UNIVERSITY BANCORP, INC. AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders
University Bancorp, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of University Bancorp, Inc. and Subsidiaries as of December 31, 2008 and 2007 and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as of and for the year ended December 31, 2008. As of and for the year ended December 31, 2007, we conducted our audit in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Both of these standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of University Bancorp, Inc. and Subsidiaries as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

UHY LLP

Southfield, Michigan
May 29, 2009

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2008	**2007**
ASSETS		
Cash and due from banks	**$ 4,598,431**	$ 13,772,253
Trading securities, at fair value	**4,916,925**	6,545,476
Investment securities available-for-sale, at fair value	**20,653,071**	1,454,627
Federal Home Loan Bank Stock, at cost	**1,325,000**	714,600
Loans and financings held for sale, at lower of cost or market	**995,687**	1,308,583
Loans and financings held for sale, at fair value	**29,947,608**	-
Loans and financings, net	**58,358,326**	58,068,156
Premises and equipment, net	**2,782,726**	2,574,948
Mortgage servicing rights, at fair value	**1,241,384**	1,402,444
Other real estate owned, net	**1,034,321**	674,585
Accounts receivable	**788,709**	211,595
Accrued interest and financing income receivable	**535,654**	353,360
Prepaid expenses	**494,062**	332,333
Derivatives, at fair value	**768,582**	-
Goodwill	**103,914**	103,914
Other assets	**1,257,535**	721,402
Total assets	**$ 129,801,935**	$ 88,238,276

	December 31,	
	2008	2007
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand - non-interest bearing	**$ 45,832,205**	$ 35,295,672
Demand - interest bearing and profit sharing	**26,472,017**	28,439,060
Savings	**242,253**	231,249
Time	**31,447,975**	14,691,001
Total deposits	**103,994,450**	78,656,982
Derivatives, at fair value	**557,716**	-
Federal Home Loan Bank advances	**12,011,678**	-
Accounts payable	**466,521**	324,663
Accrued interest and profit sharing payable	**56,101**	96,126
Other liabilities	**3,808,009**	269,118
Total liabilities	**120,894,475**	79,346,889
Minority interest	**2,843,054**	2,907,083
STOCKHOLDERS' EQUITY		
Preferred stock, $.001 par value per share; $10 per share liquidation value; 500,000 shares authorized; 55,091 and 49,224 shares issued as of December 31, 2008 and 2007, respectively	**55**	49
Common stock, $.01 par value per share; 5,000,000 shares authorized; 4,391,062 and 4,363,562 shares issued as of December 31, 2008 and 2007, respectively	**43,911**	43,635
Additional paid-in capital	**6,706,082**	6,604,440
Additional paid-in capital, stock options	**49,234**	41,708
Treasury stock, 115,184 shares	**(340,530)**	(340,530)
Accumulated deficit	**(360,046)**	(346,215)
Accumulated other comprehensive loss, net of tax	**(34,300)**	(18,783)
Total stockholders' equity	**6,064,406**	5,984,304
Total liabilities and stockholders' equity	**$ 129,801,935**	$ 88,238,276

See notes to consolidated financial statements.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended December 31,	
	2008	2007
Interest and financing income:		
Interest and fees on loans and financing income	**$ 4,509,460**	$ 4,330,077
Interest on securities:		
U.S. Government agencies	**1,352,619**	179,522
Other securities	**53,964**	32,103
Interest on Federal funds and other	**105,809**	567,266
Total interest and financing income	**6,021,852**	5,108,968
Interest and profit sharing expense:		
Interest and profit sharing on deposits:		
Demand deposits	**633,003**	915,189
Savings deposits	**2,550**	2,827
Time deposits	**778,906**	761,938
Short-term borrowings	**69,565**	-
Total interest and profit sharing expense	**1,484,024**	1,679,954
Net interest and profit sharing expense	**4,537,828**	3,429,014
Provision for loan losses	**1,047,121**	264,314
Net interest and financing income after provision for loan losses	**3,490,707**	3,164,700
Other income:		
Loan servicing and sub-servicing fees	**3,136,121**	2,593,263
Initial loan set-up and other fees	**2,401,698**	1,758,125
Net gain on sale of mortgage loans	**779,689**	75,921
Insurance & investment fee income	**222,753**	207,940
Deposit service charges and fees	**86,352**	195,477
Termination fees	**-**	1,175,284
Net unrealized gain (loss) on trading securities	**(169,378)**	89,121
Net realized loss on securities available-for-sale	**(43,963)**	-
Change in fair value of mortgage servicing rights	**(762,856)**	(516,073)
Change in fair value of loans held for sale, interest rate locks and forward commitments	**845,021**	-
Other income	**402,965**	185,979
Total other income	**6,898,402**	5,765,037

	Years ended December 31,	
	2008	**2007**
Other expenses:		
Salaries and benefits	**6,630,725**	4,098,548
Occupancy	**642,605**	558,520
Data processing and equipment expense	**702,436**	596,369
Legal and audit	**424,967**	505,703
Consulting fees	**324,917**	226,661
Mortgage banking	**635,487**	259,332
Advertising	**185,461**	255,193
Membership and training	**115,514**	160,880
Travel and entertainment	**244,846**	231,946
Supplies and postage	**412,057**	331,390
Insurance	**208,824**	194,334
Other operating expenses	**731,189**	662,560
Total other expenses	**11,259,028**	8,081,436
Income (loss) before income taxes and minority interest	**(869,919)**	848,301
Income tax benefit	**(640,605)**	(66,078)
Income (loss) before minority interest	**(229,314)**	914,379
Minority interest in net income (loss) of consolidated subsidiaries	**(264,053)**	269,822
Net income	**$ 34,739**	$ 644,557

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock $.001 par value		Common Stock $.01 Par value	
	Number of Shares	Par Value	Number of Shares	Par Value
Balance at January 1, 2007	37,672	$ 38	4,363,562	$ 43,635
Comprehensive income:				
Net income				
Other comprehensive income, net of tax:				
Change in unrealized loss on securities available-for-sale, net of tax				
Total comprehensive income				
Issuance of preferred stock at $10 per share	8,000	8		
Preferred stock dividend				
Conversion of accrued preferred stock dividends into shares of preferred stock	3,552	3		
Stock option awards				
Balance at December 31, 2007	49,224	49	4,363,562	43,635
Comprehensive income:				
Net income				
Other comprehensive loss, net of tax:				
Change in unrealized loss on securities available-for-sale, net of tax				
Total comprehensive income				
Issuance of preferred stock at $10 per share	1,300	1		
Exercise of stock options			27,500	276
Preferred stock dividend				
Conversion of accrued preferred stock dividends into shares of preferred stock	4,567	5		
Stock option awards				
Balance at December 31, 2008	55,091	$ 55	4,391,062	$ 43,911

Additional Paid-in Capital	Additional Paid-in Capital Stock Options	Treasury Stock Number of Shares	Treasury Stock Cost	Accumulated Deficit	Accumulated Other Compre-hensive Income (Loss)	Total
$ 6,488,960	$ 36,478	(115,184)	$ (340,530)	$ (950,038)	$ (27,296)	$ 5,251,247
				644,557		644,557
					8,513	8,513
						653,070
79,992						80,000
				(40,734)		(40,734)
35,488						35,491
	5,230					5,230
6,604,440	41,708	(115,184)	(340,530)	(346,215)	(18,783)	5,984,304
				34,739		34,739
					(15,517)	(15,517)
						19,222
12,999						13,000
42,975						43,251
				(48,570)		(48,570)
45,668						45,673
	7,526					7,526
$ 6,706,082	$ 49,234	(115,184)	$ (340,530)	$ (360,046)	$ (34,300)	$ 6,064,406

See notes to consolidated financial statements.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2008	**2007**
OPERATING ACTIVITIES		
Net income	**$ 34,739**	$ 644,557
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	**377,785**	355,107
Minority interest in consolidated subsidiaries' earnings	**(264,053)**	269,822
Change in fair value of mortgage servicing rights	**762,856**	516,073
Change in fair value of loans held for sale, interest rate locks and forward commitments	**(845,021)**	-
Deferred income tax benefit	**(640,605)**	(70,000)
Provision for loan losses	**1,047,121**	264,314
Net gain on sale of mortgages	**(779,689)**	(75,921)
Net unrealized (gain) loss on trading securities	**169,378**	(89,121)
Net realized loss on securities available-for-sale	**43,963**	-
Proceeds from maturities of trading securities	**1,527,923**	732,662
Net gain on the sale of other real estate owned	**(52,161)**	(4,581)
Net accretion on investment securities	**(198,829)**	(44,756)
Write down of other real estate owned	**30,000**	-
Originations of mortgage loans and financings	**(181,331,615)**	(35,940,256)
Proceeds from mortgage loan and financing sales	**153,110,747**	36,659,223
Stock awards	**7,526**	5,230
Net change in:		
Various other assets	**(816,665)**	(36,624)
Various other liabilities	**3,686,421**	188,856
Net cash provided by (used in) operating activities	**(24,130,179)**	3,374,585
INVESTING ACTIVITIES		
Purchase of securities available-for-sale	**(24,526,467)**	(8,040,696)
Proceeds from sale of securities available-for-sale	**311,888**	-
Proceeds from maturities of securities available-for-sale	**5,086,734**	122,909
Net purchases of Federal Home Loan Bank stock	**(610,400)**	-
Proceeds from sale of other real estate owned	**1,062,089**	78,244
Loans granted, net of repayments	**(2,736,955)**	(8,357,049)
Increase in mortgage servicing rights	**(601,796)**	(402,417)
Purchases of premises and equipment	**(585,563)**	(233,993)
Net cash used in investing activities	**(22,600,470)**	(16,833,002)

	Years ended December 31,	
	2008	**2007**
FINANCING ACTIVITIES		
Net change in deposits	**25,337,468**	(225,200)
Dividends on preferred stock	**(48,570)**	(5,243)
Contributed capital by minority shareholders	**400,000**	-
Net advances from Federal Home Loan Bank	**12,011,678**	-
Exercise of stock options	**43,251**	-
Dividends to minority shareholders	**(200,000)**	-
Issuance of preferred stock	**13,000**	80,000
Net cash provided by (used in) financing activities	**37,556,827**	(150,443)
NET CHANGE IN CASH	**(9,173,822)**	(13,608,860)
Cash and Cash Equivalents, Beginning	**13,772,253**	27,381,113
Cash and Cash Equivalents, Ending	**$ 4,598,431**	$ 13,772,253
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	**$ 1,524,049**	$ 1,657,360
Income taxes	**$ 35,000**	$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:		
Mortgage loans converted to other real estate owned and other assets	**$ 1,399,664**	$ 485,784
Accrued dividends on preferred stock converted to additional shares of preferred stock	**$ 45,673**	$ 35,491

See notes to consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Nature of Operations

The consolidated financial statements of University Bancorp, Inc. ("the Company") include the operations of its wholly owned subsidiary, University Bank, Inc. ("the Bank"), the Bank's wholly owned subsidiaries, University Insurance & Investment Services, Inc. ("the Agency") and Hoover, LLC ("Hoover"), the Bank's two 80% owned subsidiaries, Midwest Loan Services, Inc. ("Midwest") and University Islamic Financial Corporation ("UIFC"), and the Bank's 50.01% owned subsidiary University Lending Group, LLC ("ULG"). The accounts are maintained on an accrual basis in accordance with generally accepted accounting principles and predominant practices within the banking and mortgage banking industries. All significant intercompany balances and transactions have been eliminated in preparing the consolidated financial statements.

The Company is a bank holding company. University Bank, which is located in Michigan, is a full service community bank, which offers all customary banking services, including the acceptance of checking, savings and time deposits. The Bank also makes commercial, real estate, personal, home improvement, automotive and other installment, credit card and consumer loans, and provides fee based services such as annuity and mutual fund sales, stock brokerage and money management, life insurance, property casualty insurance and foreign currency exchange. The Bank's customer base is primarily located in the Ann Arbor, Michigan area.

University Bank's loan portfolio is concentrated in Ann Arbor and Washtenaw County, Michigan. While the loan portfolio is diversified, the customers' ability to honor their debts is partially dependent on the local economy. The Ann Arbor area is primarily dependent on the education, healthcare, services and manufacturing (automotive and other) industries. Most real estate loans are secured by residential or commercial real estate and business assets secure most business loans. Generally, installment loans are secured by various items of personal property.

The Agency is engaged in the sale of insurance products including life, health, property and casualty, and investment products including annuities, mutual funds, stock brokerage and money management. The Agency is located in the Bank's Ann Arbor main office. The Agency also has a limited partnership investment in low-income housing tax credits through Michigan Capital Fund for Housing Limited Partnership I with financing assistance from the General Partner, Michigan Capital Fund for Housing.

Hoover owns the Bank's headquarters facility and was purchased in June 2005.

Midwest is engaged in the business of servicing and sub-servicing residential mortgage loans. Midwest began operations in 1992 and was acquired by University Bank in December, 1995. Midwest is based in Houghton, Michigan, and also originates mortgage loans for itself and other financial institutions, including the Bank (See Note 5).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Principles of Consolidation and Nature of Operations (Continued)

ULG commenced operations in April 2008. ULG is engaged in the business of marketing, processing, closing and selling secondary mortgage market loans primarily to HUD, but also to FMLMC and FNMA on a servicing released basis.

UIFC is engaged in Islamic Banking and was formed on December 30, 2005. Its current products, which comply with Islamic (Sharia'a) law, are FDIC-insured deposits and home financings (as agent for the Bank), mutual funds (as agent for a third-party fund distribution company) and home financings (as principal for its own account). The Sharia'a compliant products are offered to service the large number of Muslim customers in general area of the Company.

There are two distinct home financing products offered, the Ijara and the Murabaha.

Under the Ijara method a single-asset trust is established by or on behalf of the originator (Bank/UIFC), as settlor, naming a special purpose entity as the trustee. The trust is subject to the terms of the written indenture designed for this specific purpose which is used generically for all financings in the redeemable lease (Ijara) program. The funds necessary to acquire the real property are deposited into the trust by the originator, as settlor, and used to fund the purchase of the property. The trust then enters into a combination lease/contract-for-deed agreement with the lessee/purchaser. The settlor is the initial beneficiary of the trust, but the beneficial interest in the payment stream arising from the trust is assignable to third parties. The power to remove and appoint trustees is granted to the beneficiary and the beneficiary has the power to direct the trustee with respect to foreclosure of the property. These rights are assignable with the payment stream.

The terms of the lease and contract-for-deed agreements, in combination, result in a payment stream and cost of the real property that are functionally equivalent to secured real estate lending for both the lessee/purchaser and the Company. The lease payment under the lease agreement is similar to an interest payment under a conventional mortgage. The contract-for-deed payments resemble a principal payment under a conventional mortgage.

The redeemable lease arrangement is treated as financing rather than leasing in accordance with generally accepted accounting principles ("GAAP"). A lease that transfers substantially all of the benefits and risks incident to the ownership of property should be accounted for as the acquisition of an asset by the lessee and as a financing by the lessor. Under Financial Accounting Standards No 13, a lease would generally be accounted for as a financing if:

1. The underlying property is transferred to the lessee at the end of the lease, or

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Principles of Consolidation and Nature of Operations (Continued)

2. The lease contains a bargain purchase that is reasonably assured of being exercised, and
3. It is reasonably certain that the lease payments will be collected and
4. No uncertainties surround the amount of un-reimbursable costs yet to be incurred by the lessor under the lease.

Accordingly, the Company's accounting for this product is essentially the same as a conventional mortgage product. To reflect the legal substance of the Ijara transactions, the Company uses the balance sheet account title "Loans and financings", instead of a typical title of "Loans". In the statement of operations, "Interest and fees on loans" is modified to state "Interest and fees on loans and financing income".

The second form of home financing is the Murabaha. This form of financing is similar to an installment sale contract. As agent for the Federal Home Loan Mortgage Corporation ("Freddie Mac"), the bank buys a home selected by a customer and then resells it to the customer, at a selling price higher than the purchase price. The difference between the bank's purchase price and the selling price is the profit that the ultimate holder (Freddie Mac) of the installment contract will accrete into income over the life of the contract. After the contract is executed by the Bank and the customer, Freddie Mac reimburses the Bank for its outlay of cash to purchase the home and pays the Bank a fee for originating the transaction. The customer pays Freddie Mac for the home that was purchased on an installment basis, as per an agreed repayment schedule.

The installment contracts are recorded at the lower of cost or market on the Company's balance sheet for the short period of time that they are held before settlement with Freddie Mac. The installment contracts are sold with servicing retained. Thus, the value of the installment contract and value of the servicing is determined to calculate any gain of loss on the sale of the underlying installment contract.

On the liability side of the balance sheet, the Bank offers FDIC–insured deposits that are compliant with Sharia'a. These deposits are specifically invested in Sharia'a compliant investments such as, but not limited to, the Ijara. Sharia'a compliant savings, money markets and certificates of deposit pay out earnings that are derived specifically from the revenues from the Sharia'a compliant investments net of certain expenses. In compliance with the FDIC definition of a deposit, balances in these accounts like all deposit accounts are FDIC insured. The sharing of earnings paid out to the depositors holding these accounts can fluctuate with the net earnings of the Ijara portfolio and or other Sharia'a compliant investments. The earnings paid to the depositors are accounted for as an expense. This expense is analogous to interest expense paid on deposits in conventional finance. To reflect the legal substance of the Sharia'a compliant deposits, the Company uses the balance sheet account title "Demand deposits – interest bearing and profit sharing" instead of the typical title of "Demand deposits – interest bearing". In the statement of operations, "Interest on deposits" is modified to state "Interest and profit sharing on deposits".

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions based upon available information. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The significant estimates incorporated into these consolidated financial statements, which are more susceptible to change in the near term, include the value of mortgage servicing rights, the allowance for loan losses, the identification and valuation of impaired loans, the valuation of other real estate owned, the fair value of financial instruments, the valuation of deferred tax assets, and the fair value of certain loans held for sale and derivative instruments like mortgage interest rate locks and forward commitments.

Cash Flow Reporting

For purposes of the consolidated statements of cash flows, cash and cash equivalents is defined to include the cash on hand, interest bearing deposits in other institutions, federal funds sold and other investments with a maturity of three months or less when purchased. Net cash flows are reported for customer loan and deposit transactions and interest bearing deposits with other banks.

Investment Securities

Securities are classified as trading securities or available-for-sale at the date of purchase. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income or loss. Trading securities are carried at fair value with realized gains and losses recorded in income. Available-for-sale securities are written down to fair value through a charge to earnings when a decline in fair value is not temporary. Interest income includes amortization of purchase premium or discount. Other securities such as Federal Home Loan Bank stock are carried at cost.

Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank ("the FHLB"), the Bank is required to invest in FHLB stock, which is carried at cost since there is no readily available market value. When redeemed, the Bank receives an amount equal to the par value of the stock. Dividends paid on FHLB stock are subject to economic events, regulatory actions and other factors.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and Financings

Loans are reported at the principal balance outstanding, net of unearned interest or profit sharing, deferred loan or financing fees and costs, and an allowance for loan losses. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Profit sharing flows from lease income calculated monthly and includes amortization of net deferred financing fees and costs over the term of the financing. Interest or profit sharing income is not reported when full loan repayment is in doubt, typically when payments are past due over 90 days. Payments received on such loans are reported as principal reductions, unless all interest or profit sharing and principal payments in arrears are paid in full.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable credit losses, increased by the provision for loan losses and recoveries and decreased by charge-offs. Management estimates the balance required based on past loan loss experience, known and inherent risks in the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans or financings, but the entire allowance is available for any loan or financing that, in management's judgment, should be charged-off.

Loan or financing impairment is reported when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, and on an individual loan or financing basis for other loans or financings. If a loan or financing is impaired, a portion of the allowance is allocated so that the loan or financing is reported, net, at the present value of estimated future cash flows using the loan's or financing's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Loans or financings are evaluated for impairment when payments are delayed, typically 90 days or more, or when it is probable that all principal and interest or profit sharing amounts will not be collected according to the original terms of the loan or financing.

Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily on the straight-line method over the assets estimated useful lives.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment (Continued)

The Company used the following useful lives as of December 31, 2008 and 2007:

	Years
Building and building improvements	5-39
Leasehold improvements	Term of lease or 5-39 years
Equipment	3-10
Furniture and fixtures	3-7
Software	2-5

Servicing Rights

Servicing rights represent both purchased rights and the allocated value of servicing rights retained on loans or financings originated and sold.

In March 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 156 ("SFAS 156"), which amends Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities," ("SFAS 140"). SFAS 156 changes SFAS 140 by requiring that mortgage servicing rights be initially recognized at their fair value and by providing the option to either: (1) carry mortgage servicing rights at fair value with changes in fair value recognized in earnings; or (2) continue recognizing periodic amortization expense and assess the mortgage servicing rights for impairment as originally required by SFAS 140. This option may be applied by class of servicing assets or liabilities.

SFAS 156 is effective for all separately recognized servicing assets and liabilities acquired or issued after the beginning of an entity's fiscal year that begins after September 15, 2006, with early adoption permitted. The Company chose to adopt SFAS 156 effective January 1, 2007. The Company has identified mortgage servicing rights relating to mortgage loans as a class of servicing rights and has elected to apply fair value accounting to these assets. SFAS 156 requires that, at adoption, any adjustment necessary to record mortgage servicing rights at fair value be recognized in beginning stockholders' equity. Due to the fact that the fair value of mortgage servicing rights was less than the carrying value at December 31, 2006, there was no adoption adjustment required by the Company as of January 1, 2007, as noted below:

Balance at December 31, 2006 - Lower of cost or market	$ 1,516,100
Remeasurement to fair value upon adoption of FAS 156	-
Balance at January 1, 2007 - Fair value	$ 1,516,100

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Real Estate Owned

Real estate properties acquired in collection of a loan or financing are recorded at fair value upon foreclosure, establishing a new costs basis. Any reduction to fair value from the carrying value of the related loan or financing is accounted for as a loan loss. After foreclosure, management periodically performs valuations to ensure real estate is carried at the lower of cost or fair value, less estimated costs to sell. Expenses, gains and losses on disposition, and decreases in the fair value are reported in other expenses.

Mortgage Banking Activities

Mortgage banking activities include retail, servicing and wholesale operations. Retail mortgage loans held for sale for which servicing is retained are valued at the lower of cost or market as determined by bid prices for loans in the secondary market. Retail mortgage loans are sold without recourse, except in certain events as defined in the loan purchase documents. Loan servicing and sub-servicing fees are contractually based and are recognized monthly as earned over the life of the loans. Wholesale mortgage loans held for sale are sold on a service released basis. The Company has elected to record these loans at fair value as discussed in Note 18. Wholesale mortgage loans are sold without recourse, except in certain events as defined in the loan purchase documents.

An allowance was booked for potential recourse liabilities related to loans sold and loans held for sale in the amount of $49,732 and $358 as of December 31, 2008 and 2007, respectively. This allowance is included in the allowance for loan losses, which is part of "Loans and financings, net" on the face of the consolidated balance sheets.

Derivative Instruments

ULG enters into interest rate lock commitments ("IRLCs") in connection with its wholesale mortgage banking activities to fund residential mortgage loans at specified times in the future. IRLCs that relate to the origination of mortgage loans that will be held for sale are considered derivative instruments under SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". As such, these IRLCs are recorded at fair value (see Note 18) with changes in fair value recorded in earnings.

Outstanding IRLCs expose ULG to the risk that the price of the loans underlying the commitments might decline from inception of the interest rate lock to the funding of the loan. To protect against this risk, ULG utilizes forward loan sales commitments to economically hedge the risk of potential changes in the value of the loans that would result from the commitments. These forward commitments are valued at fair value (see Note 18) with net changes in fair value recorded in earnings. The Company documents its risk management strategy and hedge effectiveness at the inception of and during the term of the IRLC's and forward sales commitments within the portfolio.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

The Company evaluates the carrying value of goodwill during each quarter of each year and between quarterly evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. When evaluating whether goodwill is impaired, the Company compares the fair value of the reporting unit to which the goodwill is assigned, to the reporting unit's carrying amount, including goodwill. An impairment loss would be recognized when the carrying amount of goodwill exceeds its fair value. The Company's evaluations of goodwill completed during 2008 and 2007 resulted in no impairment losses.

Income Taxes

Under the provisions of SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"), deferred income tax assets and liabilities are recorded for estimated future tax consequences attributable to the differences between the financial carrying amounts of existing assets and liabilities and their respective tax bases. SFAS 109 requires deferred income taxes be computed on the liability method and deferred tax assets are recognized only when realization is certain. A valuation allowance is booked to reduce net deferred tax assets to a net amount that more likely than not to be realized.

Effective January 1, 2008, Michigan adopted a business tax which replaced the Michigan Single Business Tax. Included in the Michigan Business Tax is a tax on taxable income, a tax on adjusted gross receipts, and a franchise tax. Under the new Michigan Business Tax law the Company is subject to the franchise tax. It is management's policy to include the franchise tax in other operating expenses.

The Michigan statute created a "joint and severally liable" unitary tax on entities which are commonly controlled and have inter-company "flow of value" transactions. Hence, the Company pays this tax on a consolidated basis just as it pays its Federal tax on a consolidated basis.

The Company has a tax sharing agreement with some of its subsidiaries in which the subsidiaries record their share of Federal and state taxes in accordance with the tax sharing agreements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FIN 48 – Uncertain Tax Positions

In July 2006, FASB issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" which clarifies the accounting for uncertainty in tax positions. This interpretation requires that the Company recognize in the consolidated financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 were effective for the Company as of the beginning of 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company adopted FIN 48 effective January 1, 2007. There was no adjustment required to retained earnings as the Company was not aware of any material tax position taken or expected to be taken in a tax return which the tax law is subject to varied interpretations. As of December 31, 2008 there were no amounts that had been accrued in respect of uncertain tax positions.

Retirement Plan

The Bank has a 401(K) Plan that allows employees to contribute up to 15% of salary pre-tax, to the allowable limit prescribed by the Internal Revenue Service. Management has discretion to make matching contributions to the Plan. The Bank made no matching contributions for each of the years ended December 31, 2008 and 2007.

Employee Stock Ownership Plan ("ESOP")

The Company has a noncontributory ESOP covering all full-time employees who have met certain service requirements. The employees' share in the Company's contribution is based on their current compensation as a percentage of the total employee compensation. As shares are contributed to the plan they are allocated to employees and compensation expense is recorded at the shares' fair value. The Company made no contribution in either 2008 or 2007.

Stock Options

The Company has adopted FASB No. 123(R), "Share-Based Payment", which is a revision of FASB No. 123, "Accounting for Stock Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees", and was issued in December 2004. The revisions require that the compensation cost relating to share-based payment transactions be recognized in the consolidated financial statements. That cost is to be measured based on the fair value of the equity or liability instruments issued. For the years ended December 31, 2008 and 2007, the Company recorded $7,526 and $5,230 of compensation expense related to stock options, respectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income

Comprehensive income includes both net income and the change in unrealized gains and losses on securities available-for-sale.

Segment Reporting

The Company's segments are determined by the products and services offered, primarily distinguished between banking, retail mortgage banking operations, and wholesale mortgage banking operations. Loans, investments, and deposits provide the revenues in the banking operation. Servicing fees, underwriting fees and loan sales provide the revenues in the retail mortgage banking operation. Underwriting fees and loan sales provide the revenues in the wholesale mortgage banking operation. All operations are domestic.

Reclassifications

Certain amounts in the 2007 consolidated financial statements have been reclassified to conform to the current year presentation.

Recent Accounting Pronouncements

The following are new accounting standards and interpretations that may be applicable in the future to the Company:

In December 2007, FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS 141(R)"), and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an Amendment of ARB No. 51" ("SFAS 160"). SFAS 141(R) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. SFAS 160 clarifies that a noncontrolling interest in a subsidiary should be reported as equity in the consolidated financial statements. The calculation of earnings per share will continue to be based on income amounts attributable to the parent. SFAS 160 also requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS 160 also provides guidance when a subsidiary is deconsolidated and requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary. SFAS 141(R) and SFAS 160 are effective for financial statements issued for fiscal years beginning after December 15, 2008. Early adoption is prohibited. The Company is currently assessing the potential impact on its consolidated financial statements, upon adoption of SFAS 141(R) and SFAS 160.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In March 2008, FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161"), which amends and expands the disclosure requirements of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), with the intent to provide users of financial statements with an enhanced understanding of: (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative instruments. This statement applies to all entities and all derivative instruments. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently assessing the potential impact on its consolidated financial statements, upon adoption of SFAS 161.

In May 2008, FASB issued SFAS No. 163, "Accounting for Financial Guarantee Insurance Contracts - an Interpretation of SFAS Statement No. 60" ("SFAS 163"). SFAS 163 interprets SFAS Statement No. 60 and amends existing accounting pronouncements to clarify their application to the financial guarantee insurance contracts included within the scope of that Statement. SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. The Company is currently assessing the potential impact of SFAS 163 on its consolidated financial statements, but does not expect it to have an effect on the Company's financial position, results of operations or cash flows.

In June 2008, FASB issued FASB Staff Position ("FSP") EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF 03-6-1"). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the earnings allocation in computing earnings per share under the two-class method as described in SFAS No. 128, "Earnings Per Share." Under the guidance of FSP EITF 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings-per-share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all prior-period earnings per share data presented shall be adjusted retrospectively. Early application is not permitted. The Company is currently assessing the potential impact of this FSP.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)

In June 2008, FASB ratified EITF No. 07-5, "Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock" ("EITF 07-5"). EITF 07-5 provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early application is not permitted. The Company is currently assessing the potential impact, of this EITF on its financial condition and results of operations.

NOTE 2 – RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2008 this reserve requirement amounted to $1,326,000.

NOTE 3 – INVESTMENT SECURITIES

Available-for-Sale Securities

The following is a summary of the amortized cost, gross unrealized gains, gross unrealized losses and fair value of securities available-for-sale.

Securities available-for-sale at December 31, 2008 consist of the following:

	Amortized cost	Unrealized Loss	Fair Value
U.S. agency mortgage-backed securities	$ 20,687,371	$ (34,300)	$ 20,653,071

Securities available-for-sale at December 31, 2007 consist of the following:

	Amortized cost	Unrealized Loss	Fair Value
U.S. agency mortgage-backed securities	$ 1,473,410	$ (18,783)	$ 1,454,627

NOTE 3 – INVESTMENT SECURITIES (Continued)

Trading Securities

The Bank's trading securities portfolio had a net accumulated unrealized loss of $80,257 and a net accumulated unrealized gain of $89,121 at December 31, 2008 and 2007, respectively.

Trading securities consist of the following:

	December 31,	
	2008	2007
U.S. agency mortgage-backed securities	$ 4,916,925	$ 6,545,476

At December 31, 2008 and 2007, the fair value of securities pledged to secure certain borrowings were $25,569,996 and $8,000,103, respectively. The balance of these borrowings at December 31, 2008 and 2007 were $12,011,678 and $0, respectively.

Some unrealized losses at December 31, 2008 have existed for longer than twelve months. The Company sold certain securities classified as available-for-sale subsequent to December 31, 2008. Since these securities were not held long enough to recover the unrealized losses as of December 31, 2008, the decline in fair value of certain securities was deemed to be other-than-temporary. The Company recognized the lesser of the actual loss on the sale and the unrealized loss as of December 31, 2008, in 2008 earnings. As a result, the Company recognized an impairment loss of $45,175 and $0 for the years ended December 31, 2008 and 2007, respectively. For the balance of the investments classified as available-for-sale not sold subsequent to year end, the decline in market value was considered as temporary since the values of the mortgage-backed securities fluctuate based on changes in current interest rates and prepayment assumptions related to the underlying mortgages. Furthermore, the Company expects to hold these securities sufficiently long enough to recover these unrealized losses.

During the year ended December 31, 2008, the Company sold available-for-sale securities to a related party for $311,888. The Company did not sell any securities during the year ended December 31, 2007.

NOTE 3 – INVESTMENT SECURITIES (Continued)

The amortized cost and fair value of mortgage-backed securities held as of December 31, 2008 are shown below by payoff date. Actual maturities may differ from contractual maturities because issuers and borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. During 2008, proceeds from paydowns of these mortgage-backed securities amounted to $6,614,657.

	Amortized Cost	Fair Value
After 2018	$ 25,684,553	$ 25,569,996

NOTE 4 – LOANS

Major classifications of loans are as follows:

	December 31, 2008	December 31, 2007
Commercial	$ 22,388,763	$ 16,950,200
Real estate - mortgage	34,411,215	39,365,801
Real estate - construction	1,381,024	1,767,790
Installment	885,947	354,660
Credit cards	267,049	316,029
Gross loans	59,333,998	58,754,480
Allowance for loan losses	(975,672)	(686,324)
Net loans	$ 58,358,326	$ 58,068,156

Changes in the allowance for loan losses were as follows:

	December 31, 2008	December 31, 2007
Balance, beginning of year	$ 686,324	$ 465,992
Provision charged to operations	1,047,121	264,314
Recoveries	64,005	2,272
Charge-offs	(821,778)	(46,254)
Balance, end of year	$ 975,672	$ 686,324

NOTE 4 – LOANS (Continued)

Non-accrual loans are summarized as follows:

	December 31, 2008	December 31, 2007
Real estate - mortgage and construction	$ 597,625	$ 58,331
Commercial loans	-	1,107,292
Total	$ 597,625	$ 1,165,623

Information regarding impaired loans is as follows:

	December 31, 2008	December 31, 2007
Impaired loans:		
Loans with no allowance allocated	$ 147,576	$ -
Loans with allowance allocated	$ 2,326,117	$ 2,040,383
Amount of allowance for loan losses allocated	$ 674,778	$ 463,945
Impaired loans:		
Average balance during the year	$ 1,358,481	$ 1,776,805
Interest income recognized thereon	$ 4,412	$ 71,154
Cash basis interest income recognized	$ 4,412	$ 71,154

NOTE 5 – MORTGAGE BANKING ACTIVITIES

Midwest provides servicing and sub-servicing of real estate mortgage loans for several financial institutions. The unpaid principal balance of these loans was approximately $5.2 billion and $4.3 billion as of December 31, 2008 and 2007, respectively. Custodial escrow balances maintained in connection with these respective loans were $73.2 million and $59.2 million, at December 31, 2008 and 2007, respectively. Most of these funds are maintained at University Bank.

University Bank and Midwest sell conforming residential mortgage loans to the secondary market with servicing rights retained. These loans are owned by other institutions and are not included in the Company’s consolidated balance sheets. Such mortgage loans have been sold predominately without recourse or with limited recourse. The unpaid principal balance of these loans was $191.5 million and $167.5 million at December 31, 2008 and 2007, respectively.

NOTE 5 – MORTGAGE BANKING ACTIVITIES (Continued)

The following summarizes the activity relating to mortgage servicing rights:

	December 31,	
	2008	2007
Balance, January 1:	$ 1,402,444	$ 1,516,100
Amount capitalized	601,796	402,417
Change in fair value	(762,856)	(516,073)
Balance, December 31	$ 1,241,384	$ 1,402,444

Starting in 2008, ULG began to enter into IRLCs in connection with its wholesale mortgage banking activities to fund residential mortgage loans at specified times in the future. As of December 31, 2008, IRLCs amounted to $72.6 million, of which management estimated $46.7 million to eventually close and be funded. These IRLCs were recorded in assets on the face of the consolidated balance sheet at a fair value of $768,582.

Also starting in 2008, ULG began to utilize forward loan sales commitments in order to economically hedge the risk of potential changes in the value of the loans that would result from the IRLCs. Forward sales commitments to fund loans at specified rates amounted to $52.1 million as of December 31, 2008, which were recorded in liabilities on the face of the consolidated balance sheet at a fair value of $557,716.

The net change in fair value of the IRLCs and the related forward loan sales commitments for the year ended December 31, 2008 resulted in a gain of $210,866, which has been recognized in “other income” in the consolidated statement of operations. This gain is due principally to the inclusion of day one gains associated with the adoption of fair value accounting as discussed in Note 18. Prior to the adoption of fair value accounting, the recognition of such day one gains was prohibited and these gains were not recognized until realized through the sale of the related loans.

Market interest rate conditions can quickly affect the fair value of mortgage servicing rights, IRLCs, and forward loan sales commitments in a positive or negative fashion, as long-term interest rates rise and fall. See Note 18 for further discussion of management’s assumptions used in determination of fair value of these assets and liabilities.

NOTE 6 – PREMISES AND EQUIPMENT, NET

Premises and equipment consist of the following:

	December 31, 2008	December 31, 2007
Land	$ 365,000	$ 365,000
Buildings and improvements	1,758,764	1,725,099
Furniture, fixtures, equipment and software	4,027,227	3,479,029
	6,150,991	5,569,128
Less accumulated depreciation and amortization	(3,368,265)	(2,994,180)
	$ 2,782,726	$ 2,574,948

Depreciation expense amounted to $377,785 and $355,107 for the years ended December 31, 2008 and 2007, respectively.

The Bank leases an ATM drive-thru location in Ann Arbor for $7,200 per year and one off-site ATM location for $9,000 per year. Midwest leases its office space for approximately $44,167 per year in Houghton, Michigan. ULG leases office space on a graduated leasing agreement for approximately $80,556 per year in Farmington, Michigan. The Company leases various other facilities at varying rates expiring in 2009 and 2010. Total rental expense for all operating leases was $106,483 and $77,405 in 2008 and 2007, respectively. The following table summarizes the future minimum payments under the contractual obligations of the Company as of December 31, 2008:

Year ended December 31,	Amount
2009	$ 155,544
2010	111,251
2011	80,915
2012	83,424
2013	63,980
	$ 495,114

NOTE 7 – TIME DEPOSITS

Time deposit liabilities issued in denominations of $100,000 or more were $26,824,150 and $9,171,413 at December 31, 2008 and 2007, respectively.

NOTE 7 – TIME DEPOSITS (Continued)

At December 31, 2008, stated maturities of time deposits were:

Year ended December 31,	Amount
2009	$ 21,306,880
2010	2,211,962
2011	842,683
2012	131,451
2013 and thereafter	6,954,999
	$ 31,447,975

The Bank had issued through brokers $10,000,000 and $0 of time deposits as of December 31, 2008 and 2007, respectively.

NOTE 8 – OTHER LIABILITIES

Other liabilities consist of the following:

	December 31, 2008	December 31, 2007
Liability to fund closed but undisbursed loans	$ 3,130,265	$ -
Escrow and mortgage insurance liability related to loans held for sale	274,465	10,827
Other	403,279	258,291
	$ 3,808,009	$ 269,118

NOTE 9 – INCOME TAXES

Income tax expense (benefit) for the years ended December 31, 2008 and 2007 is summarized as follows:

	December 31, 2008	December 31, 2007
Current	$ -	$ 3,922
Deferred	(640,605)	(70,000)
	$ (640,605)	$ (66,078)

NOTE 9 – INCOME TAXES (Continued)

The effective tax rate differs from the statutory income tax rate as a result of permanent differences in accounting for certain income and expense items for financial and tax reporting purposes (primarily meals and entertainment expense), as well as the change in the valuation allowance from December 31, 2007 to December 31, 2008. Based on management's estimates of future income, management reduced the valuation allowance in order to increase the net deferred tax asset to an amount that is more likely than not to be realized.

Significant components of the Company's deferred income tax assets and liabilities as of December 31, 2008 and 2007 are as follows:

	December 31,	
	2008	2007
Deferred income tax assets:		
Allowance for loan losses	$ 156,072	$ 172,150
Net operating loss carry-forward	254,255	-
Tax credit carry-forward	1,241,866	1,402,916
Donation carry-forward	2,846	6,587
Depreciation	15,197	7,589
Other	56,964	48,112
Deferred tax asset	1,727,200	1,637,354
Deferred income tax liabilities:		
Mortgage servicing rights	422,071	476,831
Other	181,705	73,323
Deferred tax liability	603,776	550,154
Net deferred tax asset	1,123,424	1,087,200
Valuation allowance	(272,819)	(877,200)
Net deferred tax asset	$ 850,605	$ 210,000

The net deferred tax asset is included in "Other assets" on the balance sheet.

NOTE 9 – INCOME TAXES (Continued)

The Company has the following unused net operating loss carryforwards and available credits as of December 31, 2008:

	Amount	Date of expiration
Federal net operating loss	$ 747,809	Beginning 2028
Low income housing credits	1,140,284	Beginning 2011
Minimum tax credits	101,582	Beginning 2011

NOTE 10 – PREFERRED STOCK

The Company had 55,091 and 49,224 shares of preferred stock outstanding at December 31, 2008 and 2007, respectively. The shares have a $10 per share liquidation value and accrue dividends quarterly at an annual rate of 9%. Additional shares of preferred stock are issued semi-annually for unpaid accrued dividends. Through private placement transactions, the Company raised $13,000 through the sale of 1,300 shares of its preferred stock in 2008 and $80,000 through the sale of 8,000 shares in 2007.

NOTE 11 – STOCK OPTIONS

In 1995, the Company adopted a stock option and stock award plan ("the 1995 Stock Plan"), which provides for the grant of incentive stock options, as defined in Section 422(b) of the Internal Revenue Code of 1986, as amended, as well as the grant of non-qualified stock options and other stock awards. The plan provides for the grant to officers, directors and key employees of the Company, and independent contractors providing services to the Company, of options to purchase common stock and other awards of common stock. The exercise price of options granted under the plan shall be determined by the Board of Directors, or a compensation committee thereof. Options shall expire on the date specified by the Board of Directors or such committee, but not more than 10 years from the date of grant (or five years from the date of grant for incentive stock options if the grantee owned 10% of the Company's voting stock at the date of grant). The 1995 Stock Plan terminated on November 15, 2006; however, all outstanding options under the plan remain outstanding until expiration, exercise or forfeiture. Options continue to be granted outside of the 1995 Stock Plan.

NOTE 11 – STOCK OPTIONS (Continued)

The following tables summarize the activity relating to options to purchase the Company's common stock:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2007	348,026	$ 2.23
Granted - 2007	-	-
Exercised - 2007	-	-
Forfeited - 2007	-	-
Outstanding at December 31, 2007	348,026	2.23
Granted - 2008	25,000	2.00
Exercised - 2008	(27,500)	1.56
Forfeited - 2008	(17,500)	2.20
Outstanding at December 31, 2008	328,026	$ 1.83

At December 31, 2008:	
Number of options immediately exercisable	328,026
Weighted average exercise price of immediately exercisable options	$1.83
Range of exercise price of options outstanding	$1.00 - $2.50
Weighted average remaining life of options outstanding	2.31 years

As of December 31, 2008, all outstanding options were vested. During the years ended December 31, 2008 and 2007, the Company recognized $7,526 and $5,230 in stock compensation, respectively. The value of the options was determined pursuant to the Black Scholes model at the date of issuance. As the options vested, the Company recognized compensation expense in earnings.

NOTE 12 – EMPLOYEE STOCK OWNERSHIP PLAN ("ESOP")

The employees' allocation of ESOP assets is based on their current compensation, after 1 year of service and upon reaching the age of 21. The annual contribution to the ESOP is at the discretion of the Board of Directors. Assets of the plan are comprised entirely of 62,349 shares of the Company's stock at December 31, 2008 and 2007, all of which were fully allocated at December 31, 2008. Upon retirement from the plan, participants can receive distributions of their allocated shares of the Company's stock. The assets of the ESOP are held in trust and were valued at approximately $118,463, and $137,168 at December 31, 2008 and 2007, respectively.

NOTE 13 – MINORITY INTEREST

The Bank owns an 80% interest in the common stock of Midwest, with the remaining 20% owned by the President of Midwest. At December 31, 2008 and 2007, total stockholders' equity of Midwest was $4,658,435 and $4,983,417 respectively, resulting in a $931,687 and $996,684 minority interest reflected on the Company's consolidated balance sheets, respectively. The results of Midwest's operations for 2008 and 2007 are included in the Company's consolidated statements of operations.

Also, included in the consolidated financial statements are the results for UIFC. The Bank also owns 80% of UIFC. This corporation was formed on December 30, 2005. An outside investor owns the remaining 20% of the corporation. At December 31, 2008 and 2007, total stockholders' equity of UIFC was $36,912,605 and $28,850,092, respectively, which includes $10,000,000 in common stock and $27,757,000 of preferred stock as of December 31, 2008. The minority interest at December 31, 2008 and 2007 was $1,831,121 and $1,910,399, respectively. The results of UIFC's operations for 2008 and 2007 are included in the Company's consolidated statements of operations.

Also, included in the consolidated financial statements are the results for ULG. The Bank also owns 50.01% of ULG. This corporation was formed in April 2008. The President and CEO of ULG own the remaining 49.99% of the corporation. The minority interest was to incur the first $200,000 of start up losses. At December 31, 2008, total members' equity of ULG was $360,476. At December 31, 2008, the minority interest was $80,246. The results of ULG's operations for 2008 are included in the Company's consolidated statements of operations

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to buy, sell and fund loans, letters of credit and unused lines of credit. The Bank's exposure to credit loss in the event of non-performance is equal to or less than the contractual amount of these instruments. The Bank follows the same credit policy to make such commitments as that followed by loans recorded in the consolidated financial statements.

The following is a summary of commitments:

	December 31,	
	2008	2007
Unused lines of credit	$ 1,638,000	$ 3,068,000
Commitments to fund loans	1,320,000	3,253,000
	$ 2,958,000	$ 6,321,000

NOTE 15 – RELATED PARTY TRANSACTIONS

The Bank had loans outstanding of $101,664 and $394,711 to related officers and directors at December 31, 2008 and 2007, respectively. The Bank also had a loan outstanding to a related party owned 33.33% by the Bank of $51,196 and $60,065 at December 31, 2008 and 2007, respectively. Available lines of credit to related parties at the December 31, 2008 and 2007, totaled $151,000 and $215,000 respectively. Related party loans were made in the normal course of business and were performing pursuant to terms at December 31, 2008 and 2007.

The Bank had demand deposits of $655,799 and $1,190,081 from directors, officers and their affiliates as of December 31, 2008 and 2007, respectively.

The Bank had a receivable from a related party at December 31, 2008 of $311,888 related to the sale of investment securities as described in Note 3. This amount is included in “Accounts receivable”.

NOTE 16 – FEDERAL HOME LOAN BANK ADVANCES

The Bank has a line of credit available from the FHLB in the amount of $25,000,000 and $9,800,000 as of December 31, 2008 and 2007, respectively. The advances on this line of credit as of December 31, 2008 and 2007 were $12,011,678 and $-0-, respectively. The advances at December 31, 2008 had an interest rate of 0.65%. Borrowings are secured by the pledge of specific mortgage loans held for investment along with FHLB stock, trading securities, and available-for-sale securities. As of December 31, 2008 and 2007, the Bank had $12,988,322 and $9,800,000 of unutilized and available credit under the line of credit, respectively.

The Bank had a line of credit available from the Federal Reserve Bank of Chicago (“the FRB”) in the amount of $-0- and $7,800,000 at December 31, 2008 and 2007, respectively. The Bank had no borrowings against the FRB line of credit as of December 31, 2008 or 2007.

NOTE 17 – REGULATORY MATTERS

Dividend Restriction

Banking regulations require the maintenance of certain capital levels and limits the amount of dividends that may be paid by a bank to a holding company or by a holding company to shareholders. Neither the Bank nor the Holding Company paid any dividends to common shareholders during 2008 or 2007.

Subsequent to December 31, 2008, the Bank was ordered not to declare or pay any dividend without the prior written consent of the Federal Deposit Insurance Corporation (“FDIC”) and the State of Michigan Office of Financial and Insurance Regulation (“OFIR”) in accordance with the order issued as discussed in Note 21.

NOTE 17 – REGULATORY MATTERS (Continued)

Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional, discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by regulators about components, risk weightings, and other factors.

The Bank is also subject to prompt corrective action capital requirement regulations set forth by the FDIC. The FDIC requires the Bank to maintain a minimum of total capital and Tier 1 capital (as defined) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average total assets (as defined). As of December 31, 2008 and 2007, respectively the Bank met all capital adequacy requirements to which it is subject.

The Bank's required and actual ratios and amounts of Tier 1 leverage, Tier 1 risk-weighted and total risk-weighted capital as of December 31 are as follows:

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratios	Amount	Ratios	Amount	Ratios
As of December 31, 2008:						
Total capital (to risk-weighted assets)	$ 9,267,000	13.53%	$ 5,538,000	8.00%	$ 6,922,000	10.00%
Tier 1 capital (to risk-weighted assets)	8,725,000	12.60%	2,769,000	4.00%	4,153,000	6.00%
Tier 1 capital (to average assets)	8,725,000	7.78%	4,844,000	4.00%	5,605,000	5.00%
As of December 31, 2007:						
Total capital (to risk-weighted assets)	$ 9,367,000	17.77%	$ 4,216,000	8.00%	$ 5,271,000	10.00%
Tier 1 capital (to risk-weighted assets)	8,721,000	16.55%	2,108,000	4.00%	3,162,000	6.00%
Tier 1 capital (to average assets)	8,721,000	9.66%	3,611,000	4.00%	4,515,000	5.00%

NOTE 17 – REGULATORY MATTERS (Continued)

Regulatory Capital Requirements (Continued)

As of December 31, 2008 and 2007, the most recent guidelines from the FDIC categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the above table.

As a result of the order issued by the FDIC and the OFIR discussed in Note 21, the Bank was required to raise its Tier 1 capital to average total assets ratio to 8.00% by March 31, 2009 (8.12% according to the call report filed with the FDIC for quarter ended March 31, 2009) and to 8.25% by June 30, 2009 for the life of the order. In addition the Bank is required to maintain its Total capital to risk-weighted assets ratio above 13.00% for the life of the order.

NOTE 18 - FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted the provisions of SFAS No. 157, "Fair Value Measurements," for financial assets and financial liabilities. In accordance with FSP No. SFAS 157-2, "Effective Date of FASB Statement No. 157," the Company will delay application of SFAS 157 for non-financial assets and non-financial liabilities, until 2009. Certain financial assets and financial liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). Financial assets and liabilities measured at fair value on a non-recurring basis were not significant at December 31, 2008. SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. The application of SFAS 157 in situations where the market for a financial asset is not active was clarified by the issuance of FSP No. SFAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active," in October 2008. FSP No. SFAS 157-3 became effectively immediately and did not significantly impact the methods by which the Company determines the fair values of its financial assets.

Effective January 1, 2008, the Company also adopted the provisions of SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 permits the Company to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value measurement option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, thus the Company may record identical financial assets and liabilities at fair value or by another measurement basis permitted under GAAP, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments.

NOTE 18 - FAIR VALUE MEASUREMENTS (Continued)

In 2008, the Company elected to account for loans held for sale that were originated by ULG, at fair value. The adoption of SFAS 159 did not result in an adjustment to beginning retained earnings as the assets selected for fair value treatment were originated in the current year.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

SFAS 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, SFAS 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

> Level 1: Quoted prices in active markets for identical assets or liabilities.
>
> Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
>
> Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

NOTE 18 - FAIR VALUE MEASUREMENTS (Continued)

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets and financial liabilities carried at fair value effective January 1, 2008. In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

Financial assets and financial liabilities measured at fair value on a recurring basis include the following:

Trading and Available-for-Sale Securities

The fair value of the securities represents the amount the Company would realize upon sale of the mortgage backed securities currently in the portfolio. The Company receives current market values from The Federal Home Loan Bank on a monthly basis as part of its collateral positions. The securities are then marked to market every month based on these values. Net unrealized gains and losses on available-for-sale securities are included in other comprehensive income. Net unrealized gain and losses on trading securities are included in earnings.

Loans Held for Sale – ULG

Wholesale loans held for sale in which servicing rights are not retained are recorded at fair value based quoted market prices, where available, or are determined by discounting cash flows using interest rates approximating the Company's current origination rates for similar loans and adjusted to reflect the inherent credit risk. In most situations, these wholesale loans are locked into buckets to be sold under forward loan sales commitments (as discussed below), in which case the fair value of these loans held for sale are approximated by the value to be received soon thereafter under the forward sales commitments. Net changes in the fair value of ULG's wholesale loans held for sale are included in earnings. The net gain on change in fair value of loans held for sale at December 31, 2008 and 2007 was $634,155 and $0, respectively.

NOTE 18 - FAIR VALUE MEASUREMENTS (Continued)

Mortgage Servicing Rights

The fair value of mortgage servicing rights ("MSRs") represents the amount that the Company would receive upon the sale of the mortgage servicing rights. The Company receives an independent valuation of these mortgage servicing rights on a quarterly basis. The fair value of MSRs is determined by projecting cash flows which are then discounted to estimate an expected fair value. The fair value of MSRs is impacted by a variety of factors, including prepayment assumptions, discount rates, delinquency rates, contractual specified servicing fees and underlying portfolio characteristics. Because these inputs are not transparent in market trades, MSRs are considered to be level 3 assets in the valuation hierarchy. Net changes in fair value of MSRs are included in earnings.

Derivatives – Interest Rate Lock Commitments and Forward Commitments

ULG enters into IRLCs in connection with its mortgage banking activities to fund residential mortgage loans at specified times in the future. IRLCs that relate to the origination of mortgage loans that will be held for sale are considered derivative instruments as discussed in Note 1. As such, these IRLCs are recorded at fair value with changes in fair value recorded in earnings.

The Company estimates the fair value of an IRLC subsequent to inception of the commitment. In estimating the fair value of an IRLC, the Company assigns a probability to the loan commitment based on an expectation that it will be exercised and the loan will be funded. The fair value of the IRLCs, while based on interest rates observable in the market, is highly dependent on the ultimate closing of the loans. These "pull-through" rates are based on ULG's historical data and reflect an estimate of the likelihood that a commitment will ultimately result in a closed loan. Also the fair value of these commitments is derived from the fair value of the related mortgage loans which is based on unobservable data. Because these inputs are not transparent in market trades, IRLCs are considered to be level 3 assets in the valuation hierarchy. Changes in the fair value of the IRLCs are recognized based on interest rate changes, changes in the probability that the commitment will be exercised, and the passage of time. Changes from the expected future cash flows related to the customer relationship or loan servicing are excluded from the valuation of the IRLCs. Net changes in the fair value of IRLCs are included in earnings.

Outstanding IRLCs expose ULG to the risk that the price of the loans underlying the commitments might decline from inception of the interest rate lock to the funding of the loan. To protect against this risk, ULG utilizes forward loan sales commitments to economically hedge the risk of potential changes in the value of the loans that would result from the commitments. Since the fair value of the forward loan sale commitments is dependent on the IRLCs eventual pull-through, forward commitments are considered as level 3 liabilities in the valuation hierarchy. Net changes in the fair value of the forward commitments are recorded in earnings.

NOTE 18 - FAIR VALUE MEASUREMENTS (Continued)

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets			
Trading and available-for-sale securities	$ -	$ 25,569,996	$ -
Loans held for sale - ULG	-	29,947,608	-
Mortgage servicing rights	-	-	1,241,384
Interest rate lock commitments	-	-	768,582
Forward sales commitments	-	-	14,100
Liabilities			
Forward sales commitments	-	-	571,816

The table below includes a rollforward of the fair value of financial instruments that are classified by the Company within Level 3 of the valuation hierarchy:

	Fair value January 1, 2008	Net gains (losses)	Purchases, sales, issuances, settlements, net	Fair value December 31, 2008
Mortgage servicing rights	$ 1,402,444	$ (762,856)	$ 601,796	$ 1,241,384
Derivatives				
Interest rate lock commitments	-	768,582	-	768,582
Forward sales commitments	-	(557,716)	-	(557,716)
Total	$ 1,402,444	$ (551,990)	$ 601,796	$ 1,452,250

NOTE 18 - FAIR VALUE MEASUREMENTS (Continued)

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" ("SFAS 107") requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. The estimated fair value approximates carrying value for cash and cash equivalents, Federal Home Loan Bank stock, and Federal Home Loan Bank advances. The methodologies for other financial assets and financial liabilities are discussed below.

Loans and Financings Held for Sale, At Lower of Cost or Market and Loans and Financings, Net

The fair value of fixed-rate loans is estimated by discounting the future cash flows for each loan category using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The fair value of adjustable-rate loans are assumed to approximate their carrying amount.

Deposits

The fair value of demand deposits and savings accounts is the amount payable on demand at the reporting date. The fair value of time deposits is estimated by discounting the future cash flows using the market rates offered for similar deposits with the same remaining maturities.

NOTE 18 - FAIR VALUE MEASUREMENTS (Continued)

The estimated fair values of financial instruments as of December 31, 2008 and 2007 are as follows (in thousands):

	December 31,			
	2008		2007	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Significant financial assets:				
Cash and due from banks	$ 4,598	$ 4,598	$ 13,772	$ 13,772
Trading securities	4,917	4,917	6,545	6,545
Securities available-for-sale	20,653	20,653	1,455	1,455
Federal Home Loan Bank stock	1,325	1,325	715	715
Loans and financings, held for sale, at lower of cost or market	996	996	1,309	1,309
Loans and financings, held for sale, at fair value	29,948	29,948	-	-
Loans and financings, net	58,358	58,455	58,068	58,068
Mortgage servicing rights	1,241	1,241	1,402	1,402
Derivatives	769	769	-	-
Significant financial liabilities:				
Deposits:				
Demand - non-interest bearing	$ 45,832	$ 45,832	$ 35,296	$ 35,296
Demand - interest bearing and profit sharing	26,472	26,472	28,439	28,439
Savings	242	242	231	231
Time	31,448	31,431	14,691	14,691
Derivatives	558	558	-	-
Federal Home Loan Bank advances	12,012	12,012	-	-

NOTE 19 – SEGMENT REPORTING

The Company's operations include four primary segments: retail banking (the Bank), retail mortgage banking (Midwest), wholesale mortgage banking (ULG), and the holding company. Through the Bank's branch in Ann Arbor, the Company provides traditional community banking services such as accepting deposits, making loans, and providing cash management services to individuals and local businesses. Midwest's retail mortgage banking activities primarily include servicing of residential mortgage loans for others (See Note 5). ULG's wholesale mortgage banking activities primarily include marketing, processing, closing and selling secondary mortgage market loans on a servicing released basis. The holding company manages the affairs of the bank holding company corporate office. The Company's four reportable segments are strategic business units that are separately managed as they offer different products and services and have different marketing strategies. In addition, the Bank, Midwest and ULG each service a different customer base.

The segment financial information provided below has been derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates segment performance based on profit or loss before income taxes, not including nonrecurring gains and losses. Certain indirect expenses have been allocated based on actual volume measurements and other criteria, as appropriate. The Company accounts for transactions between segments at current market prices. Information about reportable segments as of and for the years ended December 31, 2008 and 2007 is as follows (in thousands):

2008

	The Bank	Midwest	ULG	Holding Company	Consolidating Entries	Total
Interest and financing income	$ 5,710	$ 73	$ 346	$ -	$ (107)	$ 6,022
Net gain on sale of mortgage loans	326	136	318	-	-	780
Other non-interest income	668	4,881	1,387	-	(818)	6,118
Interest and profit sharing expense	2,130	8	99	-	(753)	1,484
Provision for loan losses	998	-	49	-	-	1,047
Salaries and benefits	2,547	2,531	1,553	-	-	6,631
Occupancy	398	187	58	-	-	643
Other operating expenses	1,971	1,388	732	66	(172)	3,985
Income (loss) before tax expense	(1,340)	976	(440)	(66)	-	(870)
Income tax expense (benefit)	(543)	301	-	-	(399)	(641)
Minority interest	-	-	-	-	(264)	(264)
Segment profit (loss)	$ (797)	$ 675	$ (440)	$ (66)	$ 663	$ 35
Segment assets	$ 100,716	$ 5,851	$ 30,639	$ 6,077	$ (13,481)	$ 129,802
Capital expenditures	379	105	102	-	-	586
Depreciation and amortization	229	127	22	-	-	378

NOTE 19 – SEGMENT REPORTING (Continued)

2007	The Bank	Midwest	ULG	Holding Company	Consolidating Entries	Total
Interest and financing income	$ 4,992	$ 121	$ -	$ -	$ (4)	$ 5,109
Net gain on sale of mortgage loans	-	76	-	-	-	76
Other non-interest income	872	5,898	-	-	(1,081)	5,689
Interest and profit sharing expense	2,707	5	-	-	(1,032)	1,680
Provision for loan losses	264	-	-	-	-	264
Salaries and benefits	2,018	2,081	-	-	-	4,099
Occupancy	394	165	-	-	-	559
Other operating expenses	2,131	1,260	-	87	(53)	3,425
Income (loss) before tax expense	(1,650)	2,584	-	(87)	-	847
Income tax expense (benefit)	(66)	894	-	-	(894)	(66)
Minority interest	-	-	-	-	269	269
Segment profit (loss)	$ (1,584)	$ 1,690	$ -	$ (87)	$ 625	$ 644
Segment assets	$ 89,777	$ 6,128	$ -	$ 6,071	$ (13,738)	$ 88,238
Capital expenditures	115	119	-	-	-	234
Depreciation and amortization	219	136	-	-	-	355

NOTE 20 – TERMINATION FEE

Midwest Loan Services received a one time termination fee of $1,175,284 in June 2007. The termination fee was negotiated by Midwest and a former customer in prior periods. However due to various uncertainties, the revenue was not realized. Those uncertainties were cleared and allowed for the revenue to be reported in the year ended 2007.

NOTE 21 – SUBSEQUENT EVENT

On February 12, 2009, the Bank entered into a consent agreement with the FDIC and the OFIR to cease and desist from certain unsafe and unsound banking practices and violations as defined in the order. The order requires that management of the Bank coordinate the performance of certain assessments, along with the implementation of certain compliance, operational and procedural changes within specified periods of time as defined in the order. In conjunction with these operational requirements, the Bank was ordered to comply with certain regulatory financial restrictions as discussed in Note 17.