

University Bancorp, Inc.

ANNUAL REPORT

2006

- Total Assets up 35.2% to \$87.27 mm
- Midwest Loan's subservicing portfolio up 24.2% to 32,461
- Custodial escrow deposits increased by 82.3% to \$25.77 mm

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 \$87 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 \$4.0 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.

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

Contents

Business of the Company	Inside Front Cover
Letter to Stockholders	1-7
Directors and Officers	8-11
Common Stock and Dividend Information	12
Corporate Information	13

Contents of the SEC Form 10-K

Cover Page	1
Part I:	
Item 1. - Business & Item 2. - Properties	3-17
Item 3. - Legal Proceedings & Item 4. - Submission of Matters to a Vote of Security Holders	18
Part II:	
Item 5. - Market for Registrant's Common Equity and Related Stockholder Matters	19
Item 6. - Selected Financial Data	20
Item 7. - Management's Discussion and Analysis of Financial Condition and Results of Operations	21-37
Item 8. - Financial Statements and Supplementary Data	38-71
Part III:	
Items 9-13	72
Part IV:	
Item 14. - Exhibits & Financial Statement Schedules	74-75
Signatures	76

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, Inc. (NASDAQ: UNIB) reported an audited net loss of \$401,698, versus net income of \$1,989,169 in 2005. Basic earnings (loss) per share for 2006 and 2005 were \$(0.10) and \$0.48, respectively and diluted earnings (loss) per share for 2006 and 2005 were \$(0.10) and \$0.47, respectively. For the fourth quarter the unaudited net loss in 2006 was \$52,000 or \$(0.01) per share versus net income in 2005 of \$1,878,000 or \$0.46 per share. Significant progress during the year was made with the following key metrics:

- Total assets increased by 35.2% to \$87.27 million
- Total loans subserviced increased by 25% to \$4 billion
- Mortgages subserviced increased by 24.2% to 32,461
- Custodial escrow deposits increased by 82.3% to \$25.77 million
- Total deposits increased by 40.8% to \$78.88 million
- Portfolio loans and financings increased by 11.4% to \$50.46 million
- Net interest & financing income increased by 19.0% to \$2.76 million
- Nonperforming assets decreased by 44.3% to \$348,817

Unfortunately, despite the progress on many metrics, the increase in custodial escrow deposits did not occur until mid-December 2006 versus management's originally budgeted planned date of March 31, 2006. As a result of these delays, many of which were out of our control and related to third-party approvals and software related issues, the net income fell short of the budgeted amount. The good news is that all of the custodial escrow deposits controlled by our subsidiary, Midwest Loan Services, have been on deposit at University Bank since mid-December 2006, and each \$1 million increase in custodial escrow deposits increases net income by \$45,000 per year. In the first period of 2007, those custodial escrow deposits have continued to increase and recently peaked at over \$42 million, and as a result management projects substantially improved net income results in 2007, with current estimates at or above the originally budgeted net income of at least \$1 million comprised of operating profit of \$770,000 and tax benefit of \$260,000. Additional strong special fee income from Midwest Loan Services of \$1,000,000 is likely in the second quarter of 2007 and an investment banking fee of \$1,000,000 is also possible sometime during 2007. Lastly, it is likely during 2007 if and when these operating results are achieved that management will reverse all or part of the tax valuation allowance of \$1,158,618 against our net deferred tax assets. Investors' attention is drawn to the cautionary remark on the final page of this annual report.

2006 results were also negatively impacted by the cost to restructure an agreement with a consulting firm that has assisted us in the creation of our Islamic Banking operations and products. In April 2006, the Company agreed to modify the original agreement, under which University Islamic Financial was to pay a share of revenue earned from all future mortgage alternative products sold in the secondary market. University Islamic Financial agreed to pay this company \$100,000 in cash and the Company paid 100,500 shares of our common stock and stock options

totaling 48,563 with a strike price starting at \$2.50 and increasing to \$3.50 through June 30, 2015, to eliminate this provision in the agreement, as well as to acquire the firm providing trustee services for some of the Islamic financings. By modifying the agreement, the Company will materially reduce future expenses related to the agreement. The total cost however reduced our net income by a total of \$260,844 in 2006 and \$100,000 in 2005. Our plans for 2007 for Islamic Banking include expanding the residential financing we offer into 30 states outside of Michigan, offering for the first time a commercial real estate financing product in Michigan, and opening three one-person financing origination offices in key Muslim communities across the country.

Other initiatives in 2007 include:

- a new service we are offering as a member of international funds transfer system SWIFT where we are acting as a correspondent bank to other financial institutions; a corporate service for companies that are frequent issuers of trade letters of credit; and trade finance services to our own customer base;
- a service providing specialized non-interest bearing deposit accounts to a financing company that provides advance to merchants based on their monthly credit card volume;
- a product, MedCash Manager™, that allows us to provide credit to healthcare service providers for procedures performed for patients the day after the service is performed, rather than waiting the typical 60-120 days for reimbursement. In exchange for the expedited availability of funds, University Bank will charge a small fee to the healthcare service provider. Future enhancements of the product will enable ever more seamless exchange of secure & privacy enhanced healthcare related data through the new Healthcare Information Exchanges now being built in Michigan. This is the first commercial product related to our ongoing pilot with Michigan HIMSS (www.mihimss.org) and the U.S. Government's General Services Administration's eAuthentication Program Initiative.

The following table summarizes the pre-tax net income (loss) of each profit center of the Company for the three and twelve months ended December 31, 2006 and 2005 (in thousands):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Community Banking	\$ (953)	\$1,518	\$ (388)
Midwest Loan Services	1,016	426	(27)
Corporate Office	(485)	(55)	(90)
Total	<u>\$ (422)</u>	<u>\$1,889</u>	<u>\$ (505)</u>

Note that the allocation of costs between Midwest Loan Services and Community & Islamic Banking for the interest on custodial deposits of Midwest Loan Services held on deposit at Community Banking skews the profit of the individual units as Midwest earns interest on the escrow deposits which is eliminated in consolidation, as the expense is an inter-company expense among our two subsidiaries. Most of the eliminations are at the University Bank level among University Bank, Midwest Loan Services and Community & Islamic Banking.

Q&A

Breaking with the format of this annual report of the past several years, we decided to give you an overview of the company and the underlying trends affecting our various business units, from an interview that we recently had with [The Wall Street Transcript](#):

TWST: What is University Bancorp?

Mr. Ranzini: We are a bank holding company for a bank that is based in Ann Arbor, Michigan. The bank was founded in 1890, and its main line of business today actually is as a service provider to credit unions through a business that provides mortgage sub-servicing to about 2.7% of all the credit unions in the United States, managing about \$4 billion in mortgage assets. Our other lines of business include a traditional community bank and the nation's first Islamic banking subsidiary of a bank in the United States. That business serves the Muslim community, which has a religious prohibition against the payment or receipt of interest.

TWST: How did all those elements come together?

Mr. Ranzini: We try to innovate by finding profitable niches that have certain characteristics, including high profitability, high return on equity, high return on capital invested, a reasonable risk/reward ratio, and a barrier to entry or little competition. So each of the three businesses that we have, the credit union mortgage subservicing business, the community bank here in Ann Arbor, and the Islamic banking subsidiary, has that profile.

TWST: Give us an idea of some of the performance metrics. If we could back up a year, what were your expectations in those business entities, and how well have they performed over the past year?

Mr. Ranzini: In 2005, University Bank had a 66.3% return on equity, and we were the second most profitable bank in the United States on that metric. In 2005, the results were fuelled by some unusual transactions that added about \$1.7 million to the profit net income. In 2006, we expected significantly lower results based on further investment and through the growth of our Islamic banking subsidiary. The results unfortunately were a little on the disappointing side. Some of the strategic initiatives that we had programmed to be finished in the March time frame didn't happen until the December time frame, and so that is the bad news for 2006. But the good news for 2007 is that those things are in place, and the underlying profitability of the corporation is back exactly where we expected it to be about a year ago. We are really pleased with where we are at right now and are looking forward to a record result in 2007 once again.

TWST: What are some of the fundamentals that you feel allow you to perform and to grow? What are the underlying customer bases and the clients that you have for some of these services? What is it in general that you feel is the driver and supports your strategies and these operations?

Mr. Ranzini: The credit union servicing business is driven by the growth in the credit union industry. The credit union industry has increased its market share of the financial services business in the United States from about 5% in the 1970s to over 10% today. That growth has been fueled by the fact that credit unions pay no federal income tax. So they have a strong competitive advantage versus the banking industry and have been taking market share from the banking industry every year for years now. A further driver there is that the credit union industry traditionally was not involved in the single-family mortgage business. They were primarily doing unsecured lending, home equity lending and car lending. But as credit unions try to expand into additional products, one of them that they are most interested in expanding into is the mortgage origination business, but it is a complicated product. Mortgage origination is the most complicated lending process in the financial services industry. So it is something that credit unions typically seek outside help with. Our business helps them even if they have no expertise in the mortgage business to immediately enter the mortgage industry by originating single-family mortgages that are sold off to agencies or put into their own portfolio. We can provide any service that they want from application origination processing, underwriting, packaging and sale to the secondary market, and then servicing that

mortgage after the sale to the secondary market. We can do that either in our own name or in their name on a white-label basis. We can do that for any type of mortgage loan from conforming A-quality to substandard lower quality or nonconforming such as large jumbo mortgages of any type. We are the only provider in the industry that allows credit unions to do all that.

The dynamics of the Islamic banking business are that you have about 8 million Muslims in the United States who are not really being served by the banking industry. There are only two organizations that are banks that are competing for that business. There is our bank and another bank that is not publicly traded. We are the only bank in the United States that has a deposit product that is FDIC-insured for that community. With the single family lending products that we have, we're competing with the other bank and also a mortgage company that is focused on Islamic mortgage alternatives operating nationwide. So there is very limited competition right now. The demographic profile of the Muslim community is outstanding from a banking position. About 47% of the Muslims in the United States have college degrees. Their per capita income and education is far superior to the average American and also their credit scores are far superior to the average American. We see no delinquencies in the portfolio and it is also a very rapidly growing community because you have high birth rates as well as high immigration rates.

As to the community bank, Ann Arbor is a university town, hence the name of the bank itself. The University of Michigan is based in Ann Arbor. It is a vibrant community. There are strong underlying dynamics in Ann Arbor and it has been a very good local market for us to grow in.

TWST: Is the story organic growth at this point or are there M&A opportunities that make sense?

Mr. Ranzini: At this point, we're 100% focused on organic growth and we have been able to do that. The mortgage servicing business grew on average 35% each year for the last seven years. In 2006, the profit growth was a bit disappointing, but finally it has come in. We had a large percentage of our mortgage escrow deposit accounts that we control not on deposit at University Bank, but at another larger financial institution. In December we finally got all of the business processes in line to be able to move all those deposits in-house. We went up from a position where we had only \$12 million of these escrow deposits in the bank to \$30 million of escrow deposits in the bank and it grew in 2007 and recently peaked at \$42 million. That also is organic growth in the sense that we are taking in-house something that we control but we were not getting the benefit of. Each \$1 million of custodial escrow deposits that we add increases our income by \$45,000 annually.

Going forward, there is no reason why the business shouldn't continue to grow at 30%-35% annual rates. We have been doing that for seven years now, and we still only have 2.7% market share in the industry overall. The organic growth there should be outstanding. The business unit generates 55% of our revenues right now. So it's already a very meaningful percentage of the whole. The organic growth opportunities in Islamic banking are tremendous because so far we have only been operating in Michigan in this business. The plan for this year is to build those products on a nationwide basis since they are delivering them nationwide. As a result we will go from serving a 400,000 Muslim community in one state to serving an 8 million Muslim community across the rest of the country. That is a pretty big growth opportunity, and it'll keep us busy for a while.

TWST: What are the key metrics investors should focus on as they track your performance?

Mr. Ranzini: The key things that matter are the number of mortgages sub-serviced by us, which crossed \$4 billion recently. That's really the driver of both the fee income and the custodial escrow

deposits for the bank and the mortgage sub-servicing business serving the credit unions. On the Islamic banking side, key metrics to watch would be Islamic deposits, which are currently \$19 million, as well as Islamic financings, both those in the portfolio as well as those that are sold to Freddie Mac under our strategic arrangement with Freddie Mac where they take into their portfolio the Islamic financings that we originate as their agent. Those are the things that investors should keep an eye on that will be indicators of future profitability and trends.

TWST: Introduce us to your top-level management team. Who are two or three of your key individuals?

Mr. Ranzini: I have been the President and CEO of the bank holding company since 1988. I'm also President of the bank and Chairman of the bank. My CEO at the bank is Nick Fortson, and he has been with us for seven years now. He came to us from South Africa. He had been the Founder and CEO of the Domino's Pizza franchise down in South Africa. Before that, he had been a Controller of a bank in Detroit and a CFO of a group, managing several billion dollars in assets for the US government under the Resolution Trust Corporation (RTC), following the savings and loan debacle. He had been involved in helping clean that up. Ed Burger is President of Midwest Loan Services, our credit union mortgage sub-servicing company. He has been with us from the founding of the company. In fact, he was the Founder of the company before we bought into it in 1994. He comes out of a multibillion dollar asset bank up in northern Michigan, where he was their Chief Financial Officer. Before that, he was an accounting manager with one of the big nationwide accounting firms. The President of our insurance agency, Edie Kingsley, has been with us for eight years now. She has been in insurance all her career. The head of our Islamic operation is John Sickler who has been with us for six years now. He is a highly experienced mortgage guy, and been taking on the challenge of being a pioneer in an industry doing things that no one has ever done before.

Our goal is to hire the best and the most highly experienced people that we can. I don't surround myself with a bunch of yes people. I like to have people who challenge me every day to do a better job. One of the challenges of being in the same position 19 years is that people will say that if you can't accomplish everything you want to accomplish in 10 years, you are not going to accomplish it, but surrounding yourself with good people who are themselves talented and thoughtful people helps keep you fresh and on your toes.

TWST: How strong financially overall is the organization with respect to balance sheet and P&L?

Mr. Ranzini: The bank is rated very highly by independent third-party agencies. For example, IDC, which is the rating agency that Freddie Mac and Fannie Mae use to evaluate banks, rates our bank the 14th strongest in the State of Michigan out of 149 banks. So it's very good and really quite sufficient. Our bank is very financially sound.

TWST: What historically has been the shareholder base with the company? Has that base undergone any changes?

Mr. Ranzini: After we got involved in Islamic banking, we got quite a bit of press. We saw the number of shareholders almost double to over 620. I think it's a wide variety of investors of all types. People like the story and see what we're doing. So I think that the shareholder base is expanding quite nicely. And my take on it, just from the interactions from the shareholders I talk to, is that they are all in this as a long-term investment, recognizing that there is a lot of potential. They understand that the short-term, quarterly results aren't that important and that you have to invest money to make money. It is certainly possible to build a billion dollar financial institution just in Islamic finance. With the potential in the credit union sub-servicing business, I had one party

recently call me and say that their analysis is that we would have 5% market share and \$10 billion under management within five years. Honestly, I can't dispute that analysis. I don't know any reason why it couldn't be done. So I'm pretty pleased with what people on the outside are saying and looking at. I'm also very pleased with the long-term and loyal support of the shareholders. This isn't the kind of company that you can day trade in, and we don't see that kind of activity.

TWST: In those discussions, do you believe the University Bancorp story is well understood? Are there any recurring questions or misperceptions?

Mr. Ranzini: I think people who take the time to actually analyze the information on our Website are very well informed. We have an investor relations Website at www.universitybank.com/bancorp.htm. On that site, there is more than you would ever want to know about the company, including a one-click link to all the SEC filings, all the press releases, annual reports, frequently asked questions list, and historical metrics on the key profit drivers in Excel worksheets that you can download. There is more information than anyone would possibly want to know. But the people who take the time to take a look at that are very well informed. I do occasionally get people who call me up who aren't fully informed. I think it's just because they haven't taken the time to take a look to see what information is available to them.

TWST: When you look at the potential for competition, is there an advantage to being first and to grab market share? Does footprint give you any barriers against additional competition? Are there other barriers?

Mr. Ranzini: On the credit union side of the business, the barrier to entry is quite large. We have spent a significant amount of resources, building the most sophisticated Internet delivered service in the industry. It would be very difficult and very expensive for someone to compete with us now, because our prices are very low relative to the industry. Our quality of service and the technical sophistication of the service is so high that I really don't see anybody coming in to compete with us, or at least coming in to compete successfully. We have taken a kind of the Wal-Mart approach of low prices and customer-centric superior service. So I just don't see anybody competing with us on that.

On the Islamic banking side, there are very severe barriers to entry. It took us four years to get one of our key products to the point where it was 100% Islamically compliant from end to end, from origination through to servicing. It's really not easy. Anybody who takes a look at it would recognize how complex and difficult it is to do correctly. Actually, part of our business plan, not in 2007 but in the intermediate future, will be to offer those products to other financial institutions on a wholesale basis. A lot of financial institutions have taken a look at this business and said, "It is too complicated and too difficult so we're not going to offer products." Frankly, having gone through the process of getting to where we are today, I have to agree with that. If I was the third or fourth fast follower, I'm not sure I would want to get in. It's really a difficult, complicated business.

TWST: What compels investors to include UNIB as part of their current portfolios and as part of their longer-term investment strategies?

Mr. Ranzini: We are the only publicly traded opportunity in the United States for an investor to invest in either the ongoing growth of the credit union industry or the growth of Islamic banking, which worldwide is about a \$276 billion industry, but here in the United States it is just passing \$1 billion.

TWST: Thank you.

(A reprint of the full article can be downloaded at www.university-bank.com/bancorp.htm.)

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? 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. We look forward to seeing you at our annual meeting at the Bank's main office in Ann Arbor, June 15, 2007.

Sincerely,



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

Ann Arbor, Michigan

May 7, 2007

Email: ranzini@university-bank.com

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, Islamic banking 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 6 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, 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.

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

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

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

Michael J. Concannon, Esq., Director candidate; President, The Concannon Company Inc., a real estate development firm

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

Nicholas Fortson, Chief Financial 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

Michael J. Concannon, Esq., Director; President, The Concannon Company Inc., a real estate development firm

Nicholas Fortson, Director, Chief Executive Officer & Treasurer; 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

Janet Anderson, Executive Vice President, Human Resources Manager, Internal Auditor & Compliance Officer

Stewart Brannen, Corporate Secretary & Executive Vice President, Asset Management

Nicholas Fortson, Chief Executive Officer & Treasurer

Darnell Grant, Security Officer & IT Manager

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

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

Peggy Lamb, Senior Vice President - Collections

Stephen Lange Ranzini, Chairman & President

Pete Richards, Assistant Vice President, Business Development Officer

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

John Sickler, Executive Vice President - Residential Lending

Steven Thoms, Executive Vice President - Commercial Lending

**Directors and Officers
University Islamic Financial**



Board of Directors

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

Officers

Nicholas Fortson, Chief Executive Officer & Treasurer
Julie Kubitz, Executive Vice President, Islamic Banking & Mortgage Education Officer
Stephen Lange Ranzini, Chairman & President
Amjad Quadri, 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; Chief Executive Officer & Treasurer of University Bank
Stephen Lange Ranzini, Chairman; Chairman & President of University Bank
John Sickler, Director; Executive Vice President – Residential Lending of University Bank & Executive Vice President, Islamic Banking of University Islamic Financial Corporation
Julie Kubitz, 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 NASDAQ Capital Market™ under the symbol UNIB. As of the March 16, 2007 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>2007</u>		
First Quarter	\$2.37	\$1.80
Second Quarter through May 6	2.10	1.80
<u>2006</u>		
First Quarter	2.95	1.76
Second Quarter	2.90	1.95
Third Quarter	2.54	2.04
Fourth Quarter	2.38	1.90
<u>2005</u>		
First Quarter	2.25	1.66
Second Quarter	2.35	1.75
Third Quarter	2.00	1.52
Fourth Quarter	2.00	1.53

No cash dividends have been paid on our common stock. We do not currently anticipate declaring or paying dividends in 2007. We plan to reevaluate our dividend policy prior to year-end 2007.

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. Investors should read the risk factors listed in the Company's 2006 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, 2006 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., 2015 Washtenaw Avenue, Ann Arbor, Michigan 48104. 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