community Banking increased 6.6% in year-to-year comparisons and were \$2,836,262 and \$2,660,370 for the years ended December 31, 2002 and 2001, respectively. Increased commissions paid to our mortgage originators for the record volume of closings and year-end employee performance bonuses impacted the 2002 non-operating expenses and offset cuts in other areas, the allowance for loan losses increased by \$71,000, and Business Manager expenses increased \$63,268 as the income from that program grew at an even faster rate. Nearly all other areas of expenses were decreased during the year as we finished a process of switching virtually every vendor relationship over a three-year period.

**Asset Quality.** Total non-performing assets at both year-end 2002 and 2001 were \$1.5 million. Net charge-offs as a percentage of average loans were 0.79% for the year ended December 31, 2002 compared to 0.07% the prior year. We have adopted a much more aggressive stance regarding delinquencies. While Washtenaw County is somewhat insulated from some of the statewide economic problems because of the stabilizing factor of the University of Michigan, we need to be vigilant and proactive given the current economic depression. Asset quality improvement will remain a top priority throughout 2003. On the positive side, during the year we

were able to complete the foreclosure process on more than half of these problem credits, most of what is left is backed by solid real estate collateral and most are houses. We have closed several sales of these REO properties and expect more sales shortly.

**Marketing.** Our advertising campaign remains focused on George, our cartoon "cool cat" with "Blues Bankers" dark sunglasses and a dark hat, who appears dressed up in a remarkable number of different ways reflecting the diverse community we serve. The underlying theme of the campaign remains the same: at University Bank we offer a qualitatively different experience -

- \* Local Decision-Making
- \* Our Customers Receive Personal Service and Attention
- \* Competitive Pricing
- \* All Financial Services Products Available
- \* Low Fees

Our Community Unity program, a cause related network-marketing program, continues to achieve success with local non-profits. We are providing commissions to area non-profits for bringing us their supporters' banking accounts. Our two full-time commissioned deposit sales people continued to achieve notable successes bringing in new small business customers in 2002. CEO Rebecca David had great success developing the commissioned deposit sales force at Franklin Bank and we want to replicate that success at University Bank.

**The Future.** Our challenge at Community Banking in 2003 is clear. Net interest income at Community Banking as a percentage of assets exceeds our peer group by 5% and non-interest income (excluding Midwest Loan Services) exceeds our peer group by 184%. Non-interest expense (excluding Midwest Loan Services) as a percentage of assets is 82% higher than our Michigan peer group and we must bring this number in line by increasing the Bank's assets without increasing costs. Rebecca David and I took no pay increase in 2002 to keep the overall increase in base salaries for merit and inflation at the Bank to just 2%. University Bank is unusual in the industry in that we have most of our core systems in-house. This means that an increase in volume does not increase expenses. The other main difference between our bank and the industry (other than our ownership of a major mortgage operating subsidiary, Midwest Loan Services) is that University Bank does not have an investment portfolio. If the Bank had a higher capital level and had a \$25 million investment portfolio, its non-interest expense and non-interest income ratios would be in line with our peers. If we added an investment portfolio, our net interest margin would be slightly below our peers because the investment portfolio would have a lower margin versus our existing asset base, but as our core demand deposits increase through the efforts of our commissioned deposit sales force to more typical peer levels, this would also fall into line. As we add capital from retained earnings we will add a securities portfolio as well as additional loans, and can achieve and even exceed industry peer results. In sum, we are near the finish line of the long process towards turning the Bank around. Our goal now is to achieve net income at Community Bank above industry averages: a return on assets of over 1.25%.

## 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

### Home mortgages

- FNMA/FHLMC: standard home mortgages up to \$322,700 from University Bank and Midwest Loan Services
- Jumbo: home mortgages of more than \$322,700 from University Bank
- First-Time Homebuyer: low downpayment mortgages from University Bank
- Home Construction: from University Bank

### 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: University Insurance & Investments
- Discount Brokerage: University Insurance & Investments
- Money Management: University Insurance & Investments
- IRAs (Standard IRAs, Roth IRAs, SEP IRAs, Education IRAs): University Insurance & Investments

Beyond the core services, University Bank also offers the following services: Small Business Loans; 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 and Money Orders; Savings Bonds; Notary Services.

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 1-888-DO-TRY-US.

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.



## **Midwest Loan Services**

The Company owns 80% of Midwest Loan Services, Inc., which was purchased by the Bank in December 1995. Midwest's business strengths are that it operates from a low cost location (Houghton, Michigan in the western Upper Peninsula of Michigan), has a technology-savvy management team and has a loyal customer base serving the rapidly growing credit union industry.

Midwest had a highly successful year and activity throughout the year was brisk. Midwest Loan Services is attracting some of the nation's premier credit unions to its "Members for Life" program including Advancial (formerly AT&T) Credit Union, Baxter Credit Union and Toyota Credit Union. During the year, Midwest grew its mortgages subserviced by 66% from 5,057 to 8,372 and to over \$1 billion of mortgages subserviced. In 2002, Midwest originated 1,769 mortgage loans, an increase of 88%. During the 4<sup>th</sup> quarter Midwest reached a new level of over 600 mortgages originated and during 2002 succeeded in retaining over 80% of all refinanced mortgages in its servicing rights portfolio that paid-off. The quality of our services is generating customer loyalty. All our Midwest's services including a "test drive" for non-customers are available via <http://www.subservice.com>. Midwest's mortgage lending is available nationwide.

We expect credit union mortgage relationships to continue to grow at roughly the same rate in 2003. The credit union partners' portfolios continue to grow as awareness of their mortgage capabilities grows in their membership base and as credit unions form Credit Union Service Organizations to originate and service mortgage loans for other credit unions. The potential for growth from just our current base of credit union customers is immense. Our current credit union partners at year-end 2002 had 1,421,380 active members, 8,574,813 potential members and aggregate assets of \$9.61 billion. University Bancorp is one of the few ways that investors can invest in the success of the credit union industry as credit unions increase their share of mortgage loans made to their members.

During 2003 we continued to enhance our online origination capabilities through our business alliance with Prime Alliance. The Prime Alliance online mortgage origination system can give an experienced loan originator a firm underwriting approval from FNMA's system in just seven minutes from start to finish. An inexperienced consumer can get the same result in about 15-20 minutes. We believe that the Prime Alliance system is the best online mortgage origination tool in existence and we rolled this out to some our credit unions in early 2003 and plan to roll it out to the rest by year-end. We are encouraging the credit unions in turn to roll it out to their members.

## **Investment and Insurance Activities**

*University Insurance & Investment Services.* University Bank owns 100% of University Insurance & Investment Services, which sells a full range of insurance products including health, auto, homeowners, business, renters and life insurance as an Independent Insurance Agent representing a variety of insurance companies. We also sell all investment products including variable life insurance, mutual funds and annuities through a broker dealer arrangement. By selling all types of insurance and investment products to our existing customers, and providing exceptional customer service, we hope to strengthen their customer loyalty and overall customer profitability. If customer has five or more products from a financial services company, they almost never leave.

Overall, the insurance and investment subsidiary enjoyed a record year, producing \$114,112 in fee income compared to \$97,489 for the year ended December 31, 2001, a 17.1% increase, and had net income of \$15,982 in 2002. The agency in future years should be able to contribute

meaningfully to the profit of University Bank. The agency had an underwriting loss ratio of just 38% on the insurance it wrote, and since this was well below the 50% insurance industry target, the agency received a profit sharing check of over \$18,000 in early 2003.

In early 2000, we began offering stock and bond money management for a fee. I myself am the manager, so feel free to contact me if you are in need of professional money management or want to access any of our agency's wide selection of mutual funds or annuities. Funds in my clients' accounts reached over \$5 million during the year. My performance to date has been excellent. In 2001, my clients had a 28.67% return and in 2002, despite a tough year where the average diversified U.S. stock mutual fund was down 22.4%, my accounts earned 6.06%.

*Investment Portfolio.* The Bank's securities portfolio had another excellent result because we were well positioned for a decline in long-term interest rates. During the year yields on 10-year Treasury bonds dropped from 5.1% to 3.8%, a decrease of 25%. Having ridden the bond market rally for several years now, we sold our 15-year U.S. Treasury Strips for a \$69,733 gain. In addition, the bonds increased in market value during the year by \$85,115. Overall, the total return on the Bank's securities portfolio was 13.69% and the current yield was 9.63%. We sold the Strips within days of a major interim top in the bond market in late September 2002, and then purchased variable-rate GNMA MBS securities. Currently, we believe that interest rates could head quite a bit lower in the current no inflation, depressionary environment, so we continue to hold some FNMA PO securities to moderate the risk in the servicing rights held by Midwest Loan Services.

## **Corporate Office**

*Holding Company Investments.* The holding company owns 6.1% of Michigan BIDCO. The BIDCO invests in businesses that cannot gain access to traditional bank financing. The BIDCO typically makes its investments in the form of loans with an equity option in the companies in which it invests. The BIDCO has about \$3,200,000 of risk-capital under management, including \$1,800,000 in Northern Michigan Foundation, which the staff of the BIDCO manages under contract. In 2002, the BIDCO had an excellent result, net income of \$240,848. Despite the profit, we booked neither a gain nor a loss on our investment in BIDCO common stock since our ownership of BIDCO is now less than 20%. In 2001 the bank holding company took a write-down of \$114,551 on its investment in the common stock of Michigan BIDCO. At year-end 2002, our investment in Michigan BIDCO was carried at \$29,152.

The BIDCO staff again spent most of the year focused on converting to cash many of the BIDCO's earlier successful investments to raise the money required to buy out the Bank's investment in the BIDCO. The profit in 2002 was the result of our successful sale of the BIDCO's intellectual property in internet payments to InterComputer Corporation, in exchange for 28.44% of InterComputer's common stock. Overall, the BIDCO's goal for 2003 is to assist InterComputer's expansion, liquidate the BIDCO's remaining legacy investments, and expand the money under management in its various programs, including Northern Michigan Foundation and a new Rural Business Investment Company that it hopes to form.

*Holding Company Operations.* The corporate office had net pre-tax expense of \$95,404 in 2002 versus net expense of \$7,111 in 2001. During 2001 the Bank reimbursed the Company for \$139,412 of Midwest Loan Services acquisition goodwill amortization that was expensed in 2000, causing a reduction in expenses at the holding company level. Excluding this item, non-interest expenses in 2002 were \$74,729, down from \$94,020 in 2001. Almost all of these costs are related to the cost of being a public company, which decreased during the year.

*Deferred Tax Asset.* As a result of the losses sustained from operations, and the Bank's investment in a low-income housing tax credit partnership through the Bank's 10%-ownership investment in Michigan Capital Fund for Housing L.P. I, the Company has generated more tax credits than taxable income. At year-end 2002, the Company has a deferred tax asset of \$1,462,171 available to offset taxes in future years. This asset is carried on the Company's balance sheet at \$0. If the Company remains profitable in future years, this deferred tax asset will increase future years' income as an offset to reported tax expense.

## **IN CONCLUSION**

If you've read this far, I hope you understand that the profit in 2002 is not a fluke. In 1997 we incurred a pre-tax loss from continuing operations of \$1,673,873. In 2002, the profits had increased by \$1,879,470 or 112%, to \$205,597. This progress continued in the first quarter of 2003. We reported operating earnings for the quarter ended March 31, 2003 of \$73,252, or \$0.02 per share, a return on average shareholders' equity for the quarter of 9.15%, compared to an operating loss of (\$21,964) or (\$0.01) per share, a return on average shareholders' equity for the quarter of negative 3.27% for the same quarter last year. This is a 433.5% improvement. Constant improvement in all areas of operations can continue the positive trend, which would lead us to a bright future. For the full year of 2003, the Bank's management has budgeted an even larger net income of \$415,200, and the bank holding company is budgeted to have net expenses of \$58,000, for consolidated net income of \$357,200, or \$0.09 per share. The major uncertainties are:

- \* A decrease in long term interest rates, which would cause a partial impairment charge in Midwest's \$1.1 million mortgage servicing rights portfolio, mitigated by both Midwest's demonstrated ability to refinance over 80% of the mortgages that pay off and our bond portfolio;

- \* A rise in long-term interest rates - a 1% rise in long-term interest rates could substantially decrease mortgage origination income at Midwest from the current level of about \$100,000 per month towards \$0. The Bank's budget projects Midwest's income for the year at \$240,000, of which \$130,000 falls in 1Q2003 - Midwest substantially exceeded the budget in the first quarter with a profit of \$240,000;

- \* Loan losses greater than anticipated due to the ongoing depression;

- \* The sale of real estate owned at prices less than the current carrying cost, or writedowns of the real estate owned if properties cannot be sold - the bank currently owns approx. \$732,000 in foreclosed real estate, of which all but \$176,000 is foreclosed residential homes;

- \* A rise in short term interest rates - an immediate 1% rise in one year interest rates would decrease net income by \$66,778 over the course of the following 12 months;

- \* The budget projects continued increases in the Bank's core demand deposit portfolio of \$5.25 million following last year's increase of \$7.56 million and a \$1.59 million increase in portfolio loans. Increases in portfolio loans may be difficult to achieve in a depressionary environment and continued increases in the demand deposits are not assured. If either core deposit increases or loan increases are not realized, net interest income will fall under the projection by an annualized amount over a full 12 months of approx. 1% and 3% of the shortfall for deposits and loans, respectively.

All of these uncertainties can of course be managed proactively, and the budget assumes no impact from management's ability to generate additional niche lines of business. We do have several projects in advanced stages of implementation. We have also estimated a conservative

level of earnings for Midwest Loan Services, and as of the first quarter 2003, Midwest has already earned its entire budgeted profit for the entire 2003 year.

*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. Have you refinanced yet? 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. Despite the excellent progress in 2002 and in the first quarter of 2003 our stock has had a difficult time staying consistently above \$1 per share and this has, from time-to-time, jeopardized our NASDAQ Small-Cap Market stock listing. As a result, we are asking our shareholders to again authorize a 1 for 2 reverse stock split, at the upcoming annual meeting. As with last year, we will not implement the reverse split unless it is necessary to maintain our NASDAQ listing. As of this writing the stock is trading well above \$1.00 per share and it is unlikely that the reverse split will be required. We look forward to seeing you at our annual meeting at the Bank's main office in Ann Arbor, June 24, 2003.

Sincerely,

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

Ann Arbor, Michigan  
May 18, 2003  
Email: [ranzini@university-bank.com](mailto:ranzini@university-bank.com)

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This Report contains forward-looking statements, which reflect the Company's expectation or belief concerning future events that involves risks and uncertainties. Among others, certain forward looking statements relate to the continued growth of various aspects of the Company's community banking, mortgage banking, mortgage servicing and investment activities, and the nature and adequacy of the allowance for loan losses. The Company can give no assurance that the expectations reflected in forward looking statements will prove correct. The future is inherently unpredictable. Various factors could cause results to differ materially from the Company's expectations. Among these factors are those referred to in the introduction to the Company's Management Discussion and Analysis of Financial Condition and Results of Operations, which appear at Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, which should be read in conjunction with this Annual Report.

The above cautionary statement is for the purpose of qualifying for the "safe harbor" provisions of Section 21E of the Securities Exchange Act of 1934.

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

Board of Directors

Stephen Lange Ranzini, Director, President & Chief Executive Officer; President and Chairman, University Bank, Michigan BIDCO and Northern Michigan Foundation and Chairman of Midwest Loan Services, University Insurance & Investment Services and InterComputer Corporation

Gary Baker, Director; Director, EDS, GM Global Supply Chain & eGM

Robert Goldthorpe, Chairman; President of Goldthorpe Enterprises, a diversified holding company

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

Michael Talley, Director; Vice President, Ladenburg Capital Management, a brokerage firm, Chairman of the Financial Services Technology Consortium's Community Bank Committee, and Director of InterComputer Corporation

Officers

Nicholas Fortson, Chief Financial Officer

Robert Goldthorpe, 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

Rebecca David, Chief Executive Officer, University Bank  
Read Dunn, Owner, Great Lakes Real Estate, Commercial Real Estate Lender, and former CEO of Franklin Bank, Southfield, Michigan  
Rev. Melvin Lewis, Pastor St. James Church of God in Christ  
Rev. Willie Powell, Executive Director, City of Ann Arbor Employees Retirement System  
Stephen Lange Ranzini, President & Chief Executive Officer, University Bancorp; President and Chairman, University Bank, Michigan BIDCO and Northern Michigan Foundation; Chairman, Midwest Loan Services, University Insurance & Investment Services and InterComputer Corporation

#### Officers

Janet Anderson, Vice President, Director of Human Resources, Internal Auditor & Secretary  
Edward Burger, President, Midwest Loan Services  
Rebecca David, Chief Executive Officer  
Nicholas Fortson, Treasurer  
Lisa Hudy, AVP Business Development Officer  
Edie Kingsley, President & Chief Executive Officer, University Insurance Center  
Amy Kohrman, AVP Commercial Lending & Business Manager  
Peggy Lamb, Vice President - Collections  
Stephen Lange Ranzini, Chairman & President  
Tina Militello, AVP Assistant Branch Manager & Security Officer  
Pete Richards, AVP Business Development Officer  
Penny Richardson-Schroeder, AVP Residential Loan Originator  
Julie Rollins, Vice President - Branch Manager  
Stacy Shepanski, Vice President - Consumer Lending  
John Sickler, Vice President - Residential Lending  
Brian Schwab, AVP Cashier  
Maggie Steciuk, Director, Management Information Systems  
Todd VanAppledorn, Vice President - Commercial Lending

## Common Stock and Dividend Information

The Company's Common Stock trades on The NASDAQ Small-Cap Market under the symbol UNIB. As of April 30, 2003 there were approximately 360 stockholders including approximately 200 beneficial owners of shares held by brokerage firms or other institutions. The high and low sales prices of the Company's common stock as quoted by NASDAQ, for each quarter of the two year period ended December 31, 2002 are listed below. The quotations represent inter-dealer prices only, without retail markups, markdowns or commissions, and may not necessarily represent actual retail transactions:

	<u>High</u>	<u>Low</u>
<u>2001</u>		
First Quarter	\$2.50	\$0.50
Second Quarter	2.13	1.50
Third Quarter	2.95	1.70
Fourth Quarter	2.50	0.83
<u>2002</u>		
First Quarter	\$1.40	\$0.55
Second Quarter	1.10	0.66
Third Quarter	1.08	0.71
Fourth Quarter	1.15	0.56
<u>2003</u>		
First Quarter	\$1.49	\$0.62
Second Quarter (to date)	2.25	0.91

Our shareholders authorized a 1 for 2 reverse stock split in November 2002, however, management has not yet opted to implement the reverse stock split. No cash dividends have been paid on our common stock. We do not currently anticipate declaring or paying dividends in the first three quarters of 2003. We plan to reevaluate our dividend policy prior to year-end 2003.

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UNIVERSITY BANCORP, INC.

**Corporate Information**

Corporate Office

University Bancorp, Inc.  
959 Maiden Lane  
Ann Arbor, Michigan 48105  
Telephone (734) 741-5858 xt226

University Bank Offices:

*Ann Arbor Main Office*

959 Maiden Lane  
Ann Arbor, MI 48105  
Telephone (734) 741-5858

*Midwest Loan Services*

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

Investor Contact

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Ann Arbor, MI 48105  
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Email address: [ranzini@university-bank.com](mailto:ranzini@university-bank.com)

Independent Certified Public Accountants

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Southfield, Michigan 48034

General Counsel

Varnum, Riddering, Schmidt & Howlett LLP  
Donald Johnson, Esq.  
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Grand Rapids, Michigan 49504

Transfer Agent

Computershare  
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Golden, Colorado 80401

**959 Maiden Lane  
Ann Arbor, Michigan 48105  
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. Investors should read the risk factors listed in the Company's 2002 SEC 10-K, beginning on page 22 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.**

**Annual Report on Form 10-K**

**A copy of the Company's Annual Report on Form 10-K (including financial statements and financial statement schedules) for the year ended December 31, 2002 filed with the Securities and Exchange Commission is enclosed. Additional copies may be obtained by shareholders of the Company free of charge upon request to Mr. Stephen Lange Ranzini, President, University Bancorp, Inc., 959 Maiden Lane, Ann Arbor, Michigan 48105. Copies of reports will be furnished to non-shareholders of the Company upon payment of a fee equal to the Company's reasonable expenses in furnishing such copies.**