UNIVERSITY BANCORP, INC.
AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES

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UHY LLP
Certified Public Accountants

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 (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations, 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 audits in accordance with auditing standards generally accepted in the United States of America. Those 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, 2009 and 2008, 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 27, 2010

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2009	December 31, 2008
ASSETS		
Cash and due from banks	**$ 40,689,831**	$ 4,598,431
Trading securities, at fair value	**1,513,047**	4,916,925
Investment securities available-for-sale, at fair value	**557,096**	20,653,071
Federal Home Loan Bank Stock, at cost	**1,325,000**	1,325,000
Loans and financings held for sale, at lower of cost or market	**3,110,100**	995,687
Loans and financings held for sale, at fair value	**19,360,521**	29,947,608
Loans and financings, net	**58,355,345**	58,408,058
Premises and equipment, net	**2,811,030**	2,782,726
Mortgage servicing rights, at fair value	**2,465,243**	1,241,384
Other real estate owned, net	**679,403**	1,034,321
Accounts receivable	**727,000**	788,709
Accrued interest and financing income receivable	**213,713**	535,654
Prepaid expenses	**828,887**	494,062
Derivatives, at fair value	**115,442**	768,582
Goodwill	**103,914**	103,914
Other assets	**1,559,469**	1,257,535
Total assets	**$ 134,415,041**	$ 129,851,667

	December 31,	
	2009	**2008**
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits:		
Demand - non-interest bearing	**$ 80,765,969**	$ 45,832,205
Demand - interest bearing and profit sharing	**23,214,716**	26,472,017
Savings	**308,984**	242,253
Time	**13,744,890**	31,447,975
Total deposits	**118,034,559**	103,994,450
Derivatives, at fair value	**14,905**	557,716
Federal Home Loan Bank advances	**-**	12,011,678
Accounts payable	**561,731**	466,521
Accrued interest and profit sharing payable	**50,617**	56,101
Other liabilities	**4,001,903**	3,857,741
Preferred stock subject to mandatory redemption	**806,120**	551,170
Total liabilities	**123,469,835**	121,495,377
EQUITY		
University Bancorp, Inc. stockholders' equity:		
Common stock, $.01 par value per share; 5,000,000 shares authorized; 4,391,062 shares issued as of both December 31, 2009 and 2008	**43,911**	43,911
Additional paid-in capital	**6,154,967**	6,154,967
Additional paid-in capital, stock options	**49,234**	49,234
Treasury stock, at cost, 115,184 shares held	**(340,530)**	(340,530)
Retained earnings (accumulated deficit)	**266,943**	(360,046)
Accumulated other comprehensive income (loss), net of tax	**2,872**	(34,300)
Equity attributable to stockholders of University Bancorp, Inc.	**6,177,397**	5,513,236
Noncontrolling interest	**4,767,809**	2,843,054
Total equity	**10,945,206**	8,356,290
Total liabilities and equity	**$ 134,415,041**	$ 129,851,667

See notes to consolidated financial statements.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended December 31, 2009	2008
Interest and financing income:		
Interest and fees on loans and financing income	**$ 4,877,510**	$ 4,509,460
Interest on securities:		
U.S. Government agencies	**209,622**	1,352,619
Other securities	**37,766**	53,964
Interest on Federal funds and other	**62,168**	105,809
Total interest and financing income	**5,187,066**	6,021,852
Interest and profit sharing expense:		
Interest and profit sharing on deposits:		
Demand deposits	**368,962**	633,003
Savings deposits	**1,237**	2,550
Time deposits	**609,972**	778,906
Short-term borrowings	**4,400**	69,565
Total interest and profit sharing expense	**984,571**	1,484,024
Net interest and financing income	**4,202,495**	4,537,828
Provision for loan losses	**1,293,546**	997,389
Net interest and financing income after provision for loan losses	**2,908,949**	3,540,439
Other income:		
Loan servicing and sub-servicing fees	**3,611,402**	3,136,121
Initial loan set-up and other fees	**4,839,320**	2,401,698
Gain on sale of mortgage loans, net	**7,511,571**	729,957
Insurance & investment fee income	**235,584**	222,753
Deposit service charges and fees	**23,341**	86,352
Net realized gain (loss) on trading securities	**160,156**	(169,378)
Net realized gain (loss) on securities available-for-sale	**6,299**	(43,963)
Change in fair value of mortgage servicing rights	**87,447**	(762,856)
Change in fair value of loans held for sale, interest rate locks and forward commitments	**76,345**	845,021
Other income	**76,208**	402,965
Total other income	**16,627,673**	6,848,670

	Years ended December 31,	
	2009	**2008**
Other expenses:		
Salaries and benefits	**9,444,190**	6,630,725
Occupancy	**721,920**	642,605
Data processing and equipment expense	**872,518**	702,436
Legal and audit	**662,897**	424,967
Consulting fees	**1,071,810**	324,917
Mortgage banking	**1,471,764**	635,487
Advertising	**157,930**	185,461
Membership and training	**224,054**	115,514
Travel and entertainment	**310,608**	244,846
Supplies and postage	**542,879**	412,057
Insurance	**211,023**	161,111
Other operating expenses	**1,413,352**	778,878
Total other expenses	**17,104,945**	11,259,004
Income (loss) before income taxes	**2,431,677**	(869,895)
Income tax benefit	**(186,595)**	(640,605)
Net income (loss)	**2,618,272**	(229,290)
Net income (loss) attributable to the noncontrolling interests	**1,924,755**	(264,029)
Net income attributable to common stockholders of University Bancorp, Inc.	**$ 693,517**	$ 34,739

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY

	University Bancorp, Inc. Stockholders'			
	Common Stock $.01 Par value			Additional Paid-in Capital
	Number of Shares	Par Value	Additional Paid-in Capital	Stock Options
Balance at January 1, 2008	4,363,562	$ 43,635	$ 6,111,992	$ 41,708
Comprehensive income (loss):				
Net income (loss)				
Other comprehensive income (loss), net of tax:				
Change in unrealized loss on securities available-for-sale, net of tax				
Total comprehensive income (loss)				
Exercise of stock options	27,500	276	42,975	
Preferred stock dividend				
Capital contributed by noncontrolling interest				
Dividends to noncontrolling interest				
Stock option awards				7,526
Balance at December 31, 2008	4,391,062	43,911	6,154,967	49,234
Comprehensive income (loss):				
Net income				
Other comprehensive income (loss), net of tax:				
Change in unrealized gain (loss) on securities available-for-sale, net of tax				
Total comprehensive income				
Preferred stock dividend				
Balance at December 31, 2009	4,391,062	$ 43,911	$ 6,154,967	$ 49,234

University Bancorp, Inc. Stockholders' Treasury Stock Number of Shares	Treasury Stock Cost	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total
(115,184)	$ (340,530)	$ (346,215)	$ (18,783)	$ 2,907,083	$ 8,398,890
		34,739		(264,029)	(229,290)
			(15,517)		(15,517)
		34,739	(15,517)	(264,029)	(244,807)
					43,251
		(48,570)			(48,570)
				400,000	400,000
				(200,000)	(200,000)
					7,526
(115,184)	(340,530)	(360,046)	(34,300)	2,843,054	8,356,290
		693,517		1,924,755	2,618,272
			37,172		37,172
		693,517	37,172	1,924,755	2,655,444
		(66,528)			(66,528)
(115,184)	$ (340,530)	$ 266,943	$ 2,872	$ 4,767,809	$ 10,945,206

See notes to consolidated financial statements.

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

	Years ended December 31, 2009	2008
OPERATING ACTIVITIES		
Net income (loss)	$ **2,618,272**	$ (229,290)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	**435,113**	377,785
Change in fair value of mortgage servicing rights	**(87,447)**	762,856
Change in fair value of loans held for sale, interest rate locks and forward commitments	**(76,345)**	(845,021)
Deferred income tax benefit	**(186,595)**	(640,605)
Provision for loan losses	**1,293,546**	997,389
Net gain on sale of mortgages	**(7,511,571)**	(729,957)
Net realized (gain) loss on trading securities	**(160,156)**	169,378
Net realized (gain) loss on securities available-for-sale	**(6,299)**	43,963
Proceeds from maturities of trading securities	**1,068,170**	1,527,923
Proceeds from sales of trading securities	**2,502,582**	-
Net (gain) loss on the sale of other real estate owned	**14,078**	(52,161)
Net amortization (accretion) on investment securities	**4,638**	(198,829)
Write down of other real estate owned	**259,420**	30,000
Loss on disposal of premises and equipment	**21,338**	-
Originations of mortgage loans and financings	**(549,701,692)**	(181,331,615)
Proceeds from mortgage loan and financing sales	**565,872,611**	153,110,747
Stock awards	**-**	7,526
Net change in:		
Various other assets	**(66,514)**	(816,665)
Various other liabilities	**288,838**	3,686,397
Net cash provided by (used in) operating activities	**16,581,987**	(24,130,179)
INVESTING ACTIVITIES		
Purchase of securities available-for-sale	**-**	(24,526,467)
Proceeds from sale of securities available-for-sale	**19,623,469**	311,888
Proceeds from maturities of securities available-for-sale	**504,621**	5,086,734
Net purchases of Federal Home Loan Bank stock	**-**	(610,400)
Proceeds from sale of other real estate owned	**931,713**	1,062,089
Loans granted, net of repayments	**(2,091,126)**	(2,736,955)
Increase in mortgage servicing rights	**(1,136,412)**	(601,796)
Purchases of premises and equipment	**(484,755)**	(585,563)
Net cash provided by (used in) investing activities	**17,347,510**	(22,600,470)

	Years ended December 31, 2009	2008
FINANCING ACTIVITIES		
Net change in deposits	**14,040,109**	25,337,468
Dividends on preferred stock	**(66,528)**	(48,570)
Contributed capital by noncontrolling interest	**-**	400,000
Net advances (repayments) from/to Federal Home Loan Bank	**(12,011,678)**	12,011,678
Exercise of stock options	**-**	43,251
Dividends to noncontrolling interest	**-**	(200,000)
Issuance of preferred stock	**200,000**	13,000
Net cash provided by financing activities	**2,161,903**	37,556,827
NET CHANGE IN CASH	**36,091,400**	(9,173,822)
Cash and Cash Equivalents, Beginning	**4,598,431**	13,772,253
Cash and Cash Equivalents, Ending	**$ 40,689,831**	$ 4,598,431
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	**$ 990,055**	$ 1,524,049
Income taxes	**$ -**	$ 35,000
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:		
Mortgage loans converted to other real estate owned and other assets	**$ 850,293**	$ 1,399,664
Accrued dividends on preferred stock converted to additional shares of preferred stock	**$ 54,950**	$ 45,673

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. ("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 and operates in Farmington Hills, Michigan. ULG also operates two loan processing offices, one in Michigan and one in Ohio. 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. ULG is also engaged in the business of servicing mortgage loans as servicing rights are retained on selective loans that are sold.

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 lease accounting standards of the Accounting Standards Codification ("ASC"), 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, 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 or 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 an original maturity of three months or less. Net cash flows are reported for customer loan and deposit transactions and interest bearing deposits with other banks.

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 earnings. 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 ninety 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 ninety 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, Net

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, Net (Continued)

The Company used the following useful lives as of December 31, 2009 and 2008:

	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

Mortgage Servicing Rights

Mortgage servicing rights ("MSRs") represent both purchased rights and the allocated value of servicing rights retained on loans or financings originated and sold.

The Company accounts for its MSRs in accordance with the applicable standards under the ASC which requires 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. This option may be applied by class of servicing assets or liabilities. The Company has identified MSRs relating to mortgage loans as a class of servicing rights and has elected to apply fair value accounting to these assets.

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 cost 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage Banking Activities

Mortgage banking activities include retail, wholesale and servicing operations. Mortgage loans held for sale are sold with selective loans having their servicing retained, and others on a servicing released basis. The Company elected to record ULG mortgage loans held for sale at fair value as discussed in Note 18. All other loans held for sale are valued at the lower of cost or market as determined by bid prices for loans in the secondary market. 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 $293,747 and $49,732 as of December 31, 2009 and 2008, respectively. This allowance is included in "Other liabilities" on the face of the consolidated balance sheets.

Loan servicing and sub-servicing fees are contractually based and are recognized monthly as earned over the life of the loans.

Derivative Instruments

ULG enters into interest rate lock commitments ("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 under the ASC. 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 IRLCs 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 2009 and 2008 resulted in no impairment losses.

Income Taxes

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. Deferred income taxes are to be computed on the liability method and deferred tax assets are recognized only when realization is certain. Deferred income tax assets and liabilities are measured using the tax rate in effect for the year in which those temporary differences are expected to turn around. 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, 2007, the Company adopted the standards regarding accounting for uncertainty in income taxes. This guidance clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the financial statements and applies to all income tax positions. Each income tax position is assessed using a two step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. At December 31, 2009 and 2008, there were no uncertain tax positions that require accrual.

The Company's 2007 federal tax return is currently under examination by the Internal Revenue Service ("IRS"). As of the date of this report, there were no findings noted. None of the Company's other federal or state income tax returns are currently under examination by the Internal Revenue Service ("IRS") or state authorities. However, fiscal years 2007 and later remain subject to examination by the IRS and its respective states.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

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.

Retirement Plan

The Bank has a 401(K) Plan that allows employees of the Bank and the Bank's subsidiaries 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, 2009 and 2008.

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 during either year ended December 31, 2009 or 2008.

Stock Options

In accordance with the ASC, the Company is required to recognize the compensation cost relating to share-based payment transactions 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, 2009 and 2008, the Company recorded $-0- and $7,526 of compensation expense related to stock options, respectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income (Loss)

Comprehensive income (loss) includes both net income (loss) 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 and its two separate 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 each of the mortgage banking operations. All operations are domestic.

Reclassifications

Certain amounts in the 2008 consolidated financial statements have been reclassified to conform to the current year presentation.

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, 2009 and 2008 this reserve requirement amounted to $4,891,000 and $1,278,000, respectively.

NOTE 3 – INVESTMENT SECURITIES

Trading Securities

The Bank's trading securities portfolio had a net accumulated unrealized gain of $39,996 and a net accumulated unrealized loss of $80,257 at December 31, 2009 and 2008, respectively.

Trading securities consist of the following:

	December 31,	
	2009	2008
U.S. agency mortgage-backed securities	$ 1,513,047	$ 4,916,925

NOTE 3 – INVESTMENT SECURITIES (Continued)

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, 2009 consists of the following:

	Amortized cost	Unrealized Gain	Fair Value
U.S. agency mortgage-backed securities	$ 554,224	$ 2,872	$ 557,096

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

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

At December 31, 2009 and 2008, the fair value of these securities pledged to secure certain borrowings were $2,070,143 and $25,569,996, respectively. The balance of these borrowings at December 31, 2009 and 2008 were $-0- and $12,011,678, respectively.

Some unrealized losses at December 31, 2008 had 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 for other-than-temporary losses of $-0- and $45,175 for the years ended December 31, 2009 and 2008, respectively.

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 to related parties during the year ended December 31, 2009.

NOTE 3 – INVESTMENT SECURITIES (Continued)

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 2009, proceeds from pay downs of mortgage-backed securities amounted to $1,572,791.

NOTE 4 – LOANS AND FINANCINGS, NET

Major classifications of loans are as follows:

	December 31,	
	2009	2008
Commercial	$ 26,311,952	$ 22,388,763
Real estate - mortgage	32,315,990	34,411,215
Real estate - construction	-	1,381,024
Installment	360,718	885,947
Credit cards	276,041	267,049
Gross loans	59,264,701	59,333,998
Allowance for loan losses	(909,356)	(925,940)
Net loans	$ 58,355,345	$ 58,408,058

Changes in the allowance for loan losses were as follows:

	December 31,	
	2009	2008
Balance, beginning of year	$ 925,940	$ 686,324
Provision charged to operations	1,293,546	997,389
Recoveries	17,185	64,005
Charge-offs	(1,327,315)	(821,778)
Balance, end of year	$ 909,356	$ 925,940

NOTE 4 – LOANS AND FINANCINGS, NET (Continued)

Non-accrual loans are summarized as follows:

	December 31, 2009	December 31, 2008
Real estate - mortgage and construction	$ 1,171,334	$ 597,625
Commercial loans	2,379,827	-
Total	$ 3,551,161	$ 597,625

Information regarding impaired loans is as follows:

	December 31, 2009	December 31, 2008
Impaired loans:		
Loans with no allowance allocated	$ -	$ 147,576
Loans with allowance allocated	$ 3,487,293	$ 2,326,117
Amount of allowance for loan losses allocated	$ 555,928	$ 674,778
Impaired loans:		
Average balance during the year	$ 2,412,101	$ 1,358,481
Interest income recognized thereon	$ 164,249	$ 4,412
Cash basis interest income recognized	$ 161,960	$ 4,412

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 $7.9 billion and $5.2 billion as of December 31, 2009 and 2008, respectively. Custodial escrow balances maintained in connection with these respective loans were $109.0 million and $73.2 million, at December 31, 2009 and 2008, respectively. Most of these funds are maintained at University Bank.

University Bank, Midwest and ULG sell conforming residential mortgage loans to the secondary market with servicing rights retained for selective loans. 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 $276.9 million and $191.5 million at December 31, 2009 and 2008, respectively.

NOTE 5 – MORTGAGE BANKING ACTIVITIES (Continued)

The following summarizes the activity relating to mortgage servicing rights:

	December 31, 2009	December 31, 2008
Balance, January 1	$ 1,241,384	$ 1,402,444
Amount capitalized	1,136,412	601,796
Change in fair value	87,447	(762,856)
Balance, December 31	$ 2,465,243	$ 1,241,384

ULG began operations in 2008. ULG enters into IRLCs in connection with its mortgage banking activities to fund residential mortgage loans at specified times in the future. As of December 31, 2009 and 2008, IRLCs amounted to $12.1 million and $72.6 million, respectively, of which management estimated $9.8 million and $46.7 million, respectively, to eventually close and be funded. These IRLCs were recorded in liabilities on the face of the consolidated balance sheet at a fair value of $14,905 as of December 31, 2009 and in assets at a fair value of $768,582 as of December 31, 2008.

ULG also utilizes 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 $11.3 million and $52.1 million as of December 31, 2009 and 2008, respectively, which were recorded in assets on the face of the consolidated balance sheet at a fair value of $115,442 and in liabilities at a fair value of $557,716, respectively.

The net change in fair value of the IRLCs and the related forward loan sales commitments held at December 31, 2009 and 2008 resulted in a gain of $100,537 and $210,866, respectively, which has been recognized in “Other income” in the consolidated statement of operations. These gains are 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,	
	2009	2008
Land	$ 365,000	$ 365,000
Buildings and improvements	1,782,915	1,758,764
Furniture, fixtures, equipment and software	4,129,235	4,027,227
	6,277,150	6,150,991
Less accumulated depreciation and amortization	(3,466,120)	(3,368,265)
	$ 2,811,030	$ 2,782,726

Depreciation and amortization expense related to premises and equipment amounted to $435,113 and $377,785 for the years ended December 31, 2009 and 2008, 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 for approximately $80,000 per year in Farmington, Michigan. The Company leases various other facilities at varying rates expiring in 2010 and 2011. Total rent expense for all operating leases was $198,021 and $106,483 in 2009 and 2008, respectively. The following table summarizes the future minimum payments under the contractual obligations of the Company as of December 31, 2009:

Year ended December 31,	Amount
2010	$ 160,331
2011	84,515
2012	83,424
2013	63,980
	$ 392,250

NOTE 7 – TIME DEPOSITS

Time deposit liabilities issued in denominations of $100,000 or more were $9,052,531 and $26,824,150 at December 31, 2009 and 2008, respectively.

NOTE 7 – TIME DEPOSITS (Continued)

At December 31, 2009, stated maturities of time deposits were:

Year ended December 31,	Amount
2010	$ 6,453,221
2011	2,569,287
2012	581,269
2013	137,595
2014 and thereafter	4,003,518
	$ 13,744,890

The Bank had issued through brokers $-0- and $10,000,000 of time deposits as of December 31, 2009 and 2008, respectively.

NOTE 8 – OTHER LIABILITIES

Other liabilities consist of the following:

	December 31, 2009	December 31, 2008
Liability to fund closed but undisbursed loans	$ 2,654,479	$ 3,130,265
Escrow and mortgage insurance liability	180,357	274,465
Allowance for loan recourse	293,747	49,732
Other	873,320	403,279
	$ 4,001,903	$ 3,857,741

NOTE 9 – INCOME TAXES

Income tax expense (benefit) for the years ended December 31, 2009 and 2008 is summarized as follows:

	December 31, 2009	December 31, 2008
Current	$ -	$ -
Deferred	(186,595)	(640,605)
	$ (186,595)	$ (640,605)

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. 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, 2009 and 2008 are as follows:

	December 31,	
	2009	2008
Deferred income tax assets:		
Allowance for loan losses	$ 54,397	$ 156,072
Net operating loss carry-forward	590,465	254,255
Tax credit carry-forward	1,241,866	1,241,866
Donation carry-forward	5,640	2,846
Depreciation	38,029	15,197
Other	86,134	56,964
Deferred tax asset	2,016,531	1,727,200
Deferred income tax liabilities:		
Mortgage servicing rights	786,488	422,071
Other	192,843	181,705
Deferred tax liability	979,331	603,776
Net deferred tax asset	1,037,200	1,123,424
Valuation allowance	-	(272,819)
Net deferred tax asset	$ 1,037,200	$ 850,605

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

NOTE 9 – INCOME TAXES (Continued)

The Company has the following unused net operating loss carry forwards and available credits as of December 31, 2009:

	Amount	Date of expiration
Federal net operating loss	$ 1,736,663	Beginning 2028
Low income housing credits	1,140,284	Beginning 2011
Minimum tax credits	101,582	Beginning 2011

NOTE 10 – MANDATORILY REDEEMABLE PREFERRED STOCK

As of December 31, 2009 and 2008, the Company had 500,000 shares of preferred stock authorized with a $.001 par value per share. There were 80,612 and 55,091 shares of this preferred stock issued and outstanding as of December 31, 2009 and 2008, 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. The preferred stock is mandatorily redeemable by the Company no later than April 30, 2012 but no earlier than April 30, 2010, at $10 per share plus all accrued and unpaid dividends through the redemption date.

Through private placement transactions, the Company raised $200,000 through the sale of 20,000 shares of its preferred stock in 2009 and $13,000 through the sale of 13,000 shares in 2008. During 2009 and 2008, the Company declared preferred dividends of $66,528 and $48,570, respectively. As of December 31, 2009 and 2008, the Company had unpaid preferred dividends of $36,573 and $24,995, respectively, which are included in “Other liabilities” on the consolidated balance sheets. The amount the Company would be required to pay to redeem the stock at December 31, 2009 is $806,120 plus accrued dividends of $36,573.

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.

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, 2008	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
Granted - 2009	-	-
Exercised - 2009	-	-
Forfeited - 2009	(36,000)	1.85
Outstanding at December 31, 2009	292,026	$ 1.83

At December 31, 2009:	
Number of options immediately exercisable	292,026
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	2.37 years

NOTE 11 – STOCK OPTIONS (Continued)

As of December 31, 2009, all outstanding options were vested. During the years ended December 31, 2009 and 2008, the Company recognized $-0- and $7,526 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 one year of service and upon reaching the age of twenty-one. 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, 2009 and 2008, all of which were fully allocated at December 31, 2009. 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 $62,972, and $118,463 at December 31, 2009 and 2008, respectively.

NOTE 13 – NONCONTROLLING 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, 2009 and 2008, total equity of Midwest was $5,655,663 and $4,658,435 respectively, resulting in a $1,131,133 and $931,687 noncontrolling interest reflected on the Company's consolidated balance sheets, respectively. The results of Midwest's operations for the years ended December 31, 2009 and 2008 are included in the Company's consolidated statements of operations.

Also, included in the consolidated financial statements are the results for UIFC. The Bank owns 80% of UIFC. An outside investor owns the remaining 20%. At December 31, 2009 and 2008, total equity of UIFC was $34,652,927 and $36,912,605, respectively, which includes $10,000,000 in common stock and $25,518,000 of preferred stock as of December 31, 2009. The noncontrolling interest at December 31, 2009 and 2008 was $1,826,979 and $1,831,121, respectively. The results of UIFC's operations for the years ended December 31, 2009 and 2008 are included in the Company's consolidated statements of operations.

NOTE 13 – NONCONTROLLING INTEREST (Continued)

Also, included in the consolidated financial statements are the results for ULG. The Bank owns 50.01% of ULG. Three investors, including the President and CEO of ULG, own the remaining 49.99%. The noncontrolling interest was to incur the first $200,000 of start up losses, but would be the first to recoup the losses once income was earned. At December 31, 2009 and 2008, total members' equity of ULG was $3,620,118 and $360,476, respectively. At December 31, 2009 and 2008, the noncontrolling interest was $1,809,697 and $80,246, respectively. The results of ULG's operations for the year ended December 31, 2009 and the period from inception to December 31, 2008 are included in the Company's consolidated statements of operations

In accordance with ULG's operating agreement, ULG is to make annual distributions to its members to be used to pay the members' tax liability associated with the members' ownership in ULG. There were no distributions made to members during either the year ended December 31, 2009 or the period ended December 31, 2008. In early 2010, ULG made distributions totaling $1,548,030, which was distributed based on each member's ownership interest in ULG.

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 fund lines of credit and credit card limits. 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, 2009	December 31, 2008
Unused lines of credit	$ 2,686,000	$ 2,378,000
Unused credit card limits	1,113,000	1,268,000
	$ 3,799,000	$ 3,646,000

NOTE 15 – RELATED PARTY TRANSACTIONS

The Bank had loans outstanding of $25,674 and $101,664 to related officers and directors at December 31, 2009 and 2008, respectively. The Bank also had a loan outstanding to a related party owned 33.33% by the Bank of $40,495 and $51,196 at December 31, 2009 and 2008, respectively. Available lines of credit to related parties at the December 31, 2009 and 2008, totaled $60,000 and $151,000, respectively. Related party loans were made in the normal course of business and were performing pursuant to terms at December 31, 2009 and 2008.

The Bank had demand deposits of $663,359 and $655,799 from directors, officers and their affiliates as of December 31, 2009 and 2008, respectively.

The Bank had a receivable from a related party as of December 31, 2009 and 2008 of $-0- and $311,888, respectively, 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 $4,000,000 and $25,000,000 as of December 31, 2009 and 2008, respectively. The advances on this line of credit as of December 31, 2009 and 2008 were $-0- and $12,011,678, 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, 2009 and 2008, the Bank had $4,000,000 and $12,988,322 of unutilized and available credit under the line of credit, respectively.

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 2009 or 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. As discussed in Note 21, the Order was lifted in 2010, but the Bank is still required to get written consent prior to declaring or paying any dividend.

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, 2009 and 2008, 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, 2009:						
Total capital (to risk-weighted assets)	$ 12,172,000	21.59%	$ 7,329,000	13.00%	$ 7,329,000	13.00%
Tier 1 capital (to risk-weighted assets)	11,503,000	20.10%	2,255,000	4.00%	3,383,000	6.00%
Tier 1 capital (to average assets)	11,503,000	9.21%	10,302,000	8.25%	10,302,000	8.25%
As of December 31, 2008:						
Total capital (to risk-weighted assets)	$ 9,267,000	13.39%	$ 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%

NOTE 17 – REGULATORY MATTERS (Continued)

Regulatory Capital Requirements (Continued)

As a result of the order issued by the FDIC and the OFIR discussed in Note 21, the Bank was required to raise its capital ratios. The table above reflects those ratios required as of December 31, 2009. As discussed in Note 21, the order was lifted in 2010, but the Company is still required to maintain the capital ratios as shown in the table above.

NOTE 18 - FAIR VALUE MEASUREMENTS

The ASC standards regarding fair value enhance previous guidance for measuring assets and liabilities using fair value. The standards provide a single definition of fair value, together with a framework for measuring it, and require additional disclosure about the use of fair value to measure assets and liabilities. The standard also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets.

The fair value standards define 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.

NOTE 18 - FAIR VALUE MEASUREMENTS (Continued)

The fair value standards require 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, the standards establish 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. Determining which hierarchical level an asset or liability falls within requires significant judgment. The Company's management evaluates its hierarchy disclosures. Hierarchical levels, as defined by the standards and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities are 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 are significant to the fair value of the assets or liabilities.

Because valuation methodologies require the use of subjective assumptions, changes in these assumptions can materially affect fair value. 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. A description of the valuation methodologies used by the Company for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

NOTE 18 - FAIR VALUE MEASUREMENTS (Continued)

The Company had no assets or liabilities that are measured at fair value on a non-recurring basis as of December 31, 2009 and 2008. 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. These securities are considered to be level 2 assets in the valuation hierarchy. Net unrealized gains and losses on available-for-sale securities are included in other comprehensive income. Net unrealized gains and losses on trading securities are included in earnings.

Loans Held for Sale – ULG

The Company elected to account for ULG's loans held for sale at fair value under the ASC standards that permit 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.

Loans held for sale are recorded at fair value based on 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 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. Loans held for sale by ULG are considered to be level 2 assets in the valuation hierarchy. Net changes in the fair value of the Company's loans held for sale are included in earnings. The net gain on change in fair value of loans held for sale at December 31, 2009 and 2008 was $186,674 and $634,155, respectively, which is included in "Other income" in the consolidated statements of operations.

NOTE 18 - FAIR VALUE MEASUREMENTS (Continued)

Derivatives – Interest Rate Lock Commitments and Forward Commitments

ULG enters into IRLCs in connection with its mortgage banking activities to fund 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, in accordance with ASC standards for derivative instruments, 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 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 or liabilities 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 IRLCs.

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 sales commitments are considered derivative instruments as discussed in Note 1, and hence are valued at fair value with changes in fair value recorded in earnings.

The fair value of forward sales commitments is based primarily on the fluctuation of interest rates between the date on which the particular forward sales commitment was entered into and year end. Forward commitments are considered to be level 3 assets or liabilities in the valuation hierarchy.

NOTE 18 - FAIR VALUE MEASUREMENTS (Continued)

Mortgage Servicing Rights

The Company accounts for MSRs at fair value in accordance with the ASC standards for servicing rights as discussed in Note 1. The fair value of MSRs represents the amount that the Company would receive upon the sale of the MSRs. The Company receives an independent valuation of its MSRs 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.

The following tables summarize financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2009 and 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)
December 31, 2009			
Assets:			
Trading and available-for-sale securities	$ -	$ 2,070,143	$ -
Loans held for sale - ULG	-	19,360,521	-
Mortgage servicing rights	-	-	2,465,243
Forward sales commitments	-	-	115,442
Total assets at fair value	$ -	$ 21,430,664	$ 2,580,685
Liabilities:			
Interest rate lock commitments	$ -	$ -	$ 14,905

NOTE 18 - FAIR VALUE MEASUREMENTS (Continued)

	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2008			
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
Total assets at fair value	$ -	$ 55,517,604	$ 2,024,066
Liabilities:			
Forward sales commitments	$ -	$ -	$ 571,816

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

	Mortgage Servicing Rights	Interest Rate Lock Commitments	Forward Sales Commitments
Fair value at January 1, 2008	$ 1,402,444	$ -	$ -
Purchases, sales, issuances, settlements, net	601,796	-	-
Net gains (losses)	(762,856)	768,582	(557,716)
Fair value December 31, 2008	1,241,384	768,582	(557,716)
Purchases, sales, issuances, settlements, net	1,136,412	(768,582)	557,716
Net gains (losses)	87,447	(14,905)	115,442
Fair value December 31, 2009	$ 2,465,243	$ (14,905)	$ 115,442

NOTE 18 - FAIR VALUE MEASUREMENTS (Continued)

Other ASC standards require 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, 2009 and 2008 are as follows (in thousands):

	December 31,			
	2009		2008	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Significant financial assets:				
Cash and due from banks	$ 40,690	$ 40,690	$ 4,598	$ 4,598
Trading securities	1,513	1,513	4,917	4,917
Securities available-for-sale	557	557	20,653	20,653
Federal Home Loan Bank stock	1,325	1,325	1,325	1,325
Loans and financings, held for sale, at lower of cost or market	3,110	3,110	996	996
Loans and financings, held for sale, at fair value	19,361	19,361	29,948	29,948
Loans and financings, net	58,355	59,738	58,408	58,505
Mortgage servicing rights	2,465	2,465	1,241	1,241
Derivatives	115	115	769	769
Significant financial liabilities:				
Deposits:				
Demand - non-interest bearing	$ 80,766	$ 80,766	$ 45,832	$ 45,832
Demand - interest bearing and profit sharing	23,215	23,215	26,472	26,472
Savings	309	309	242	242
Time	13,745	14,244	31,448	31,431
Derivatives	15	15	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), mortgage banking (ULG), and the holding company, as discussed in Note 1. 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, 2009 and 2008 is as follows (in thousands):

2009

	The Bank	Midwest	ULG	Holding Company	Consolidating Entries	Total
Interest and financing income	$ 4,644	$ 102	$ 1,032	$ -	$ (591)	$ 5,187
Net gain on sale of mortgage loans	974	373	6,165	-	-	7,512
Other non-interest income	4,242	6,559	1,682	17	(3,384)	9,116
Interest and profit sharing expense	977	11	587	-	(590)	985
Provision for loan losses	1,024	270	-	-	-	1,294
Salaries and benefits	3,113	3,088	3,243	-	-	9,444
Occupancy	394	186	142	-	-	722
Other operating expenses	3,845	1,941	1,648	16	(512)	6,938
Income (loss) before tax expense	507	1,538	3,259	1	(2,873)	2,432
Income tax expense (benefit)	(187)	541	-	-	(541)	(187)
Net income (loss)	694	997	3,259	1	(2,332)	2,619
Net income (loss) attributable to noncontrolling interests	-	-	-	-	1,925	1,925
Segment profit (loss)	$ 694	$ 997	$ 3,259	$ 1	$ (4,257)	$ 694
Segment assets	$ 135,417	$ 7,858	$ 22,706	$ 7,093	$ (38,659)	$ 134,415
Capital expenditures	165	266	54	-	-	485
Depreciation and amortization	262	127	46	-	-	435

NOTE 19 – SEGMENT REPORTING (Continued)

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	269	-	-	731
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	-	-	-	-	998
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)
Net income (loss)	(797)	675	(440)	(66)	399	(229)
Net income (loss) attributable to noncontrolling interests	-	-	-	-	(264)	(264)
Segment profit (loss)	$ (797)	$ 675	$ (440)	$ (66)	$ 663	$ 35
Segment assets	$ 127,402	$ 5,851	$ 30,689	$ 6,077	$ (40,167)	$ 129,852
Capital expenditures	379	105	102	-	-	586
Depreciation and amortization	229	127	22	-	-	378

NOTE 20 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

CONDENSED BALANCE SHEETS

	December 31, 2009	December 31, 2008
ASSETS		
Cash and cash equivalents	$ 578	$ 6,908
Investment in University Bank	7,039,329	6,092,903
Other assets	699	5,590
Total assets	$ 7,040,606	$ 6,105,401
LIABILITIES AND EQUITY		
Accounts payable and other liabilities	$ 57,089	$ 40,995
Preferred stock subject to mandatory redemption	806,120	551,170
Total liabilities	863,209	592,165
Total equity	6,177,397	5,513,236
Total liabilities and equity	$ 7,040,606	$ 6,105,401

NOTE 20 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF OPERATIONS

	December 31, 2009	December 31, 2008
OTHER INCOME		
Interest and dividend income	$ 14	$ 53
Other	17,396	-
Total other income	17,410	53
EXPENSES		
Stock compensation	-	6,819
Public listing	8,798	42,484
Professional fees	6,998	14,279
Other miscellaneous	-	2,554
Total expenses	15,796	66,136
Net income (loss) before income taxes and net income of subsidiary	1,614	(66,083)
Income tax expense	-	-
Net income (loss) before net income of subsidiary	1,614	(66,083)
Net income of subsidiary	691,903	100,822
Net income	$ 693,517	$ 34,739

NOTE 20 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	December 31, 2009	December 31, 2008
OPERATING ACTIVITIES		
Net income	$ 693,517	$ 34,739
Adjustments to reconcile net income to net cash flows from operating activities:		
Stock awards	-	6,819
Net change in:		
Other assets	4,891	(4,891)
Other liabilities	53,693	43,570
Investment in subsidiary	(691,903)	(100,822)
Net cash provided by (used in) operating activities	60,198	(20,585)
INVESTING ACTIVITIES - additional investment in University Bank	(200,000)	-
FINANCING ACTIVITIES		
Dividends on preferred stock	(66,528)	(48,570)
Exercise of stock options	-	43,251
Issuance of preferred stock	200,000	13,000
Net cash provided by financing activities	133,472	7,681
NET CHANGE IN CASH	(6,330)	(12,904)
Cash and Cash Equivalents, Beginning	6,908	19,812
Cash and Cash Equivalents, Ending	$ 578	$ 6,908
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:		
Accrued dividends on preferred stock converted to additional shares of preferred stock	$ 54,950	$ 45,673

NOTE 21 – SUBSEQUENT EVENTS

The Company has performed a review of events subsequent to the balance sheet date through May 27, 2010, the date the consolidated financial statements were available to be issued.

On February 12, 2009, the Bank entered into a consent agreement (“the Order”) with the FDIC and the OFIR to cease and desist from certain unsafe and unsound banking practices and violations as defined in the Order. On March 16, 2010, the Order was lifted.