UNIVERSITY BANCORP, INC.
AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2012 and 2011

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of University Bancorp, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and comprehensive income (loss), equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

UHY LLP

Farmington Hills, Michigan
April 24, 2013

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
ASSETS		
Cash and due from banks	**$ 9,152,534**	$ 9,052,660
Certificates of deposit	**7,250,000**	6,250,000
Trading securities, at fair value	**662,058**	785,211
Investment securities available-for-sale, at fair value	**1,627,780**	2,581,261
Federal Home Loan Bank stock, at cost	**1,072,300**	1,072,300
Loans and financings held for sale, at lower of cost or market	**-**	2,617,180
Loans and financings held for sale, at fair value	**43,645,515**	29,858,888
Loans and financings, net	**53,744,139**	56,658,794
Premises and equipment, net	**4,436,122**	3,741,965
Mortgage servicing rights, at fair value	**3,963,470**	2,452,156
Other real estate owned, net	**851,633**	1,114,455
Accounts receivable	**972,226**	907,871
Accrued interest and financing income receivable	**222,454**	271,918
Prepaid expenses	**702,803**	806,280
Derivatives, at fair value	**830,813**	671,312
Goodwill	**356,310**	103,914
Customer relationships	**498,000**	-
Investor remittances receivable	**343,566**	249,186
Refundable federal income taxes	**-**	38,516
Deferred income taxes, net	**1,630,079**	2,363,522
Other assets	**212,841**	104,578
Total assets	**$ 132,174,643**	$ 121,701,967

	December 31, 2012	December 31, 2011
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits:		
Demand - non-interest bearing	**$ 77,499,390**	$ 59,181,446
Demand - interest bearing and profit sharing	**21,754,187**	31,405,953
Savings	**270,836**	314,160
Time	**8,644,469**	13,595,082
Total deposits	**108,168,882**	104,496,641
Derivatives, at fair value	**43,367**	110,331
Accounts payable	**690,887**	656,883
Accrued interest and profit sharing payable	**7,248**	37,010
Allowance for loan recourse	**623,943**	316,783
Escrow and mortgage insurance liabilities	**388,758**	299,626
Liability to fund closed but undisbursed loans	**3,806,795**	2,883,983
Investor remittances payable	**878,238**	479,537
Contingent earn-out liability, at fair value	**153,310**	-
Accrued federal income taxes	**253,454**	-
Deferred income taxes	**2,342,954**	1,282,572
Accrued expenses and other liabilities	**2,146,891**	795,277
Preferred stock subject to mandatory redemption	**1,031,450**	960,050
Total liabilities	**120,536,177**	112,318,693
EQUITY		
University Bancorp, Inc. stockholders' equity:		
Common stock, $.01 par value per share; 5,000,000 shares authorized; 4,782,782 and 4,757,782 shares issued as of December 31, 2012 and 2011, respectively	**47,828**	47,578
Additional paid-in capital	**6,296,334**	6,524,099
Treasury stock, at cost, 115,184 shares held	**(340,530)**	(340,530)
Retained earnings (accumulated deficit)	**1,483,843**	(432,016)
Accumulated other comprehensive income	**65,646**	88,027
Equity attributable to stockholders of University Bancorp, Inc.	**7,553,121**	5,887,158
Noncontrolling interest	**4,085,345**	3,496,116
Total equity	**11,638,466**	9,383,274
Total liabilities and equity	**$ 132,174,643**	$ 121,701,967

See notes to consolidated financial statements.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Years ended December 31,	
	2012	**2011**
Interest and financing income:		
Interest and fees on loans and financing income	**$ 4,539,798**	$ 4,158,471
Interest on securities:		
U.S. Government agencies	**54,383**	76,428
Other securities	**35,539**	29,447
Interest on Federal funds and other	**205,752**	193,183
Total interest and financing income	**4,835,472**	4,457,529
Interest and profit sharing expense:		
Interest and profit sharing on deposits:		
Demand deposits	**285,385**	284,914
Savings deposits	**365**	461
Time deposits	**96,625**	232,538
Other	**95,519**	13
Total interest and profit sharing expense	**477,894**	517,926
Net interest and financing income	**4,357,578**	3,939,603
Provision for loan losses	**1,395,063**	341,088
Net interest and financing income after provision for loan losses	**2,962,515**	3,598,515
Other income:		
Loan servicing and sub-servicing fees	**6,477,725**	5,607,224
Initial loan set-up and other fees	**6,559,971**	4,086,411
Gain on sale of mortgage loans, net	**19,986,094**	6,749,530
Insurance & investment fee income	**265,664**	189,209
Deposit service charges and fees	**6,443**	7,953
Net realized gain on trading securities	**782**	1,675
Change in fair value of mortgage servicing rights	**(101,908)**	(1,381,808)
Change in fair value of loans held for sale, interest rate locks and forward commitments	**1,819,732**	1,472,559
Other income	**141,150**	90,014
Total other income	**35,155,653**	16,822,767

	Years ended December 31, 2012	2011
Other expenses:		
Compensation and benefits	**$ 21,472,124**	$ 13,955,797
Occupancy	**1,364,047**	977,869
Data processing and equipment expense	**1,542,236**	1,169,027
Legal and audit	**681,888**	659,090
Consulting fees	**827,185**	807,535
Mortgage banking	**3,842,515**	1,327,725
Advertising	**716,210**	251,785
Membership and training	**342,621**	302,925
Travel and entertainment	**392,158**	342,810
Supplies and postage	**758,385**	612,506
Insurance	**277,380**	268,131
Other real estate expense, net	**663,628**	229,747
Director related expenses	**211,066**	117,566
FDIC assessments	**156,752**	253,267
Other operating expenses	**191,310**	259,476
Total other expenses	**33,439,505**	21,535,256
Income (loss) before income taxes	**4,678,663**	(1,113,974)
Income tax expense (benefit)	**1,955,885**	(181,900)
Net income (loss)	**$ 2,722,778**	$ (932,074)
COMPREHENSIVE INCOME (LOSS)		
Net income (loss)	**$ 2,722,778**	$ (932,074)
Net unrealized gain (loss) on securities available-for-sale	**(22,381)**	20,268
COMPREHENSIVE INCOME (LOSS)	**$ 2,700,397**	$ (911,806)
Net income (loss) and comprehensive income (loss) attributable to the noncontrolling interests	**$ 806,919**	$ (634,280)
Net income (loss) attributable to common stockholders of University Bancorp, Inc.	**$ 1,915,859**	$ (297,794)
Comprehensive income (loss) attributable to common stockholders of University Bancorp, Inc.	**$ 1,893,478**	$ (277,526)

See notes to consolidated financial statements.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY

	University Bancorp, Inc. Stockholders'								
	Common Stock $.01 Par value			Treasury Stock					
	Number of Shares	Par Value	Additional Paid-in Capital	Number of Shares	Cost	Retained Earnings (Accumulated Deficit)	Accumulated Other Compre-hensive Income	Non-controlling Interest	Total
Balance at January 1, 2011	4,391,062	$ 43,911	$ 6,204,201	(115,184)	$ (340,530)	$ (51,632)	$ 67,759	$ 4,404,931	$ 10,328,640
Contributions by noncontrolling interest	-	-	-	-	-	-	-	49,030	49,030
Issuance of common stock to acquire noncontrolling interest	366,720	3,667	319,898	-	-	-	-	(323,565)	-
Net unrealized gain on securities available-for-sale	-	-	-	-	-	-	20,268	-	20,268
Preferred stock dividends	-	-	-	-	-	(82,590)	-	-	(82,590)
Net loss	-	-	-	-	-	(297,794)	-	(634,280)	(932,074)
Balance at December 31, 2011	4,757,782	47,578	6,524,099	(115,184)	(340,530)	(432,016)	88,027	3,496,116	9,383,274
Net unrealized loss on securities available-for-sale	-	-	-	-	-	-	(22,381)	-	(22,381)
Exercise of stock options	25,000	250	24,750	-	-	-	-	-	25,000
Share-based compensation	-	-	94,000	-	-	-	-	-	94,000
Net income	-	-	-	-	-	1,915,859	-	806,919	2,722,778
Acquisition of noncontrolling interest	-	-	(346,515)	-	-	-	-	(217,690)	(564,205)
Balance at December 31, 2012	4,782,782	$ 47,828	$ 6,296,334	(115,184)	$ (340,530)	$ 1,483,843	$ 65,646	$ 4,085,345	$ 11,638,466

See notes to consolidated financial statements.

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

	Years ended December 31, 2012	2011
OPERATING ACTIVITIES		
Net income (loss)	**$ 2,722,778**	$ (932,074)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	**691,691**	495,995
Change in fair value of mortgage servicing rights	**101,908**	1,381,808
Change in fair value of loans held for sale, interest rate locks and forward commitments	**(1,819,732)**	(1,472,559)
Deferred income tax expense (benefit)	**1,560,300**	(181,900)
Provision for loan losses	**1,395,063**	341,088
Net gain on sale of mortgages	**(19,986,094)**	(6,749,530)
Net realized gain on trading securities	**(782)**	(1,675)
Proceeds from maturities of trading securities	**123,936**	181,358
Net (gain) loss on sale of other real estate owned	**(5,347)**	6,956
Net amortization on investment securities	**2,354**	3,388
Write down of other real estate owned	**327,231**	47,545
Originations of mortgage loans and financings	**(588,680,377)**	(313,815,218)
Proceeds from mortgage loan and financing sales	**597,784,229**	310,898,599
Share-based compensation	**94,000**	-
Preferred dividends recorded as interest expense	**93,938**	-
Net change in:		
Various other assets	**(37,252)**	1,439,521
Various other liabilities	**3,008,237**	1,994,228
Net cash used in operating activities	**(2,623,919)**	(6,362,470)
INVESTING ACTIVITIES		
Proceeds from maturities of securities available-for-sale	**952,203**	369,987
Net proceeds from sale of Federal Home Loan Bank stock	**-**	125,100
Proceeds from sale of other real estate owned	**710,331**	442,460
Loans granted and repayments, net	**750,199**	417,790
Purchase of mortgage servicing rights	**-**	(238,310)
Purchases of premises and equipment	**(858,300)**	(1,108,225)
Acquisition of business	**(986,603)**	(150,000)
Purchase of certificates of deposit	**(1,000,000)**	-
Purchase of securities available-for-sale	**(23,458)**	-
Net cash used in investing activities	**(455,628)**	(141,198)

	Years ended December 31, 2012	2011
FINANCING ACTIVITIES		
Net change in deposits	**$ 3,672,241**	$ 1,912,051
Acquisition on noncontrolling interest	**(500,000)**	-
Exercise of stock options	**25,000**	-
Redemption of preferred stock	**(17,820)**	-
Contributions by noncontrolling interest	**-**	49,030
Net cash provided by financing activities	**3,179,421**	1,961,081
NET CHANGE IN CASH AND CASH EQUIVALENTS	**99,874**	(4,542,587)
Cash and Cash Equivalents, Beginning of Year	**9,052,660**	13,595,247
Cash and Cash Equivalents, End of Year	**$ 9,152,534**	$ 9,052,660
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	**$ 413,718**	$ 525,190
Income taxes	**103,672**	3,770
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:		
Mortgage loans converted to other real estate owned and other assets	**769,393**	185,595
Dividends payable on preferred stock converted to additional shares of preferred stock	**89,220**	79,910
Issuance of common stock to acquire noncontrolling interest	**-**	323,565

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation

The consolidated financial statements of University Bancorp, Inc. (the “Parent”) 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 majority owned subsidiary University Lending Group, LLC (“ULG”). As of December 31, 2011, the Bank owned 87.5% of ULG, and as of December 31, 2012, the Bank owned 100% of ULG. These consolidated financial statements also include the operations of Hoover’s wholly owned subsidiary, Tuomy, LLC, and the operations of the Agency’s wholly owned subsidiaries which were acquired on December 27, 2012, Ann Arbor Insurance Centre, Inc. (“AAIC”) and 2621 Carpenter Road, LLC. 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. University Bancorp, Inc. and Subsidiaries is herein referred to as the “Company”.

The Parent 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 and its subsidiaries are engaged in the sale of insurance products including life, health, property and casualty, and investment products such as annuities. The Agency is located in the Bank’s Ann Arbor main office, and AAIC is located in the building owned by 2621 Carpenter Road, LLC in Ann Arbor, MI.

Hoover owns the Bank’s headquarters facility. Tuomy owns commercial land with a drive through ATM and a rental building.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nature of Operations and Principles of Consolidation (Continued)

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 is also engaged in the business of marketing, originating, processing, closing and selling retail mortgage loans.

ULG commenced operations in April 2008 and is headquartered in Farmington Hills, Michigan. ULG operates in fourteen retail branches throughout Michigan, Indiana and Florida. ULG is engaged in the business of marketing, originating, processing, closing and selling retail mortgage loans. 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 federal, state and Islamic (Sharia'a) law, are deposits that are insured by the Federal Deposit Insurance Corporation (the "FDIC"), home financings (as agent for the Bank), and home financings and commercial real estate financings (as principal for its own account). The Sharia'a compliant products are offered to service the large number of Muslim customers in the 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nature of Operations and Principles of Consolidation (Continued)

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
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 Company records these contracts at fair value 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 the fair value and any gain or loss on the sale of the underlying installment contract. See Note 21 for additional discussion of the determination of fair value.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nature of Operations and Principles of Consolidation (Continued)

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 financing. 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".

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, impairment analysis of goodwill and other intangible assets, the valuation allowance for deferred tax assets, the fair value of certain loans held for sale and derivative instruments such as mortgage interest rate locks and forward commitments, recourse liabilities related to loans sold and loans held for sale, liabilities to investors for penalties related to loss mitigation for loans subserviced, the valuation of stock options and related stock based-compensation, the fair value of assets acquired in the business combination, the fair value of the contingent earn-out liability, the determination and the fair value of other financial instruments.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the FHLB stock are subject to economic events, regulatory actions and other factors.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. When collection becomes remote, loans or financings are charged off.

Premises and Equipment, Net

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed primarily on the straight-line method over the assets estimated useful lives, or for some leasehold improvements, over the term of the lease.

The Company used the following useful lives as of December 31, 2012 and 2011:

	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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage Banking Activities

During 2011, the Company shifted its focus away from wholesale mortgage banking activities. The Company's mortgage banking activities now consist of retail and servicing operations. Mortgage loans held for sale are sold with selective loans having their servicing rights retained, and others on a servicing released basis. During 2011, the Company elected to record ULG and UIFC mortgage loans held for sale at fair value as discussed in Note 21. During 2011, all other loans held for sale were valued at the lower of cost or market as determined by bid prices for loans in the secondary market. During 2012, the Company elected to record all mortgage loans held for sale at fair value. 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 $623,943 and $316,783 as of December 31, 2012 and 2011, respectively.

Mortgage servicing rights ("MSRs") represent both purchased rights and the allocated value of servicing rights retained on loans or financings originated and sold. Loan servicing and sub-servicing fees are contractually based and are recognized monthly as earned over the life of the loans.

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)

Derivative Instruments

The Company 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 21) with changes in fair value recorded in earnings.

Outstanding IRLCs expose the Company 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, the Company 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 21) 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.

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 2012 and 2011 resulted in no impairment losses.

Long-Lived Assets

Management periodically reviews the potential impairment of long-lived assets to assess recoverability. If a long-lived asset is deemed to be impaired, the write-down is recorded as a periodic expense. There was no impairment recorded during 2012 or 2011.

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. If necessary, a valuation allowance is booked to reduce net deferred tax assets to a net amount that is more likely than not to be realized.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

The ASC standards regarding accounting for uncertainty in income taxes 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, 2012 and 2011, there was no accrual for uncertain tax positions.

None of the Company's federal or state income tax returns are currently under examination by the Internal Revenue Service ("IRS") or state authorities. However, fiscal years 2009 and later remain subject to examination by the IRS and its respective states.

The Company's major state tax expense is in the state of Michigan. Under Michigan tax law, the Company is subject to a franchise tax. It is management's policy to include the franchise tax in other operating expenses. The Michigan statute calls for 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 Parent and the Bank have 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.

Reclassifications

Certain amounts in the 2011 consolidated financial statements have been reclassified to conform to presentation adopted in 2012.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Company has performed a review of events subsequent to the balance sheet date through April 24, 2013, the date the consolidated financial statements were available to be issued.

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, 2012 and 2011, this reserve requirement amounted to $2,140,000 and $1,962,000, respectively.

NOTE 3 – INVESTMENT SECURITIES

Trading Securities

The Bank's trading securities portfolio had a net accumulated unrealized gain of $34,116 and $33,333 at December 31, 2012 and 2011, respectively.

Trading securities consist of the following:

	December 31,	
	2012	2011
U.S. agency mortgage-backed securities	$ 662,058	$ 785,211

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, 2012 consists of the following:

	Amortized Cost	Unrealized Gain	Fair Value
U.S. agency mortgage-backed securities	$ 1,562,134	$ 65,646	$ 1,627,780

NOTE 3 – INVESTMENT SECURITIES (Continued)

Securities available-for-sale at December 31, 2011 consists of the following:

	Amortized Cost	Unrealized Gain	Fair Value
U.S. agency mortgage-backed securities	$ 2,493,234	$ 88,027	$ 2,581,261

At December 31, 2012 and 2011, the fair value of trading and available-for-sale securities pledged to secure certain borrowings were $2,289,838 and $3,366,472, respectively. The balance of these borrowings at both December 31, 2012 and 2011 was $-0-.

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. Proceeds from pay downs of mortgage-backed securities amounted to $1,076,139 and $551,345 for the years ended December 31, 2012 and 2011, respectively.

NOTE 4 – LOANS AND FINANCINGS, NET

Major classifications of loans are as follows:

	December 31, 2012	December 31, 2011
Commercial	$ 32,095,307	$ 32,009,552
Residential real estate	22,521,766	24,955,987
Installment	123,392	291,845
Credit cards	161,856	473,727
Gross loans	54,902,321	57,731,111
Allowance for loan losses	(1,158,182)	(1,072,317)
Net loans	$ 53,744,139	$ 56,658,794

NOTE 4 – LOANS AND FINANCINGS, NET (Continued)

Changes in the allowance for loan losses were as follows:

	December 31, 2012	December 31, 2011
Balance, beginning of year	$ 1,072,317	$ 1,349,838
Provision charged to operations	1,395,063	341,088
Recoveries	12,819	285,044
Charge-offs	(1,322,017)	(903,653)
Balance, end of year	$ 1,158,182	$ 1,072,317

Information regarding impaired loans is as follows:

	December 31, 2012	December 31, 2011
Impaired loans:		
Loans with allowance allocated	$ 1,281,325	$ 3,135,596
Amount of allowance for loan losses allocated	$ 325,160	$ 740,114
Impaired loans:		
Average balance during the year	$ 813,684	$ 4,460,262
Interest income recognized thereon	$ 91,219	$ 248,705
Cash basis interest income recognized	$ 84,743	$ 230,806

The following tables present informative data by class of loan and financings regarding their age and interest or financing income accrual status at December 31, 2012 and 2011 (in thousands):

		Past Due				Total Loans
December 31, 2012	Current	30-59 Days	60-89 Days	≥ 90 Days	Total Past Due	and Financings
Commercial	$ 2,181	$ -	$ -	$ -	$ -	$ 2,181
Commercial real estate	29,914	-	-	-	-	29,914
Consumer	123	-	-	-	-	123
Credit card	162	-	-	-	-	162
Residential mortgage loans	22,306	104	60	52	216	22,522
Total	$ 54,686	$ 104	$ 60	$ 52	$ 216	$ 54,902

NOTE 4 – LOANS AND FINANCINGS, NET (Continued)

December 31, 2011	Current	Past Due 30-59 Days	Past Due 60-89 Days	Past Due ≥ 90 Days	Total Past Due	Total Loans and Financings
Commercial	$ 3,039	$ -	$ -	$ -	$ -	$ 3,039
Commercial real estate	27,501	523	-	946	1,469	28,970
Consumer	292	-	-	-	-	292
Credit card	474	-	-	-	-	474
Residential mortgage loans	23,793	507	-	656	1,163	24,956
Total	$ 55,099	$ 1,030	$ -	$ 1,602	$ 2,632	$ 57,731

December 31, 2012	Accrual Status: Total Loans and Financings on Nonaccrual Status	Accrual Status: Loans and Financings Past Due ≥ 90 Days and Still Accruing
Commercial	$ -	$ -
Commercial real estate	-	-
Consumer	-	-
Credit card	-	-
Residential mortgage loans	40	52
Total	$ 40	$ 52

December 31, 2011	Accrual Status: Total Loans and Financings on Nonaccrual Status	Accrual Status: Loans and Financings Past Due ≥ 90 Days and Still Accruing
Commercial	$ -	$ -
Commercial real estate	946	-
Consumer	-	-
Credit card	-	-
Residential mortgage loans	-	656
Total	$ 946	$ 656

NOTE 5 – MORTGAGE BANKING ACTIVITIES

Midwest provides sub-servicing of real estate mortgage loans for several financial institutions. The unpaid principal balance of these loans was approximately $12.2 billion and $10.2 billion as of December 31, 2012 and 2011, respectively. The value of these mortgage servicing rights are not included in the accompanying consolidated financial statements.

University Bank, Midwest, UIFC and ULG sell 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, but the mortgage servicing rights are included in the accompanying consolidated financial statements. Such mortgage loans have been sold predominately without recourse or with limited recourse. The unpaid principal balance of these loans was $539.7 million and $394.5 million at December 31, 2012 and 2011, respectively.

Custodial escrow balances maintained in connection with these loans were $158.6 million and $142.6 million, at December 31, 2012 and 2011, respectively, and were not included in the accompanying consolidated financial statements.

The following summarizes the activity relating to mortgage servicing rights:

	December 31, 2012	December 31, 2011
Balance, January 1	$ 2,452,156	$ 2,929,514
Amount capitalized	1,613,222	904,450
Sale of servicing rights	-	-
Change in fair value	(101,908)	(1,381,808)
Balance, December 31	$ 3,963,470	$ 2,452,156

The Company 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, 2012 and 2011, IRLCs amounted to $42.5 million and $32.7 million, respectively, of which management estimated $34.6 million and $24.3 million, respectively, to eventually close and be funded. These IRLCs were recorded in assets in the consolidated balance sheets at a fair value of $830,813 and $671,312 as of December 31, 2012 and 2011, respectively.

The Company 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 $27.4 million and $24.6 million as of December 31, 2012 and 2011, respectively, which were recorded in liabilities in the consolidated balance sheets at a fair value of $43,367 and $110,331 as of December 31, 2012 and 2011, respectively.

NOTE 5 – MORTGAGE BANKING ACTIVITIES (Continued)

The net change in fair value of the IRLCs and the related forward loan sales commitments held at December 31, 2012 and 2011 resulted in a gain of $226,465 and $453,969, respectively, which has been recognized in other income in the consolidated statements 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 21. Prior to companies being permitted to adopt 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 21 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,	
	2012	2011
Land	$ 562,500	$ 375,000
Buildings and improvements	2,787,699	2,165,251
Furniture, fixtures, equipment and software	6,211,494	5,635,594
	9,561,693	8,175,845
Less accumulated depreciation and amortization	(5,125,571)	(4,433,880)
Premises and equipment, net	$ 4,436,122	$ 3,741,965

Depreciation and amortization expense related to premises and equipment amounted to $691,691 and $495,995 for the years ended December 31, 2012 and 2011, respectively.

Midwest, UIFC and ULG each lease office space for their respective operations. ULG and UIFC also lease office space for its retail branches. All of the retail branch lease agreements are short-term in nature, with some being month-to-month, and some allowing the Company to break the lease with both, a notice ranging from thirty to ninety days, and a fee. The Company leases various other facilities at varying rates on a month-to-month basis. Total rent expense for all operating leases was approximately $664,000 and $436,000 in 2012 and 2011, respectively.

NOTE 6 – PREMISES AND EQUIPMENT, NET (Continued)

The following table summarizes the future minimum payments under the contractual obligations of the Company as of December 31, 2012:

Year ended December 31,	Amount
2013	$ 453,697
2014	208,384
2015	188,299
2016	24,435
	$ 874,815

NOTE 7 – GOODWILL

The following table summarizes goodwill by subsidiary:

	December 31, 2012	December 31, 2011
Midwest	$ 103,914	$ 103,914
AAIC	252,396	-
	$ 356,310	$ 103,914

As discussed in Note 22, during 2012, the Company recorded goodwill related to its acquisition of AAIC and 2621 Carpenter Road, LLC.

NOTE 8 – CUSTOMER RELATIONSHIPS

During 2012, the Company acquired customer relationships of $498,000 as part of the acquisition of AAIC and 2621 Carpenter Road, LLC discussed in Note 22. These customer relationships will be amortized on a straight-line basis over their estimated economic lives, which were determined to be five years. As the acquisition occurred at the end of 2012, no amortization expense related to these customer relationships was recorded during 2012. Amortization expense related to these customer relationships is expected to be $99,600 in each of the next five years.

NOTE 9 – TIME DEPOSITS

Time deposit liabilities issued in denominations of $100,000 or more were $5,687,282 and $8,743,584 at December 31, 2012 and 2011, respectively.

NOTE 9 – TIME DEPOSITS (Continued)

At December 31, 2012, stated maturities of time deposits were:

Year ended December 31,	Amount
2013	$ 4,959,688
2014	1,711,982
2015	133,402
2016	639,227
2017 and thereafter	1,200,170
	$ 8,644,469

NOTE 10 – INCOME TAXES

Income tax expense (benefit) for the years ended December 31, 2012 and 2011 is summarized as follows:

	December 31,	
	2012	2011
Current	$ 395,585	$ -
Deferred	1,651,300	(272,900)
Increase (decrease) in valuation allowance	(91,000)	91,000
Income tax expense (benefit)	$ 1,955,885	$ (181,900)

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 and the change in the valuation allowance. Based on management's estimates of future income, during 2012, management decreased the valuation allowance in order to increase the related deferred tax assets to an amount that is more likely than not to be realized.

NOTE 10 – INCOME TAXES (Continued)

Significant components of the Company's deferred income tax assets and liabilities as of December 31, 2012 and 2011 are as follows:

	December 31,	
	2012	2011
Deferred income tax assets:		
Allowance for loan losses and recourse liabilities	$ 423,747	$ 236,477
Net operating loss carry-forward	-	907,652
Tax credit carry-forward	1,046,197	1,241,866
Other real estate owned	66,896	9,468
Donation carry-forward	-	7,705
Premises and equipment	15,488	33,425
Other	77,751	17,929
Deferred tax asset	1,630,079	2,454,522
Deferred income tax liabilities:		
Mortgage servicing rights	1,347,580	754,440
Basis in ULG	-	390,302
Derivatives and LHFS	812,636	127,107
Customer relationships	169,320	-
Other	13,418	10,723
Deferred tax liability	2,342,954	1,282,572
	(712,875)	1,171,950
Valuation allowance	-	(91,000)
Net deferred tax asset (liability)	$ (712,875)	$ 1,080,950

	Amount	Date of expiration
Low income housing credits	$ 944,615	Beginning 2018
Minimum tax credits	$ 101,582	N/A

NOTE 11 – PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION

As of December 31, 2012 and 2011, the Company had 500,000 shares of preferred stock authorized with a $.001 par value per share. There were 103,145 and 96,005 shares of this preferred stock issued and outstanding as of December 31, 2012 and 2011, 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. As of December 31, 2011, the preferred stock was mandatorily redeemable by the Company no later than April 30, 2012, at $10 per share plus all accrued and unpaid dividends through the redemption date. During 2012, all of the preferred shareholders agreed to extend the mandatory redemption date to April 30, 2014, except for one shareholder, whose 1,782 preferred shares were redeemed in 2012 for $17,820.

During 2012 and 2011, the Company declared preferred dividends of $93,938 and $82,590, respectively. Generally accepted accounting principles require these dividends to be reflected as interest expense. As a result, they have been included in other interest in the consolidated statement of operations and comprehensive income (loss). As of December 31, 2012 and 2011, the Company had unpaid preferred dividends of $46,797 and $42,610, respectively, which are included in accrued expenses and other liabilities in the consolidated balance sheets. The amount the Company would be required to pay to redeem the stock at December 31, 2012 is $1,031,450 plus accrued dividends of $46,797.

NOTE 12 – 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 12 – 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, 2011	173,563	$ 1.85
Granted	-	-
Exercised	-	-
Expired or forfeited	-	-
Outstanding at December 31, 2011	173,563	1.85
Granted	183,662	1.80
Exercised	(25,000)	1.00
Expired or forfeited	(75,000)	1.33
Outstanding at December 31, 2012	257,225	$ 2.14

At December 31, 2012:	
Number of options immediately exercisable	257,225
Weighted average exercise price of immediately exercisable options	$2.14
Range of exercise price of options outstanding	$1.00 - $3.50
Weighted average remaining life of options outstanding	3.1 years

During 2012 and 2011, the Company received cash of $25,000 and $-0-, respectively, related to the exercise of options. As of the exercise date, the intrinsic value of the options exercised in 2012 was approximately $5,000.

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. The fair value of the Company's 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. The options that were granted in 2012 were fully vested at the grant date. The Company recognized share-based compensation expense of $94,000 and $-0- during the years ended December 31, 2012 and 2011, respectively. The weighted-average grant-date fair value of stock options granted during 2012 was $0.51 per option. As of December 31, 2012 and 2011, all outstanding options were fully vested.

NOTE 12 – STOCK OPTIONS (Continued)

The Black-Scholes option pricing model values options based on the stock price at the grant date, expected term of the option, expected volatility of the stock, expected dividend payments and risk-free interest rate over the expected term of the option. The assumptions used in the Black-Scholes model were as follows for the options granted in 2012:

Risk-free interest rate	0.3% - 0.9%
Expected volatility	53%
Expected term	2 - 5 years
Expected dividend yield	0%

The Black-Scholes option valuation model was developed for estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because option valuation models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options. As the Company's options do not have the characteristics of traded options, the option valuation models do not necessarily provide a reliable measure of the fair value of its options.

NOTE 13 – EMPLOYEE STOCK OWNERSHIP PLAN ("ESOP")

The Company has a noncontributory ESOP covering all full-time employees after one year of service and upon reaching the age of twenty-one. 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 contributions during the years ended December 31, 2012 and 2011.

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, 2012 and 2011, all of which were fully allocated at December 31, 2012. 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 $148,391 and $87,289 at December 31, 2012 and 2011, respectively.

NOTE 14 – 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, 2012 and 2011, total equity of Midwest was $9,320,688 and $7,847,816, respectively, resulting in a $1,864,141 and $1,569,563 noncontrolling interest reflected in the Company's consolidated balance sheets, respectively.

Also, included in the consolidated financial statements are the results for UIFC. The Bank owns 80% of the common stock of UIFC. An outside investor owns the remaining 20%. At December 31, 2012 and 2011, total equity of UIFC was $44,420,635 and $42,946,468, respectively, which includes $10,000,000 in common stock and $33,315,000 of preferred stock as of both December 31, 2012 and 2011. The noncontrolling interest at December 31, 2012 and 2011 was $2,221,204 and $1,926,553, respectively.

UIFC has an agreement that calls for UIFC to pay a consulting fee to the UIFC noncontrolling interest based on UIFC standalone taxable income. These fees are included in other operating expenses and amounted to $52,615 and $-0- for the years ended December 31, 2012 and 2011, respectively. UIFC is only required to pay a cumulative amount of $500,000 to the noncontrolling interest under this agreement. As of December 31, 2012, UIFC had paid a cumulative amount of $52,615.

Also, included in the consolidated financial statements are the results for ULG. As of December 31, 2010, the Bank owned 50.01% of ULG. During 2011, the Company acquired 37.5% of the noncontrolling interest in ULG in exchange for $249,370 and 366,720 shares of University Bancorp, Inc. common stock. As a result, as of December 31, 2011 the Bank owned 87.5% of ULG, with the remaining amounts owned by an executive of ULG. During 2012, the Company acquired the remaining 12.5% for $500,000. As a result, as of December 31, 2012, the Company owned 100% of ULG.

At December 31, 2011, total members' equity of ULG was $1,361,658. At December 31, 2011, the noncontrolling interest was $-0- because under certain provisions, the ULG noncontrolling interest was to incur losses associated with the startup of the retail branches in 2011, but would be the first to recoup the losses once income was earned.

In accordance with ULG's operating agreement that in effect while there was a noncontrolling interest, ULG was to make annual distributions to its members to be used to pay the members' tax liability associated with the members' ownership in ULG. ULG made no distributions to the noncontrolling interest during the years ended December 31, 2012 and 2011.

The results of Midwest's, UIFC's, and ULG's operations for the years ended December 31, 2012 and 2011 are included in the Company's consolidated statements of operations.

NOTE 15 – EMPLOYEE RETIREMENT PLAN

The Bank has a 401(K) plan (the "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 during the years ended December 31, 2012 and 2011.

NOTE 16 – COMMITMENTS AND CONTINGENCIES

Commitments

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, 2012	December 31, 2011
Unused lines of credit	$ 747,483	$ 1,609,744
Unused credit card limits	686,646	569,683
	$ 1,434,129	$ 2,179,427

Contingencies

On September 26, 2012, 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.

The Company has been party to various legal claims that have arisen from time to time in the normal course of business, which, in the opinion of management, will not have a material effect on the Company's consolidated financial statements.

NOTE 17 – RELATED PARTY TRANSACTIONS

Available lines of credit to related parties at December 31, 2012 and 2011 amounted to $125,000 and $161,000, of which $46,834 and $94,806 had been borrowed against, respectively. The Company has closed and sold related party loans during the normal course of business. These loans were performing pursuant to terms at December 31, 2012 and 2011.

The Bank had demand deposits of $601,190 and $295,722 from directors, officers and their affiliates as of December 31, 2012 and 2011, respectively. The Bank also holds demand deposits from various employees in the normal course of business.

NOTE 18 – FEDERAL HOME LOAN BANK ADVANCES

The Bank has a line of credit available from the FHLB. The limit on this line was $3,000,000 as of both December 31, 2012 and 2011. There were no advances on this line of credit as of December 31, 2012 and 2011. 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 both December 31, 2012 and 2011, the Bank had $3,000,000 of unutilized and available credit under the line of credit.

NOTE 19 – 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. The Bank is currently required to get written consent prior to declaring or paying any dividend. The Bank paid no dividends to the holding company, University Bancorp, Inc., during 2012 and 2011. University Bancorp, Inc. did not pay any dividends to common shareholders during 2012 or 2011.

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.

NOTE 19 – REGULATORY MATTERS (Continued)

Regulatory Capital Requirements (Continued)

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, 2012 and 2011, 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 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, 2012:						
Total capital						
(to risk-weighted assets)	$ 12,362,000	15.54%	$ 10,343,000	13.00%	$ 10,343,000	13.00%
Tier 1 capital						
(to risk-weighted assets)	11,365,000	14.29%	3,182,000	4.00%	4,773,000	6.00%
Tier 1 capital						
(to average assets)	11,365,000	9.69%	9,679,000	8.25%	9,679,000	8.25%
As of December 31, 2011:						
Total capital						
(to risk-weighted assets)	$ 10,741,000	16.51%	$ 8,457,000	13.00%	$ 8,457,000	13.00%
Tier 1 capital						
(to risk-weighted assets)	9,922,000	15.25%	2,602,000	4.00%	3,903,000	6.00%
Tier 1 capital						
(to average assets)	9,922,000	8.90%	9,192,000	8.25%	9,192,000	8.25%

NOTE 20 – OTHER CAPITAL REQUIREMENTS

The Bank, Midwest and ULG are subject to certain capital requirements in connection with seller/servicer agreements that these entities have entered into with secondary market investors. Failure to maintain minimum capital requirements could result in these entities' inability to originate and service loans for the respective investor and, therefore, could have a direct material effect on the Company's consolidated financial statements.

NOTE 20 – OTHER CAPITAL REQUIREMENTS (Continued)

The Bank's, Midwest's and ULG's actual capital amounts and the minimum amounts required for capital adequacy purposes, by investor, are as follows as of December 31, 2012 and 2011:

	Actual Capital	Minimum Capital
As of December 31, 2012:		
Bank		
HUD	$ 12,680,998	$ 1,000,000
FHLMC	12,680,998	3,102,557
FNMA	12,680,998	2,502,342
Midwest		
HUD	$ 9,095,155	$ 1,000,000
FHLMC	9,095,155	2,504,473
FNMA	9,095,155	2,978,363
ULG		
HUD	$ 5,519,664	$ 1,000,000

	Actual Capital	Minimum Capital
As of December 31, 2011:		
Bank		
HUD	$ 10,493,791	$ 1,000,000
FHLMC	10,493,791	2,000,000
FNMA	10,493,791	2,585,316
Midwest		
HUD	$ 7,847,829	$ 1,000,000
FHLMC	7,847,829	2,000,000
FNMA	7,847,829	3,033,128
ULG		
HUD	$ 1,361,658	$ 1,000,000

As of December 31, 2012 and 2011, Midwest and ULG were also each required to have a minimum of $200,000 in liquid assets under HUD liquidity requirements. As of December 31, 2011, Midwest was in compliance with this requirement, but ULG was not. As a result, in accordance with HUD requirements, management instituted a corrective action plan to become compliant, and was compliant as of December 31, 2012. Midwest was also compliant as of December 31, 2012.

NOTE 21 - FAIR VALUE MEASUREMENTS

The ASC 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 standards also emphasize 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. Under the standards, fair value measurements are disclosed by level within that hierarchy.

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.

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.

NOTE 21 - FAIR VALUE MEASUREMENTS (Continued)

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.

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

The Company elected to account for its 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.

NOTE 21 - FAIR VALUE MEASUREMENTS (Continued)

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 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, 2012 and 2011 was $1,593,267 and $1,018,590, respectively, which is included in other income in the consolidated statements of operations.

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.

Derivatives – Interest Rate Lock Commitments and Forward Commitments

The Company 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.

NOTE 21 - FAIR VALUE MEASUREMENTS (Continued)

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 the Company 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, the Company 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.

Other Real Estate Owned

Real estate properties acquired in collection of a loan are recorded at fair value upon foreclosure, establishing a new cost basis. After foreclosure, management periodically performs valuations to ensure real estate is carried at lower of cost or fair value, less estimated costs to sell. Fair value of the collateral is estimated by considering appraisals, which are updated on a periodic basis to reflect current housing market conditions.

NOTE 21 - FAIR VALUE MEASUREMENTS (Continued)

The following tables summarize financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 and 2011, 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, 2012			
Assets:			
Trading and available-for-sale securities	$ -	$ 2,289,838	$ -
Loans held for sale	-	43,645,515	-
Mortgage servicing rights	-	-	3,963,470
Interest rate lock commitments	-	-	830,813
Total assets at fair value	$ -	$ 45,935,353	$ 4,794,283
Liabilities:			
Forward sales commitments	$ -	$ -	$ 43,367

	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2011			
Assets:			
Trading and available-for-sale securities	$ -	$ 3,366,472	$ -
Loans held for sale - ULG, UIFC	-	29,858,888	-
Mortgage servicing rights	-	-	2,452,156
Interest rate lock commitments	-	-	671,312
Total assets at fair value	$ -	$ 33,225,360	$ 3,123,468
Liabilities:			
Forward sales commitments	$ -	$ -	$ 110,331

NOTE 21 - FAIR VALUE MEASUREMENTS (Continued)

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, 2011	$ 2,929,514	$ 105,342	$ 1,670
Purchases, sales, issuances, settlements, net	904,450	(105,342)	(1,670)
Net gains (losses)	(1,381,808)	671,312	(110,331)
Fair value December 31, 2011	2,452,156	671,312	(110,331)
Purchases, sales, issuances, settlements, net	1,613,222	(671,312)	110,331
Net gains (losses)	(101,908)	830,813	(43,367)
Fair value December 31, 2012	$ 3,963,470	$ 830,813	$ (43,367)

The following table summarizes financial assets and liabilities measured at fair value on a nonrecurring basis:

	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Year ended December 31, 2012			
Other real estate owned	$ -	$ 489,471	$ -
Year ended December 31, 2011			
Other real estate owned	$ -	$ 185,595	$ -

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 due from banks, certificates of deposit, and Federal Home Loan Bank stock. The methodologies for other financial assets and financial liabilities are discussed below.

NOTE 21 - FAIR VALUE MEASUREMENTS (Continued)

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. These loans are considered to be level 2 assets in the valuation hierarchy. The fair value of adjustable-rate loans is 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. These time deposits are considered to be level 2 liabilities in the valuation hierarchy.

The estimated fair values of financial instruments as of December 31, 2012 and 2011 are as follows (in thousands):

	December 31,			
	2012		2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Significant financial assets:				
Cash and due from banks	$ 9,153	$ 9,153	$ 9,053	$ 9,053
Certificates of deposit	7,250	7,250	6,250	6,250
Trading securities	662	662	785	785
Securities available-for-sale	1,628	1,628	2,581	2,581
Federal Home Loan Bank stock	1,072	1,072	1,072	1,072
Loans and financings, held for sale, at lower of cost or market	-	-	2,617	2,666
Loans and financings, held for sale, at fair value	43,646	43,646	29,859	29,859
Loans and financings, net	53,744	54,629	56,659	56,657
Mortgage servicing rights	3,963	3,963	2,452	2,452
Derivatives	831	831	671	671
Significant financial liabilities:				
Deposits:				
Demand - non-interest bearing	$ 77,499	$ 77,499	$ 59,181	$ 59,181
Demand - interest bearing and profit sharing	21,754	21,754	31,406	31,406
Savings	271	271	314	314
Time	8,644	8,887	13,595	13,832
Derivatives	43	43	110	110

NOTE 22 – BUSINESS COMBINATIONS

Ann Arbor Insurance Centre, Inc. and 2621 Carpenter Road, LLC

On December 27, 2012, the Company completed an acquisition through which UIIS acquired the 100% of the stock of AAIC, an insurance agency, and 100% of the membership interest of 2621 Carpenter Road, LLC, which owns the building and property at which AAIC operates. The acquisition was made to enable the Company to expand the insurance products that it can offer to its existing and new customers, and to expand the customer base of the Company.

The following table summarizes the consideration paid for the net assets acquired through the acquisition:

Consideration:	
Cash	$ 684,477
Forgiveness of seller mortgage	302,126
Contingent earn-out arrangement	153,310
Fair value of total consideration	$ 1,139,913

The following table summarizes the fair value of assets acquired and liabilities assumed that were recognized at the acquisition date:

Accounts receivable	$ 27,000
Prepaid expenses	11,289
Premises and equipment	527,548
Customer relationships	498,000
Other liability	(7,000)
Deferred tax liability	(169,320)
Total identifiable net assets	887,517
Goodwill	252,396
	$ 1,139,913

The contingent earn-out arrangement requires the Company to pay the seller an earn-out amount based on AAIC's retention rate of customers since acquisition. The potential amount of all future payments that the Company would be required to make under this arrangement was between $0 and $153,310.

NOTE 22 – BUSINESS COMBINATIONS (Continued)

The fair value of this contingent earn-out arrangement of $153,310 was estimated based on expected retention of customers. As of December 31, 2012, management did not remeasure the fair value of the contingent earn-out arrangement due to the fact that the acquisition date was so near the year end date. As a result, the Company recognized no income or expense related to the change in the fair value of this contingent earn-out arrangement.

As a result of this acquisition, the Company recognized goodwill of $252,396 on the date of acquisition. The goodwill recorded primarily reflects a history of operating margins and profitability and the benefit the Company will receive from synergies between AAIC and the Company. This goodwill is not being amortized for tax purposes.

The identifiable assets acquired and liabilities assumed were recorded at fair value as of the acquisition date. The identifiable net assets acquired include fixed assets with fair values that were determined by appraisal. Identifiable net assets also included an intangible asset with a fair value that was determined by the multiperiod excess earnings method. Inputs and assumptions used were based on the acquiree’s history, projections and current market conditions. All other identifiable assets acquired and liabilities assumed had carrying amounts that approximated fair value, or the amount/benefit to be paid or received.

Community Central Mortgage Company, LLC

In 2011, ULG purchased 100% of the assets of Community Central Mortgage Company, LLC for total cash consideration of $150,000. This acquisition brought the Company four additional loan processing branches. As part of the asset purchase agreement, the Company assumed all assets, all contracts, and real estate leases for three Indiana locations and one Michigan location. The identifiable assets acquired and liabilities assumed were recorded at fair value as of the acquisition date. The identifiable net assets acquired include office furniture and equipment with a fair value of $150,000. There were no liabilities assumed.

NOTE 23 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

CONDENSED BALANCE SHEETS

	December 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	$ 35,720	$ 19,692
Investment in University Bank	8,595,648	6,881,112
Other assets	-	5,000
Total assets	$ 8,631,368	$ 6,905,804
LIABILITIES AND EQUITY		
Accounts payable and other liabilities	$ 46,797	$ 58,596
Preferred stock subject to mandatory redemption	1,031,450	960,050
Total liabilities	1,078,247	1,018,646
Total equity	7,553,121	5,887,158
Total liabilities and equity	$ 8,631,368	$ 6,905,804

NOTE 23 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF OPERATIONS

	December 31, 2012	December 31, 2011
OTHER INCOME		
Interest and dividend income	$ 20	$ 11
Other income	25,463	-
	$ 25,483	$ 11
EXPENSES		
Professional fees and public listing	3,344	12,123
Other miscellaneous	1,774	1,798
Share-based compensation	94,000	-
Interest expense	93,938	-
Total expenses	193,056	13,921
Net loss before income taxes and net income of subsidiary	(167,573)	(13,910)
Income tax expense	-	-
Net loss before net income of subsidiary	(167,573)	(13,910)
Net income (loss) of subsidiary	2,083,432	(283,884)
Net income (loss)	$ 1,915,859	$ (297,794)

NOTE 23 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	December 31, 2012	December 31, 2011
OPERATING ACTIVITIES		
Net income (loss)	$ 1,915,859	$ (297,794)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Share-based compensation	94,000	-
Preferred dividends recorded as interest expense	93,938	-
Net change in:		
Other assets	5,000	(4,301)
Accounts payable and other liabilities	(16,517)	421
Net loss of subsidiary	(2,083,432)	283,884
Net cash provided by (used in) operating activities	8,848	(17,790)
FINANCING ACTIVITIES		
Redemption of preferred stock	(17,820)	-
Exercise of stock options	25,000	-
Net cash provided by operating activities	7,180	-
NET CHANGE IN CASH	16,028	(17,790)
Cash and Cash Equivalents, Beginning of Year	19,692	37,482
Cash and Cash Equivalents, End of Year	$ 35,720	$ 19,692
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:		
Dividends payable on preferred stock converted to additional shares of preferred stock	$ 89,220	$ 79,910
Issuance of common stock to acquire Bank's noncontrolling interest	-	323,565