UNIVERSITY BANCORP, INC.
AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2014 and 2013

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations and Comprehensive Income	5
Consolidated Statements of Equity	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	10

UHY LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of University Bancorp, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive income, 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 consolidated 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 consolidated 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, 2014 and 2013, 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
March 25, 2015

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2014	**2013**
ASSETS		
Cash and due from banks	**$ 2,364,321**	$ 6,152,472
Restricted cash	**1,000,553**	1,000,000
Certificates of deposit	**6,250,000**	7,000,000
Investment securities available-for-sale, at fair value	**1,254,164**	1,703,676
Federal Home Loan Bank stock, at cost	**872,300**	1,072,300
Loans and financings held for sale or assignment, at fair value	**40,078,919**	27,407,166
Loans and financings, net	**50,672,477**	48,496,466
Premises and equipment, net	**4,340,368**	4,579,450
Mortgage and financing servicing rights, at fair value	**7,900,842**	7,170,318
Real estate owned, net	**355,107**	431,553
Accounts receivable	**649,014**	666,282
Accrued interest and financing income receivable	**168,229**	179,714
Prepaid expenses	**683,492**	659,085
Derivatives, at fair value	**1,065,770**	477,692
Goodwill	**356,310**	356,310
Customer relationships, net	**355,714**	426,857
Investor remittances receivable	**470,474**	1,371,062
Refundable federal income taxes	**333,691**	503,856
Deferred income taxes	**1,752,521**	1,464,102
Other assets	**52,513**	94,023
Total assets	**$ 120,976,779**	$ 111,212,384

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Continued)

	December 31,	
	2014	**2013**
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits:		
Demand - non-interest bearing	**$ 72,232,864**	$ 59,184,454
Demand - interest bearing and profit sharing	**18,362,490**	20,692,435
Savings	**305,205**	277,899
Time	**3,672,550**	5,378,071
Total deposits	**94,573,109**	85,532,859
Derivatives, at fair value	**172,008**	-
Accounts payable	**992,130**	549,000
Accrued interest and profit sharing payable	**4,694**	6,768
Allowance for loan and financing recourse	**431,394**	338,026
Escrow, mortgage and financing insurance liabilities	**360,111**	332,877
Liability to fund closed but undisbursed loans and financings	**1,498,022**	1,239,513
Investor remittances payable	**1,397,269**	2,237,748
Contingent earn-out liability, at fair value	**74,129**	153,310
Contingent legal liability	**848,000**	-
Deferred income taxes	**3,965,749**	3,431,389
Accrued expenses and other liabilities	**1,391,096**	2,228,059
Preferred stock subject to mandatory redemption	**350,000**	1,031,450
Total liabilities	**106,057,711**	97,080,999
EQUITY		
University Bancorp, Inc. stockholders' equity:		
Common stock, $.01 par value per share; 5,000,000 shares authorized; 4,782,782 shares issued as of both December 31, 2014 and 2013	**47,828**	47,828
Additional paid-in capital	**6,313,650**	6,267,158
Treasury stock, at cost; 31,522 and 89,954 shares held as of December 31, 2014 and 2013, respectively	**(93,192)**	(265,940)
Retained earnings	**4,065,032**	3,309,851
Accumulated other comprehensive income	**23,111**	80,588
Equity attributable to stockholders of University Bancorp, Inc.	**10,356,429**	9,439,485
Noncontrolling interest	**4,562,639**	4,691,900
Total equity	**14,919,068**	14,131,385
Total liabilities and equity	**$ 120,976,779**	$ 111,212,384

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

	Years ended December 31, 2014	2013
Interest and financing income:		
Interest and fees on loans and financing income	**$ 4,100,004**	$ 4,170,010
Interest on securities:		
U.S. Government agencies	**65,235**	52,081
Other securities	**45,617**	40,675
Interest on federal funds and other	**196,346**	199,786
Total interest and financing income	**4,407,202**	4,462,552
Interest and profit sharing expense:		
Interest and profit sharing on deposits:		
Demand deposits	**39,815**	29,426
Savings deposits	**295**	278
Time deposits	**73,525**	101,268
Other	**65,209**	93,085
Total interest and profit sharing expense	**178,844**	224,057
Net interest and financing income	**4,228,358**	4,238,495
Provision for loan and financing losses	**(308,443)**	100,153
Net interest and financing income after provision for loan losses	**4,536,801**	4,138,342
Other income (loss):		
Loan and financing servicing and sub-servicing fees	**8,584,385**	7,636,457
Origination and other fees	**5,898,005**	6,032,716
Gain on sale of mortgage loans, net, and fee income for assignment of financings	**16,409,483**	18,178,860
Insurance & investment fee income	**639,148**	674,663
Deposit service charges and fees	**8,493**	9,346
Net loss on trading securities	**-**	(34,116)
Change in fair value of mortgage and financing servicing rights	**(1,522,592)**	1,151,405
Change in fair value of loans and financings held for sale or assignment, interest and financing rate locks, and forward commitments	**1,938,093**	591,520
Other income	**235,835**	153,170
Total other income, net	**32,190,850**	34,394,021

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

	Years ended December 31, 2014	2013
Other expenses:		
Compensation and benefits	**$ 23,667,458**	$ 24,138,898
Occupancy	**1,610,261**	1,555,150
Data processing and equipment expense	**2,027,340**	1,712,441
Legal and audit	**2,267,769**	1,271,917
Consulting fees	**666,217**	560,717
Mortgage banking	**1,162,616**	2,037,228
Advertising	**730,223**	620,274
Membership and training	**269,142**	392,550
Travel and entertainment	**359,496**	403,877
Supplies and postage	**1,244,534**	815,096
Insurance	**353,698**	271,210
Real estate expense	**37,718**	115,399
Director related expenses	**164,547**	172,984
FDIC assessments	**52,837**	132,202
Contingent legal expense	**848,000**	-
Noncontrolling interest tax sharing fee	**-**	447,385
Amortization of customer relationships	**71,143**	71,143
Other operating expenses	**207,895**	134,999
Total other expenses	**35,740,894**	34,853,470
Income before income taxes	**986,757**	3,678,893
Income tax expense	**360,837**	1,246,330
Net income	**$ 625,920**	$ 2,432,563
COMPREHENSIVE INCOME		
Net income	**$ 625,920**	$ 2,432,563
Net unrealized gain (loss) on securities available-for-sale	**(57,477)**	14,942
COMPREHENSIVE INCOME	**$ 568,443**	$ 2,447,505
Net income (loss) and comprehensive income (loss) attributable to the noncontrolling interests	**$ (129,261)**	$ 606,555
Net income attributable to common stockholders of University Bancorp, Inc.	**$ 755,181**	$ 1,826,008
Comprehensive income attributable to common stockholders of University Bancorp, Inc.	**$ 697,704**	$ 1,840,950

See notes to consolidated financial statements.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY

	University Bancorp, Inc. Stockholders'													
	Common Stock $.01 Par value				Additional		Treasury Stock				Accumulated Other Compre-		Non-	
	Number of Shares		Par Value		Paid-in Capital	Number of Shares		Cost		Retained Earnings		hensive Income	controlling Interest	Total
Balance at January 1, 2013	4,782,782	$	47,828	$	6,296,334	(115,184)	$	(340,530)	$	1,483,843	$	65,646	$ 4,085,345	$ 11,638,466
Exercise of stock options	-		-		(29,176)	25,230		74,590		-		-	-	45,414
Net unrealized gain on securities available-for-sale	-		-		-	-		-		-		14,942	-	14,942
Net income	-		-		-	-		-		1,826,008		-	606,555	2,432,563
Balance at December 31, 2013	4,782,782		47,828		6,267,158	(89,954)		(265,940)		3,309,851		80,588	4,691,900	14,131,385
Exercise of stock options	-		-		(67,570)	58,432		172,748		-		-	-	105,178
Excess tax benefit from exercise of stock options	-		-		106,000	-		-		-		-	-	106,000
Share-based compensation	-		-		8,062	-		-		-		-	-	8,062
Net unrealized loss on securities available-for-sale	-		-		-	-		-		-		(57,477)	-	(57,477)
Net income (loss)	-		-		-	-		-		755,181		-	(129,261)	625,920
Balance at December 31, 2014	4,782,782	$	47,828	$	6,313,650	(31,522)	$	(93,192)	$	4,065,032	$	23,111	$ 4,562,639	$ 14,919,068

See notes to consolidated financial statements.

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

	Years ended December 31,	
	2014	**2013**
OPERATING ACTIVITIES		
Net income	**$ 625,920**	$ 2,432,563
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	**947,902**	925,994
Change in fair value of mortgage and financing servicing rights	**1,522,592**	(1,151,405)
Change in fair value of loans and financings held for sale or assignment, interest and financing rate locks, and forward commitments	**(1,938,093)**	(591,520)
Deferred income tax expense	**351,941**	1,254,412
Provision for loan and financing losses	**(308,443)**	100,153
Net gain on sale of mortgage loans and fee income for assignment of financings	**(16,409,483)**	(18,178,860)
Net loss on trading securities	**-**	34,116
Proceeds from maturities of trading securities	**-**	139,847
Net gain on sale of other real estate owned	**(172,052)**	(35,852)
Net amortization (accretion) on investment securities	**(30,063)**	1,722
Write down of real estate owned	**4,700**	-
Originations of mortgage loans and financings	**(532,064,911)**	(565,088,069)
Proceeds from mortgage loan sales and assignment of financings	**535,423,425**	598,065,192
Share-based compensation	**8,062**	-
Preferred dividends recorded as interest expense	**65,209**	93,085
Deposit of restricted cash	**-**	(1,000,000)
Net change in:		
Various other assets	**1,116,056**	(1,020,132)
Various other liabilities	**(242,046)**	(1,671,391)
Net cash provided by (used in) operating activities	**(11,099,284)**	14,309,855
INVESTING ACTIVITIES		
Proceeds from maturities of securities available-for-sale	**422,098**	425,419
Proceeds from redemption of Federal Home Loan Bank stock	**200,000**	-
Proceeds from sale of real estate owned	**243,798**	644,938
Loans and financings granted, and repayments, net	**(1,867,568)**	4,958,514
Purchases of premises and equipment	**(637,677)**	(998,179)
Payment of contingent earn-out liability	**(79,181)**	-
Redemptions of certificates of deposit, net	**750,000**	250,000
Net cash provided by (used in) investing activities	**(968,530)**	5,280,692

See notes to consolidated financial statements .

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

	Years ended December 31, 2014	2013
FINANCING ACTIVITIES		
Net change in deposits	**$ 9,040,250**	$ (22,636,023)
Exercise of stock options	**105,178**	45,414
Redemption of preferred stock	**(681,450)**	-
Payment of preferred dividends	**(184,315)**	-
Net cash provided by (used in) financing activities	**8,279,663**	(22,590,609)
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(3,788,151)**	(3,000,062)
Cash and Cash Equivalents, Beginning of Year	**6,152,472**	9,152,534
Cash and Cash Equivalents, End of Year	**$ 2,364,321**	$ 6,152,472
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	**$ 115,709**	$ 131,452
Net cash paid (refunded) during the year for income taxes	**$ (148,302)**	$ 759,237
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:		
Mortgage loans and financings converted to real estate owned	**$ -**	$ 189,006

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 (the "Bank"), the Bank's wholly owned subsidiaries, Ann Arbor Insurance Centre, Inc. ("AAIC"), Hoover, LLC ("Hoover"), and University Lending Group, LLC ("ULG"); and the Bank's two 80% owned subsidiaries, Midwest Loan Services, Inc. ("Midwest") and University Islamic Financial Corporation ("UIF"). These consolidated financial statements also include the operations of Hoover's wholly owned subsidiary, Tuomy, LLC, as well as the operations of AAIC's wholly owned subsidiary, 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 are herein referred to as the "Company".

The Parent is a bank holding company. The 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 sales, life insurance, property casualty insurance and foreign currency exchange. The Bank's customer base is primarily located in the Ann Arbor, Michigan metropolitan statistical area.

The 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.

AAIC is engaged in the sale of insurance products including life, health, property and casualty, and investment products such as annuities. 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.

ULG commenced operations in April 2008 and is headquartered in Clinton Township, Michigan. ULG operates in sixteen retail branches throughout Michigan, Indiana, Florida, and Alabama. 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.

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.

UIF is engaged in Islamic Banking and was formed in December 2005. UIF is based in Farmington Hills, Michigan. Its current products, which comply with federal and state law, as well as Islamic religious precepts, are deposits (as agent for the Bank) 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). These products are offered to service the large number of Muslim customers who have an ethical aversion to paying or receiving interest.

There are two distinct home financing products offered using Ijara and Murabaha contracts.

Under the Ijara method, a single-asset trust is established by or on behalf of the originator (Bank/UIF), 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 U.S. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nature of Operations and Principles of Consolidation (Continued)

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 consolidated statements of operations and comprehensive income, "Interest and fees on loans" is modified to state "Interest and fees on loans and financing income".

The second form of home financing uses the Murabaha method. This form of financing is similar to an installment sale contract. As agent for the Bank, UIF 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 UIF's purchase price and the selling price is the profit that the ultimate holder of the installment contract will accrete into income over the life of the contract. After the contract is executed by UIF and the customer, the contract is assigned to the Bank, and then assigned to the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Freddie Mac then reimburses the Bank for the outlay of cash to purchase the home and pays the Bank a fee for origination. The cash, origination fees, and servicing rights are retained by UIF under a Murabaha Agency agreement between UIF and the Bank. 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 assignment to Freddie Mac. The installment contracts are assigned 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 assignment of the underlying installment contract. See Note 22 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, UIF (as agent for the Bank) also offers FDIC–insured deposits that use the Mudaraba method of profit sharing. These deposits are specifically invested in investments that do not involve interest such as, but not limited to, transactions structured using the Ijara and Murabaha methods. Mudaraba savings, money markets, and certificates of deposit pay out earnings that are derived specifically from the revenues from these 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 to as low as zero percent with the net earnings of the Ijara portfolio and other investments.

The earnings paid to the depositors by the Bank 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 Mudaraba 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 consolidated statements of operations and comprehensive income, “Interest on deposits” is modified to state “Interest and profit sharing on deposits”.

Use of Estimates

The preparation of 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 and financing servicing rights, the allowance for loan and financing losses, the identification and valuation of impaired loans and financings, the valuation of real estate owned, impairment analysis of goodwill and other intangible assets, the valuation allowance for deferred tax assets, the fair value of loans and financings held for sale or assignment, and the fair value of derivative instruments such as mortgage interest and financing rate locks and forward commitments, recourse liabilities related to loans sold and financings assigned and loans and financings held for sale or assignment, the valuation of stock options and related stock based-compensation, the fair value of the contingent earn-out liability, the amount of contingent liabilities, and 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 loans and financings, 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 unrealized 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 and financings are reported at the principal balance outstanding, net of unearned interest or financing income, deferred loan or financing fees and costs, and an allowance for loan and financing losses. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Financing income is calculated monthly and includes amortization of net deferred financing fees and costs over the term of the financing. Interest or financing 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 and financings are reported as principal reductions, unless all interest or financing income and principal payments in arrears are paid in full.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan and Financing Losses

The allowance for loan and financing losses is a valuation allowance for probable credit losses, increased by the provision for loan and financing losses and recoveries and decreased by charge-offs. Management estimates the balance required based on past 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 or financing terms is not expected. Impairment is evaluated in total for smaller-balance loans and financings of similar nature such as residential, consumer, and credit card, 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

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 uses the following useful lives:

	Years
Building and building improvements	1-39
Leasehold improvements	Term of lease or 1-39 years
Equipment	3-5
Furniture and fixtures	5
Software	3-5

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage Banking Activities

The Company's mortgage banking activities consist of retail and servicing operations. Loans and financings held for sale are sold or assigned with selective loans or financings having their servicing or financing rights retained, and others are sold or assigned on a servicing released basis. The Company elected to record loans and financings held for sale at fair value. Loans and financings are sold or assigned without recourse, except in certain events as defined in the related documents.

An allowance was booked for potential recourse liabilities related to loans and financings sold or assigned, and loans and financings held for sale or assignment, in the amount of $431,394 and $338,026 as of December 31, 2014 and 2013, respectively.

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

The Company accounts for its MSRs in accordance with the applicable standards under the ASC which requires that MSRs be initially recognized at their fair value and by providing the option to either: (1) carry MSRs at fair value with changes in fair value recognized in earnings; or (2) continue recognizing periodic amortization expense and assess the MSRs for impairment. This option may be applied by class of servicing assets or liabilities. The Company has identified MSRs relating to loans and financings as a class of servicing rights and has elected to apply fair value accounting to these assets.

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 or financing 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 and financing rate lock commitments ("IRLCs") in connection with its mortgage banking activities to fund residential mortgage loans and financings at specified times in the future. IRLCs that relate to the origination of mortgage loans and financings that will be held for sale or assignment are considered derivative instruments under the ASC. As such, these IRLCs are recorded at fair value (see Note 22) with changes in fair value recorded in earnings.

Outstanding IRLCs expose the Company to the risk that the price of the loans or financings underlying the commitments might decline from inception of the rate lock to the funding of the loan or financing. To protect against this risk, the Company utilizes forward loan and financing sales commitments to economically hedge the risk of potential changes in the value of the loans and financings that would result from the commitments. These forward commitments are valued at fair value (see Note 22) 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

Goodwill is the excess costs of acquired businesses over the fair value amounts assigned to identifiable assets acquired and liabilities assumed. The Company has elected not to amortize goodwill, but rather, review goodwill for impairment annually or whenever events and circumstances have occurred that indicate a potential impairment.

When performing an impairment test, entities are provided with the option of first performing a qualitative assessment on none, some or all of its reporting units to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If after completing a qualitative analysis, it is determined that it is more likely than not that the fair value of a reporting unit is less than its carrying value, a quantitative analysis is required.

Under a quantitative analysis, management first compares the fair value of a reporting unit to the carrying value of the reporting unit's net assets at the measurement date. If the carrying value of the reporting unit exceeds the fair value, the second step of the quantitative analysis must be performed. The second step of the quantitative analysis requires an allocation of the estimated fair value of the reporting unit to all assets and liabilities as if the reporting unit had been acquired at the measurement date. The carrying value of goodwill is then compared to the implied value of goodwill and any excess of carrying value over implied value is recognized as goodwill impairment.

The Company's evaluations of goodwill completed during 2014 and 2013 resulted in no impairment losses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2014 or 2013.

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.

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, 2014 and 2013, 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 2011 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Company has performed a review of events subsequent to December 31, 2014 through March 25, 2015, the date the consolidated financial statements were available to be issued. See Note 25 for a summary of subsequent events.

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, 2014 and 2013, this reserve requirement amounted to $2,120,000 and $1,579,000, respectively.

In accordance with a seller and servicer agreement with Freddie Mac, UIF is required to maintain a pledged collateral deposit of $1,000,000. The balance maintained in the restricted account totaled $1,000,553 and $1,000,000 at December 31, 2014 and 2013, respectively. This cash balance is shown as restricted cash in the consolidated balance sheets.

NOTE 3 – INVESTMENT SECURITIES

Trading Securities

During 2013, the Company transferred its trading securities into the available-for-sale category. Unrealized gains and losses at the date of the transfer between categories were not significant. As a result, the Company had no investment securities classified as trading securities at December 31, 2014 and 2013.

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, 2014 consists of the following:

	Amortized Cost	Unrealized Gain	Fair Value
U.S. agency mortgage-backed securities	$ 1,231,053	$ 23,111	$ 1,254,164

NOTE 3 – INVESTMENT SECURITIES (Continued)

Available-for-Sale Securities (Continued)

Securities available-for-sale at December 31, 2013 consists of the following:

	Amortized Cost	Unrealized Gain	Fair Value
U.S. agency mortgage-backed securities	$ 1,623,088	$ 80,588	$ 1,703,676

At December 31, 2014 and 2013, the fair value of available-for-sale securities pledged to secure certain borrowings was $1,254,164 and $1,703,676, respectively. The balance of these borrowings at both December 31, 2014 and 2013 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 $422,098 and $565,266 for the years ended December 31, 2014 and 2013, respectively.

NOTE 4 – LOANS AND FINANCINGS, NET

Major classifications of loans and financings are as follows:

	December 31, 2014	December 31, 2013
Commercial	$ 32,606,072	$ 29,362,492
Residential real estate	18,404,463	19,863,213
Installment	168,763	59,140
Credit cards	158,259	179,865
Gross loans and financings	51,337,557	49,464,710
Allowance for loan and financing losses	(665,080)	(968,244)
Net loans and financings	$ 50,672,477	$ 48,496,466

Changes in the allowance for loan and financing losses were as follows:

	December 31, 2014	December 31, 2013
Balance, beginning of year	$ 968,244	$ 1,158,182
Provision charged to operations	(308,443)	100,153
Recoveries	7,065	12,079
Charge-offs	(1,786)	(302,170)
Balance, end of year	$ 665,080	$ 968,244

NOTE 4 – LOANS AND FINANCINGS, NET (Continued)

Information regarding impaired loans and financings is as follows:

	December 31, 2014	December 31, 2013
Impaired loans and financings:		
Loans and financings with allowance allocated	$ 1,828,915	$ 1,956,778
Amount of allowance for loan and financing losses allocated	$ 17,971	$ 144,357
Impaired loans and financings:		
Average balance during the year	$ 1,856,224	$ 2,090,131
Interest and financing income recognized thereon	$ 169,292	$ 167,262
Cash basis interest and financing income recognized	$ 123,873	$ 155,903

The following tables present informative data by class of loan and financing regarding their age and interest or financing income accrual status at December 31, 2014 and 2013 (in thousands):

December 31, 2014	Current	Past Due 30-59 Days	Past Due 60-89 Days	Past Due ≥ 90 Days	Total Past Due	Total Loans and Financings
Commercial	$ 1,810	$ -	$ -	$ -	$ -	$ 1,810
Commercial real estate	30,530	-	-	267	267	30,797
Consumer	169	-	-	-	-	169
Credit card	158	-	-	-	-	158
Residential real estate	17,931	302	160	11	473	18,404
Total	$ 50,598	$ 302	$ 160	$ 278	$ 740	$ 51,338

December 31, 2013	Current	Past Due 30-59 Days	Past Due 60-89 Days	Past Due ≥ 90 Days	Total Past Due	Total Loans and Financings
Commercial	$ 1,281	$ -	$ -	$ -	$ -	$ 1,281
Commercial real estate	28,082	-	-	-	-	28,082
Consumer	59	-	-	-	-	59
Credit card	180	-	-	-	-	180
Residential real estate	19,071	781	-	11	792	19,863
Total	$ 48,673	$ 781	$ -	$ 11	$ 792	$ 49,465

NOTE 4 – LOANS AND FINANCINGS, NET (Continued)

December 31, 2014	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	267	-
Consumer	-	-
Credit card	-	-
Residential real estate	11	-
Total	$ 278	$ -

December 31, 2013	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 real estate	11	-
Total	$ 11	$ -

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 $14.9 billion and $14.5 billion as of December 31, 2014 and 2013, respectively. The value of these mortgage servicing rights are not included in the accompanying consolidated financial statements.

NOTE 5 – MORTGAGE BANKING ACTIVITIES (Continued)

University Bank, Midwest, UIF and ULG sell residential mortgage loans and financings to the secondary market with servicing rights retained for selective loans and financings. These loans and financings are owned by other institutions and are not included in the Company's consolidated balance sheets, but the MSRs are included in the accompanying consolidated financial statements. Such mortgage loans and financings have been sold or assigned predominately without recourse or with limited recourse. The unpaid principal balance of these loans and financings was $796.7 million and $665.8 million at December 31, 2014 and 2013, respectively.

Custodial escrow balances maintained in connection with these loans and financings were $223 million and $346 million, of which $152 million and $266 million were held at other banks and were not included in the accompanying consolidated financial statements at December 31, 2014 and 2013, respectively.

The following summarizes the activity relating to MSR's:

	December 31,	
	2014	2013
Balance, January 1	$ 7,170,318	$ 3,963,470
Amount capitalized	2,253,116	2,055,443
Change in fair value	(1,522,592)	1,151,405
Balance, December 31	$ 7,900,842	$ 7,170,318

The Company enters into IRLCs in connection with its mortgage banking activities to fund residential mortgage loans and financings at specified times in the future. As of December 31, 2014 and 2013, IRLCs amounted to $38.7 million and $19.2 million, respectively, of which management estimated $31.8 million and $16.6 million, respectively, to eventually close and be funded. These IRLCs were recorded in assets in the consolidated balance sheets at a fair value of $1,065,770 and $396,855 as of December 31, 2014 and 2013, respectively.

The Company also utilizes forward loan and financing sales commitments in order to economically hedge the risk of potential changes in the value of the loans and financings that would result from the IRLCs. Forward sales commitments to fund loans and financings at specified rates amounted to $37.4 million and $24.5 million as of December 31, 2014 and 2013, respectively, which were respectively recorded in liabilities and assets in the consolidated balance sheets at a fair value of ($172,008) and $80,837 as of December 31, 2014 and 2013, respectively.

NOTE 5 – MORTGAGE BANKING ACTIVITIES (Continued)

The net change in fair value of the IRLCs and the related forward loan and financing sales commitments held at December 31, 2014 and 2013 resulted in a gain of $416,070 and a loss of $309,754, respectively, which has been recognized in the other income section in the consolidated statements of operations. These gains and losses are due principally to the inclusion of day one gains associated with the adoption of fair value accounting as discussed in Note 22. 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 or assignment of the related loans and financings.

Market interest rate conditions can quickly affect the fair value of MSRs, IRLCs, and forward loan and financing sales commitments in a positive or negative fashion, as long-term interest rates rise and fall. See Note 22 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, 2014	December 31, 2013
Land	$ 562,500	$ 562,500
Buildings and improvements	3,069,818	2,997,982
Furniture, fixtures, equipment and software	5,608,289	6,964,298
Construction in process	51,262	-
	9,291,869	10,524,780
Less accumulated depreciation and amortization	(4,951,501)	(5,945,330)
Premises and equipment, net	$ 4,340,368	$ 4,579,450

Depreciation and amortization expense related to premises and equipment amounted to $876,759 and $854,851 for the years ended December 31, 2014 and 2013, respectively.

Midwest, UIF, and ULG each lease office space for their respective operations. ULG and UIF also lease office space for their 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 termination notice ranging from thirty days to six months, and a fee. The Company leases various other facilities and office equipment at varying rates on a month-to-month basis. Total rent expense for all operating leases was approximately $820,000 and $774,000 in 2014 and 2013, 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, 2014:

Year ended December 31,	Amount
2015	$ 579,334
2016	207,873
2017	84,784
2018	39,000
2019	28,000
	$ 938,991

NOTE 7 – GOODWILL

The following table summarizes goodwill by reporting unit:

	December 31, 2014	December 31, 2013
Midwest	$ 103,914	$ 103,914
AAIC	252,396	252,396
	$ 356,310	$ 356,310

NOTE 8 – CUSTOMER RELATIONSHIPS, NET

During 2012, the Company acquired customer relationships of $498,000 as part of the acquisition of AAIC and 2621 Carpenter Road, LLC. These customer relationships are being amortized on a straight-line basis over their estimated economic lives, which were determined to be seven years. Amortization expense amounted to $71,143 for each of the years ended December 31, 2014 and 2013. Amortization expense related to these customer relationships is expected to be approximately $71,143 in each of the next five years.

NOTE 9 – TIME DEPOSITS

Time deposit liabilities issued in denominations of $100,000 or more were $2,060,630 and $2,047,363 at December 31, 2014 and 2013, respectively.

NOTE 9 – TIME DEPOSITS (Continued)

At December 31, 2014, stated maturities of time deposits were:

Year ended December 31,	Amount
2015	$ 925,961
2016	787,802
2017	1,122,368
2018	81,050
2019 and thereafter	755,369
	$ 3,672,550

NOTE 10 – DEFERRED COMPENSATION

ULG has a deferred compensation agreement (the "Agreement") with one of its key employees that provides this employee with a phantom interest in the net income of ULG based on years of service. The deemed value of the phantom interest at any point in time is the net income of ULG since September 1, 2011, less 34%, multiplied by 12.4975%, less $250,000. This phantom interest vests over three years, but is fully vested upon a change in control, death or disability of the employee, or the dissolution or liquidation of ULG, as defined in the Agreement. As of December 31, 2014, the phantom interest was fully vested.

In addition, the employee is entitled to earn $250,000 vested over time with 50% vesting after 5 years, and 10% vesting in each of the 5 years thereafter. Any accrued benefit to the employee is to be distributed upon retirement, death, or disability of the employee, or upon termination of the employee without cause. During each of the years ended December 31, 2014 and 2013, a special distribution event occurred in which the employee was paid $165,000 and $65,000 of the accrued liability, respectively. In relation to the Agreement, the Company recognized compensation expense of $206,029 and $99,719 during the years ended December 31, 2014 and 2013, respectively, and recorded accrued deferred compensation of $130,973 and $89,944 as of December 31, 2014 and 2013, respectively. Accrued deferred compensation is included in "Accrued expenses and other liabilities" in the consolidated balance sheets.

NOTE 11 – INCOME TAXES

Income tax expense for the years ended December 31, 2014 and 2013 is summarized as follows:

	December 31, 2014	December 31, 2013
Current	$ 8,896	$ (8,082)
Deferred	351,941	1,254,412
Income tax expense	$ 360,837	$ 1,246,330

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.

Significant components of the Company's deferred income tax assets and liabilities as of December 31, 2014 and 2013 are as follows:

	December 31, 2014	December 31, 2013
Deferred income tax assets:		
Allowance for loan and financing losses and recourse liabilities	$ 202,689	$ 244,244
Tax credit carry-forward	1,072,176	1,095,591
Contingent legal liability	288,320	-
Net operating loss carryforward	76,504	-
Other	112,832	124,267
Deferred tax asset	1,752,521	1,464,102
Deferred income tax liabilities:		
Mortgage servicing rights	2,686,287	2,437,909
Derivatives and LHFS	821,367	468,848
Premises and equipment	337,153	379,008
Customer relationships	120,942	145,131
Other	-	493
Deferred tax liability	3,965,749	3,431,389
Net deferred tax asset (liability)	$ (2,213,228)	$ (1,967,287)

	Amount	Date of expiration
Low income housing credits	$ 970,594	Starting 2018
Minimum tax credits	$ 101,582	N/A
Net operating loss carryforward	$ 225,012	2034

NOTE 12 – PREFERRED STOCK SUBJECT TO MANDATORY REDEMPTION

As of December 31, 2014 and 2013, the Company had 500,000 shares of preferred stock authorized with a $.001 par value per share. There were 103,145 shares of this preferred stock issued and outstanding as of December 31, 2013. During the year ended December 31, 2014, the Company redeemed 68,145 preferred shares for $681,450. As a result, there were 35,000 preferred shares issued and outstanding as of December 31, 2014. The shares have a $10 per share liquidation value and accrue dividends at an annual rate of 9%. Additional shares of preferred stock are typically issued semi-annually for unpaid accrued dividends. However, the Board did not approve any paid-in-kind dividends during 2013 or 2014. The preferred stock was mandatorily redeemable by the Company no later than April 30, 2014, at $10 per share plus all accrued and unpaid dividends through the redemption date. During 2014, the remaining preferred shareholders agreed to extend the mandatory redemption date to June 30, 2015.

During 2014 and 2013, the Company declared preferred dividends of $65,209 and $93,085, 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 statements of operations and comprehensive income. As of December 31, 2014 and 2013, the Company had unpaid preferred dividends of $20,776 and $139,882, 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, 2014 is $350,000 plus accrued dividends of $20,776.

NOTE 13 – 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 to directors of the Company in lieu of board fees paid in cash, outside of the 1995 Stock Plan.

NOTE 13 – 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, 2013	257,225	$ 2.14
Granted	-	-
Exercised	(25,230)	1.80
Expired or forfeited	(25,000)	2.00
Outstanding at December 31, 2013	206,995	2.20
Granted	7,000	7.49
Exercised	(58,432)	1.80
Expired or forfeited	-	-
Outstanding at December 31, 2014	155,563	$ 2.59

At December 31, 2014:	
Number of options immediately exercisable	155,563
Weighted average exercise price of immediately exercisable options	$2.59
Range of exercise price of options outstanding	$1.80 - $7.49
Weighted average remaining life of options outstanding	1.6 years

During 2014 and 2013, the Company received cash of $105,178 and $45,414, respectively, related to the exercise of options. As of the exercise date, the intrinsic value of the options exercised was approximately $330,000 and $24,000 for the years ended December 31, 2014 and 2013, respectively.

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 2014 were fully vested at the grant date. The Company recognized share-based compensation expense of $8,062 and $-0- during the years ended December 31, 2014 and 2013, respectively. The weighted-average grant-date fair value of stock options granted during 2014 was $1.15 per option. As of December 31, 2014 and 2013, all outstanding options were fully vested.

NOTE 13 – 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 2014:

Risk-free interest rate	1.0%
Expected volatility	23%
Expected term	2 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 14 – EMPLOYEE STOCK OWNERSHIP PLAN ("ESOP")

The Company has a noncontributory ESOP covering all full-time employees after one year of service, after at least 1000 hours 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. Upon retirement from the ESOP, participants can receive distributions of their allocated shares of the Company's stock. The Company incurred expense related to contributions to the ESOP of $-0- and $142,200 for the years ended December 31, 2014 and 2013, respectively. Of these contributions, $68,943 related to 2012, but were not approved by the Board until the middle of 2013, and $73,257 related to 2013.

The annual contribution to the ESOP is at the discretion of the Board of Directors. Assets of the ESOP are comprised entirely of 88,839 and 90,148 shares of the Company's stock at December 31, 2014 and 2013, respectively, all of which were fully allocated. The assets of the ESOP are held in trust and were valued at $599,663 and $324,533 at December 31, 2014 and 2013, respectively.

NOTE 15 – NONCONTROLLING INTEREST

As of December 31, 2014 and 2013, the Bank owned an 80% interest in the common stock of Midwest, with the remaining 20% owned by the former CEO of Midwest. At December 31, 2014 and 2013, total equity of Midwest was $10,823,745 and $10,406,522, respectively, resulting in a $2,164,748 and $2,081,304 noncontrolling interest reflected in the Company's consolidated balance sheets, respectively.

Also, included in the consolidated financial statements are the results for UIF. The Bank owns 80% of the common stock of UIF. An outside investor owns the remaining 20%. At December 31, 2014 and 2013, total equity of UIF was $11,989,461 and $13,052,980, respectively. The noncontrolling interest at December 31, 2014 and 2013 was $2,397,891 and $2,610,596, respectively.

UIF has an agreement that calls for UIF to pay a fee to the noncontrolling interest up to an aggregate amount of $500,000 based on UIF standalone taxable income. This fee are included in "Noncontrolling interest tax sharing fee" in the consolidated statements of operations and comprehensive income, and amounted to $-0- and $447,385 for the years ended December 31, 2014 and 2013, respectively. As of December 31, 2013, the aggregate amount of $500,000 had been incurred and hence, thereafter, no additional expense related to this agreement has been or will be incurred.

NOTE 16 – 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 a portion of their salary pre-tax, to the allowable limit prescribed by the Internal Revenue Service. Management has discretion to make matching contributions to the Plan. The Company incurred expense related to matching contributions of $-0- and $643,402 for the years ended December 31, 2014 and 2013, respectively. Of the matching contributions for 2013, $358,750 related to 2012, but was not approved by the Board until the middle of 2013. The additional $284,652 related to 2013.

NOTE 17 – 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.

NOTE 17 – COMMITMENTS AND CONTINGENCIES (Continued)

Commitments (Continued)

The following is a summary of commitments:

	December 31,	
	2014	2013
Unused lines of credit	$ 1,101,559	$ 1,090,407
Unused credit card limits	794,690	795,917
	$ 1,896,249	$ 1,886,324

Contingencies

The Company has been party to various legal claims that have arisen from time to time in the normal course of business. Any impact of these legal claims has been reflected in the Company's consolidated financial statements. See note 25 for further discussion.

NOTE 18 – RELATED PARTY TRANSACTIONS

Available lines of credit to directors, officers and their affiliates at December 31, 2014 and 2013 amounted to $70,000 and $83,101, of which $42,952 and $52,630 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, 2014 and 2013.

The Bank had demand deposits of $495,533 and $755,602 from directors, officers and their affiliates as of December 31, 2014 and 2013, respectively. The Bank also holds demand deposits from various employees in the normal course of business.

NOTE 19 – LINES OF CREDIT

The Bank has a line of credit available from the FHLB. The limit on this line was $2,050,000 and $2,500,000 as of December 31, 2014 and 2013, respectively. There were no advances on this line of credit as of December 31, 2014 and 2013. Borrowings are secured by the pledge of specific mortgage loans held for investment along with FHLB stock and available-for-sale securities. As of December 31, 2014 and 2013, the Bank had unutilized and available credit under the line of credit of $2,050,000 and $2,500,000, respectively.

NOTE 19 – LINES OF CREDIT (Continued)

In June 2014, the Company entered into a $1,000,000 revolving warehouse line of credit with a bank to assist with funding UIF's financings. Interest on this line is at the greater of the prime rate or 5%. This line is secured by financings, and matures on June 30, 2015. There was no outstanding balance on this line of credit at December 31, 2014.

NOTE 20 – 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 paid dividends to University Bancorp, Inc. totaling $483,000 and $-0- during the years ended December 31, 2014 and 2013, respectively. University Bancorp, Inc. did not pay any dividends to common shareholders during the years ended December 31, 2014 and 2013.

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, 2014 and 2013, respectively, the Bank met all capital adequacy requirements to which it is subject.

NOTE 20 – REGULATORY MATTERS (Continued)

Regulatory Capital Requirements (Continued)

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		To Be Well Capitalized	
	Amount	Ratios	Amount	Ratios	Amount	Ratios
As of December 31, 2014:						
Total capital (to risk-weighted assets)	$ 14,036,000	16.48%	$ 6,816,000	8.00%	$ 8,520,000	10.00%
Tier 1 capital (to risk-weighted assets)	13,371,000	15.69%	3,408,000	4.00%	5,112,000	6.00%
Tier 1 capital (to average assets)	13,371,000	12.75%	4,195,000	4.00%	5,244,000	5.00%
As of December 31, 2013:						
Total capital (to risk-weighted assets)	$ 13,714,000	21.03%	$ 8,476,000	13.00%	$ 8,476,000	13.00%
Tier 1 capital (to risk-weighted assets)	12,897,000	19.78%	2,608,000	4.00%	3,912,000	6.00%
Tier 1 capital (to average assets)	12,897,000	12.75%	8,345,000	8.25%	8,345,000	8.25%

NOTE 21 – OTHER CAPITAL REQUIREMENTS

The Bank, Midwest, ULG, and UIF 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 21 – OTHER CAPITAL REQUIREMENTS (Continued)

The Bank's, Midwest's, ULG's, and UIF's actual capital amounts and the minimum amounts required for capital adequacy purposes, by investor, are as follows as of December 31, 2014 and 2013:

	Actual Capital	Minimum Capital
As of December 31, 2014:		
Bank		
HUD	$ 14,039,165	$ 1,000,000
FHLMC	14,039,165	3,603,511
FNMA	14,039,165	2,886,733
Midwest		
HUD	$ 10,677,031	$ 1,762,950
FHLMC	10,677,031	2,557,687
FNMA	10,677,031	2,885,132
GNMA	10,677,031	2,558,220
ULG		
HUD	$ 8,104,690	$ 1,651,376
UIF		
FHLMC	$ 11,884,028	$ 2,500,000

	Actual Capital	Minimum Capital
As of December 31, 2013:		
Bank		
HUD	$ 13,758,875	$ 1,000,000
FHLMC	13,758,875	3,374,927
FNMA	13,758,875	2,818,930
Midwest		
HUD	$ 9,975,905	$ 1,692,697
FHLMC	9,975,905	2,506,022
FNMA	9,975,905	2,918,054
GNMA	9,975,905	2,500,000
ULG		
HUD	$ 6,480,082	$ 1,788,874
UIF		
FHLMC	$ 12,103,637	$ 2,500,000

As of December 31, 2014 and 2013, The Bank, Midwest, and ULG were also each required to have a minimum amount of liquid assets under certain liquidity requirements. As of December 31, 2014 and 2013, The Bank, Midwest, and ULG were in compliance with these liquidity requirements.

NOTE 22 - 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 22 - 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.

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.

Loans and Financings Held for Sale or Assignment

The Company elected to account for its loans and financings held for sale or assignment 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 22 - FAIR VALUE MEASUREMENTS (Continued)

Loans and financings held for sale or assignment 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 financings and adjusted to reflect the inherent credit risk. In most situations, these loans and financings are locked into buckets to be sold under forward loan and financing sales commitments (as discussed below), in which case the fair value of these loans and financings held for sale or assignment are approximated by the value to be received soon thereafter under the forward sales commitments. Loans and financings held for sale or assignment are considered to be Level 2 assets in the valuation hierarchy. Net changes in the fair value of the Company's loans and financings held for sale or assignment are included in earnings. The net gain on change in fair value of loans and financings held for sale or assignment at December 31, 2014 and 2013 was $1,522,023 and $901,274, respectively, which is included in the other income section in the consolidated statements of operations.

MSRs

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 – IRLCs and Forward Commitments

The Company enters into IRLCs in connection with its mortgage banking activities to fund mortgage loans and financings at specified times in the future. IRLCs that relate to the origination of mortgage loans and financings that will be held for sale or assignment 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 or financing commitment based on an expectation that it will be exercised and the loan or financing 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 or financings. 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 or financing.

NOTE 22 - FAIR VALUE MEASUREMENTS (Continued)

Also, the fair value of these commitments is derived from the fair value of the related mortgage loans or financings, 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 or financing servicing are excluded from the valuation of IRLCs.

Outstanding IRLCs expose the Company to the risk that the price of the loans or financings underlying the commitments might decline from inception of the rate lock to the funding of the loan or financing. To protect against this risk, the Company utilizes forward loan or financing sales commitments to economically hedge the risk of potential changes in the value of the loans or financings 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.

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. 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.

Contingent Earn-Out

In 2012, the Company acquired 100% of the stock of AAIC and 100% of the membership interest of 2621 Carpenter Road, LLC. 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 fair value of this contingent earn-out arrangement was estimated based on actual retention of customers. As of December 31, 2014 and 2013, the fair value of the contingent earn-out liability was $74,129 and $153,310 as the retention rate of customers was met for the full payout. The Company recognized no income or expense related to the change in the fair value of this contingent earn-out arrangement for the years ended December 31, 2014 and 2013. The Company made a payment of $79,181 during 2014 under this earn-out arrangement.

NOTE 22 - FAIR VALUE MEASUREMENTS (Continued)

The following tables summarize assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and 2013, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1	Level 2	Level 3
December 31, 2014			
Assets:			
Available-for-sale securities	$ -	$ 1,254,164	$ -
Loans and financings held for sale or assignment	-	40,078,919	-
Mortgage and financing servicing rights	-	-	7,900,842
Interest and financing rate lock commitments	-	-	1,065,770
Total assets at fair value	$ -	$ 41,333,083	$ 8,966,612
Liabilities:			
Forward sales commitments	$ -	$ -	$ 172,008
Contingent earn-out liability	-	-	74,129
Total liabilities at fair value	$ -	$ -	$ 246,137

	Level 1	Level 2	Level 3
December 31, 2013			
Assets:			
Available-for-sale securities	$ -	$ 1,703,676	$ -
Loans and financings held for sale or assignment	-	27,407,166	-
Mortgage and financing servicing rights	-	-	7,170,318
Interest and financing rate lock commitments	-	-	396,855
Forward sales commitments	-	-	80,837
Total assets at fair value	$ -	$ 29,110,842	$ 7,648,010
Liabilities:			
Contingent earn-out liability	$ -	$ -	$ 153,310

NOTE 22 - FAIR VALUE MEASUREMENTS (Continued)

The table below includes a roll forward of the fair value of assets and liabilities that are classified by the Company within Level 3 of the valuation hierarchy:

	MSRs	IRLCs	Forward Sales Commitments	Contingent Earn-out Liability
Fair value at January 1, 2013	$ 3,963,470	$ 830,813	$ (43,367)	$ (153,310)
Purchases, sales, issuances, settlements, net	2,055,443	(830,813)	43,367	-
Net gains (losses)	1,151,405	396,855	80,837	-
Fair value December 31, 2013	7,170,318	396,855	80,837	(153,310)
Purchases, sales, issuances, settlements, net	2,253,116	(396,855)	(80,837)	79,181
Net gains (losses)	(1,522,592)	1,065,770	(172,008)	-
Fair value December 31, 2014	$ 7,900,842	$ 1,065,770	$ (172,008)	$ (74,129)

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

	Level 1	Level 2	Level 3
Year ended December 31, 2013			
Real estate owned	$ -	$ 189,006	$ -

There were no assets or liabilities measured at fair value on a nonrecurring basis during the year ended December 31, 2014.

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 22 - FAIR VALUE MEASUREMENTS (Continued)

Loans and Financings, Net

The fair value of fixed-rate loans and financings is estimated by discounting the future cash flows for each loan and financing category using the current rates at which similar loans or financings would be made to borrowers with similar credit ratings and for the same remaining maturities. These loans and financings 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, 2014 and 2013 are as follows (in thousands):

	December 31,			
	2014		2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Significant financial assets:				
Cash and due from banks	$ 2,364	$ 2,364	$ 6,152	$ 6,152
Restricted cash	1,001	1,001	1,000	1,000
Certificates of deposit	6,250	6,250	7,000	7,000
Securities available-for-sale	1,254	1,254	1,704	1,704
Federal Home Loan Bank stock	872	872	1,072	1,072
Loans and financings held for sale or assignment	40,079	40,079	27,407	27,407
Loans and financings, net	50,672	52,226	48,496	49,665
Mortgage and financing servicing rights	7,901	7,901	7,170	7,170
Derivatives	1,066	1,066	478	478
Significant financial liabilities:				
Deposits:				
Demand - non-interest bearing	$ 72,233	$ 72,233	$ 59,184	$ 59,184
Demand - interest bearing and profit sharing	18,362	18,362	20,692	20,692
Savings	305	305	278	278
Time	3,673	3,854	5,378	5,549
Derivatives	172	172	-	-

NOTE 24 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

CONDENSED BALANCE SHEETS

	December 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$ 423,494	$ 63,308
Investment in University Bank	10,188,550	9,850,221
Accounts receivable - University Bank	-	660,488
Other assets	121,161	36,800
Total assets	$ 10,733,205	$ 10,610,817
LIABILITIES AND EQUITY		
Accounts payable and other liabilities	$ 26,776	$ 139,882
Preferred stock subject to mandatory redemption	350,000	1,031,450
Total liabilities	376,776	1,171,332
Total equity	10,356,429	9,439,485
Total liabilities and equity	$ 10,733,205	$ 10,610,817

NOTE 24 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF OPERATIONS

	December 31,	
	2014	**2013**
OTHER INCOME		
Interest and dividend income	$ 770	$ 57
EXPENSES		
Professional fees and public listing	31,806	10,350
Other miscellaneous	13,555	7,533
Share-based compensation	8,062	-
Interest expense	65,209	93,085
Total expenses	118,632	110,968
Net loss before income taxes and net income of subsidiary	(117,862)	(110,911)
Income tax expense (benefit)	5,751	(697,288)
Net income (loss) before net income of subsidiary	(123,613)	586,377
Net income of subsidiary	878,794	1,239,631
Net income	$ 755,181	$ 1,826,008

NOTE 24 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	December 31, 2014	December 31, 2013
OPERATING ACTIVITIES		
Net income	$ 755,181	$ 1,826,008
Adjustments to reconcile net income to net cash flows from operating activities:		
Share-based compensation	8,062	-
Preferred dividends recorded as interest expense	65,209	93,085
Net change in:		
Accounts receivable and other assets	682,115	(697,288)
Accounts payable and other liabilities	6,000	-
Net income of subsidiary	(878,794)	(1,239,631)
Net cash provided by (used in) operating activities	637,773	(17,826)
INVESTING ACTIVITIES		
Dividends received from University Bank	483,000	-
FINANCING ACTIVITIES		
Redemption of preferred stock	(681,450)	-
Payment of preferred dividends	(184,315)	-
Exercise of stock options	105,178	45,414
Net cash provided by (used in) financing activities	(760,587)	45,414
NET CHANGE IN CASH	360,186	27,588
Cash and Cash Equivalents, Beginning of Year	63,308	35,720
Cash and Cash Equivalents, End of Year	$ 423,494	$ 63,308

NOTE 25 – SUBSEQUENT EVENTS

At December 31, 2014, the Company recorded a contingent liability and related expense for $848,000 related to a lawsuit against the Company stemming from trade secrets claims made by a competitor of UIF. In March 2015, the jury returned a verdict against the Company and awarded the competitor $848,000. As of the date of this report, the Company has filed two principal motions to set aside the verdict and is contemplating an appeal of the jury verdict.

In February 2015, the Company acquired the 20% noncontrolling interest in MLS for $521,390 in cash, 309,361 common shares of University Bancorp, Inc., and an earn-out totaling $430,012. The earn-out is to be paid monthly and determined by multiplying the federal funds interest rate minus 0.5%, by the monthly average MLS escrow deposits held at University Bank and the FHLB, divided by 12. In conjunction with this agreement, in January 2015, the Company amended its articles of incorporation which increased the number of authorized common shares from 5,000,000 to 6,000,000,

Subsequent to December 31, 2014, the Company redeemed the remaining $350,000 of preferred stock and the related accrued dividends that are discussed in Note 12.

Subsequent to December 31, 2014, the final contingent earn-out payment that is discussed in Note 22 was paid.