UNIVERSITY BANCORP INC /DE/
Form 10KSB/A
May 13, 2008
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-KSB/A

Amendment No. 2

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ___________

Commission file number 0-16023

UNIVERSITY BANCORP, INC.

(Name of Small Business Issuer as specified in its charter)

Delaware	**38-2929531**
(State or Other Jurisdiction of Incorporation or Organization)	**(IRS Employer Identification No.)**

2015 Washtenaw, Ann Arbor, Michigan 48104

(Address of principal executive offices)(Zip Code)

Registrant s telephone number, including area code (734) 741-5858

Securities registered pursuant to section 12(b) of the Act: NONE

Securities registered pursuant to section 12(g) of the Act:

Common Stock, par value $.010 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes ___ No __X_

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes ___ No__X_

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No __

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ___

Indicate by check mark if the registrant is a large accelerated filer, an accelerated filer, or a non accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

1

Large accelerated filer ____Accelerated filer ___ Non-accelerated filer _X_

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o

The number of shares outstanding of the Registrant s Common Stock as of March 30, 2007: 4,248,378 shares. The aggregate market value of the voting stock held by non-affiliates of the Registrant based on $1.90 per share, the closing price for the Registrant s Common Stock on March 30, 2007, as reported by NASDAQ, was approximately $2,932,738.

* For purposes of this calculation shares of the Registrant held by directors and officers of the Registrant and by other affiliates have been excluded.

Portions of the Registrant s Proxy Statement for the Annual Meeting of Shareholders to be held June 15, 2007, are incorporated by reference into Part III of this report.

University Bancorp, Inc.

FORM 10-KSB/A

For the year ended December 31, 2006

EXPLANATORY NOTE

This Amendment No. 2 on Form 10-KSB/A (this Amendment) amends the Annual Report on Form 10-KSB/A for the year ended December 31, 2006, as amended by University Bancorp, Inc. on May 16, 2007 (Amendment No. 1). The purpose of this filing is to:

1. Revise the Mortgage and Islamic Banking section in Item 1 to discuss in more detail Islamic Banking.
2. Provide additional disclosure about the Islamic financing and its impact on the Allowance for Loan Losses reported in Item 6 Management s Discussion and Analysis of Financial Condition and Results of Operations.
3. In Item 7, revise the Summary of Significant Accounting Policies in Note 1 to discuss in more detail the accounting of the Islamic Banking transactions.
4. In Item 7, revise Note 4 Accounts Receivable to add more detail for the receivables outstanding at December 31, 2005.
5. In Item 7, revise Note 18 Segment reporting to highlight three reportable segments.
6. State that controls were ineffective in Item 8A Controls and Procedures.
7. Revise 302 Certification to conform to Item 601(b)(31) of Regulation S-K

To comply with certain technical requirements of the SEC s rules in connection with the filing of this Amendment No. 2 on Form 10-KSB/A, we are adding, as exhibits, certain current dated certifications of our principal executive officer and principal financial officer. This Amendment No. 2 on Form 10-KSB/A continues to speak as of the date of Form 10-KSB/A as filed on May 16, 2007. We have not updated the disclosures contained herein to reflect any events that occurred at a date subsequent to the date of Amendment No. 1. The filing of this Amendment No. 2 on Form 10-KSB/A is not a representation that any statement contained in the Amendment No. 1 or this Amendment No. 2 on Form 10-KSB/A is true or complete subsequent to the date of Amendment No 1. This Amendment No. 2 on Form 10-KSB/A does not affect the information set forth in Amendment No 1., except for the matters described in this Explanatory Note.

PART I	Page
Item 1. Business	4
Item 2. Property	19
Item 3. Legal Proceedings	20
Item 4. Submission of Matters to a Vote of Security Holders	20
PART II	
Item 5. Market for Registrant s Common Equity and Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities	20
Item 6. Management s Discussion and Analysis of Financial Condition and Results of Operations	21
Item 7. Consolidated Financial Statements	34
Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures	72
Item 8A. Controls and Procedures	72
Item 8B. Other Information	74
PART III	
Item 9. Directors and Executive Officers of the Registrant	74
Item 10. Executive Compensation	75
Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters	75
Item 12. Certain Relationships and Related Transactions	76
Item 13. Exhibits	76
Item 14. Principal Accountants Fees and Services	78
Signatures	79

PART I.

Item 1. - Business

General

University Bancorp, Inc. The Company is a Delaware corporation that operates as a bank holding company for its wholly-owned subsidiary, University Bank.

University Bank. The Bank is a state chartered community bank. The Bank was founded in 1890 as The Newberry Bank and was chartered by the State of Michigan in 1908 as The Newberry State Bank . In 1994, we sold the bank s offices in Newberry, Michigan and Sault Ste. Marie, Michigan. In 1995 we relocated the Bank s main office to Ann Arbor, Michigan and, changed the Bank s name to University Bank to more closely align its identity with its current place of business. Ann Arbor is a university town, home to the University of Michigan and is the largest city in Washtenaw County, just west of the Detroit Metropolitan Statistical Area. The Bank s primary market area is defined as the City of Ann Arbor and surrounding areas in greater Washtenaw County.

Midwest Loan Services. In 1995, University Bank acquired 80% of the common stock of Midwest Loan Services (Midwest). Midwest specializes in the origination, servicing and sub-servicing of mortgage loans for various credit unions, financial institutions and mortgage brokers. Most of their servicing and sub-servicing portfolio is comprised of residential mortgage loans sold to Fannie Mae, Freddie Mac and other private residential mortgage conduits, the most important of which is a jumbo and sub prime loan conduit established by Lehman Brothers.

University Insurance & Investment Services. In 1996, University Bank established an insurance and investment products sales agency. This subsidiary of the Bank, called University Insurance & Investment Services, Inc. (the Agency) is based in the Bank s Ann Arbor office. The Agency is licensed by the State of Michigan to sell insurance as agent for licensed insurance companies. A d/b/a of the Agency, University Insurance Center, commenced business in 1999, and this added a property casualty agency license to the original life and health agency license, enabling the Agency to offer insurance for homes, autos, apartments and businesses in addition to the original products which included life and health care insurance, annuities and mutual fund sales. Employees of the Agency are also licensed to sell investment products such as annuities and mutual funds, and the President of the Bank, who is also Chairman of the Agency, also offers broker-dealer investment services including stock and bond investment accounts through a clearing arrangement with Equitas America LLC and Pershing, a division of the Bank of New York.

University Islamic Financial Corporation. On December 30, 2005, University Bank formed University Islamic Financial Corporation (UIFC). The Bank owns 80% of the common stock of UIFC. UIFC engages in Islamic Banking with an initial focus on its existing product set: soliciting Islamic Sharia a FDIC-insured Deposits held by University Bank and originating Islamic Sharia a home financings as agent for University Bank. UIFC s products have received favorable legal rulings (fatwa) from some of the

5

---

leading Islamic legal scholars in the U.S. and the world. In February 2006, University Bank executed a master commitment with the Federal Home Loan Mortgage Corporation to create a secondary market for UIFC s Sharia a compliant home financing transactions in Michigan with the intent to expand this program over time.

Employees

The Company employed 81 full-time equivalents as of March 29, 2006:

University Bank, Ann Arbor	24
Midwest Loan Services	46
University Insurance & Investment	3
University Islamic Financial Corporation	7

Lines of Business

Deposit Products & Services

University Bank offers traditional retail savings products and services to its customers. These include demand deposit and NOW interest-bearing checking accounts, money market deposit accounts, regular savings accounts and term deposit certificates ranging in maturity from three to three hundred months. The Bank also offers Sharia a compliant profit-sharing deposits for Muslim depositors. The Bank also offers free access to 24-Hour ATM machines, telephone banking, internet banking, debit cards, online bill payment, Western Union money transfer services and Gold VISA accounts. From time to time to raise liquidity, the Bank relies on brokers to sell CDs. At December 31, 2006, the Bank had approximately $1.5 million in CDs issued through brokers.

Lending Products

University Bank offers a range of traditional lending products, including commercial small business loans, residential real estate mortgage loans, home equity loans, commercial real estate mortgage loans, consumer installment loans, and land development and construction loans. The Bank also offers Sharia a compliant mortgage alternative loan transactions (MALTs) for Muslim customers.

Classifications of the loan portfolio as of December 31, 2006 are as follows:

	Amount Outstanding(1)	% of Total

Commercial - Real Estate & Other	$15,705,255	30.84%
Residential Construction	1,031,027	2.02%
Residential Real Estate	29,166,983	57.27%
Residential Home Equity	4,632,170	9.10%
Consumer	122,904	0.24%
Credit Card	268,858	0.53%
Gross Loans	$50,927,197	100.00%

(1) - Excludes loans held for sale.

The Bank s loan portfolio is geographically concentrated in Ann Arbor and Washtenaw County, Michigan. The ability of individual loan customers 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 (see Risk Factors below).

Most of the Bank s commercial loans are secured by commercial real estate. Commercial real estate loans have a loan to value ratio typically less than 80% at the time the loan is originated. In no cases is the loan to value ratio for commercial real estate loans greater than 85% at the time of origination. The primary risk of commercial loans is that the area s economy declines and rents decrease while vacancy increases, thereby decreasing the value of the building. If the guarantor suffers a financial reverse, the Bank is then exposed to a loss.

Residential loans typically have a loan to value ratio less than 80% at the time the loan is originated, unless the borrower s financial position is very strong, in which case a loan to value ratio of up to 90% or private mortgage insurance is considered. To meet the Bank s goals for first time homebuyers, the Bank has originated 97% to 100% loan to value residential loans and currently has under $2 million of these loans in its loan portfolio. Home equity secured residential loans have loan to value ratios of less than 90% at time of origination in the case of fixed rate fully-amortizing loans and 80% for home equity lines of credit, with a few exceptions with higher ratios for borrowers with strong credit. As of December 31, 2006, the Bank had a portfolio of $14.7 million of mortgage alternative loan transactions that are Sharia a-compliant mortgage alternatives for Muslim customers. The primary risk of residential lending is that home prices drop (typically this occurs during recessions) and borrowers walk away from their home or file for bankruptcy. All of the Bank s construction loans are secured by residential properties with a loan to value ratio of 80% or less at the time of origination. The Bank controls the risk of construction lending by performing inspections prior to disbursing interim construction funds to avoid cost overruns.

The Bank makes few unsecured loans, typically for borrowers who have a high net worth, but even in these cases, the Bank usually takes collateral out of an abundance of caution. Most of the Bank s credit card loans are secured by residential properties. Consumer loans are generally secured by vehicles (primarily cars or trucks). The primary risk of these loans is that the value of the car depreciates faster than the loan balance amortizes, and the borrower loses their job or has a severe medical problem in their family. In these circumstances, the collateral could be insufficient to repay the loan if the borrower files for bankruptcy. In addition, if the national or regional economy is soft, used vehicle prices tend to deteriorate creating additional risk of insufficient collateral in the event of a default.

The Bank makes very few business loans that are not secured by real estate. Business Lines of Credit are typically made up to a 50% ratio of inventory and other equipment at current market value, and 70% of current receivables. Business Manager Loans are also structured as Lines of Credit and are secured by individual receivables up to 90% of face value individually purchased with recourse to the borrower and additional insurance to protect the bank against fraud and bankruptcy of the issuer of the account

that is receivable to the borrower. The primary risk of this type of lending backed by non-real estate business assets is that if the business suffers a financial reverse, an unscrupulous borrower can easily dissipate the collateral, causing the Bank a loss. For this reason, the Bank de-emphasizes this type of lending.

Typically with respect to all personal and residential loans, a ratio of total debt payments to total income of all borrowers and guarantors less than 42% is required. With respect to commercial real estate and business loans, a ratio of income to all debt payments of greater than 1.25 times is required. Therefore, the Bank typically has both income and asset backing to secure its loans. However, there can always be valid reasons to have exceptions to each rule. The Bank s loan committee retains the power to take unusual circumstances into account when evaluating each loan request versus the Bank s policies. Loans that are lacking current demonstrated income are classified and increased reserves are established for those loans. Loans that are lacking both current demonstrated income and asset backing are allocated even higher reserves equal to the amount estimated to be realized upon the sale of the collateral less all estimated costs.

Mortgage Banking

The Bank and Midwest originate internally or via other financial institutions residential home loans that generally qualify for sale to secondary market investors under the underwriting criteria of the Federal Home Loan Mortgage Corporation (FHLMC), the Federal National Mortgage Association (FNMA) and the Government National Mortgage Association (GNMA). Midwest also originates jumbo and non-standard home loans under the underwriting criteria of Lehman Brothers and has originated a small portfolio of Alt-A home loans that it has sold to FNMA. Loans purchased or originated internally are either sold directly to FHLMC, FNMA or GNMA, or are pooled into mortgage-backed securities and the securities are sold to investors in the secondary market. With the exception of Midwest, the Bank is currently selling the servicing rights on all mortgages originated that are sold to the secondary market. Some residential mortgages are held in the Bank s loan portfolio as an investment.

University Bank became a seller/servicer and began originating Federal Home Loan Mortgage Corporation (FHLMC) insured mortgages in 1991 and became a seller/servicer and began originating Federal National Mortgage Association insured mortgages in 1994. The Bank has also been approved as a seller/servicer of Government National Mortgage Association mortgages for many years but only began using its license in 1999 to originate and sell these loans without retaining the servicing rights. Midwest is also licensed with FNMA, FHLMC and GNMA.

Mortgage Servicing and Sub-servicing

Mortgage servicing firms receive monthly payments from loan customers, aggregate and account for these payments, and send the funds to mortgage-backed securities holders, including pension funds and financial institutions. For some mortgage customers, escrow funds are also accumulated, and funds sent to taxing authorities and insurance companies as needed. Mortgage servicers also dun delinquent accounts and foreclose loans, if required. Mortgage servicers receive a fixed monthly fee for performing this service. When these services are performed for the Bank, it is called

8

servicing . When these services are performed for other institutions, it is called sub-servicing . The Bank s 80%-owned subsidiary, Midwest, specializes in sub-servicing residential mortgage loans sold to FNMA and FHLMC and other non-agency private conduits for the account of credit unions, other financial institutions and mortgage brokers.

Investment Securities

The Bank maintains surplus available funds in investments consisting of short-term money market instruments, U.S. government bonds, U.S. federal agency obligations and mortgage-backed securities backed by federal agency obligations. The Bank s President, who is a licensed Registered Representative, manages these investments. All purchase/sale decisions are subject to the review and prior approval of the Asset Liability Committee of the Bank and the Board of Directors. The securities portfolio provides a source of liquidity to meet Bank s operating needs. At December 31, 2006, the portfolio had a net unrealized loss of $27,296 versus a net unrealized loss of $34,721 at December 31, 2005.

Information regarding securities where cost exceeded more than 10% of the Company s stockholders equity at December 31, 2006 is as follows:

Issuer	Coupon	Yield	Final Maturity	Market Value	Amortized Cost
FHLBI equity (1)	VAR	5.23%	None	$ 714,600	$ 714,600

(1) The rate varies quarterly. The Bank is required to maintain the investment in Federal Home Loan Bank of Indianapolis (FHLBI) common stock in an amount related to the Bank s single-family mortgage related assets and FHLBI advances. Shares can be redeemed or sold at par value to the FHLBI upon five-year prior notice.

Competition

Community Banking, Ann Arbor

The attraction and retention of deposits depend on the Bank s ability to provide investment opportunities that satisfy the requirements of investors with respect to rate of return, liquidity, risk and other factors. The Bank competes for these deposits by offering personal service and attention, fair and competitive rates, low fees, and a variety of savings programs including tax-deferred retirement programs.

The Bank competes for loan originations primarily through the quality of services provided to the loan customers, competitive interest rates and reasonable loan fees, rapid and local decision-making and the range of services offered. Competition in originating loans comes principally from other commercial banks, credit unions, insurance companies, mortgage banking companies and savings and loans.

The Bank s main office is near the University of Michigan Central Campus. These institutions employ approximately 20,000 persons. The Bank is located in an area that has strong competition from local credit unions and banks as well as a number of large national banks. The University of Michigan Credit Union has an onsite presence at the University of Michigan and Midwest

9

Financial Credit Union has an onsite presence at the University of Michigan Hospital Complex.

Banks owned by out-of-state holding companies dominate the Ann Arbor banking market. The University of Michigan Credit Union is the largest locally owned financial institution. The only locally-owned community financial institutions, excluding University Bank, are University of Michigan Credit Union, Bank of Ann Arbor, Huron River Area Credit Union, Midwest Financial Credit Union, Automotive Federal Credit Union and several smaller credit unions. Huron River Area Credit Union was placed into receivership by the NCUA and state regulators in early 2007.

Mortgage Banking and Islamic Banking

The Bank and Midwest s retail mortgage origination operations encounter competition for the origination of residential real estate loans primarily from savings institutions, commercial banks, insurance companies and other mortgage banking firms. Many of these firms have a well-established customer and/or borrower client base. Some competitors, primarily savings institutions, insurance companies and commercial banks, have the ability to create unique loan products from time to time because they are able to hold the loans in their own portfolio rather than sell into the secondary market. The Bank s ability to hold mortgage loans in its portfolio helps it to compete more effectively. Most loans sold into the secondary market, however, go to the same sources, those being FHLMC, FNMA, and GNMA. Most lenders have access to these secondary market sources; therefore, competition often becomes more a matter of service and pricing than that of product. As a mortgage loan originator and a purchaser of mortgage loans through correspondents, Midwest and the Bank must be able to compete with respect to the types of loan products offered by competitors to borrowers and correspondents, including the price of the loan in terms of origination fees or fee premium or discount, loan processing costs, interest rates, and the service provided by our staff. An important element to competing is master purchase agreements negotiated periodically with FNMA and FHLMC with low and competitive loan guarantee fees, a wide variety of mortgage programs, and a variety of flexible underwriting criteria. Our ability to secure these master purchase agreements is dependent upon the performance from a quality perspective of loans previously sold to the agencies.

During lower interest rate environments, competition for loans is less intense due to the large number of loans available for origination. As interest rates rise and the number of loans available for origination diminishes, competition becomes quite intense and companies with larger investor bases, flexibility with respect to type of product offered and greater experience in dealing in these types of markets tend to be the most successful.

The Bank also originates residential loans to be held in portfolio, and management believes that this product together with the product offerings from FHLMC, FNMA and GNMA are sufficient for the Bank to meet its customers needs. The Bank also is licensed as a HUD Title 1 and Multi-family seller/servicer, but has no plans at this time to expand utilization of HUD or GNMA programs.

Islamic Banking. Competition for Islamic financing products is less intense than for traditional mortgage products as products cannot be successfully offered to the market without recognition from leading Sharia a (Islamic Law) scholars. In addition, documents must be created and customized for each state that an originator intends to offer products in. The primary competition in Islamic home finance is from Guidance Financial, a mortgage banking firm based in Reston, Virginia, and Devon Bank, a community bank based in Chicago, Illinois. Currently, we offer Islamic home financing products in Michigan only, but our business plan in 2007 contemplates expansion of this product nationwide. A description of the company s products that comply with Islamic Law, specifically FDIC insured deposits and home financings, are discussed in Note 1. Summary of Significant Accounting Polices.

Mortgage Servicing and Sub-servicing. Servicing competition is somewhat less intense than the loan origination aspect of mortgage banking. Due to net worth and management requirements, many mortgage origination companies do not have the capacity to service loans. Falling interest rates present competitive challenges for the mortgage servicing operation in that mortgagors are more likely to refinance existing mortgages. The quality of service and the ability of the origination operation to compete on price and service are important in retaining these customers by refinancing them internally, rather than losing the refinancing transaction to a competitor. Increased refinancing activity as a result of falling interest rates decreases profitability of mortgage servicing by increasing amortization charges on purchased mortgage servicing rights.

In the sub-servicing business, Midwest competes primarily with about 30 firms nationwide, including specialized sub-servicing units of mortgage banking companies, and specialized firms owned by banks and savings and loans. Most of these companies have substantially larger financial resources than Midwest, and some of them are also located in rural areas with low prevailing wages. Midwest specializes in subservicing for credit unions and is among the top four subservicers for credit unions and is the only firm that specializes solely on providing service to credit unions.

Midwest is located in Houghton, Michigan in the western upper peninsula of Michigan. Personnel and occupancy costs are the largest costs in a mortgage servicing operation. However, the prevailing wages and occupancy costs in the upper peninsula of Michigan are generally lower than the national average. Midwest has developed a unique business extranet website for its business partners and their retail customers. Through its website at www.subservice.com, Midwest provides the opportunity for all customers to access their mortgage information 24 hours a day 7 days a week in an environment which provides seamless access to all information. Business partners have access to all mortgage data as easily as if it were serviced on their in-house computer system. Customers can access all information about their accounts and perform any type of transaction through the internet. As a result of low personnel costs, its internet technology and the relationships it has developed in the credit union industry over time, the Company believes that Midwest mortgage servicing operation has a competitive advantage.

Regulation

Primary Regulators of University Bancorp. The Company is a bank holding company registered under the Federal Bank Holding Company Act of 1956. The Federal Reserve Bank of Chicago is the Company s primary regulator and the Company is subject to regulation, supervision and examination by the Federal Reserve. The Company is required to file semi-annual reports with the Federal Reserve and other information as required under the rules of the Board of Governors of the Federal Reserve System. Additionally, the Federal Reserve Board possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to bar the payment of dividends by banks and bank holding companies.

Acquisitions. The Company is generally prohibited from engaging in non-banking activities since it is a bank holding company. The Company cannot acquire more than 5% of the shares of another company engaged in non-banking activities. The Company can only acquire direct or indirect control of more than 5% of the voting shares of a company engaged in a banking related activity with the prior approval by the Federal Reserve Board to acquire these shares or by regulatory exemption. The Federal Reserve Board has identified specific banking related activities in which a bank holding company may engage with notice to the Federal Reserve. The Federal Reserve considers managerial, capital and other financial factors, including the impact on local competition of any proposal and past performance under the Community Reinvestment Act in acting on acquisition or merger applications. Bank holding companies may acquire other banks located in any state in the United States without regard to geographic restrictions or reciprocity requirements imposed by state law, but subject to certain conditions, including limitations on the aggregate amount of deposits that may be held by the acquiring company and all of its insured depository institution affiliates.

Commitments. In connection with obtaining the consent of the Federal Reserve to a 1989 merger transaction when the Company obtained public listing on the NASDAQ Capital Market, certain commitments were made to the Federal Reserve. Management agreed that the Employee Stock Ownership Plan would not purchase more than 10% of the common stock or 5% of any other class of our voting shares, without the prior approval of the Federal Reserve. Management also agreed not to incur additional debt or to have the Bank pay dividends to us without the prior approval of the Federal Reserve.

Capital Requirements. The Federal Reserve Board imposes certain capital requirements on the Company under the Federal Bank Holding Company Act, including a minimum leverage ratio and a minimum ratio of qualifying capital to risk-weighted assets. These requirements are described below under Capital Regulations . The Federal Reserve uses capital adequacy guidelines in its examination and regulation of bank holding companies. If capital falls below minimum guidelines, a bank holding company may, among other things, be denied approval to acquire or establish additional banks or non-bank businesses. The prompt corrective action provisions of federal law and regulation authorizes the Federal Reserve to restrict the payment of dividends to us from an insured bank which fails to meet specified capital levels.

Source of Strength. In accordance with Federal Reserve Board policy, the Company is expected to act as a source of financial strength to the Bank

and to commit resources to support the Bank in circumstances in which the Company may not otherwise wish to do so. Under the Federal Bank Holding Company Act, the Federal Reserve may require a bank holding company to terminate any activity or relinquish control of a bank subsidiary if the agency determines that divestiture may aid the depository institution s financial condition. In addition, if the Commissioner deems our Bank s capital to be impaired, the Commissioner may require the Bank to restore its capital by a special assessment upon us as University Bank s sole stockholder. If the Company were to fail to pay an assessment, the directors of the Bank would be required, under Michigan law, to sell the shares of the Bank s stock owned by the Company to the highest bidder at either a public or private auction and use the proceeds of the sale to restore the Bank s capital.

Financial Holding Companies. Bank holding companies may apply to become Financial Holding Companies. We have not applied to become a Financial Holding Company. Financial Holding Companies may engage in a wider range of non-banking activities than Bank Holding Companies, including greater authority to engage in securities and insurance activities. The expanded powers are available to a bank holding company only if the bank holding company and its bank subsidiaries remain well capitalized and well managed. The new law also imposes various restrictions on transactions between the depository institution subsidiaries of bank holding companies and their non-bank affiliates. These restrictions are intended to protect the depository institutions from the risks of the new non-banking activities permitted to affiliates.

Public Company Regulation. Our common stock is registered with the Securities and Exchange Commission (SEC) under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the Exchange Act). We are therefore subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act. The Sarbanes-Oxley Act of 2002 provides for numerous changes to the reporting, accounting, corporate governance and business practices of companies as well as financial and other professionals who have involvement with the U.S. public markets.

The Sarbanes-Oxley Act was enacted in 2002. This Act is not a banking law, but applies to all public companies, including the Corporation. Sarbanes-Oxley is designed to restore investor confidence. Sarbanes-Oxley adopts new standards of corporate governance and imposes new requirements on the board and management of public companies. Under the Sarbanes-Oxley Act the chief executive officer and chief financial officer of a public company must certify the financial statements of the company. Definitions of independent directors were adopted, and responsibilities and duties for the audit and other committees of the board. In addition, the reporting requirements for insider stock transactions were revised, requiring most transactions to be reported within two business days.

Section 404 of the Sarbanes-Oxley Act requires a company to include in its annual reports a report by management on the company s internal control over financial reporting and an accompanying auditor s report. The Commission extended the original Section 404 compliance dates for all issuers three times. Under the latest extension, non-accelerated filers will thus be required to file management and audit reports under Section 404 with their annual reports for the first year ending on or after July 15, 2007. (For

---

example, a non-accelerated filer with a December 31 year will be required to include the reports in its annual report filed in early 2008, for the year ended December 31, 2007.) The Company, based on the size of its market capitalization is considered a small public company and thus is classified as a non-accelerated filer.

Complying with Sarbanes-Oxley will result in increased costs to the Corporation in an amount likely to be between $50,000 and $150,000.

As a NASDAQ Capital Market listed corporation, we are subject to rules of that market on director independence, board committee structure, price per share and the amount of shares held by the public to remain listed. In addition, we must pay an annual listing fee. This fee has increased over the past several years from $4,000 a year to $27,500 a year.

Primary Regulators of University Bank. The Bank is a Michigan banking corporation and its deposit accounts are insured by the Bank Insurance Fund (BIF) of the Federal Deposit Insurance Corporation (FDIC). As a Michigan-chartered commercial bank, University Bank is subject to the examination, supervision, reporting and enforcement powers of the Commissioner, as the chartering authority for Michigan banks, and the FDIC, as administrator of the BIF. These agencies and the federal and state laws applicable to the Bank and its operations, extensively regulate various aspects of the banking business including, among other things, reserves against loans, capital levels relative to operations, lending activities and practices, collateral for loans, establishment of branches, mergers, acquisitions and consolidations, payment of dividends, internal controls, permissible types and amounts of loans, investments and other activities, interest rates on loans and on deposits, and the safety and soundness and scope of banking practices. As an insured bank, University Bank is also required to file quarterly reports and other information as required with the FDIC.

All subsidiaries of University Bank including Midwest and University Insurance & Investment Services are all also subject to all regulations applicable to University Bank itself, including regular on-site examination by both the OFIS and the FDIC.

Other Regulators. As a FHLMC, FNMA, and HUD Title 1 and Title 2 and HUD multifamily seller/servicer, University Bank s mortgage banking operation is subject to regulation and regular on-site examination by FHLMC, FNMA and HUD.

Other Regulations. University Bank and its subsidiaries are also subject to various regulations including:

the Community Reinvestment Act,

the Federal Truth-in-Lending Act,

the Home Mortgage Disclosure Act,

the Gramm-Leach Bliley Act (and related privacy regulations),

the Patriot Act,

the Check 21 Act,

The Anti-Money Laundering Act,

the Equal Credit Opportunity Act,

the Fair Credit Reporting Act,

the Fair Debt Collection Act,

the Right to Privacy Act,

the Real Estate Settlement Procedures Act,

the Bank Secrecy Act,

---

the Electronic Funds Transfer Act,

Federal Reserve regulations,

State usury laws, and

Federal laws concerning interest rates.

Also, University Bank may not engage in any activity not authorized by the Michigan Banking Code unless it is authorized by the Commissioner of the OFIS as being closely related to banking.

These laws and regulations are primarily intended to protect depositors and the deposit insurance fund of the FDIC, not the Bank or the Company s stockholders. The following is a summary of certain statutes and regulations affecting University Bank. The following information is qualified in its entirety by reference to the particular statutory and regulatory provisions.

Various changes to the Federal Deposit Insurance Act (FDIA) were recently signed into law. These changes will increase the FDIC insurance coverage for retirement accounts, index future insurance coverage to inflation, provide the bank with rebates for past premiums paid and merge the BIF with the Savings and Loan Insurance Fund (SAIF). Any change in applicable laws, regulations or regulatory policies of various governmental regulatory authorities may have a material effect on the Company s business, operations and prospects. Those authorities include, but are not limited to, the Board of Governors of the Federal Reserve System, the FDIC, the Commissioner of the Michigan Office of Financial and Insurance Services, the Internal Revenue Service, and state taxing authorities. The Company is unable to predict the nature or extent of the effects that fiscal or monetary policies, economic controls or new federal or state legislation may have on future business and earnings.

Deposit Insurance. As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums, based upon their respective levels of capital and results of supervisory evaluation. Banks classified as well-capitalized, as defined by the FDIC, and considered healthy pay the lowest premium while institutions that are less than adequately capitalized, as defined by the FDIC, and considered to be of substantial supervisory concern pay the highest premium. The FDIC makes a risk classification of all insured institutions for each semi-annual assessment period.

In early 2006, Congress passed the Federal Deposit Insurance Act of 2005, which made certain changes to the federal deposit insurance program. These changes included merging the BIF and the Savings Association Insurance Fund (the SAIF), increasing retirement account coverage to $250,000 and providing for inflationary adjustments to general coverage beginning in 2010, providing the FDIC with the authority to set the fund s reserve ratio with a specified range, and requiring dividends to banks if the reserve ratio exceeds certain levels. The new statue grants banks an assessment credit based on their share of the assessment base on December 31, 1996, and the amount of the credit can be used to reduce assessments in any year subject to certain limitations. The FDIC is required to issue regulations

implanting the new Act.

The FDIC may terminate the deposit insurance of any insured depository institution if the FDIC determines, after a hearing, that the institution or its directors have engaged or are engaging in unsafe or unsound practices, or have violated any applicable law, regulation, order, or any condition imposed in writing by, or written agreement with, the FDIC, or if the institution is in an unsafe or unsound condition to continue operations. The FDIC may also suspend deposit insurance temporarily during the hearing process for a permanent termination of insurance if the institution has no tangible capital.

Commissioner Assessments. Michigan banks are required to pay supervisory fees to the Commissioner to fund the operations of the Commissioner. The amount of supervisory fees paid by a bank is based upon the bank s total assets, as reported to the Commissioner.

FICO Assessments. Pursuant to federal legislation enacted in 1996, University Bank, as a member of the BIF, is subject to assessments to cover the payments on outstanding obligations of the Financing Corporation (FICO). FICO was created in 1987 to finance the re-capitalization of the Federal Savings and Loan Insurance Corporation, the predecessor to the FDIC s Savings Association Insurance Fund (SAIF), which insures the deposits of thrift institutions. Until the maturity of the outstanding FICO obligations in 2019, BIF members and SAIF members will share the cost of the interest on the FICO bonds on a pro rata basis. It is estimated that FICO assessments during this period will be less than 0.025% of deposits. In addition, the Federal Home Loan Banks, including the Federal Home Loan Bank of Indianapolis, in which University Bank is an investor, pay 20% of their annual net income to a sinking fund to retire the FICO bonds until they are paid in full.

Capital Regulations. The FDIC has established the following minimum capital standards for state-chartered, FDIC-insured non-member banks, like University Bank:

a leverage requirement consisting of a minimum ratio of Tier 1 capital to total assets of 3% for the most highly-rated banks with minimum requirements of 4% to 5% for all others;

and a risk-based capital requirement consisting of a minimum ratio of total capital to total risk-weighted assets of 8%, at least one-half of which must be Tier 1 capital.

Tier 1 capital consists principally of stockholders equity. These capital requirements are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions. For example, FDIC regulations provide that higher capital may be required to take adequate account of, among other things, interest rate risk and the risks posed by concentrations of credit, nontraditional activities or securities trading activities.

Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. Depending upon the capital category to which an institution is assigned, the regulators corrective powers include: requiring the submission of a capital restoration plan; placing limits on asset

growth and restrictions on activities; requiring the institution to issue additional capital stock, including additional voting stock, or to be acquired; restricting transactions with affiliates; restricting the interest rate the

---

institution may pay on deposits; ordering a new election of directors of the institution; requiring that senior executive officers or directors be dismissed; prohibiting the institution from accepting deposits from correspondent banks; requiring the institution to divest certain subsidiaries; prohibiting the payment of principal or interest on subordinated debt; and ultimately, appointing a receiver for the institution.

In general, a depository institution may be reclassified to a lower category than is indicated by its capital levels if the appropriate federal depository institution regulatory agency determines the institution to be otherwise in an unsafe or unsound condition or to be engaged in an unsafe or unsound practice. This could include a failure by the institution, following receipt of a less-than-satisfactory rating on its most recent examination report, to correct the deficiency.

The extent of the regulators powers depends on whether the institution in question is well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized. An institution is critically undercapitalized if it has a tangible equity to total assets ratio that is equal to or less than 2%. An institution is well capitalized if it has a total risk-based capital ratio of 10% or greater, core risk-based capital of 6% or greater, and a leverage ratio of 5% or greater, and the institution is not subject to an order, written agreement, capital directive, or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. An institution is adequately capitalized if it has a total risk-based capital ratio of not less than 8%, a core risk-based capital of not less than 4%, and a leverage ratio of not less than 4%.

These capital guidelines can affect the Bank in several ways. Capital levels are currently adequate, however, rapid growth, poor loan portfolio performance, or poor earnings performance, or a combination of these factors, could change our capital position in a relatively short period of time, making an additional capital infusion necessary. In general, if the FDIC s assessment of a Bank s financial and managerial strength changes negatively, the Bank s cost of FDIC insurance will rise in subsequent semi-annual periods. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions as determined by the ordering agency to be appropriate.

Dividends. Under Michigan law, the Bank is restricted as to the maximum amount of dividends it may pay on its common stock. The Bank may not pay dividends except out of net profits after deducting its losses and bad debts. The Bank may not declare or pay a dividend unless the Bank will have a surplus amounting to at least 20% of its capital after the payment of the dividend. In addition, the Bank may not declare or pay any dividend until an amount equal to at least 10% of net profits for the preceding one-half year (in the case of quarterly or semi-annual dividends) or full-year (in the case of annual dividends) has been transferred to surplus. At December 31, 2006, the Bank had accumulated earnings of $14,186. The Bank may not declare or pay any dividend until the cumulative dividends on any issued preferred stock have been paid in full.

Federal law generally prohibits the Bank from making any capital distribution, including payment of a dividend, or paying any management fee to us if the Bank would thereafter be undercapitalized. The FDIC may prevent

17

the Bank from paying dividends if the Bank is in default of payment of any assessment due to the FDIC. In addition, the FDIC may prohibit the payment of dividends by the Bank, if a payment is determined, by reason of the financial condition of the Bank, to be an unsafe and unsound banking practice. The Company has an agreement with the Federal Reserve Bank of Chicago that requires us to seek permission before paying any cash dividends.

Insider Transactions. The Bank is subject to certain restrictions imposed by the Federal Reserve Act including any extensions of credit to us, investments in our stock or other securities, and the acceptance of our stock as collateral for loans. Certain limitations and reporting requirements are also placed on extensions of credit by the Bank to its directors and officers, to our directors and officers, to our principal stockholders, and to related interests of the directors, officers and principal stockholders. In addition, federal law and regulations may affect the terms upon which any person becoming one of our directors or officers or one of our principal stockholders may obtain credit from banks with which the Bank maintains a correspondent relationship.

Safety and Soundness Standards. Federal banking agencies have adopted guidelines to promote the safety and soundness of federally insured depository institutions. These guidelines establish standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the institution s primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. The preamble to the guidelines states that the agencies expect to require a compliance plan from an institution whose failure to meet one or more of the standards is of the severity that it could threaten the safe and sound operation of the institution. Failure to submit an acceptable compliance plan, or failure to adhere to a compliance plan that has been accepted by the appropriate regulator, would constitute grounds for further enforcement action.

State Bank Activities. Under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law, as implemented by FDIC regulations, also prohibits FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank or its subsidiary, respectively, unless the bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines the activity would not pose a significant risk to the deposit insurance fund of which the bank is a member. Impermissible investments and activities must be divested or discontinued within certain time frames set by the FDIC in accordance with federal law.

Consumer Protection Laws. The Bank s business includes making a variety of types of loans to individuals. In making these loans, the Bank is subject to state usury and regulatory laws, and various federal statutes, including:

the Equal Credit Opportunity Act,

18

the Fair Credit Reporting Act,

the Truth in Lending Act,

the Real Estate Settlement Procedures Act, and

the Home Mortgage Disclosure Act.

Regulations flowing from these laws prohibit discrimination, specify disclosures to be made to borrowers regarding credit and settlement costs, and regulate the mortgage loan servicing activities of Midwest, including the maintenance and operation of escrow accounts and the transfer of mortgage loan servicing.

In receiving deposits, the Bank is subject to extensive regulation under State and federal law and regulations, including:

the Truth in Savings Act,

the Expedited Funds Availability Act,

the Bank Secrecy Act,

the Electronic Funds Transfer Act,

the Anti-Money Laundering Act,

the Federal Deposit Insurance Act,

the Patriot Act,

the Check 21 Act, and

the Gramm-Leach Bliley Act (and related privacy regulations).

Violation of these laws could result in the imposition of significant damages and fines upon the Bank and its directors and officers.

Real Estate Lending Regulations. Federal regulators have adopted uniform standards for appraisals of loans secured by real estate or made to finance improvements to real estate. Banks are required to establish and maintain written internal real estate lending policies consistent with safe and sound banking practices and appropriate to the size of the institution and the nature and scope of its operations. The regulations establish maximum loan to value ratio limitations on real estate loans, which generally are equal to or greater than the loan to value limitations established under the Bank s lending policies.

Branching Authority. Michigan banks, including University Bank, have authority under Michigan law to establish branches anywhere in the State of Michigan, subject to receipt of all required regulatory approvals, including approval of the Commissioner and the FDIC. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 allows banks to establish interstate branch networks through acquisitions of other banks, subject to certain conditions, including certain limitations on the aggregate amount of deposits that may be held by the surviving bank and all of its insured depository institution affiliates. The establishment of de novo interstate branches or the acquisition of individual branches of a bank in another state, rather than the acquisition of an out-of-state bank in its entirety, is allowed only if specifically authorized by state law.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 allowed individual states to opt-out of interstate branching authority by enacting appropriate legislation prior to June 1, 1997. Michigan did not opt out, and now permits both U.S. and non-U.S. banks to establish branch offices in Michigan. The Michigan Banking Code permits the following in appropriate circumstances and with the approval of the Commissioner:

acquisition of all or substantially all of the assets of a Michigan-chartered bank by an FDIC-insured bank, savings bank, or savings and loan association located in another state;

acquisition by a Michigan-chartered bank of all or substantially all of the assets of an FDIC-insured bank, savings bank or savings and loan association located in another state;

consolidation of one or more Michigan-chartered banks and FDIC-insured banks, savings banks or savings and loan associations located in other states having laws permitting this consolidation, with the resulting organization chartered by Michigan;

establishment by a foreign bank, which has not previously designated any other state as its home state under the International Banking Act of 1978, of branches located in Michigan;

establishment or acquisition of branches in Michigan by FDIC-insured banks located in other states, the District of Columbia or U.S. territories or protectorates having laws permitting Michigan-chartered banks to establish branches in these jurisdictions.

Further, the Michigan Banking Code permits the following, upon written notice to the Commissioner:

acquisition by a Michigan-chartered bank of one or more branches, not comprising all or substantially all of the assets, of an FDIC-insured bank, savings bank or savings and loan association located in another state, the District of Columbia, or a U.S. territory or protectorate;

establishment by Michigan-chartered banks of branches located in other states, the District of Columbia, or U.S. territories or protectorates; and

consolidation of one or more Michigan-chartered banks and FDIC-insured banks, savings banks or savings and loan associations located in other states, with the resulting organization chartered by one of the other states.

Primary Regulator of Midwest. Midwest is an approved seller/servicer of single-family mortgage loans for FNMA, FHLMC and HUD Title II (GNMA), and is subject to their rules, regulations and examinations.

Primary Regulator of University Insurance & Investment Services. University Insurance & Investment Services is licensed by the State of Michigan s Office of Financial and Insurance Services, Insurance Division as both a life and health and a property casualty insurance agency, and is subject to their rules, regulations and examinations. University Insurance & Investment Services also sells broker-dealer investment products and it and its licensed employees are subject to the rules, regulations and examinations of the National Association of Securities Dealers, the Securities & Exchange Commission, and the Insurance Division of Michigan s Office of Financial and Insurance Services.

Item 2. Properties

Properties

In December 2005, the Bank moved its main office and sole branch to the historic Hoover Mansion located at 2015 Washtenaw Avenue, Ann Arbor, Michigan. In June 2005, the Bank purchased Hoover, LLC the owner of the Hoover Mansion, a 17,000 square foot facility. Previously the bank was

located in a facility that it sold in a sale-leaseback transaction in 2003. In April 2005, the owner of the property offered the Bank an $800,000 early termination buyout of the lease if the Bank could vacate the property by a date certain. The agreement was subsequently amended and the move out date was set at December 15, 2005. The Bank moved to the Hoover Mansion on the 10th of December, thus satisfying the agreement for the financial incentive.

The Bank subleases a small portion of a site that includes a registered historic building in Ann Arbor, at the corner of Washtenaw Avenue and Stadium Boulevard as an ATM drive-through location. The minimum lease period ends October 2010 with two optional five-year extensions. The Bank also owns 1/3 of the Company that owns the site, Tuomy, LLC.

The Bank leases an ATM location in Ann Arbor at the corner of State and Liberty near the University of Michigan Campus under a year to-year lease.

Midwest leases an office in Houghton, Michigan under a year-to-year lease.

The Company believes that the office facilities are adequate to support the anticipated level of future expansion of business.

Contractual Obligations

The following table summarizes the existing contractual obligations of the Company:

Payments Due By Period

	Total	Less than Year	2008-2009	2010-2011	More than 5 years
Operating leases	$ 91,730	$ 61,140	$ 23,390	$ 7,200	$
Certificates of deposit	15,601,321	9,609,103	2,286,572	3,296,124	409,522
Totals	$$15,693,051	$9,670,243	$2,309,962	$3,303,324	$ 409,522

Item 3. - Legal Proceedings

At December 31, 2006 the Company had no outstanding legal proceedings that would have a material affect on the financial statements.

Item 4. - Submission of Matters to a Vote of Security Holders

No matters were submitted during the fourth quarter of 2006 to a vote of our shareholders.

PART II.

Item 5. - Market for Registrant s Common Equity and Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

---

Common Stock and Dividend Information

Our common stock trades on the NASDAQ Capital Market under the symbol UNIB. The high and low sales prices of our common stock as quoted by NASDAQ,

for each quarter since January 1, 2005 are listed below:

	High	Low
2007		
First Quarter through March 16	$2.37	$1.85
2006		
First Quarter	2.95	1.76
Second Quarter	2.90	1.95
Third Quarter	2.54	2.04
Fourth Quarter	2.38	1.90
2005		
First Quarter	2.25	1.66
Second Quarter	2.35	1.75
Third Quarter	2.00	1.52
Fourth Quarter	2.00	1.53

As of the March 16, 2007 we had approximately 622 stockholders including approximately 483 beneficial owners of shares held by brokerage firms or other institutions.

Our shareholders authorized a 1 for 2 reverse stock split in November 2002; however, management has opted, at this time, not to implement the reverse stock split. No cash dividends have been paid on our common stock. We do not currently anticipate declaring or paying cash dividends on our common stock in 2007.

Certain Sales of Equity Securities

In 2006, the Company issued 100,500 shares of common stock as compensation for services rendered to a company that assisted in the development of UIFC and its products. There were no repurchases of common stock in 2006.

Also during 2006, the Company sold 7,200 shares of preferred stock at $1,000 per share. The Company issued 2,681 additional preferred shares to preferred shareholders as 9.0% paid-in-kind dividends. There were no repurchases of preferred stock in 2006.

Item 6. - Management s Discussion and Analysis of Financial Condition and Results of Operations

The purpose of the following discussion and analysis is to assist the reader in understanding and evaluating the changes in financial position and results of operations over the past several years. Investors should refer to the consolidated financial statements, the related notes thereto, and

statistical information presented elsewhere in this report when reading this section of the report.

The cautionary statements described below are for the purpose of qualifying for the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934.

This report includes forward-looking statements as that term is used in the securities laws. All statements regarding our expected financial position, business and strategies are forward-looking statements. In addition, the words anticipates, believes, estimates, seeks, expects plans, intends, and similar expressions, as they relate to us or management, are intended to identify forward-looking statements. The presentation and discussion of the provision and allowance fort loan losses and statements concerning future profitability or future growth or increases, are examples of inherently forward-looking statements in that they involve judgments and statements of belief as to the outcome of future events. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and out future prospects include, but are not limited to changes in: interest rates, general economic conditions, legislative/regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in our market area and accounting principles, policies and guidelines. These risks and uncertainties should not be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information concerning us and our business, including additional factors that could materially affect our financial results, is included in our other filings with the Securities and Exchange Commission.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosures. On an on-going basis, we evaluate these estimates, including those related to the allowance for loan losses, servicing rights, other real estate owned and deferred tax assets. Estimates are based on historical experience, information received from third parties and on various other assumptions that are believed to be reasonable under the circumstances, which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

ALLOWANCE FOR LOAN LOSSES - The allowance for loan losses is determined based on management estimates of the amount required for losses inherent in the portfolio. These estimates are 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, but the

entire allowance is available for any loan that, in management s judgment, should be charged-off.

SERVICING RIGHTS - Servicing rights are evaluated quarterly for possible impairment and are valued based on the lower of amortized cost or fair value of the rights, using independent appraisals and grouping of the underlying loans as to type, term and interest rates. Assumptions as to prepayment speeds and retention rates may change and thereby impact the valuation. Any impairment of a grouping is reported as a valuation allowance.

OTHER REAL ESTATE OWNED - Real estate properties acquired in collection of a loan are recorded at fair value upon acquisition based on appraisals. Any reduction to fair value from the carrying value of the related loan at the time of foreclosure is accounted for as a loan loss. Subsequent reductions in the value of the real estate owned are charged to earnings when probable and estimable. Changes in real estate value in the future may impact the carrying value.

DEFERRED TAX ASSETS Deferred tax assets are recorded based on estimates of future taxable income and utilization of existing net operating loss carry-forwards. A valuation allowance adjusts deferred tax assets to the net amount that is more likely than not to be realized. Actual results will impact the estimates of these deferred tax assets.

RISK FACTORS

Our business involves a high degree of risk. The reader of this report should carefully consider the risks and uncertainties described below and the other information in this report before deciding whether to invest in shares of our common stock. If any of the following risks actually occur, our business, financial condition and results of operations could be materially adversely affected. This could cause the trading price of our common stock to decline, with the loss of all or part of an investment in our common stock. Described below, are the material risks of investing in University Bancorp s common stock. Investors should carefully consider these prior to purchasing any shares.

University Bank Has Incurred Significant Losses And May Never Achieve Sustained Profitability

University Bank sold its profitable Upper Peninsula operations in late 1994 and relocated to Ann Arbor in early 1996. University Bank had a net loss from operations each year between 1995 and 2001 and again in 2004 and 2006. University Bank had a profit in 2002, 2003 and 2005. Management of the Bank believes that as the size of loan portfolio and retail deposits continue to increase that the transfer into the bank of the remainder of the $30 million in zero interest cost escrow deposits controlled by Midwest Loan Services in mid-December 2006 should result in the bank achieving sustained profitability, but there is no assurance that expenses will not rise or other income sources will fall as a result of some unanticipated future event. There is no assurance that University Bank will grow to a size that will enable it to sustain profitability. University Bancorp had an accumulated deficit from operations of $950,038 at December 31, 2006.

24

The Company s Stock Is Controlled By Insiders Of The Company, Which May Not Provide You With The Best Possible Return On Your Investment

Insiders hold a majority of the shares outstanding of the Company. The Ranzini Group (Mr. Stephen Lange Ranzini, Dr. Joseph Lange Ranzini, Mr. Paul Lange Ranzini, Orpheus Capital, L.P., City Fed Financial and the Ranzini Family Trust dated 12/20/89) beneficially owns 2,637,718, or 62.15% of the issued and outstanding shares at March 16, 2007. These individuals are able to exert a significant measure of control over University Bancorp s affairs and policies. This control could be used, for example, to help prevent an acquisition of University Bancorp, precluding shareholders from possibly realizing any possible premium that may be offered for the common stock by a potential acquirer.

Your Ownership Of The Company May Be Further Diluted If University Bancorp Requires Additional Capital

There can be no assurance that University Bancorp will not need additional capital in the future to support the Bank s growth or to counter operating losses. Funds necessary to meet the Bank s working capital needs and to finance its expansion might not be available. If additional equity securities are needed to finance future expansion, such sale could result in significant dilution to the existing shareholders.

The Small Size Of University Bank Limits Its Ability To Compete With Larger Financial Institutions

University Bank faces strong competition for deposits, loans and other financial services from numerous Michigan and out-of-state banks, thrifts, credit unions and other financial institutions. Some of the financial institutions with which University Bank competes are not subject to the same degree of regulation as University Bank. Many of these financial institutions aggressively compete for business in the Ann Arbor area. Most of the Bank s competitors have been in business for many years, have established customer bases, have numerous branches, have substantially higher lending limits, and offer certain services that we do not provide. The dominant competitors in the Ann Arbor area are TCF National Bank, National City Bank, Comerica Bank, Chase Bank, LaSalle Bank and Key Bank. There can be no assurance that University Bank will be able to compete effectively with these competitors unless it can continue to grow its operations.

The Michigan Economy and the Ann Arbor Area Economy are Likely to Shrink Over the Next Few Years

In early 2007, Pfizer and ABN Amro Mortgage, the largest and third largest private sector employers in Ann Arbor, announced the closure of their operations in Ann Arbor, with the loss of approximately 5,200 jobs. The future impact on the area economy of these cutbacks is expected to have a material adverse impact on the Ann Arbor economy. Michigan s economy has declined for six years in a row and current projections are that ongoing structural cutbacks in the auto industry will cause further job losses through at least 2010. The overall impact on banks located in areas of economic decline is to restrain growth and cause greater than historical loan losses.

The Year Ended December 31, 2006 Compared to the Year Ended December 31, 2005

Summary of Results of Operations

The Company s net loss was $401,698 in 2006, versus net income of $1,989,169 in 2005. Basic earnings (loss) per share for 2006 and 2005 were $(0.10) and $0.48, respectively.

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

		2006	2005
Community & Islamic Banking)	$	(951)$	1,360
Midwest Loan Services		1,015	646
Corporate Office		(351)	(54)
Elimination		(135)	(63)
Total	$	(422)$	1,889

The reportable segments are activities that fall under the corporate offices (i.e. holding company), bank operations, and the mortgage servicing operations located at Midwest Loan Services, Inc. Activities included in the banking activity are conventional banking, Islamic banking, and a small insurance agency.

2006 as compared with 2005

Earnings during 2006 were restrained by start-up expenses at University Islamic Financial Corporation and the restructuring of an agreement with a company that assisted in the initial development of the Islamic subsidiary and products. Community Banking reported a pre-tax loss of $951,000 during the year ended December 31, 2006 compared to pre-tax net income of $1,360,000 during the same period in 2005. There were two material transactions in 2005 that enhanced results in that year. In 2005, the Bank was provided with a lease termination buyout and recorded income of $800,000 from this agreement. As part of the agreement the Bank moved out of its lease facility into another facility that was purchased in June 2005. This income was partly offset by additional costs of $300,000 incurred in carrying two headquarters for six months of 2005 during the transition between the two locations. The second transaction occurred in December 2005. The Bank spun off its Islamic banking division into a separate corporation capitalized with $10,000,000. The Bank sold off 20% of its shares in this corporation to outside investors for $3,000,000. The transaction resulted in a $1,000,000 capital gain. This income was partially offset by a cost of $80,000 incurred to buyout the rights to profit sharing in future mortgage alternative securitization income of a consulting firm that assisted us in forming the Islamic Banking Division.

The operating profit of Midwest increased to $1,015,000 from $646,000 in 2005. Due to increasing rates, mortgage originations income was down in 2006 as compared to 2005. However, this decrease was offset, by an increase in revenues from mortgage loan servicing and sub-servicing. At Midwest, the volume of mortgage loans serviced increased 24.2% to 32,461 at December 31, 2006 from 26,144 loans as of December 31, 2005.

Within the Corporate Office a large contract modification expense increased the year to date pre-tax loss in 2006 to $351,000 from a pre-tax loss of $54,000 in 2005. In April 2006, the Company agreed to modify a relationship with a company that assisted in the development of the Islamic Banking subsidiary and products. Under the original agreement, University Islamic Financial Corporation was to pay a share of revenue earned from all future mortgage alternative products sold in the secondary market. University Islamic Financial Corporation agreed to pay this company $100,000 in cash and the Company paid 100,500 shares of University Bancorp, Inc. common stock and stock options totaling 48,563 with a strike price starting at $2.50 and increasing to $3.50 through June 30, 2015 to eliminate this provision in the agreement, as well as to acquire the firm providing trustee services for some of the Islamic financings. By modifying the agreement, the Company will materially reduce future expenses related to the agreement.

Income tax (benefit) in 2006 was $(20,000) and $(100,000) in 2005. In 2006, the Company recorded a deferred tax benefit of $40,000. The benefit results from the expected utilization of the net operating carry-forward in future periods. This benefit was offset by a current tax expense of $20,000. In 2005, a tax benefit was recognized because of the operating profit in 2005 and 2003, and therefore a portion of existing net operating loss carry-forwards were reasonably expected to reduce future amounts of taxable income.

Net Interest and Financing Income

2006 as compared with 2005

Net interest and financing income increased to $2,759,432 for year ended December 31, 2006 from $2,319,755 for the same period in 2005. The yield on average earning assets increased from 6.90% in 2005 to 6.99% in 2006. This increase occurred as interest and profit bearing assets re-priced in a higher rate environment in 2006 than had prevailed in earlier periods. Overall, average interest and profit bearing assets increased from $47,438,660 in 2005 to $58,026,347 in 2006. The increase occurred primarily in Federal Funds and Bank Deposits. This category increased by $6,231,322. The source for the increase came primarily from an increase in custodial demand deposits which are controlled by Midwest. In mid-December, these custodial demand deposits rose from approximately $12 million to $30 million as Midwest transferred the remainder of the custodial demand deposits that it controlled to the Bank from another financial institution. The financial impact in 2007 and future years of this transfer and the resulting increase in custodial demand deposits is expected to be material, since each increase of $1 million in the average monthly balance increases net interest income by approximately $45,000 per year.

The cost of interest bearing and profit sharing liabilities increased from 2.07% for the 2005 period to 2.41% in 2006. Average interest bearing and profit sharing liabilities increased from $46,106,469 in 2005 to $53,719,641 in 2006. As noted above, interest bearing demand deposits increased due to an increase in custodial funds held by Midwest as part of its duties as a mortgage servicer and subservicer.

27

The net yield on earning assets decreased slightly from 4.89% in 2005 to 4.76% in 2006. The decrease in the net interest and profit margin is attributable primarily to a significant increase in Federal Funds and Bank Deposits. This asset category is short term in nature and has a lower yield than longer term asset categories such as loans. Accordingly, as interest rates rose throughout 2005 and 2006, the yield on interesting bearing deposits increased at a faster pace than the overall yield on interest bearing assets. Overall, due to the growth in the volume of earning assets, net interest and financing income increased from $2,319,755 in 2005 to $2,759,442 in 2006.

The following tables present for the average balances, the interest and profit earned or paid, and the weighted average yield for the period indicated:

NET INTEREST AND PROFIT INCOME

	2006 Average Balance	Interest Inc(Exp)	Average Yield
Interest and Profit Earning Assets:			
Commercial Loans	$17,961,252	$1,589,030	8.85%
Real Estate Loans (1)	29,866,139	1,930,141	6.46%
Installment Loans	1,549,014	121,527	7.85%
Total Loans	49,376,405	3,640,698	7.37%
Investment Securities	1,610,048	63,108	3.92%
Federal Funds & Bank Deposits	7,039,894	349,672	4.97%
Total Interest Bearing and			
Profit Sharing Assets	58,026,347	4,053,478	6.99%
Interest Bearing and Profit Sharing Liabilities:			
Deposit Accounts:			
Demand	21,111,824	145,743	0.69%
Savings	329,838	3,283	1.00%
Time	14,219,749	651,025	4.58%
Money Market Accts	17,977,564	491,408	2.73%
Short-term Borrowings	80,666	2,587	3.21%
Long-term Borrowings	-	-	0.00%
Total Interest Bearing and Profit Sharing Liabilities	53,719,641	1,294,046	2.41%
Net earning assets, net interest and profit income , and net spread	$4,306,706	$2,759,432	4.58%
Net Interest and Profit Margin			4.76%

(1) Actual yields; not adjusted to take into account tax-equivalent yields.

NET INTEREST AND PROFIT INCOME

	2005 Average Balance	Interest Inc(Exp)	Average Yield
Interest and Profit Earning Assets:			
Commercial Loans	$16,910,945	$1,416,280	8.37%
Real Estate Loans (1)	25,762,012	1,605,405	6.23%
Installment Loans	2,038,274	160,747	7.89%
Total Loans	44,711,231	3,182,432	7.12%
Investment Securities	1,918,857	55,784	2.91%
Federal Funds & Bank Deposits	808,572	34,675	4.29%
Total Interest Bearing and			
Profit Sharing Assets	47,438,660	3,272,891	6.90%
Interest Bearing and Profit Sharing Liabilities:			
Deposit Accounts:			
Demand	10,202,304	32,146	0.32%
Savings	471,145	4,612	0.98%
Time	14,888,596	492,222	3.31%
Money Market Accts	19,312,868	380,621	1.97%
Short-term Borrowings	1,225,219	43,203	3.53%
Long-term Borrowings	6,337	332	5.24%
Total Interest Bearing and Profit Sharing Liabilities	46,106,469	953,136	2.07%
Net earning assets, net interest and profit income , and net spread	$1,332,191	$2,319,755	4.83%
Net Interest and Profit Margin			4.89%

(1) Actual yields; not adjusted to take into account tax-equivalent yields.

The tables above do not specify the average level of non-interest bearing demand deposits, which were $6,467,744 and $3,641,640, for the years ended December 31, 2006 and 2005, respectively.

The following table presents information regarding fluctuations in our interest income and interest expense for the periods indicated. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to (1) changes in volume (changes in volume multiplied by old rate); and (2) changes in rate (changes in rate multiplied by old volume); with the rate/volume variance allocated to changes in rate:

RATE VOLUME TABLE

2006 2005

	Change Due To Volume	Change Due To Rate	Total Change
Interest and Financing Income:			
Commercial Loans	$ 90,562	82,188	172,750
Real Estate Mortgage Loans	263,446	61,290	324,736
Installment/Consumer Loans	(38,389)	(831)	(39,220)
Investment Securities	(9,966)	17,290	7,324
Federal Funds & Bank Deposits	308,659	6,338	314,997
Total Interest and Financing Income	614,312	166,275	780,587
Interest Bearing and Profit Sharing Liabilities:			
Demand Deposits	53,742	59,855	113,597
Savings Deposits	(1,405)	76	(1,329)
Time Deposits	(23,002)	181,805	158,803
Money Market Accounts	(27,860)	138,647	110,787
Short-term Borrowings	(37,041)	(3,575)	(40,616)
Long-term Borrowings	(332)	-	(332)
Total Interest and Profit Sharing Expense	(35,898)	376,808	340,910
Net Interest and Financing Income	$ 650,210	$ (210,533)	$ 439,677

Loan Portfolio

Information regarding the Bank s loan portfolio as of December 31, 2006 and 2005 is set forth under Note 5 to University Bancorp s consolidated financial statements included with this report.

Provision for Loan Losses

The Bank charges to operations a provision for loan losses which is intended to create an allowance for future loan losses inherent in the Bank s portfolio. Each year s provision reflects management s analysis of the amount necessary to maintain the allowance for loan losses at a level adequate to absorb anticipated losses. In its evaluation, management considers factors like historical loan loss experience, specifically identified problem loans, composition and growth of the loan portfolio, current and projected economic conditions, and other pertinent factors. A loan is charged-off by management as a loss when deemed uncollectible, although collection efforts continue and future recoveries may occur.

Non-performing loans are defined as loans which have been placed on non-accrual status and loans over 90 days past due as to principal or interest and still in an accrual status. Where serious doubt exists as to the collectibility of a loan, the accrual of interest is discontinued. See Note 5 of the Consolidated Financial Statements for additional information regarding impaired and past due loans. Non-performing loans amounted to $59,605 and $349,681 at December 31, 2006 and 2005, respectively. At December 31, 2005, there were loans totaling $10,172 that were past due over 90 days, but still accruing interest. Payments were made to bring these loans to a current status shortly after year-end.

The provision for loan losses was $153,297 in 2006 and $17,209 for the same period in 2005. The provision increased due to applying historical loss ratios to the growth in the loan portfolio and weak economic conditions in the southeastern Michigan area which increased management s estimates for future losses from economic factors.

Loans charged off, net of recoveries, were $36,721 and $20,916 in 2006 and 2005, respectively. The allowance for possible loan losses totaled $465,992 and $349,416 at the end of 2006 and 2005, respectively. The following table summarizes the loan loss expense for the Bank for the years ended December 31, 2006 and 2005.

32

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES ($ amounts in thousands)

	2006	2005
Balance at beginning of the period	$ 349	$ 353
Charge offs Domestic:		
Commercial loans	43	23
Real estate mortgages	-	11
Installment loans	-	-
Subtotal	43	34
Recoveries Domestic:		
Commercial loans	6	12
Real estate mortgages	-	-
Installment loans	1	1
Subtotal	7	13
Net charge offs	36	21
Provision for loan losses	153	17
Balance at end of period	$ 466	$ 349
Ratio of net charge offs during period to average loans outstanding during period	0.07%	0.05%

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES ($ amounts in thousands)

	Allocated portion of allowance at December 31		Percentage of loans in each category to total loans	
	2006	2005	2006	2005
Loan category:				
Domestic:				
Commercial loans	$ 274	$ 69	33.44%	32.28%
Real estate mortgages	97	136	63.03%	64.00%
Installment loans	19	22	3.53%	3.72%
Allocated for economic factors	76	122	N/A	N/A
	$ 466	$ 349	100.0%	100.0%

	At December 31, 2006	At December 31, 2005
Total loans (1)	$50,927,197	$45,652,326
Reserve for loan losses	$ 465,992	$ 349,416
Reserve/Loans %	0.92%	0.76%

(1) Excludes loans held for sale.

The Bank s overall loan portfolio is geographically concentrated in Ann Arbor and the future performance of these loans is dependent upon the performance of relatively limited geographical areas. As a result of the weak Michigan economy and recent negative developments in the Ann Arbor area economy (see Risk Factors above), the Bank s future loss ratios may exceed historical loss ratios.

Management believes that the allowance for loan losses is adequate to absorb losses inherent in the loan portfolio, although the ultimate adequacy of the allowance for loan losses is dependent upon future economic factors beyond our control. A downturn in the general nationwide economy will tend to

33

aggravate, for example, the problems of local loan customers currently facing some difficulties. A general nationwide business expansion could result in fewer loan customers being unable to repay their loans.

The Bank had approximately $15 million of Islamic financings on its books at December 31, 2006. The allowance for loan losses for Islamic financing is determined under the same procedures and standards as for regular residential real estate loans. The portion of the allowance for loan losses allocated to Islamic loans is $43,270.

On the liability side of the balance sheet, the Bank offers FDIC insured deposits that are compliant with Islamic Law. These deposits, by agreement, are specifically invested in the Islamic financings. The Islamic savings, money markets and certificates of deposit pay out earnings that are derived specifically from the revenues from the Islamic financings net of certain expenses. In essence, a portion of the net earnings from the Islamic financings are allocated to the depositors and to the Company in accordance with the agreement. Thus the depositor s earnings can fluctuate with the fluctuation of the net revenues from the Islamic financing. If the underlying portfolio of assets is not profitable, the Bank may elect reduce the overall profit sharing with the depositors or not distribute any profit sharing at all. While the loss sharing characteristics related to the Islamic deposits would tend to lower the required amount of allowance for Islamic financings, management has opted to retain the same level of required reserves for Islamic financings as for comparable mortgage loans.

Non-Interest Income and Non-Interest Expense

Non-interest income. Total non-interest income decreased to $4,467,845 for the year ended December 31, 2006 from $5,891,330 for the same period in 2005. In 2005, non-interest income was impacted by two large non-recurring transactions. Excluding the two non-recurring transactions, non-interest income showed an overall increase in 2006 over 2005, principally due to growth of the mortgage loan servicing operation at Midwest. Fees from loan servicing and sub-servicing increased at Midwest as the number of customers increased. In 2005, other income was significantly higher than in 2006 due to income derived from the buyout of the Bank s lease from a developer and a gain from the sale of Bank owned shares in the Islamic Banking subsidiary. The Bank agreed to terminate its lease agreement early in exchange for $800,000. The Bank moved out of its leased facility in December 2005 and moved to another facility that it purchased in June 2005. Also, the Bank earned $1,000,000 from the sale of 20% of the Islamic Banking subsidiary for $3,000,000.

Mortgage banking. At December 31, 2006, Midwest was sub-servicing 32,461 mortgages, an increase of 24.2% from 26,144 mortgages at December 31, 2005. The balance of loans sub-serviced was $4.0 billion at December 31, 2006 as compared with over $3.2 billion at December 31, 2005.

Securities. There were no sales of marketable and non-marketable equity securities in 2006 and 2005.

At December 31, 2006 net unrealized losses in the available-for-sale securities were $27,296 and net unrealized gains were $0. At December 31, 2005 net unrealized losses in our available-for-sale securities were $34,721 and net unrealized gains were $0.

34

Non-interest expense increased to $7,495,678 in the period ended December 31, 2006 from $6,304,707 for the same period in 2005. The increase was due to the growth in the servicing activity at Midwest and development activity of the Islamic Banking subsidiary. The growth in the number of loans serviced at Midwest has resulted in additional salaries and benefits and other costs related to servicing mortgage loans. In the Islamic banking subsidiary, additional expenses were incurred in the development of products and a contract modification agreement where, in April 2006, the Company agreed to modify a relationship with a company that assisted in the development of the Islamic Banking subsidiary and products. The cost of this agreement in the second quarter of 2006 totaled $260,844. This amount is included in other expense.

Income Taxes

Income tax (benefit) in 2006 was $(20,000) and $(100,000) in 2005. In 2006, the Company recorded a deferred tax benefit of $40,000. The benefit results from the expected utilization of the net operating carry-forward in future periods. This benefit was offset by a current tax expense of $20,000. In 2005, a tax benefit was recognized because of the operating profit in 2005 and 2003, and therefore a portion of existing net operating loss carry-forwards were reasonably expected to reduce future amounts of taxable income.

At December 31, 2006, the Company had net operating loss and tax credit carry-forwards that could be utilized to shelter approximately $3.8 million of future taxable income. Realization of income tax benefits are not recorded in the financial statements as realization of these benefits is dependent upon generating sufficient future taxable income. See footnote 13 to the financial statements for more information.

Liquidity and Capital Resources

Liquidity. Loans receivable, net of reserves and excluding loans held for sale, increased to $50.46 million in 2006 from $45.30 million in 2005. Cash and cash equivalents including Federal Funds sold on an overnight basis at the end of 2006 were $27.38 million, while securities were $672,588. At year-end 2006, the Bank had an unused line of credit from the Federal Home Loan Bank of Indianapolis of $3.2 million, and an unused line of credit from the Federal Reserve Bank of Chicago of $5.0 million.

University Bank, as an FDIC-insured bank, is subject to certain regulations that require the maintenance of minimum liquidity levels of cash and eligible investments. The Bank has historically exceeded this minimum as a result of its investments in federal funds sold, U.S. government and U.S. agency securities and cash. In addition, University Bancorp had $2,066 in cash at the end of 2006 to meet cash needs, primarily operating expenses including audit and NASDAQ listing fees. Management intends that the cash on hand, the exercise of stock options and possible sale of additional preferred stock will be sufficient to cover our operating expenses during 2007 and 2008. The Company s total stockholders equity at December 31, 2006 was approximately $5.25 million compared to $5.30 million at

December 31, 2005.

As of December 31, 2006 and 2005, the Bank was in compliance with all the regulatory capital requirements that were applicable (i.e., total capital and Tier 1 capital to risk-weighted assets of at least 8% and 4%,

35

respectively, and Tier 1 capital to average assets of at least 4%). The Bank is considered to be well-capitalized under prompt corrective action provisions for each of the ratios. Set forth below are the Bank s regulatory capital ratios as of the end of 2006 and 2005, based on FDIC guidelines. The Bank s overall capital ratios declined in 2006 versus 2005 as a result of the 35.3% increase in the Bank s total assets.

CAPITAL RATIOS	2006	2005
Tier 1/Total Average Assets	9.77%	14.00%
Tier 1/Total Risk-Weighted Assets	15.66%	17.63%
Tier 1 & 2/Total Risk-Weighted Assets	16.55%	18.44%

Recently Issued Accounting Standards

Financial Accounting Standards Board s (FASB) Final Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). This interpretation was issued on July 13, 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB No. 109, Accounting for Income Taxes. This interpretation provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Further, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption.

Financial Accounting Standards Board Statement No. 156 - *Accounting for Servicing of Financial Assets*. This Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, with respect to the accounting for separately recognized servicing assets and servicing liabilities. This standard requires all separately recognized servicing assets and liabilities to be initially measured at fair value and either amortized over the period of estimated servicing income and assessed for impairment each reporting period, or measured at fair value each reporting period with changes in fair value reported in earnings the period in which changes occur. This standard is effective for fiscal years beginning after September 15, 2006. The Company is in the process of evaluating the expected effect of this pronouncement and is currently unable to determine the impact, if any, that they may have on its results of operations, financial position and cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FASB 157). FAS 157 enhances existing guidance for measuring assets and liabilities using fair value. Prior to the issuance of FASB 157, guidance for applying fair value was incorporated in several accounting pronouncements. FASB 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. FASB 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value

hierarchy with the highest priority being quoted prices in active markets. Under FASB 157, fair value measurements are disclosed by level within that hierarchy. While FASB 157 does not add any new fair value measurements, it does change current practice. Changes to practice include: (1) a requirement for an entity to include its own credit standing in the measurement of its liabilities; (2) a modification of the transaction price presumption; (3) a prohibition on the use of block discounts when valuing large blocks of securities for broker-dealers and investment companies; and (4) a requirement to adjust the value of restricted stock for the effect of the restriction even if the restriction lapses within one year. FASB 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company has not determined the impact of adopting FAS 157 on its financial statements.

In September 2006, the FASB issued FASB No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (FASB 158), which amends FASB 87 and FASB 106 to require recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under FASB 158, gains and losses, prior service costs and credits, and any remaining transition amounts under FASB 87 and FASB 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. The measurement date - the date at which the benefit obligation and plan assets are measured - is required to be the company s fiscal year end. FASB 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. Adoption of this FASB is not expected to have a material impact on the Company s financial statements.

In February 2007, the FASB issued FASB No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB No. 157. The Company is continuing to evaluate the impact of this statement.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulleting No. 108 (SAB 108). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB 108, companies might evaluate the materiality of financial statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company s balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or

balance sheet approach. The Company has adopted SAB 108, with no impact on the Company s financial position or results of operations.

Item 7. Consolidated Financial Statements

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2006 and 2005

39

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors

University Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of University Bancorp, Inc. and Subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of operations, comprehensive income (loss), stockholders equity and cash flows for the two year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of University Bancorp, Inc. and Subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the two year period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company adopted statement of Financial Accounting Standards No. 123(R), Share Based Payments, effective January 1, 2006.

/s/ UHY LLP

Southfield, Michigan

April 9, 2007, except for additional disclosures

in footnotes 1, 4 and 18, as to which the
date is May 12, 2008

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2006 and 2005

ASSETS	December 31, 2006	December 31, 2005
Cash and due from banks	$ 27,381,113	$ 7,746,666
Investment securities available for sale, at market	672,588	833,762
Federal Home Loan Bank Stock	714,600	941,200
Loans and financings held for sale, at the lower of cost or market	1,951,629	1,446,575
Loans and financings	50,927,197	45,652,326
Allowance for loan losses	(465,992)	(349,416)
Loans and financings, net	50,461,205	45,302,910
Premises and equipment, net	2,696,062	2,802,816
Mortgage servicing rights, net	1,516,100	1,471,808
Real estate owned, net	289,212	276,987
Accounts receivable	253,866	2,585,524
Accrued interest and profit receivable	304,863	205,069
Prepaid expenses	384,113	285,015
Goodwill	103,914	103,914
Other assets	542,476	537,666
TOTAL ASSETS	$ 87,271,741	$ 64,539,912

-Continued-

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets (continued)
December 31, 2006 and 2005

LIABILITIES AND STOCKHOLDERS EQUITY	December 31, 2006	December 31, 2005
Liabilities:		
Deposits:		
Demand - non interest bearing	$ 5,086,312	$ 2,919,887
Demand - interest bearing and profit sharing	57,925,964	34,485,047
Savings	268,585	418,308
Time	15,601,321	18,197,803
Total Deposits	78,882,182	56,021,045
Accounts payable	59,384	395,604
Accrued interest and profit sharing payable	73,532	110,619
Other liabilities	368,837	210,190
Total Liabilities	79,383,935	56,737,458
Minority Interest	2,636,559	2,501,873
Stockholders equity:		
Preferred stock, $0.001 par value;		
$1,000 liquidation value;		
Authorized - 500,000 shares;		
Issued 37,672 shares in 2006 and		
27,791 shares in 2005	38	28
Authorized - 500,000 shares;		
Issued 37,672 shares in 2006 and		
27,791 shares in 2005		
Issued - 4,363,562 shares in 2006 and		
4,263,062 shares in 2005	43,635	42,630
Additional paid-in-capital	6,488,960	6,149,990
Additional paid-in-capital stock options	36,478	-
Treasury stock - 115,184 shares in 2006		
and 2005	(340,530)	(340,530)
Accumulated deficit	(950,038)	(516,816)
Accumulated other comprehensive loss,		
unrealized losses on securities		
available for sale, net	(27,296)	(34,721)
Total Stockholders Equity	5,251,247	5,300,581
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 87,271,741	$ 64,539,912

See notes to consolidated financial statements.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations
For the Years Ended December 31, 2006 and 2005

	2006	2005
Interest and financing income:		
Interest and fees on loans and financing income	$ 3,640,698	$ 3,182,432
Interest on investment securities:		
U.S. Government agencies	19,829	16,107
Other securities	43,279	39,677
Interest on Federal funds and other	349,672	34,675
Total interest income and financing income	4,053,478	3,272,891
Interest and profit sharing expense:		
Interest and profit sharing on deposits:		
Demand deposits	637,151	412,767
Savings deposits	3,283	4,612
Time certificates of deposit	651,025	492,222
Short-term borrowings	2,587	43,203
Long-term borrowings	-	332
Total interest and profit sharing expense	1,294,046	953,136
Net interest and financing income	2,759,432	2,319,755
Provision for loan losses	153,297	17,209
Net interest and financing income after provision for loan losses	2,606,135	2,302,546
Other income:		
Loan servicing and sub-servicing fees	2,390,681	1,736,285
Initial loan set-up and other fees	1,303,583	1,396,813
Net gain on sale of mortgage loans	100,450	308,648
Insurance & investment fee income	248,077	200,585
Deposit service charges and fees	90,521	107,100
Gain on the sale and leaseback of premises	-	210,315
Other	334,533	1,931,584
Total other income	4,467,845	5,891,330

-Continued-

44

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations (continued)
For the Years Ended December 31, 2006 and 2005

	2006	2005
Other expenses:		
Salaries and benefits	$ 3,442,951	$ 3,000,918
Occupancy, net	524,979	517,167
Data processing and equipment expense	611,377	570,008
Legal and audit	307,219	343,135
Consulting fees	254,943	287,117
Mortgage banking	172,910	190,671
Servicing rights amortization	239,075	137,736
Advertising	239,183	162,296
Memberships and training	151,230	90,902
Travel and entertainment	193,790	148,159
Supplies and postage	310,826	240,322
Insurance	175,027	153,280
Other operating expenses	737,482	401,241
Total other expenses	7,360,992	6,242,952
Income(loss) before income taxes and minority interest	(287,012)	1,950,924
Income tax (benefit)	(20,000)	(100,000)
Income (loss) before minority interest	(267,012)	2,050,924
Minority interest in consolidated subsidiaries earnings	134,686	61,755
Net income(loss)	$ (401,698)	$ 1,989,169
Basic earnings(loss)per common share	$ (0.10)	$ 0.48
Diluted earnings(loss)per common share	$ (0.10)	$ 0.47
Weighted average shares outstanding Basic	4,222,771	4,146,504
Weighted average shares outstanding Diluted	4,222,771	4,184,430

See notes to consolidated financial statements.

45

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income(Loss)
For the Years Ended December 31, 2006 and 2005

	2006	2005
Net income(loss)	$(401,698)	$1,989,169
Other comprehensive income:		
Net unrealized gains on		
securities available for sale net of deferred taxes of $0 and $0, respectively	7,425	16,636
Comprehensive income(loss)	$(394,273)	$2,005,805

See notes to consolidated financial statements.

46

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders Equity
For the years ended December 31, 2006 and 2005

	Preferred Stock $.001 Par Value		Common Stock $.01 Par Value				Treasury Stock				
	Number of Shares	Par Value	Number of Shares	Par Value	Additional Paid In Capital	Additional Paid In Capital Stock Options	Number of Shares	Cost	Retained Earnings (Deficit)	Accumulated Other Comprehensive Loss	Total Stockholders Equity
Balance, January 1, 2005	-	$-	4,240,641	$42,406	$5,841,331	$-	(115,184)	$(340,530)	$(2,490,224)	$(51,357)	$3,001,626
Issuance of preferred stock at $1,000 per share, net of expenses of $10,000	27,791	28			267,883						267,911
Preferred stock dividend									(15,761)		(15,761)
Issuance of common stock at weighted average price of $1.11 per share, net of expenses of $0.00			22,421	224	40,776						41,000
Decrease in unrealized loss on securities available for sale, net of tax										16,636	16,636
Net Income									1,989,169		1,989,169
Balance, December 31, 2005	27,791	28	4,263,062	42,630	6,149,990	$-	(115,184)	(340,530)	(516,816)	(34,721)	5,300,581
Issuance of preferred stock at $1,000 per share	7,200	7			71,993						72,000
Preferred stock dividend									(31,524)		(31,524)
Conversion of accrued preferred stock dividends into shares of preferred stock	2,681	3			26,782						26,785
Issuance of common stock in exchange for services - weighted average price of $2.40 per share on effective date			100,500	1,005	240,195						241,200
Stock option awards						36,478					36,478
Decrease in unrealized loss on securities available for sale, net of tax										7,425	7,425
Net Loss									(401,698)		(401,698)
Balance, December 31, 2006	37,672	$38	4,363,562	$43,635	$6,488,960	$36,478	(115,184)	$(340,530)	$(950,038)	$(27,296)	$5,251,247

See accompanying notes to consolidated financial statements.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2006 and 2005

	2006	2005
Operating activities:		
Net income (loss)	$ (401,698)	$ 1,989,169
Adjustments to reconcile net income(loss) to net cash provided by operating activities:		
Depreciation	382,219	337,592
Amortization	239,075	137,736
Provision for loan loss	153,297	17,209
Net gain on sale of mortgages	(100,450)	(308,648)
Gain on the sale and leaseback of premises	-	(210,315)
Net gain on other real estate owned	(105,414)	(9,294)
Net accretion on securities	(315)	(1,143)
Originations of mortgage loans	(44,313,744)	(55,785,241)
Proceeds from mortgage loan sales	43,909,140	55,493,714
Stock awards	5,479	-
Non-employee stock awards	272,199	-
Net change in:		
Other assets	2,071,189	(2,992,916)
Other liabilities	(79,974)	2,482,328
Net cash provided by operating activities	2,031,003	1,150,191
Investing activities:		
Proceeds from maturities of investment securities	168,914	290,624
Proceeds from sale of other real estate owned	472,997	713,611
Loans granted, net of repayments	(5,691,400)	(3,132,020)
Premises and equipment expenditures	(275,465)	(2,283,704)
Net cash used in investing activities	(5,324,954)	(4,411,489)

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 30, 2006 and 2005

	2006	2005
Financing activities:		
Net increase in deposits	22,861,137	1
Net decrease in short term borrowings	-	(2
Principal payments on long term borrowings	-	(3
Dividends on preferred stock	(4,739)	(
Issuance of preferred stock	72,000	2
Issuance of common stock	-	4
Net cash provided by financing activities	22,928,398	9
Net change in cash and cash equivalents	19,634,447	6
Cash and cash equivalents:		
Beginning of year	7,746,666	1
End of year	$27,381,113	$7
Supplemental disclosure of cash flow information:		
Cash paid for interest	$1,331,133	$8
Cash paid for federal income taxes	$41,253	$-
Supplemental disclosure of non-cash transactions:		
Decrease in unrealized loss on securities available for sale, net of deferred taxes of $0 and $0, respectively	$7,425	$1
Mortgage loans converted to other real estate owned	$379,808	$4
Fixed assets converted to basis in partnership	$-	$9
Dividends on preferred stock converted to additional shares of preferred stock	$26,785	$3

See notes to consolidated financial statements.

University Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

For the years ended December 31, 2006 and 2005

1. Summary of significant accounting policies

Principles of Consolidation and Nature of Operations

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

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

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

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

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

2).

---

1. Summary of significant accounting policies (continued)

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

There are two distinct home financing products offered, the ijara and the murabaha.

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

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

The redeemable lease arrangement is treated as financing rather than leasing under Generally Accepted Accounting Principles. A lease that transfers substantially all of the benefits and risks incident to the ownership of property should be accounted for as the acquisition of an asset by the lessee and as a financing by the lessor. Under Financial Accounting Standards No 13, a lease would generally be accounted for as a financing if:

1. The underlying property is transferred to the lessee at the end of the lease, or
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-reimburseable costs yet to be incurred by the lessor under the lease.

Accordingly, the Company s consolidated accounting for this product is essentially the same as a conventional mortgage product. To reflect the legal substance of the Ijara transactions the Company s uses the balance sheet

51

---

account title Loans and financings, instead of a typical title of Loans. In the statement of operations, interest and fees on loans is modified to state interest and fees on loans and financing income.

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

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

On the liability side of the balance sheet, the Bank offers FDIC insured deposits that are compliant with Sharia a. These deposits are specifically invested in Sharia a compliant investments such as, but not limited to, the ijara. Sharia a compliant savings, money markets and certificates of deposit pay out earnings that are derived specifically from the revenues from the Sharia a compliant investments net of certain expenses. In compliance with the FDIC definition of a deposit, balances in these account like all deposit accounts are FDIC insured up to $100,000. The sharing of earnings paid out to the depositors holding these accounts can fluctuate with the net earnings of the ijara portfolio and or other Sharia a compliant investments. The earnings paid to the depositors are accounted for as an expense. This expense is analogous to interest expense paid on deposits in conventional finance.

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

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions based upon available information. These estimates and assumptions affect the reported amounts and disclosures. Actual results could differ from those estimates.

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

Cash flow reporting

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

Securities

Securities are classified as available for sale at the date of purchase. All securities are classified as available for sale at December 31, 2006 and 2005. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income or loss. Realized gains are based on specific identification of amortized cost. Securities are written down to fair value 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.

Loans

Loans are reported at the principal balance outstanding, net of unearned interest, deferred loan 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. Interest income is not reported when full loan repayment is in doubt, typically when payments are past due over 90 days. Payments received on such loans are reported as principal reductions, unless all interest and principal payments in arrears are paid in full.

1. Summary of significant accounting policies (continued)

Mortgage banking activities

Mortgage banking activities include retail and servicing operations. Mortgage loans held for sale are valued at the lower of cost or market as determined by bid prices for loans in the secondary market. The loans are sold without recourse, except in the event that documentation errors are made during the origination process. Loan servicing and sub-servicing fees are contractually based and are recognized monthly as earned over the life of the loans.

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, but the entire allowance is available for any loan that, in management s judgment, should be charged-off.

Loan 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 basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Loans are evaluated for impairment when payments are delayed, typically 90 days or more, or when it is probable that all principal and interest amounts will not be collected according to the original terms of the loan.

Premises and equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily on the straight-line method for bank premises and the accelerated method for equipment and land improvements over their estimated useful lives. The Company uses the following useful lives as of December 31, 2006:

Buildings and building improvements	39 years
Land and leasehold improvements	.15 years or term of lease
Furniture, fixtures, and equipment	3-7 years
Software	2-5 years

Other real estate owned

Real estate properties acquired in collection of a loan are recorded at fair value upon foreclosure. Any reduction to fair value from the carrying value of the related loan is accounted for as a loan loss.

54

1. Summary of significant accounting policies (continued)

After acquisition, a valuation allowance reduces the reported amount to the lower of the initial amount or fair value less costs to sell. Expenses, gains and losses on disposition, and changes in the valuation allowance are reported in other expenses.

Servicing rights

Servicing rights represent both purchased rights and the allocated value of servicing rights retained on loans originated and sold. Servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights, using groupings of the underlying loans as to type, term and interest rates. Any impairment of a grouping is reported as a valuation allowance.

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 evaluation of goodwill completed during the 2006 and 2005 resulted in no impairment losses.

Income taxes

Income tax expense/benefit is the sum of the current year estimated tax obligation or refund per the income tax return and the change in the estimated future tax effects of temporary differences and carry-forwards. Deferred tax assets or liabilities are computed by applying enacted income tax rates to the expected reversals of temporary differences between financial reporting and income tax reporting, and by considering carry-forwards for operating losses and tax credits. A valuation allowance adjusts deferred tax assets to the net amount that is more likely than not to be realized.

Retirement plan

The Bank has a 401(K) Plan that allows employees to contribute up to 15% of salary pre-tax, to the allowable limit prescribed by the Internal Revenue Service. Management has discretion to make matching contributions to the Plan. The Bank made no matching contributions for the years ended December 31, 2006 and 2005.

Employee Stock Ownership Plan (ESOP)

The Company has a noncontributory ESOP covering all full-time employees who have met certain service requirements. The employees share in the Company s contribution is based on their current compensation as a

percentage of the total employee compensation. As shares are contributed to the plan they are allocated to employees and compensation expense is

55

---

1. Summary of significant accounting policies (continued)

recorded at the shares fair value. The Company made no contribution in 2006 and 2005.

Stock options

The Company has adopted FASB No. 123(R), Share-Based Payment , which is a revision of FASB No. 123, Accounting for Stock Based Compensation , and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees , and was issued in December 2004. The revisions require that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. For the

year ended December 31, 2006, the Company recorded $36,478 of compensation expense related to stock options.

Prior to the 2006 year, the Company adopted the disclosure-only provisions of FASB No. 123. Accordingly, if the Company had elected to recognize compensation cost based on the fair value of the options at grant date, the Company s earnings and earnings per share from continuing operations, assuming dilution, for the year period ended December 31, 2005 would have been the pro forma amounts indicated below:

Net income as reported	$	1,989,169
Deduct: Total stock based employee compensation expense		
determined under fair value based method for all awards net of tax		6,000
Pro Forma net inccom	$	1,983,169

Earnings per share	Basic	Diluted
As reported	$0.48	$0.47
Pro forma	$0.48	$0.47

Dividend restriction

Banking regulations require the maintenance of certain capital levels and may limit the amount of dividends that may be paid by a bank to a holding company or by a holding company to shareholders. In addition, a bank cannot pay a dividend until it has net retained earnings equal to 20% of capital and surplus. The Bank s capital and surplus was $5,280,767 at both December 31, 2006 and 2005, and retained earnings of the Bank were $14,186 and $65,170 at December 31, 2006 and 2005, respectively.

1. Summary of significant accounting policies (continued)

Earnings(loss) per share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options, and are determined using the treasury stock method. Earnings per common share have been computed based on the following:

		2006		2005
Net income (loss)	$	(401,698)	$	1,989,169
Less: Preferred dividends		31,524		15,761
Net income(loss) available to common shareholders	$	(433,222)	$	1,973,408

	2006	2005
Weighted average shares outstanding	4,222,771	4,146,504
Net dilutive effect of stock options		37,926
Diluted average shares outstanding	4,222,771	4,184,430

For December 31, 2006, the Company incurred a net loss. Accordingly, anti-dilutive impact of the effect of stock options is not shown.

Comprehensive Income(Loss)

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

Segment Reporting

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

Reclassification

Certain items in the 2005 consolidated financial statements and notes have been reclassified to conform to the 2006 presentation.

2. Secondary Market Operations

Midwest provides servicing and sub-servicing of real estate mortgage loans for University Bank and several other financial institutions. The unpaid principal balance of these loans was approximately $4.0 billion and $3.2 billion as of December 31, 2006 and 2005, respectively. Custodial escrow balances maintained in connection with these respective loans were $57.1 million and 40.7 million, at December 31, 2006 and 2005 respectively. Most of these funds are off balance sheet and maintained at University Bank. The following summarizes the operations of Midwest for the years ended December 31:

	2006	2005
Loan servicing and sub-servicing fees	$ 2,396,603	$ 1,747,113
Loan set-up and other fees	1,915,867	1,416,870
Interest income	65,764	42,393
Gain on sale of loans	100,450	314,820
Total income	4,478,684	3,521,196
Salaries and benefits	1,812,724	1,560,356
Amortization of servicing rights	254,047	135,155
Interest expense	114,377	35,429
Other operating expenses	1,281,659	1,144,412
Total expenses	3,462,807	2,875,352
Pre-tax Income of Midwest Before Minority Interest	$ 1,015,877	$ 645,844

University Bank and Midwest sell conforming residential mortgage loans to the secondary market. These loans are owned by other institutions and are not included in the Company s consolidated balance sheets. Such mortgage loans have been sold predominately without recourse or with limited recourse. The unpaid principal balance of these loans was $152.7 million and $143.4 million at December 31, 2006 and 2005 respectively.

The following summarizes the activity pertaining to mortgage servicing rights, along with the aggregate activity in related valuation allowances. Table A is calculated net of the valuation allowance described in Table B.

2. Secondary Market Operations (continued)

Table A	2006	2005
Mortgage servicing rights:		
Balance, January 1	$ 1,471,808	$ 1,097,786
Additions - originated	283,367	462,283
Amortization expense	(203,075)	(215,261)
Adjustment for asset impairment change	(36,000)	127,000
Balance, December 31	$ 1,516,100	$ 1,471,808

Table B		
Valuation allowances:		
Balance, January 1	$ 389,000	$ 516,000
Additions	36,000	(127,000)
Balance, December 31	$ 425,000	$ 389,000

Market interest rate conditions can quickly affect the value of mortgage servicing rights in a positive or negative fashion, as long-term interest

rates rise and fall. The amortization of these rights is based upon the level of principal pay downs received and expected prepayments of the mortgage loans. The servicing rights are recorded at the lower of cost or market.

3. Securities available for sale

The following is a summary of the amortized cost, gross unrealized gains, gross unrealized losses and fair value of securities available for sale at December 31, 2006 and 2005:

December 31, 2006

	Amortized	Unrealized		Fair
	Cost	Gain	Losses	Value
U.S. agency mortgage-backed				
securities	$699,884	$ -	$(27,296)	$672,588

December 31, 2005

	Amortized	Unrealized		Fair
	Cost	Gain	Losses	Value
U.S. agency mortgage-backed	$868,483	$ -	$(34,721)	$833,762

securities

At December 31, 2006 and 2005, the fair value of securities pledged to secure certain borrowings were $672,588 and $833,762, respectively. The balance of these borrowings at December 31, 2006 and 2005 were $0. Unrealized losses at December 31, 2006 and 2005 have existed for longer than twelve months. This decline is considered temporary as the values of the mortgage-backed securities fluctuate based on changes in current interest rates and prepayment assumptions related to the underlying

---

mortgages. Furthermore, the Company expects to hold these securities sufficiently long enough to recover these unrealized losses.

3. Securities available for sale(continued)

Sales of available for sale securities:	2006	2005
Proceeds	$0	$0
Realized gains	0	0
Realized losses	0	0

The scheduled maturity date of the securities available for sale at December 31, 2006 is:

	Amortized Cost	Fair Value
2007-2011	$ -	$ -
2012-2016	32,108	31,325
After 2016	667,776	641,263
	$699,884	$ 672,588

60

4. Accounts Receivable

Accounts receivable were $253,866 and $2,585,524 at December 31, 2006 and 2005, respectively. These balances included the following:

	2006	2005
Stock subscription receivable from sale of stock in University Islamic Financial Corporation	$ -	$ 1,500,000
Lease termination receivable	-	800,000
Receivable from the sale of asset	-	200,000
Other	253,866	85,524
Total	$ 253,866	$ 2,585,524

5. Loans

Major classifications of loans are as follows as of December 31:

	2006	2005
Commercial	$ 15,705,255	$ 12,547,975
Real estate mortgage	32,126,182	29,126,299
Real estate construction	1,031,027	1,958,485
Installment	1,795,875	1,707,461
Credit cards	268,858	312,106
Gross Loans	50,927,197	45,652,326
Allowance for loan losses	(465,992)	(349,416)
Net Loans	$ 50,461,205	$ 45,302,910

Changes in the allowance for loan losses were as follows:

	2006	2005
Balance, beginning of year	$ 349,416	$ 353,124
Provision charged to operations	153,297	17,209
Recoveries	7,139	12,701
Charge-offs	(43,860)	(33,618)
Balance, end of year	$ 465,992	$ 349,416

At December 31, 2005, there are loans totaling $10,172 that were past due over 90 days but still accruing interest. These loans were brought current shortly after December 31, 2005. There are no past due loans over 90 days and still accruing interest at December 31, 2006. Non-accrual loans at December 31 are summarized as follows:

	2006	2005
Non accrual loans:		
Real estate mortgage and construction loans	$ 59,605	$ 317,013
Commercial loans (non real estate)	-	32,668
	$ 59,605	$ 349,681

Information regarding impaired loans for the years ended December 31, is as follows:

61

5. Loans (continued)

Impaired loans:	2006	2005
Loans with no allowance allocated	$ -	$ -
Loans with allowance allocated	$ 1,240,055	$ 263,344
Amount of allowance for loan losses allocated	$ 243,507	$ 30,871

Impaired loans:		
Average balance during the year $ 92,687 $227,345	$ 917,591	$ 555,715
Interest income recognized thereon	$ 123,786	$ -
Cash-basis interest income recognized	$ 110,145	$ -

6. Premises and equipment, net:

Classifications at December 31, are summarized as follows:

	2006	2005
Land	$ 365,000	$ 397,811
Buildings and improvements	1,725,099	1,761,717
Furniture, fixtures, equipment and software	3,252,640	3,023,891
	5,342,739	5,183,419
Less: accumulated depreciation	(2,646,677)	(2,380,603)
Net premises and equipment	$ 2,696,062	$ 2,802,816

In June 2005, the Bank purchased Hoover, LLC, the owner of the Hoover Mansion, a 17,000 square foot structure. In December 2005, the Bank moved its main office and sole branch to the historic Hoover Mansion located at 2015 Washtenaw Avenue, Ann Arbor, MI. Previously the bank was located in a facility that it sold in a sale-leaseback transaction in 2003.

Depreciation expense amounted to $382,219 and $337,592 for the years ended December 31, 2006 and 2005, respectively.

The Bank leases an ATM drive-thru location in Ann Arbor for $7,200 per year and one off-site ATM location for $9,000 per year. Midwest leases its office space for approximately $53,940 per year in Houghton, Michigan. Total rental expense for all operating leases was $63,942 and $195,958 in 2006 and 2005, respectively. The following table summarizes the existing contractual obligations of the Company:

Payments Due By Period

Less than More than

	Total	Year	2008-2009	2010-2011	5 years
Operating leases	$ 91,730	$ 61,140	$ 23,390	$ 7,200$.......-	

7. Time deposits

Time deposit liabilities issued in denominations of $100,000 or more were $8,126,622 and $11,454,283 at December 31, 2006 and 2005 respectively.

7. Time deposits (continued)

At December 31, 2006, stated maturities of time deposits were:

2007	9,609,103
2008	1,938,677
2009	347,895
2010	2,574,606
2011	721,518
Thereafter	409,522
	$15,601,321

The Bank had issued through brokers $1,530,471 and $5,926,000 of time deposits as of December 31, 2006 and 2005, respectively. These time deposits have maturities ranging from one to five months and are included

in the table above. These deposits are issued in denominations of less than $100,000.

The Bank had deposits of $1,157,765 and $1,705,400 from directors, officers and their affiliates as of December 31, 2006 and 2005, respectively.

8. 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 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, 2005, however, all outstanding options under the plan remain outstanding until expiration, exercise or forfeiture. The following table summarizes the activity relating to options to purchase the Company s common stock:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2005	196,000	$1.69
Granted 2005	118,463	3.00
Exercised 2005	(4,000)	1.50
Forfeited 2005	(3,500)	2.47
Outstanding at December 31, 2005	306,963	2.20

Granted 2006	48,563	3.00
Exercised 2006	-0-	.00
Forfeited 2006	(7,500)	2.47

63

Outstanding at December 31, 2006	348,026	2.23

8. Stock options (continued)

At December 31, 2006:

Number of options immediately exercisable	312,926
Weighted average exercise price of immediately exercisable options	$2.24
Range of exercise price of options outstanding	$1.00 - $3.00
Weighted-average remaining life of options outstanding	4.56 years

The following summarizes assumptions used to value stock options.

	2006	2005
Risk-free interest rate	7.25%	7.25%
Expected option life	5.0 years	5.0 years
Expected stock price volatility	22.0%	22.0%
Expected dividends	$0	$0

9. Employee stock ownership plan (ESOP)

The employees allocation of ESOP assets is based on their current compensation, after 1 year of service and upon reaching the age of 21. The annual contribution to the ESOP is at the discretion of the Board of Directors. Assets of the plan are comprised entirely of 77,018 shares of the Company s stock at December 31, 2006 and 2005, all of which were fully allocated at December 31, 2006. Upon retirement from the plan, participants can receive distributions of their allocated shares of the Company s stock. The assets of the ESOP are held in trust and were valued at approximately $160,000, and $139,000 at December 31, 2006 and 2005, respectively.

10. Minority Interest

The Bank owns an 80% interest in the common stock of Midwest, with the remaining 20% owned by the President of Midwest. At December 31, 2006 and 2005, total stockholders equity of Midwest was $3,293,328 and $2,626,146 resulting in a $657,946 and $524,265 minority interest reflected on the Company s consolidated balance sheets, respectively. The results of Midwest s operations for 2006 and 2005 are included in the Company s consolidated statements of operations.

Also, included in the consolidated financial statements are the results for University Islamic Financial Corporation (UIFC). The Bank also owns 80% of UIFC. This corporation was formed on December 30, 2005. An outside investor owns the remaining 20% of the corporation. At December 31, 2006, total stockholders equity of UIFC was $22,267,069, which includes $10,000,000 in common stock and $12,374,000 of preferred stock. The minority interest at December 31, 2006 and 2005 was $1,978,613 and $1,977,608, respectively.

The Consolidated Statements of Operations include minority interest expense of $134,686 and $61,755 in 2006 and 2005, respectively.

11. Commitments and contingencies

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to buy, sell and fund loans, letters of credit and unused lines of credit. The Bank s exposure to credit loss in the event of non-performance is equal to or less than the contractual amount of these instruments. The Bank follows the same credit policy to make such commitments as that followed by loans recorded in the consolidated financial statements. The following is a summary of commitments as of December 31:

	2006	2005
Unused lines of credit	$ 4,295,000	$ 4,514,000
Commitments to fund loans	5,704,000	2,019,000
Total	$ 9,999,000	$ 6,533,000

12. Related party transactions

The Bank had loans outstanding of $117,927 and $70,961 to related officers and directors at December 31, 2006 and 2005, respectively. There were no related party loans that were originated during 2006 and 2005. Available lines of credit to related parties at the December 31, 2006 and 2005, totaled $208,000 and $169,000 respectively. Related party loans were made in the normal course of business and were performing pursuant to terms at December 31, 2006 and 2005.

13. Income taxes

During the year ended December 31, 2006 an income tax benefit of $40,000 was recorded due to expected utilization of net operating loss carry forwards against 2007 expected taxable income. Additionally, current tax expense of $20,000 was recorded for 2006. The tax benefit increased the net deferred tax asset included in other assets in the consolidated balance sheets. The net deferred tax asset at December 31, 2006 and 2005 is comprised of the following:

	2006	2005
Allowance for loan losses	$ 158,437	$ 129,584
Net operating loss carry-forward	283,533	227,135
Tax credit carry-forward	1,357,065	1,234,497
Deferred gain on sale leaseback	-	207
Donation carry-forward	6,604	10,646
Depreciation	5,111	
Other	52,185	135,083
Deferred tax assets	1,862,935	1,737,152

Servicing rights	(515,474)	(500,415)
Depreciation	-	(22,438)
Other	(48,843)	
Deferred tax liabilities	(564,317)	(522,853)

65

Net deferred tax asset	1,298,618	1,214,299
Valuation allowance	(1,158,618)	(1,114,299)
Net deferred tax asset	$ 140,000	$ 100,000

13. Income taxes (continued)

The components of income tax expense (benefit) for each year ended December 31 are as follows:

	2006	2005
Current expense	$ 20,000	$ -
Deferred expense (benefit)	(84,319)	541,488
Change in valuation allowance	44,319	(641,488)
Income tax benefit	$ (20,000)	$ (100,000)

The Company has net operating loss carry-forwards of approximately $834,000, which expire beginning in 2012, and general business credit carry-forwards of approximately $1,357,000, which expire beginning in 2011. Financial statement tax expense amounts differ from the amounts computed by applying the statutory federal tax rate of 34% to pretax income because of operating losses, tax credits, book-tax differences and valuation allowances recorded to reduce deferred tax assets as noted above.

2011. Financial statement tax expense amounts differ from the amounts computed by applying the statutory federal tax rate of 34% to pretax income because of operating losses and valuation allowances recorded to reduce deferred tax assets as noted above.

14. Short Term Borrowings

The Bank had a line of credit available from the Federal Home Loan Bank (the FHLB) in the amount of $3.2 million and $3.7 million at December 31, 2006 and 2005, respectively. At December 31, 2006, borrowings were secured by the pledge of specific mortgage loans held for investment with

unpaid principal balances of $3.9 million and available-for-sale securities with a balance of $672,588.

The Bank had a line of credit available from the Federal Reserve Bank of Chicago (the FRB) in the amount of $5.0 million and $6.7 million at December 31, 2006 and 2005, respectively. Borrowings are secured by the pledge of specific commercial loans held for investment with unpaid principal balances of $5.9 million as of December 31, 2006. The following information provides a summary of short-term borrowings for the years indicated:

	2006	2005
Amount outstanding at the end of the year and interest rate	$ -	$ -
Maximum amount of borrowing outstanding at any month end during the year	$ -	$3,800,000

66

Average amount outstanding during the year and weighted average rate	$81,000 3.21%	$1,225,000 3.69%

15. Regulatory matters

University 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 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 I capital (as defined) to average total assets (as defined). As of December 31, 2006, the Bank met all capital adequacy requirements to which it is subject as the Bank presently has a written understanding with its regulators that the Bank will maintain the ratio of Tier 1 Capital to average assets at 7% or more.

	Actual		**To Be Adequately Capitalized Under Prompt Corrective Action Provisions**		**To Be Well Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2005:						
Total capital (to risk weighted assets)	$8,142,000	16.7%	$3,911,000	8.0 %	$4,889,000	10.0 %
Tier I capital (to risk weighted assets)	7,676,000	15.7%	1,955,000	4.0 %	2,933,000	6.0 %
Tier I capital (to average assets)	7,676,000	9.8%	3,122,000	4.0 %	3,903,000	5.0 %
As of December 31, 2004:						
Total capital (to risk weighted assets)	$7,947,000	18.4%	$3,448,000	8.0 %	$4,310,000	10.0 %
Tier I capital (to risk weighted assets)	7,598,000	17.6%	1,724,000	4.0 %	2,586,000	6.0 %
Tier I capital (to average assets)	7,598,000	14.0%	2,171000	4.0 %	2,714,000	5.0 %

As of December 31, 2006 and 2005, the most recent guidelines from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the above table.

16. Management s Plan Regarding Continuing Operations

At December 31, 2006, the Company had an accumulated deficit of $950,038. University Bancorp s operations are intended to continue in the future. Management has reviewed operating results, prepared projections of possible future results, performed other analyses of its operations to reduce operating costs and entered new product lines of business.

Management of the Company has implemented a plan to improve core earnings by moving to University Bank additional low-cost mortgage escrow deposits held by Midwest, growing the loan portfolio of the Bank, liquidating other real estate owned and improving the synergy between its subsidiary operations. Both the Bank and Midwest are projected to have net income in 2007, however, the Company s continued operation is dependent upon its ability to maintain profitable operations and retain adequate capital levels.

17. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate fair values for financial instruments. The carrying amount is considered to estimate fair value for cash and short-term instruments, demand deposits, short-term borrowings, accrued interest, and variable rate loans or deposits that reprice frequently and fully. Securities fair values are based on quoted market prices or, if no quotes are available, on the rate and term of the security and on information about the issuer. For fixed rate loans or deposits and for variable rate loan or deposits with infrequent repricing or repricing limits, the fair value is estimated by the discounted cash flow analysis using current market rates for the estimated life and credit risk. Fair values for impaired loans are estimated using discounted cash flow analyses of underlying collateral values, where applicable. Fair value of loans held for sale is based on market estimates. Fair value of mortgage servicing rights is estimated using discounted cash flows based on current market interest rates net of estimated costs of servicing loans. Fair value of mortgage sub-servicing rights is based on a multiple of servicing contract revenue. The fair value of debt is based on currently available rates for similar financing. The fair value of off-balance sheet items is based on the fees or cost that would normally be charged to enter into or terminate such agreements. Fair value of unrecognized financial instruments includes commitments to extend credit and the fair value of letters of credit is considered immaterial.

The carrying amounts and fair values of the Company s financial instruments were as follows:

17. Fair Value of Financial Instruments (continued)

December 31, 2006

Financial Assets	Fair Amount	Carrying Value
Cash and due from banks	27,381,000	27,381,000
Securities available for sale	673,000	673,000
Federal Home Loan Bank stock	715,000	715,000
Loans and financings held for sale	1,952,000	1,952,000
Loans and financings, net	50,461,000	50,461,000
Mortgage servicing rights	1,516,000	1,516,000
Accrued interest and profit receivable	305,000	305,000
Financial Liabilities		
Deposits	78,882,000	78,882,000
Accrued interest and profit payable	73,000	73,000

December 31, 2005

Carrying

Fair

Financial Assets Amount Value		
Cash and due from banks	7,747,000	7,747,000
Securities available for sale	834,000	834,000
Federal Home Loan Bank stock	941,000	941,000
Loans and financings held for sale	1,447,000	1,447,000
Loans and financings, net	45,303,000	44,948,000
Mortgage servicing rights	1,472,000	1,472,000
Accrued interest and profit receivable	205,000	205,000
Financial Liabilities		
Deposits	56,021,000	56,136,000
Accrued interest and profit payable	111,000	111,000

18. Segment Reporting

The Company s operations include three primary segments: retail banking mortgage banking, and holding company. Through its banking subsidiary s branch in Ann Arbor, the Company provides traditional community banking services such as accepting deposits, making loans, and providing cash management services to individuals and local businesses. Mortgage banking activities includes servicing of residential mortgage loans for others

(See Note 2). The holding company manages the affairs of the bank holding company corporate office.

The Company s three reportable segments are strategic business units that are separately managed as they offer different products and services and have different marketing strategies. In addition, the mortgage banking segment services a different customer base from that of the retail banking segment.

18 Segment Reporting(continued)

The segment financial information provided below has been derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. The accounting policies of the two segments are the same as those described in the summary of significant accounting policies. The Company evaluates segment performance based on profit or loss before income taxes, not including

nonrecurring gains and losses. Certain indirect expenses have been allocated based on actual volume measurements and other criteria, as appropriate. The Company accounts for transactions between segments at current market prices. Segment profit is measured before allocation of corporate overhead and income tax expense. Information about reportable segments for the years ended December 31, 2006 and 2005 follows:

(in thousands)

	Retail Banking	Mortgage Banking	Holding Company		Totals
Interest and financing income	$4,010	$65	-	($22)	$4,053
Net gain on the sale of mortgage loans	-	100	-	-	100
Other non-interest income	774	4,313	24	(743)	4,368
Interest and profit sharing expense	1,896	115	-	(717)	1,294
Provision for loan losses	153	-	-	-	153
Salaries and benefits	1,630	1,813	-	-	3,443
Occupancy, net	381	144	-	-	525
Other operating expense	1,675	1,391	375	87	3,528
Income (loss) before tax expense	(951)	1,015	(351)	(135)	(422)
Income tax (benefit) expense	(17)	349	-	(352)	(20)
Segment profit (loss)	(934)	666	(351)	217	(402)
Segment assets	87,011	3,905	5,228	(8,872)	87,272
Capital expenditures	173	102	-	-	275
Depreciation	243	139	-	-	382
Amortization	(15)	254	-	-	239
2005	Retail Banking	Mortgage Banking	Holding Company	Eliminations	Totals
Interest income	$3,266	$42	-	(35)	$3,273
Net gain on the sale of mortgage loans	(6)	315		-	
Other non-interest income	2,606	3,164	42	(229)	5,583
Interest expense	1,134	35	-	(216)	953
Provision for loan losses	17	-	-	-	17

Salaries and benefits	1,441	1,560	-	-	3,001
Occupancy, net	363	154	-	-	517

70

Other operating expense	1,551	1,126	96	15	2,788
Income before tax expense	1,360	646	(54)	(63)	1,889
Income tax (benefit) expense	(100)	220	-	(220)	(100)
Segment profit	1,460	426	(54)	157	1,989
Segment assets	62,877	4,283	5,317	(7,937)	64,540
Capital expenditures	2,177	107	-	-	2,284
Depreciation	172	166	-	-	338
Amortization	3	135	-	-	138

19. Quarterly Financial Data - Unaudited

The following tables represent summarized data for each of the quarters in 2006 and 2005 (in thousands, except income (loss) per share data).

2006	Quarter Ended March 31	Quarter Ended June 30	Quarter Ended September 30	Quarter Ended December 31
Interest income	$913	$998	$922	$1,220
Interest expense	275	328	313	378
Net interest income	638	670	609	842
Provision for losses	20	29	57	47
Net interest income after Provision for losses	618	641	552	795
Loan set-up and other fees	310	324	423	247
Loan servicing and sub-servicing fees	529	608	619	635
Gain on sale of loans	39	-	(1)	62
Other non-interest income	171	104	157	242
Non-interest expense	1,654	1,906	1,883	2,053
Income tax expense (benefit)	-	-	-	(20)
Net income(loss) available to common shareholders	$13	($229)	($133)	($52)
Basic and diluted loss per share	$0.00	($0.06)	($0.03)	($0.01)
Weighted average shares outstanding	4,147,878	4,245,065	4,248,378	4,248,378

Significant 4th quarter event. During the fourth quarter of 2006, net interest income increased significantly. In mid-December 2006, Midwest Loan Services transferred the remainder of the approximately $30 million in custodian funds under its control of its servicing and

71

72

19. Quarterly Financial Data - Unaudited (continued)

subservicing customers to University Bank from another bank. These deposits were invested in interest bearing assets, particularly Federal Funds and Bank Deposits. The average balance for this asset category increased substantially during the fourth quarter resulting in an increase in net interest income.

2005	Quarter Ended March 31	Quarter Ended June 30	Quarter Ended September 30	Quarter Ended December 31
Interest income	$802	$813	$830	$828
Interest expense	220	239	278	216
Net interest income	582	574	552	612
Provision for losses	15	2	-	-
Net interest income after				
Provision for losses	567	572	552	612
Loan set-up and other fees	398	346	391	262
Loan servicing and sub-servicing fees	369	445	441	481
Gain on sale of loans	104	93	93	19
Other non-interest income	152	138	129	2,031
Non-interest expense	1,426	1,654	1,598	1,627
Income tax expense	-	-	-	(100)
Net (loss) available to common shareholders	$164	($60)	$8	$1,878
Basic and diluted loss per share	$0.04	($0.02)	$0.00	$0.46
Weighted average shares outstanding	4,138,849	4,143,878	4,143,878	4,144,269

Significant 4th quarter event. In the fourth quarter of 2005, the Company executed two transactions resulting in a material increase in other non-interest income. In the first transaction, the Bank agreed to terminate its lease agreement early in exchange for $800,000. The Bank moved out of its leased facility in December 2005 and into a new facility that it purchased in June 2005. This early move out also resulted in recognition of the remainder of the deferred gain on sale leaseback in the 4th quarter. This amounted to $129,272. In the other transaction, the Bank profited $1,000,000 from the sale of 20% interest in the Islamic Banking subsidiary for a sale price of $3,000,000.

20. Parent Company Only Condensed Financial Information

Condensed Balance Sheet

	December 31, 2006	December 31, 2005
ASSETS		
Cash and cash equivalents	$ 2,066	$ 3,747
Investment in University Bank	5,267,331	5,310,893
Other assets	8,941	2,791
Total Assets	$ 5,278,338	$ 5,317,431
LIABILITIES AND STOCKHOLDERS EQUITY		
Accounts payable	$ 27,091	$ 16,850
Total Liabilities	27,091	16,850
Stockholders Equity	5,251,247	5,300,581
Total Liabilities and Stockholders Equity	$ 5,278,338	$ 5,317,431

20. Parent Company Only Condensed Financial Information (continued)

Condensed Statements of Income

	2006	2005
INCOME:		
Interest and dividends on investments	$ 222	$ 48
Other	24,000	41,975
Total income	24,222	42,023
EXPENSES:		
Stock compensation	277,681	-
Interest	75	332
Public listing	44,787	41,288
Professional fees	45,313	53,139
Other miscellaneous	7,077	1,953
Total Expense	374,933	96,712
Loss before federal income taxes and equity in undistributed net income(loss) of subsidiaries	(350,711)	(54,689)
Federal income taxes	-	-
Loss before equity in undistributed net income(loss) of subsidiaries	(350,711)	(54,689)
Equity in undistributed net income(loss) of subsidiaries	(50,987)	2,043,858
Net income (loss)	$ (401,698)	$ 1,989,169

75

20. Parent Company Only Condensed Financial Information (continued)

Condensed Statements of Cash Flows

	2006	2005
Operating activities:		
Net income(loss)	$ (401,698)	$ 1,989,169
Adjustments to reconcile net income(loss) to net cash used in operating activities:		
Stock awards	5,479	-
Non-employee stock awards	272,199	-
Net change in:		
Other assets	(6,150)	346
Other liabilities	10,241	(7,008)
Investment in subsidiaries	50,987	(2,043,858)
Net cash used in operating activities	(68,942)	(61,351)
Investing activities:		
Additional investment in subsidiary	-	(199,677)
Net cash used in investing activities	-	(199,677)
Financing activities:		
Principal payment on notes payable	-	(34,000)
Dividends on preferred stock	(4,739)	(12,361)
Issuance of preferred stock	72,000	264,510
Issuance of common stock	-	41,000
Net cash provided by financing activities	67,261	259,149
Net change in cash and cash equivalents	(1,681)	(1,879)
Cash and cash equivalents:		
Beginning of year	3,747	5,626
End of year	$ 2,066	$ 3,747
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 75	$ 589
Dividends on preferred stock converted to additional shares of preferred stock	$ 26,785	$ 3,400

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures.

None

ITEM 8A. Controls and Procedures.

a) Evaluation of Disclosure Controls and Procedures.

Disclosure controls are procedures that are designed with an objective of ensuring that information required to be disclosed in our company s periodic reports filed with the Securities and Exchange Commission, such as this report on Form 10-KSB, is recorded, processed, summarized, and reported within the time periods specified by the Securities and Exchange Commission. Disclosure controls also are designed with an objective of ensuring that such information is accumulated and communicated to our company s management, including our chief executive officer and chief financial officer, in order to allow timely consideration regarding required disclosures

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of the Company s management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-14(c) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the operation of these disclosure controls and procedures were not effective. The nature of the material weaknesses are as follows:

1. Material post closing audit adjustments. After the first draft of the Form 10-KSB, management and the auditors discovered adjustments to the financial statements. The adjustments were discovered in the audit and review of the financial statements of the various subsidiaries of the company. The financial statements could be misleading to a reader if the adjustments were not made.

2. Non-timely filing of certain SEC reports including Form 10-KSB for 2006.
3. Amendment to Form 10-KSB for 2006 due to edgarization errors.

b) Changes in Internal Controls.

There were no significant changes in the Company s internal controls over financial reporting during the fourth quarter of the fiscal year ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting. However, management intends to implement the changes described below. The Company has recorded material post closing audit adjustments to the consolidated financial

statements. In addition, the Company

77

has not timely filed certain SEC reports, including the Form 10-KSB for 2006 with the Securities Exchange Commission (SEC) within the required due dates. The above items, under Section 404 of the Sarbanes Oxley Act of 2002, constitute significant deficiencies and collectively material weaknesses in internal controls over financial reporting. The Company seeks to implement a short and long-term correction of these internal control deficiencies and believes it can make progress toward correction of these matters. Corrections include better coordination with accounting staff preparing records for subsidiaries, and a more thorough review of the financial statements of subsidiaries. The Bank cashier and Chief executive officer will ensure that the corrections are made on a timely basis.

Item 8B. Other Information

None

PART III.

Item 9. - Directors, Executive Officers, Promoters, Control Persons, Compliance with Section 16(a) of the Exchange Act

The information required by this item is incorporated by reference herein from the portions of the Company s Proxy Statement for its 2006 Annual Meeting (the Proxy Statement) to be under the captions:

Election of Directors
Executive Officers
Section 16(a) Beneficial Ownership Reporting Compliance

We have adopted a Code of Ethics for all employees. A copy of the Code of Ethics is available upon request by writing to the Chief Financial Officer, University Bancorp, Inc., 2015 Washtenaw, Ann Arbor, Michigan 48104.

Item 10. - Executive Compensation

The information required by this item is incorporated by reference herein from the portions of the Company s Proxy Statement to be under the captions:

Executive Compensation
Compensation Plans

Item 11. - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference herein from the portion of the Company s Proxy Statement to be under the caption:

78

Security Ownership of Certain Beneficial Owners and
Management

Equity Compensation Plan Information

The University Bancorp, Inc. 1995 Stock Option Plan authorizes stock options for issuance to employees, consultants and directors in exchange for services.

79

The following table sets forth certain information regarding the above referenced equity compensation plan as of December 31, 2006.

Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	348,026	$2.23	0
Equity compensation plans not approved by security holders	0	NA	0
Total	348,026	$2.23	0

Item 12. - Certain Relationships and Related Transactions and Director Independence

The information required by this item is incorporated by reference herein from the portion of the Company s Proxy Statement to be under the caption:

Certain Relationships and Related Transactions
Corporate Governance

Item 13. - Exhibits

(a) Index of Financial Statements:
The following statements are filed as part of this Report:

Audited consolidated balance sheets as of December 31, 2006 and December 31, 2005, and consolidated statements of operations, comprehensive (loss) income, stockholders equity and cash flows for the two year period ended December 31, 2006 and 2005 of the Company.

Schedules to the consolidated financial statements required by Article 9 of Regulation S-X are not required under the related instructions or are inapplicable, and therefore have been omitted.

(b) Exhibits:

(3) Certificate of Incorporation and By-laws:

3.1	Composite Certificate of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).
3.1.1	Certificate of Amendment, dated June 10, 1998, of the Company s Certificate of Incorporation (incorporated by reference to Exhibit 3.1.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).
3.2	Composite By-laws of the Company (incorporated by reference to Exhibit 3.2 to the Company s Annual Report on Form 10-K for the year ended December 31, 1989).

(10) Material Contracts.

10.1	Loan Agreement and Promissory Note dated December 31, 1997 issued to North Country Bank & Trust (incorporated by reference to Exhibit 10.1 to the Company s Annual Report on Form 10-K for the year ended December 31, 1997).
10.2	University Bancorp, Inc. Employee Stock Ownership Plan (the ESOP), as amended November 27, 1990 (incorporated by reference to Exhibit 10.2 to the Company s Annual Report on Form 10-K for the year ended December 31, 1990).
10.2.1	Amendment to the ESOP, effective as of December 31, 1991 (incorporated by reference to Exhibit 10.2.A to the Company s Annual Report on Form 10-K for the year ended December 31, 1991).
10.3	University Bank 401(k) Profit Sharing Plan, adopted August 1, 1996, effective as of January 1, 1996 (incorporated by reference to Exhibit 10.3 to the Company s Annual Report on Form 10-K for the year ended December 31, 1996).
10.4	1995 Stock Plan of the Company (incorporated by reference to Exhibit A to the definitive Proxy Statement of the Company for 1996 Annual Meeting of Stockholders).
10.4.1	Form of Stock Option Agreement related to the 1995 Stock Plan (incorporated by reference to Exhibit 10.7.1 to the Annual Report on Form 10-K for the year ended December 31, 1995).

10.5 Letter, dated December 1, 1989, from Federal Reserve Bank of Minneapolis (incorporated by reference to Exhibit 10.9).

10.6 Federal Income Tax Allocation Agreement Between Newberry State Bank and Newberry Holding Inc. dated March 21, 1992 (incorporated by reference to Exhibit 10.11).

10.6.1 Federal Income Tax Allocation Agreement Between Newberry Holding Inc. and University Bancorp, Inc. dated May 21, 1991 (incorporated by reference to Exhibit 10.11.1).

21 Subsidiaries of Registrant: List of subsidiaries filed herewith.

23.1 Consent of UHY LLP, Independent Registered Public Accounting Firm
Registered Public Accounting Firm

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certificate of the Chief Executive Officer and of University Bancorp, Inc. pursuant to 18 U.S.C. Section 1350, as adopted

pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certificate of the Chief Financial Officer of University Bancorp, Inc. pursuant to 18 U.S.C. Section 1350, as adopted

pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

ITEM 14: Principal Accountant Fees and Services.

Information relating to principal accountant fees and services is contained on page 20, under the caption Independent Public Accountants in the University Bancorp, Inc. definitive Proxy Statement relating to the 2007 Annual Meeting of Stockholders and the information within that section is incorporated by reference.

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNIVERSITY BANCORP, INC.

By: /s/Stephen Lange Ranzini

Stephen Lange Ranzini,
President and Chief Executive Officer

Date: May 12, 2008

By: /s/Dennis Agresta

Dennis Agresta
Principal Accounting Officer

Date: May 12, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/Stephen Lange Ranzini ------------------------ Stephen Lange Ranzini	Director, President	May 12, 2008
/s/ Charles McDowell --------------------------	Director, Chairman	May 12, 2008

Charles McDowell

/s/ Gary Baker ------------------------	Director	May 12, 2008
Gary Baker		
/s/ Michael Talley ---------------------------	Director	May 12, 2008
Michael Talley		
/s/Dr. Joseph Lange Ranzini ------------------------------	Director	May 12, 2008
Dr. Joseph Lange Ranzini		
/s/Paul Lange Ranzini ---------------------------	Director	May 12, 2008
Paul Lange Ranzini		

83

84

Index of Exhibits

Exhibit Number and Description		Sequentially Numbered Page
(3)	Certificate of Incorporation and By-laws:	
3.1	Composite Certificate of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1 to the June 30, 1996 10-Q).	
3.1.1	Certificate of Amendment, dated June 10, 1998, of the Company s Certificate of Incorporation (incorporated by reference to Exhibit 3.1.1 to the June 30, 1998 10-Q).	
3.2	Composite By-laws of the Company (incorporated by reference to Exhibit 3.2 to the 1989 10-K).	
(10)	Material Contracts.	
10.1	Loan Agreement and Promissory Note dated December 31, 1997 issued to North Country Bank & Trust (incorporated by reference to Exhibit 10.1 to the 1997 10-K))	
10.2	University Bancorp, Inc. Employee Stock Ownership Plan (the ESOP), as amended November 27, 1990 (incorporated by reference to Exhibit 10.2 to the 1990 10-K).	
10.2.1	Amendment to the ESOP, effective as of December 31, 1991 (incorporated by reference to Exhibit 10.2.A to the 1991 10-K).	
10.3	University Bank 401(k) Profit Sharing Plan, adopted August 1, 1996, effective as of January 1, 1996 (incorporated by reference to Exhibit 10.3 to the 1996 10-K).	

10.4	1995 Stock Plan of the Company (incorporated by reference to Exhibit A to the definitive Proxy Statement of the Company for the 1996 Annual Meeting of Stockholders.
10.4.1	Form of Stock Option Agreement related to the 1995 Stock Plan (incorporated by reference to Exhibit 10.7.1 to the 1995 10-K).
10.5	Letter, dated December 1, 1989, from Federal Reserve Bank of Minneapolis (incorporated by reference to Exhibit 10.9 to the 1989 10-K).
10.6	Federal Income Tax Allocation Agreement Between Newberry State Bank and Newberry Holding Inc. dated March 21, 1992 (incorporated by reference to

	Exhibit 10.11 to the 1991 10-K).	
10.6.1	Federal Income Tax Allocation Agreement Between Newberry Holding Inc. and University Bancorp, Inc. dated May 21, 1991 (incorporated by reference to Exhibit 10.11.1 to the 1991 10-K).	
21	Subsidiaries of Registrant.	79
23.1	Consent of UHY LLP, Independent Registered Public Accounting Firm	
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	84
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	85
32.1	Certificate of the Chief Executive Officer and of University Bancorp, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	86
32.3	Certificate of the Chief Financial Officer of University Bancorp, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	87

Exhibit 21. Subsidiaries of Registrant.

University Bank, a Michigan banking corporation

University Insurance & Investment Services, Inc., a Michigan Corporation (100% owned by Bank)

Midwest Loan Services, Inc., a Michigan Corporation (80% owned by Bank)

Hoover, LLC, a Michigan limited Liability Corporation (100% owned by Bank)

University Islamic Financial Corporation, a Michigan Corporation (80% owned by Bank)

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUTING FIRM

We have issued our report dated April 9, 2007, except for additional disclosures in notes 1, 4 and 18, as to which the date is May 12, 2008, accompanying the consolidated financial statements included in the annual report of University Bancorp, Inc. on Form 10-KSB for the years ended December 31, 2006 and 2005. We hereby consent to the incorporation by reference of said report in the Registration Statement of University Bancorp, Inc. on Form S-8 (File No. 333-109930) effective October 23, 2003.

/S/ UHY LLP

Southfield, Michigan

May 12, 2008

Exhibit 31.1

FORM 10-KSB 302 CERTIFICATION

I

I, Stephen L. Ranzini, certify that:

1. I have reviewed this annual report on Form 10-KSB/A of University Bancorp, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The small business issuer s other certifying officer and I are responsible for establishing for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Evaluated the effectiveness of the small business issuer s disclosure controls and procedures and presented in this report our conclusions after the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c. Disclosed in this report any change in the small business issuer s internal control over financial reporting that occurred during the small business issuer s most recent fiscal quarter (the small business issuer s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer s internal control over financial reporting.

5. The small business issuers other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer s auditors and the audit committee of the small business issuer s board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer s internal control over financial reporting.

Date: May 12, 2008

/s/Stephen L. Ranzini

Stephen L. Ranzini

Chief Financial Officer

89

Exhibit 31.2

FORM 10-KSB 302 CERTIFICATION

I, Dennis Agresta, certify that:

1. I have reviewed this annual report on Form 10-KSB/A of University Bancorp, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The small business issuer s other certifying officer(s) and I are responsible for establishing for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Evaluated the effectiveness of the small business issuer s disclosure controls and procedures and presented in this report our conclusions after the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c. Disclosed in this report any change in the small business issuer s internal control over financial reporting that occurred during the small business issuer s most recent fiscal quarter (the small business issuer s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer s internal control over financial reporting.

5. The small business issuers other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer s auditors and the audit committee of the small business issuer s board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer s ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer s internal control over financial reporting.

Date: May 12, 2008

/s/Dennis Agresta

Dennis Agresta

Principal Accounting Officer

90

Exhibit 32.1

CERTIFICATION PURSUANT
TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of University Bancorp, Inc. (the Registrant) on Form 10-KSB/A for the period ended December 31, 2006 as filed with the Securities and Exchange Commission, hereof (the Report), the undersigned officer certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

University Bancorp, Inc

Date: May 12, 2008

By: /s/ Stephen Lange Ranzini
Stephen Lange Ranzini
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATIONPURSUANT
TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of University Bancorp, Inc. (the Registrant) on Form 10-KSB/A for the period ended December 31, 2006 as filed with the Securities and Exchange Commission on, hereof (the Report), the undersigned officer certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

University Bancorp, Inc

Date: May 12, 2008

By: /s/Dennis Agresta
Dennis Agresta
Principal Accounting Officer