

# **University Bancorp, Inc.**

## ANNUAL REPORT

2003

- Our common stock increases 275%
- Midwest Loan Services' subservicing grows 80% to \$2 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.

**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, which primarily serves the credit union industry.

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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, 2003 of \$94,442 versus \$205,598 in 2002 and a net loss of \$306,573 in 2001. Basic and diluted earnings (loss) per share from continuing operations for 2003, 2002 and 2001 were \$0.02, \$0.05 and \$(0.13), respectively. Total revenue in 2003 was \$8,664,000, an increase of 12.4% from \$7,705,000 in 2002. Return on average shareholders' equity was 2.80% for the year ended December 31, 2003 compared to 7.43% for the year ended December 31, 2002. Return on average assets for the same comparable years were 0.22% and 0.47%, respectively. At the end of 2003, our Tier One equity to assets ratio was a strong 8.69% and our Total Risk Based capital ratio was 12.42% at December 31, 2003.

Community Banking incurred a pre-tax loss of \$301,000 during the current year as opposed to pre-tax income of \$20,000 from the year before. A \$265,000 drop in the net interest margin and an \$89,400 increase in the provision for loan losses to a record \$189,000 accounted for the bulk of this variance. In contrast, pre-tax income at Midwest Loan Services increased by 51.6% to \$426,000 in 2003 from a \$281,000 last year. Income at Midwest Loan Services increased with rapidly increasing mortgage originations and an 80% increase in mortgage loans sub-serviced to over \$2 billion. A major accomplishment achieved during the year was that University Bank was rated "Outstanding" by the FDIC for Community Service and Community Reinvestment and is currently the only bank in Washtenaw County with this top rating. The investment community began to recognize the ongoing growth that is occurring at Midwest Loan Services and the ongoing turn around at Community Banking, and as a result, our common stock increased by 275%, the second highest increase in 2003 of any Michigan-based publicly traded company.

The following table summarizes the pre-tax income (loss) of each profit center of the Company for the years ended December 31, 2003, 2002 and 2001 (in thousands):

#### Twelve months ended December 31, 2003, 2002 and 2001 Pre-tax Income (Loss)

	2003	2002	2001
Community Banking	(\$301)	\$ 20	\$(414)
Midwest Loan Services	426	281	237
Merchant Banking (Michigan BIDCO)	0	0	(115)
Corporate Office	<u>(111)</u>	<u>(95)</u>	<u>(15)</u>
Total	\$ 14	\$206	\$(307)

### Investing for the Future

Management made a decision in the fourth quarter of 2003 to invest in the establishment of a new mortgage conduit with Lehman Brothers that was established in December 2003. The

conduit gives Midwest the capability to be the only mortgage origination and subservicing company to be able to offer the credit union industry the ability to originate any type of mortgage loan, jumbo, substandard or conforming and to service this loan in the name of the credit union for the life of the loan. About \$30,000 a month in extra expenses are being incurred in extra personnel, travel and training expenses to establish the conduit and to get the credit unions up and running with the program. Community Banking is also making investments of about \$10,000 a month into personnel and marketing to expand the Islamic banking products recently introduced at Community Banking which are gaining market acceptance. Both the Lehman Brothers conduit and the higher expenses associated with the Islamic banking program are having a negative impact on earnings in the short run. We believe that these investments will pay off later in 2004. The potential upside is compelling. For example, we have established a goal of originating \$12,000,000 in Islamic mortgages. If we accomplish this goal we estimate that our net interest income will rise by \$480,000 and our expenses by just an additional \$5,000 a year, which is the fee for Midwest to subservice these loans. For every \$100 million of loans we originate through the new Lehman Brothers conduit, this will generate at least \$400,000 in origination income and \$200,000 a year in servicing revenue.

## **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 decreased to \$43.6 million at December 31, 2003 from \$46.2 million at year-end 2002. University Bank meets the FDIC promulgated definition for a "well capitalized" institution and year-over-year our Tier 1 leverage capital ratio increased to 8.69% at December 31, 2003 from 7.89% and our Total Risk Based capital ratio increased to 12.42% from 11.13% at December 31, 2002.

**Net Interest Income.** During 2002 and 2003 short-term interest rates remained at 45-year lows while long-term interest rates showed a decline. Net interest income for 2003 declined from the previous period because the average yield on earning assets declined at a higher rate than the average rate on interest bearing deposits. The yield on average earning assets dropped from 7.85% in 2002 to 6.91% in 2003. The cost of interest bearing liabilities decreased from 2.66% for the 2002 period to 2.21% for the year ended December 31, 2003. The net yield on interest earning assets decreased from 5.30% to 4.78%. Management is actively addressing the decline in the net yield and is implementing action to mitigate and reverse the trend. Net interest income rose as 2003 progressed, and further progress is being made monthly in 2004. During the fourth quarter of 2003, net interest income was \$483,000, slightly higher than any quarter during the year and higher than the fourth quarter 2002 net interest income of \$474,000. This positive trend has continued into the first quarter of 2004.

A key component of our strategy is to improve net interest income using deposit sales personnel who are compensated 100% by commission. Our strategy has been working and as a result we have radically reduced our levels of higher cost 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. Brokered deposits were nearly eliminated, falling from \$7.89 million at year-end 2002 to just \$1.10 million at year-end 2003. Retail deposit growth was constant throughout the year and lower cost retail deposits grew by \$3.68 million, or 10.8% during 2003.

Community Banking experienced a decline in yield on loans during the unprecedented low interest rate environment of the past year which more than offset the decrease in our cost of funds. The high level of refinancing decreased the yield from Community Banking's core loan portfolio in 2003. Total loans increased slightly, +5.23%, and were \$34,928,586 and \$33,192,034 at December 31, 2003 and 2002, respectively, but most of the increase happened late in the year and didn't make much of an impact on net interest income. 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. Loan growth began to accelerate towards the end of the year and has picked up momentum in the first quarter of 2004. Growth in Islamic mortgages has been excellent, and our portfolio is currently over \$3,000,000, 25% of our initial goal.

**Non-Interest Income** at Community Banking was \$1,151,558 for 2003 compared to \$677,999 in 2002, a 69.9% 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 we are focusing on both the Islamic mortgage program to gain additional market share and we are working to build our on-going fee income for the Bank by more focused efforts at cross-selling our existing products to our customers. Tighter cooperation between Community Banking and the Insurance Agency for sales of homeowners' insurance and auto insurance and between Community Banking and Midwest Loan Services for VISA GOLD home equity credit cards is expected to payoff in 2004.

**Non-Interest Expenses** at Community Banking increased 12.2% in year-to-year comparisons and were \$3,181,754 and \$2,836,262 for the years ended December 31, 2003 and 2002, respectively. Increased commissions paid to our mortgage originators for the record volume of closings, higher occupancy expense after the sale of our headquarters building, higher advertising expense, losses due to the theft of foreclosed equipment and an \$89,400 increase in the allowance for loan losses impacted the 2003 non-operating expenses and offset cuts in other areas. In response to the loss at Community Banking, in December 2003, management implemented a \$30,000 a month expense cut in certain areas at Community Banking, which was partially offset by \$10,000 a month in increased expenses associated with expanding the Islamic banking program.

**Asset Quality.** Total non-performing assets at both year-end 2003 and 2002 were \$1.5 million. Net charge-offs as a percentage of average loans dropped to 0.42% for the year ended December 31, 2003 compared to 0.79% 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 2004. On the positive side all of the eight foreclosed real estate and non-performing loans at year-end 2003 were residential properties located in Washtenaw County. After year-end 2003 we made substantial progress and have since closed on the sale of three properties including all of the other real estate owned at December 31, 2003, have one more sale pending and expect more sales or payoffs via redemption or foreclosure of the remaining four properties shortly.

**Marketing.** We had a series of successful articles in local papers and major trade journals such as the American Bankers Association Banking Journal. This article and many others are available on our Investor Relations web page at [www.university-bank.com/bancorp.htm](http://www.university-bank.com/bancorp.htm), along with 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. I urge you to take a look!

At Community Banking, we created a new vision statement: "We build the foundation for your future." Our advertising campaign at Community Banking 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 2003.

**The Future.** Our challenge at Community Banking in 2004 is clear. Net interest income at Community Banking as a percentage of assets is above our peer group by 20%, at 4.78%. Non-interest income (excluding Midwest Loan Services) exceeds our peer group by 301%. However, non-interest expense (excluding Midwest Loan Services) as a percentage of assets is 107% higher than our Michigan peer group and we must bring this number in line by increasing the Bank's assets without increasing costs. Since Community Banking did not achieve its budget in 2003, I took a pay cut during the December 2003 cost cut back.

The other main difference between our bank and our industry peers (other than our ownership of a major mortgage operating subsidiary, Midwest Loan Services) is that University Bank has a very small investment portfolio. If the Bank's assets were 52% higher, our non-interest expenses net of our non-interest income would be exactly in line with our peer group. If the Bank had a slightly higher capital level and had a \$25 million investment portfolio instead of a \$2.5 million investment portfolio, it's 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 and our loan portfolio of real estate related loans continued to increase without expanding our expense base, this would also fall into line. However, if we added an investment portfolio at 46-year lows in interest rates we would expose the bank to substantial interest rate risks. As interest rates revert to more normal levels and 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 \$337,700 from University Bank and Midwest Loan Services

Jumbo: home mortgages of more than \$337,700 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, Roth, SEP, Education): 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; Islamic Banking Services, VISA Home Equity Gold Card; Car/Vehicle Loans; Foreign Exchange; Cashier's Checks/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 is a business process outsourcer of mortgage services to 3 of the top 25 credit unions in the U.S. The credit union industry is gaining market share from all other financial institutions. As a result of Midwest's focus on the credit union industry and the fact that we get 60.8% of our total revenue from Midwest, University Bancorp offers investors one of the few ways to invest in this ongoing growth of the credit union sector.

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 80% from 8,372 to 15,033 and to over \$2 billion of mortgages subserviced. In 2003, Midwest originated 670 mortgage loans for its own account, an increase of 31% over last year. Mortgage banking, servicing and origination fees increased to \$5,267,418 in 2003 from \$4,040,363 in 2002. During the year, Midwest increased its credit union partners so that at year-end 2003 it had credit union partners with a total of 1,585,000 active members, 20,434,000 potential members and aggregate assets of \$11.48 billion. Midwest's mortgage lending is available nationwide. If you need mortgage services, we encourage you to contact Midwest at [www.subservice.com](http://www.subservice.com).

We expect credit union mortgage relationships to continue to grow at roughly the same rate in 2004. 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. We believe that the current mix of products including the new Lehman Brothers conduit discussed above will continue to increase our market share of the mortgage origination and subservicing business nationwide. Midwest Loan Services has not had to advertise or market its services since the credit unions that we serve are spreading the word through word of mouth. It's a sign that things are going very well when your customers are your strongest advocates. This is a testimony to the excellent job that the staff at Midwest is doing every day to keep closely attuned to their customers' needs.

## 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 a 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 \$168,577 in fee income compared to \$113,870 for the year ended December 31, 2002, a 48.0% increase, and

had record net income of \$55,526 in 2003. The agency in future years should be able to contribute meaningfully to the profit of University Bank. The agency had an unfavorable underwriting loss ratio in 2003 on the insurance it wrote due to two very large accident claims, and therefore the agency did not receive a profit sharing check for 2003 activity.

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 were about \$5 million during the year, and we had another good result.

*Investment Portfolio.* The Bank's securities portfolio had an average result because we took a conservative view with respect to long-term interest rates and held only short-term or variable rate securities during the year. We realized \$27,437 in losses from early payoff of mortgage backed securities that we purchased at a premium and the bonds decreased in market value during the year by \$11,042. Overall, the total return on the Bank's securities portfolio was 3.35% and the current yield was 4.37%. We continue to hold some FNMA PO securities to moderate the risk in the servicing rights held by Midwest, however the balance outstanding has shrunk significantly.

## **Corporate Office**

*Holding Company Investments.* During 2003, the holding company continued to hold an investment in the common stock of Michigan BIDCO of \$29,152, or 6.1% of the outstanding shares. 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. 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%. Subsequent to year-end 2003, our investment in Michigan BIDCO was exchanged for 152,165 shares of common stock of Jove Corporation, worth approximately \$54,000, representing 2.25% of the outstanding shares. Jove is a technology investment company registered with the Securities and Exchange Commission with over 3,000 shareholders. While not currently listed on a stock exchange, Jove intends in the near future to list its common stock on the NASDAQ OTC Bulletin Board. The holding company also had a small investment portfolio during 2003, which lost \$26,574 on one bad investment.

*Holding Company Operations.* The corporate office had net pre-tax expense of \$110,717 in 2003 versus net expense of \$95,404 in 2002. Non-interest expenses in 2003 were \$72,338, down from \$74,729 in 2002. Almost all of these costs are related to the cost of being a public company, which increased during the year, mostly offsetting expense cuts in other areas.

*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 2003, the Company has a deferred tax asset of \$1,571,790 available to offset taxes in future years, however a valuation allowance for deferred tax assets of \$1,491,790 has been established, leaving a net deferred tax asset of \$80,000. If the Company remains profitable in future years, this deferred tax asset will increase future years' income as an offset to reported tax expense. The net income in 2003 includes an income tax benefit of \$80,000. This benefit represents a portion of the net operating loss carry-forward benefit that Management reasonably expects to utilize against future taxable income, based on conservative assumptions.

## IN CONCLUSION

If you've read this far, I hope you understand that the profits in 2003 and 2002 are 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. The 2003 profit was \$111,156 lower, or a profit margin that was 1.29% lower as a percentage of our \$8,667,000 in sales. In this context the lower result was not much of a setback. The investments we have been making since the beginning of the fourth quarter of 2003 have been costing us \$40,000 a month, or \$120,000 a quarter. Our decision to invest in the future negatively impacted the 2003 results but should pay dividends as 2004 progresses. We only need minor increases in revenue on our base of \$8,667,000 of revenue to fall to the bottom line to make a large impact on profits.

*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? Need a new deposit account? 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. We look forward to seeing you at our annual meeting at the Bank's main office in Ann Arbor, June 22, 2004.

Sincerely,



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

Ann Arbor, Michigan  
May 14, 2004  
Email: 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, 2003, 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

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

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

Charles McDowell, Director; Executive Vice President and 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, Michigan Business and Industrial Development Company and Northern Michigan Foundation and Chairman of Midwest Loan Services, University Insurance & Investment Services and Jove Corporation

Michael Talley, Director; Vice President, Ladenburg Thalmann & Company, a brokerage firm, Chairman of the Financial Services Technology Consortium's Community Bank Committee

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

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

Charles McDowell, Chairman of the Audit Committee and Lead Independent Director; Executive Vice President and 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, Chairman and President, University Bank; President & Chief Executive Officer, University Bancorp, President and Chairman, Michigan Business and Industrial Development Company and Northern Michigan Foundation; Chairman, Midwest Loan Services, University Insurance & Investment Services and Jove Corporation

Susan Serafini, Director; Chief Operating Officer, Midwest Loan Services

Alma Wheeler-Smith, Director; former State Senator

#### Officers

Janet Anderson, Vice President, Director of Human Resources, Internal Auditor & Secretary

Edward Burger, President, Midwest Loan Services

Nicholas Fortson, Chief Executive Officer & 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, VP - Branch Manager & Security Officer

Pete Richards, AVP Business Development Officer

Susan Serafini, Chief Operating Officer, Midwest Loan Services

Stacy Shepanski, Vice President - Consumer Lending

John Sickler, Vice President - Residential Lending

Brian Schwab, AVP Cashier

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, 2004 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, 2003 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>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	\$3.00	\$0.62
Second Quarter	2.25	0.91
Third Quarter	5.73	1.06
Fourth Quarter	3.38	2.22
<u>2004</u>		
First Quarter	\$2.80	\$2.05
Second Quarter (to date)	2.47	1.65

No cash dividends have been paid on our common stock. We do not currently anticipate declaring or paying dividends in the first half of 2004. We plan to reevaluate our dividend policy prior to year-end 2004.

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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

Stephen Lange Ranzini, President & CEO  
University Bancorp, Inc.  
959 Maiden Lane  
Ann Arbor, MI 48105  
Telephone (734) 741-5858 xt226  
Email address: [ranzini@university-bank.com](mailto:ranzini@university-bank.com)

Independent Certified Public Accountants

Grant Thornton  
27777 Franklin Road, Suite 800  
Southfield, Michigan 48034

General Counsel

Varnum, Riddering, Schmidt & Howlett LLP  
Donald Johnson, 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](http://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:**

**959 Maiden Lane**

**Ann Arbor, Michigan 48105**

**Email address: [ranzini@university-bank.com](mailto: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 2003 SEC 10-K, beginning on page 21 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, 2003 filed with the Securities and Exchange Commission is enclosed. Shareholders of the Company may obtain additional copies free of charge upon request to Mr. Stephen Lange Ranzini, President, University Bancorp, Inc., 959 Maiden Lane, Ann Arbor, Michigan 48105. Non-shareholders of the Company will be furnished Copies of reports upon payment of a fee equal to the Company's reasonable expenses in furnishing such copies. A free copy of the report may be downloaded from our Investor Relations web page at [www.university-bank.com/bancorp.htm](http://www.university-bank.com/bancorp.htm)