

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2004-08-12** | Period of Report: **2004-06-30**
SEC Accession No. **0000950124-04-003778**

([HTML Version](#) on secdatabase.com)

FILER

DEARBORN BANCORP INC /MI/

CIK: **895541** | IRS No.: **383073622** | State of Incorpor.: **MI** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-24478** | Film No.: **04970863**
SIC: **6022** State commercial banks

Mailing Address

22290 MICHIGAN AVE
P O BOX 2247
DEARBORN MI 48123-2247

Business Address

22290 MICHIGAN AVE
PO BOX 2247
DEARBORN MI 48123-2247
3132741000

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly period ended June 30, 2004.

Commission file number 000-24478.

DEARBORN BANCORP, INC.

(Exact name of registrant as specified in its charter)

Michigan

(State or other jurisdiction of incorporation or organization)

38-3073622

(I.R.S. Employer Identification No.)

1360 Porter Street, Dearborn, MI 48124

(Address of principal executive office) (Zip Code)

(313) 565-5700

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 No

Indicate the number of shares outstanding for each of the issuer's classes of common stock, as of July 31, 2004.

Class

Shares Outstanding

Common Stock

4,403,087

Indicate by check mark whether the registrant is an accelerated filer (as defined in rule 12b-2 of the 1934 Securities and Exchange Act).

Yes No

DEARBORN BANCORP, INC.
INDEX

Part I. Financial Information:

Item 1. Financial Statements

The following consolidated financial statements of Dearborn Bancorp, Inc. and its subsidiary included in this report are:

	<u>Page</u>
<u>Independent Accountants' Report</u>	3
<u>Consolidated Balance Sheets - June 30, 2004, December 31, 2003 and June 30, 2003</u>	4
<u>Consolidated Statements of Income - For the Three and Six Months Ended June 30, 2004 and 2003</u>	5
<u>Consolidated Statements of Comprehensive Income - For the Three and Six Months Ended June 30, 2004 and 2003</u>	6
<u>Consolidated Statements of Cash Flows - For the Six Months Ended June 30, 2004 and 2003</u>	7
<u>Notes to Consolidated Financial Statements</u>	8-11

<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, Liquidity and Capital</u>	12-25
---	-------

<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	26-28
---	-------

<u>Item 4. Controls and Procedures</u>	29
--	----

Part II. Other Information:

Pursuant to SEC rules and regulations, the following item(s) are included with the Form 10-Q Report:

<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	30
--	----

<u>Item 6. Exhibits and Reports on Form 8-K</u>	31
---	----

Pursuant to SEC rules and regulations, the following items are omitted from this Form 10-Q as inapplicable or to which the answer is negative:

- Item 1. Legal Proceedings
- Item 2. Changes in Securities and Use of Proceeds
- Item 3. Defaults upon Senior Securities
- Item 5 Other Information

<u>SIGNATURES</u>	32
-------------------	----

Section 302 Certification of CEO

Section 302 Certification of CFO

Section 906 Certification of CEO

Section 906 Certification of CFO

Underwriting Agreement

INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors and Shareholders
Dearborn Bancorp, Inc.
Dearborn, Michigan

We have reviewed the consolidated balance sheets of Dearborn Bancorp, Inc. as of June 30, 2004 and 2003, the related consolidated statements of income and comprehensive income for the three and six month periods then ended, and the related consolidated statements of cash flows for the six month periods then ended. These financial statements are the responsibility of the Corporation's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

/s/ Crowe Chizek and Company LLC

Grand Rapids, Michigan
July 31, 2004

DEARBORN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS (unaudited)

(Dollars, in thousands)	06/30/04	12/31/03	06/30/03
ASSETS			
Cash and cash equivalents			
Cash and due from banks	\$ 7,759	\$ 5,172	\$ 9,393
Federal funds sold	3,422	7,651	6,162
Interest bearing deposits with banks	125	8,325	3,425
Total cash and cash equivalents	11,306	21,148	18,980
Mortgage loans held for sale	1,415	1,505	13,053
Securities, available for sale	12,859	16,948	27,411
Federal Home Loan Bank stock	1,098	1,073	1,047
Loans			
Loans	439,776	400,958	327,383
Allowance for loan loss	(4,894)	(4,314)	(3,514)
Net loans	434,882	396,644	323,869
Premises and equipment, net	10,404	5,554	5,680
Real estate owned	207	—	—
Accrued interest receivable	1,431	1,461	1,329
Other assets	1,850	1,742	1,691
Total assets	\$ 475,452	\$ 446,075	\$ 393,060
LIABILITIES			
Deposits			
Non-interest bearing deposits	\$ 41,565	\$ 39,081	\$ 42,008
Interest bearing deposits	364,265	340,538	286,489
Total deposits	405,830	379,619	328,497
Other liabilities			
Federal Home Loan Bank advances	20,638	20,638	20,660
Other liabilities	886	463	1,002
Accrued interest payable	823	754	617
Subordinated debentures	10,000	10,000	10,000
Total liabilities	438,177	411,474	360,776
STOCKHOLDERS' EQUITY			
Common stock - 5,000,000 shares authorized, 3,136,987 shares at 06/30/04, 3,089,567 shares at 12/31/03; and 3,067,747 shares at 06/30/03	37,286	34,451	32,229
Retained earnings	187	128	14
Accumulated other comprehensive income (loss)	(198)	22	41
Total stockholders' equity	37,275	34,601	32,284
Total liabilities and stockholders' equity	\$ 475,452	\$ 446,075	\$ 393,060

The accompanying notes are an integral part of these consolidated statements.

DEARBORN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(In thousands, except share and per share data)	Three Months Ended		Six Months Ended	
	06/30/04	06/30/03	06/30/04	06/30/03
Interest income				
Interest on loans, including fees	\$ 6,750	\$ 5,452	\$ 13,154	\$ 10,452
Interest on securities, available for sale	67	189	138	388
Interest on federal funds	22	52	38	130
Interest on deposits with banks	10	39	17	79
Total interest income	6,849	5,732	13,347	11,049
Interest expense				
Interest on deposits	1,703	1,890	3,363	3,843
Interest on other borrowings	231	230	462	460
Interest on subordinated debentures	100	123	223	245
Total interest expense	2,034	2,243	4,048	4,548
Net interest income	4,815	3,489	9,299	6,501
Provision for loan losses	281	511	505	739
Net interest income after provision for loan	4,534	2,978	8,794	5,762
Non-interest income				
Service charges on deposit accounts	136	110	268	213
Fees for other services to customers	46	6	58	15
Gain on the sale of loans	231	675	374	1,301
Gain on the sale of investment securities	–	79	–	79
Loss on the sale of real estate	(3)	–	(3)	–
Other income	9	36	28	49
Total non-interest income	419	906	725	1,657
Non-interest expenses				
Salaries and employee benefits	1,852	1,538	3,669	3,046
Commissions on the origination of loans	87	291	150	560
Occupancy and equipment expense	365	349	724	671
Advertising and marketing	80	62	157	144
Stationery and supplies	73	84	144	185
Professional services	99	114	214	212
Data processing	76	71	147	135
Other operating expenses	216	226	434	439
Total non-interest expenses	2,848	2,735	5,639	5,392
Income before income tax provision	2,105	1,149	3,880	2,027
Income tax provision	715	390	1,316	688
Net income	\$ 1,390	\$ 759	\$ 2,564	\$ 1,339
Per share data:				
Net income – basic	\$ 0.44	\$ 0.25	\$ 0.82	\$ 0.44
Net income – diluted	\$ 0.40	\$ 0.23	\$ 0.75	\$ 0.42
Weighted average number of shares outstanding – basic	3,124,815	3,055,820	3,112,582	3,043,846
Weighted average number of shares outstanding – diluted	3,456,470	3,323,457	3,428,738	3,182,299

The accompanying notes are an integral part of these consolidated statements.

DEARBORN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(In thousands)	Three Months Ended		Six Months Ended	
	06/30/04	06/30/03	06/30/04	06/30/03
Net income	\$ 1,390	\$ 759	\$ 2,564	\$ 1,339
Other comprehensive loss, net of tax				
Unrealized gains (losses) on securities				
Unrealized holding gains (losses) arising during period	(38)	35	(334)	20
Less: reclassification adjustment for gains included in net income	–	(79)	–	(79)
Tax effects	14	15	114	20
Other comprehensive loss	(24)	(29)	(220)	(39)
Comprehensive income	\$ <u>1,366</u>	\$ <u>730</u>	\$ <u>2,344</u>	\$ <u>1,300</u>

The accompanying notes are an integral part of these consolidated statements.

DEARBORN BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(In thousands)	Six Months Ended	
	6/30/04	6/30/03
Cash flows from operating activities		
Interest and fees received	\$ 13,368	\$ 10,980
Interest paid	(3,695)	(4,540)
Taxes paid	(840)	(1,000)
Proceeds from sale of mortgages held for sale	22,946	81,158
Origination of mortgages held for sale	(22,622)	(83,058)
Cash paid to suppliers and employees	(5,424)	(4,892)
Net cash provided by (used in) operating activities	3,733	(1,352)
Cash flows from investing activities		
Proceeds from maturities of securities available for sale	4,000	7,500
Proceeds from call of securities available for sale	10	–
Proceeds from sales of securities available for sale	2,120	3,079
Proceeds from repayments of securities available for sale	265	612
Purchases of securities available for sale	(2,649)	(16,412)
Purchases of Federal Home Loan Bank stock	(25)	(14)
Increase in loans, net of payments received	(38,743)	(59,961)
Purchases of property and equipment	(5,096)	(626)
Net cash used in investing activities	(40,118)	(65,822)
Cash flows from financing activities		
Net increase in non-interest bearing deposits	2,484	9,551
Net increase in interest bearing deposits	23,728	56,860
Stock option exercise	330	293
Net cash provided by financing activities	26,542	66,704
Decrease in cash and cash equivalents	(9,843)	(470)
Cash and cash equivalents at the beginning of the period	21,148	19,450
Cash and cash equivalents at the end of the period	\$ 11,305	\$ 18,980
Reconciliation of net income to net cash provided by (used in) operating activities		
Net income	\$ 2,564	\$ 1,339
Adjustments to reconcile net income to net cash provided by (used in) operating activities	505	739
Provision for loan losses		
Depreciation and amortization expense	246	222
Accretion of discount on investment securities	(2)	(4)
Amortization of premium on investment securities	11	50
Gain on the sale of securities, available for sale	–	(79)
(Increase) decrease in mortgages held for sale	90	(3,201)
(Increase) decrease in interest receivable	42	(69)
Increase in interest payable	69	8
Increase in other assets	(214)	(305)
Increase (decrease) in other liabilities	422	(52)
Net cash provided by (used in) operating activities	\$ 3,733	(\$1,352)

The accompanying notes are an integral part of these consolidated statements.

[Table of Contents](#)

DEARBORN BANCORP, INC.
FORM 10-Q (continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. Accounting and Reporting Policies

The consolidated financial statements of Dearborn Bancorp, Inc. (the "Corporation") include the consolidation of its only subsidiary, Community Bank of Dearborn (the "Bank"). The accounting and reporting policies of the Corporation are in accordance with generally accepted accounting principles and conform to practice within the banking industry.

The consolidated financial statements of the Corporation as of June 30, 2004 and 2003, and December 31, 2003 and for the three and six month periods ended June 30, 2004 and 2003 reflect all adjustments, consisting of normal recurring items which are in the opinion of management, necessary for a fair presentation of the results for the interim period. The operating results for the quarter are not necessarily indicative of results of operations for the entire year.

The consolidated financial statements as of June 30, 2004 and 2003, and for the three and six month periods ended June 30, 2004 and 2003 included herein have been prepared by the Corporation, without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in interim financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These financial statements should be read in conjunction with the financial statements and notes thereon included in the Corporation's 2003 Annual Report to Stockholders on Form 10-K.

Certain of the Corporation's accounting policies are important to the portrayal of the Corporation's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances which could affect these material judgments include, but without limitation, changes in interest rates, in the performance of the economy or in the financial condition of borrowers. Management believes that its critical accounting policies include determining the allowance for loan losses and determining the fair value of securities and other financial instruments.

[Table of Contents](#)

A. Accounting and Reporting Policies (continued)

Employee compensation expense under stock option plans is reported using the intrinsic value method. No stock-based compensation cost is reflected in net income, as all options granted had an exercise price equal to or greater than the market price of the underlying common stock at date of grant. The following table illustrates the effect on net income and earnings per share if expense was measured using the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-based Compensation (in thousands, except share and per share data).

	Three Months Ended		Six Months Ended	
	06/30/04	06/30/03	06/30/04	06/30/03
Net income				
As reported	\$ 1,390	\$ 759	\$ 2,564	\$ 1,339
Less: stock-based compensation expense determined under fair value based method	–	353	9	698
Pro forma	\$ <u>1,390</u>	\$ <u>406</u>	\$ <u>2,555</u>	\$ <u>641</u>
Basic income per share				
As reported	\$ 0.44	\$ 0.25	\$ 0.82	\$ 0.44
Pro forma	\$ 0.44	\$ 0.13	\$ 0.82	\$ 0.21
Diluted income per share				
As reported	\$ 0.40	\$ 0.23	\$ 0.75	\$ 0.42
Pro forma	\$ 0.40	\$ 0.12	\$ 0.75	\$ 0.20

Stock options vest after a six month period from date of grant. No options were granted in 2004. The pro forma effects are computed using option pricing models and the assumptions for the 2003 grants were a risk-free interest rate of 3.55%, expected life of seven years, and expected volatility of 25.55%.

[Table of Contents](#)

B. Securities Available For Sale

The amortized cost and estimated market value of securities available for sale are as follows (in thousands):

	June 30, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Mortgage backed securities	\$ 941	\$ 15	\$ –	\$ 956
Corporate debt securities	8,219	–	–	8,219
FHLMC preferred stock	4,000	–	(316)	3,684
Totals	\$ 13,160	\$ 15	(\$316)	\$ 12,859

	December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
US Treasury securities	\$ 2,011	\$ 2	\$ –	\$ 2,013
Mortgage backed securities	1,194	31	–	1,225
Corporate debt securities	9,710	–	–	9,710
FHLMC preferred stock	4,000	–	–	4,000
Totals	\$ 16,915	\$ 33	\$ –	\$ 16,948

The amortized cost and estimated market value of securities available for sale at June 30, 2004 by contractual maturity are shown below (in thousands):

	Amortized Cost	Estimated Market Value
Due in over ten years	\$ 8,219	\$ 8,219
Mortgage backed securities	941	956
FHLMC preferred stock	4,000	3,684
Totals	\$ 13,160	\$ 12,859

The entire portfolio has a net unrealized loss of \$301,000 at June 30, 2004. The Bank holds a floating rate issue of preferred stock of the Federal Home Loan Mortgage Corporation that has an unrealized loss of \$316,000. This unrealized loss is primarily caused by the floating rate characteristic of this security and its market value is expected to improve as interest rates rise. The Corporation does not expect to realize a loss as a result of holding this security. The Corporation does not hold any securities in the “Held to Maturity” category nor does the Corporation hold or utilize derivatives.

C. Stock Option Plan

Options to buy common stock are granted to officers and employees under a Stock Option Plan which provides for issue of up to 747,790 shares. Exercise price is the market price at date of grant. The maximum option term is ten years, and options vest fully after six months from the date of grant. If an option expires or terminates without having been exercised, such option becomes available for future grant under the Plan.

A summary of the option activity for the six months ended June 30, 2004 is as follows:

	Available For Grant	Options Outstanding	Weighted Average Exercise Price
Outstanding at January 1, 2004	–	590,957	\$ 9.48
Granted	–	–	–
Exercised	–	(47,425)	7.66
Outstanding at June 30, 2004	–	543,532	\$ 9.64

For the options outstanding at June 30, 2004, the range of exercise prices was \$4.84 to \$18.69 per share with a weighted-average remaining contractual term of 6.6 years. At June 30, 2004, 543,532 options were exercisable at weighted average exercise price of \$9.64 per share. Stock options for 109,780 shares of common stock were not considered in computing diluted earnings per share for the six months ended June 30, 2003 because they were antidilutive. There were no antidilutive shares for the six months ended June 30, 2004.

PART I – FINANCIAL INFORMATION

ITEM 2. – MANAGEMENT’ S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis are intended to address significant factors affecting the financial condition and results of operations of the Corporation. The discussion provides a more comprehensive review of the financial position and operating results than can be obtained from a reading of the financial statements and footnotes presented elsewhere in this report.

Management’ s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that are based on management’ s beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and about the Corporation and Bank. Words such as “anticipates”, “believes”, “estimates”, “expects”, “forecasts”, “intends”, “is likely”, “plans”, “projects”, variations of such words and similar expressions are intended to identify such forward- looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions (“Future Factors”) that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements. The Corporation undertakes no obligation to update, amend or clarify forward-looking statements, whether as a result of new information, future events (whether anticipated or unanticipated), or otherwise.

Future Factors include changes in interest rates and interest rate relationships; demand for products and services; the degree of competition by traditional and non-traditional competitors; changes in banking regulation; changes in tax laws; changes in prices, levies and assessments; the impact of technological advances; governmental and regulatory policy changes; the outcomes of contingencies; trends in customer behavior as well as their ability to repay loans; and changes in the national and local economy. These are representative of the Future Factors that could cause a difference between an ultimate actual outcome and a preceding forward-looking statement.

Table of Contents

General

The Corporation was formed in 1992 and the Bank was formed in 1993. Subsequently, the Bank has opened offices in several communities in Southeastern Michigan. The date opened, branch location and branch type of each branch is listed below:

<u>Date Opened</u>	<u>Location</u>	<u>Type of office</u>
February 1994	22290 Michigan Avenue Dearborn, Michigan 48124	Full service retail branch with ATM Regional lending center
December 1995	24935 West Warren Avenue Dearborn Heights, Michigan 48127	Full service retail branch
August 1997	44623 Five Mile Road Plymouth, Michigan 48170	Full service retail branch with ATM
May 2001	1325 North Canton Center Road Canton, Michigan 48187	Full service retail branch with ATM
December 2001	45000 River Ridge Drive, Suite 110 Clinton Township, Michigan 48038	Regional lending center
November 2002	19100 Hall Road Clinton Township, Michigan 48038	Full service retail branch with ATM
February 2003	12820 Fort Street Southgate, Michigan 48195	Full service retail branch with ATM
May 2003	3201 University Drive, Suite 180 Auburn Hills, Michigan 48326	Full service retail branch Regional lending center

The Bank has also formed three subsidiaries that offer additional or specialized services to the Bank's customers. The Bank's subsidiaries, their formation date and the type of services offered are listed below:

<u>Date Formed</u>	<u>Name</u>	<u>Services Offered</u>
August 1997	Community Bank Insurance Agency, Inc.	Limited insurance related activities
May 2001	Community Bank Mortgage, Inc.	Origination of commercial and residential mortgage loans
March 2002	Community Bank Audit Services, Inc.	Internal auditing and compliance services for financial institutions

Recent Developments

Acquisition of Bank of Washtenaw. On July 16, 2004, the Corporation entered into a definitive agreement to acquire the Bank of Washtenaw (“Washtenaw”), a wholly owned subsidiary of Pavillion Bancorp, Inc. for \$15,000,000 in cash. Washtenaw, which was founded in January 2001, has its main office in Saline, Michigan with a branch office and an administrative office in Ann Arbor, Michigan. As of June 30, 2004, Washtenaw had total assets of \$72,590,000, gross loans of \$65,926,000 and total deposits of \$61,684,000. The acquisition is subject to regulatory approvals and standard closing conditions.

Sale of Common Stock. The Corporation announced the sale of 1,265,000 shares of its common stock at \$26.00 per share in a firm commitment underwritten offering lead managed by Oppenheimer & Co., Inc. and co-managed by Howe Barnes Investments, Inc. The underwriters have a 30 day option to purchase up to an additional 189,750 shares of common stock from the Company solely to cover over-allotments. The offering was priced on July 19, 2004 and closed on July 23, 2004. The Corporation intends to use \$15 million of the net proceeds for the acquisition of the Bank of Washtenaw. The Corporation will the use remaining net proceeds to increase its capital position in anticipation of future growth, and for other general corporate purposes.

Results of Operations

The Corporation reported net income of \$1,390,000 and \$2,564,000 for the three and six month periods ended June 30, 2004, compared to net income of \$759,000 and \$1,339,000 for the three month and six month periods ended June 30, 2003. The increase in net income was primarily due to the improvement in net interest income. The increase in net interest income was partially offset by the decrease in non-interest income. The improvement in net interest income was primarily due to the increase in the commercial real estate loan and other commercial loan portfolios and the decreasing cost of deposits during the period. The increase in loans was partially funded with short term investments such as interest bearing deposits with banks, federal funds sold and floating rate securities, which carry a lower yield than loans.

Net Interest Income

2004 Compared to 2003. As noted on the two charts on the following pages, net interest income for the three and six month periods ended June 30, 2004 was \$4,815,000 and \$9,299,000, compared to \$3,489,000 and \$6,501,000 for the same periods ended June 30, 2003, an increase of \$1,326,000 or 38% and \$2,798,000 or 43%, respectively. This increase was caused primarily by the decreasing cost of interest bearing liabilities and the redeployment of interest bearing deposits with banks, federal funds sold and securities, available for sale into loans. The Corporation’s interest rate spread was 3.98% and 3.93% for the three and six month periods ended June 30, 2004, compared to 3.32% and 3.15% for the same periods in 2003. The Corporation’s interest rate margin was 4.25% and 4.21% for the three and six month periods ended June 30, 2004, compared to 3.70% and 3.59 for the same periods in 2003.

[Table of Contents](#)

Average Balances, Interest Rates and Yields. Net interest income is affected by the difference (“interest rate spread”) between rates of interest earned on interest-earning assets and rates of interest paid on interest-bearing liabilities and the relative amounts of interest-bearing liabilities and interest-earning assets. When the total of interest-earning assets approximates or exceeds the total of interest-bearing liabilities, any positive interest rate spread will generate net interest income. Financial institutions have traditionally used interest rate spreads as a measure of net interest income. Another indication of an institution’s net interest income is its “net yield on interest-earning assets” or “net interest margin,” which is net interest income divided by average interest-earning assets.

The following tables set forth certain information relating to the Corporation’s consolidated average interest-earning assets and interest-bearing liabilities and reflect the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average daily balance of assets or liabilities, respectively, for the periods presented. During the periods indicated, non-accruing loans, if any, are included in the loan category.

(In thousands)	Three months ended June 30, 2004			Three months ended June 30, 2003		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets						
Interest-bearing deposits with banks	\$ 4,672	\$ 10	0.86%	\$ 16,957	\$ 52	1.23%
Federal funds sold	8,800	22	1.01%	13,370	39	1.17%
Investment securities, available for sale	13,449	67	2.00%	29,390	189	2.59%
Loans	428,498	6,750	6.34%	319,084	5,452	6.87%
Sub-total earning assets	455,419	6,849	6.05%	378,801	5,732	6.09%
Other assets	19,137			13,440		
Total assets	\$ 474,556			\$ 392,241		
Liabilities and stockholders’ equity						
Interest bearing deposits	\$ 364,424	\$ 1,703	1.88%	\$ 295,443	\$ 1,890	2.57%
Other borrowings	30,638	331	4.35%	30,660	353	4.63%
Sub-total interest bearing liabilities	395,062	2,034	2.07%	326,103	2,243	2.77%
Non-interest bearing deposits	41,692			32,708		
Other liabilities	925			1,391		
Stockholders’ equity	36,877			32,039		
Total liabilities and stockholders’ equity	\$ 474,556			\$ 392,241		
Net interest income		\$ 4,815			\$ 3,489	
Net interest rate spread			3.98%			3.32%
Net interest margin on earning assets			4.25%			3.70%

[Table of Contents](#)

(In thousands)	Six months ended June 30, 2004			Six months ended June 30, 2003		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets						
Interest-bearing deposits with banks	\$ 3,651	\$ 17	0.94%	\$ 21,961	\$ 130	1.20%
Federal funds sold	\$ 8,036	38	0.96%	\$ 13,611	79	1.17%
Investment securities, available for sale	14,119	138	1.98%	27,293	388	2.87%
Loans	420,622	13,154	6.32%	303,214	10,452	6.97%
Sub-total earning assets	446,428	13,347	6.05%	366,079	11,049	6.10%
Other assets	17,411			13,405		
Total assets	\$ 463,839			\$ 379,484		
Liabilities and stockholders' equity						
Interest bearing deposits	\$ 356,679	\$ 3,363	1.91%	\$ 281,144	\$ 3,843	2.76%
Other borrowings	30,638	685	4.52%	30,660	705	4.65%
Sub-total interest bearing liabilities	387,317	4,048	2.11%	311,804	4,548	2.95%
Non-interest bearing deposits	39,204			34,663		
Other liabilities	1,096			1,434		
Stockholders' equity	36,222			31,583		
Total liabilities and stockholders' equity	\$ 463,839			\$ 379,484		
Net interest income		\$ 9,299			\$ 6,501	
Net interest rate spread			3.93%			3.15%
Net interest margin on earning assets			4.21%			3.59%

[Table of Contents](#)

Rate/Volume Analysis. The following table analyzes net interest income in terms of changes in the volume of interest-earning assets and interest-bearing liabilities and changes in yields and rates. The table reflects the extent to which changes in the interest income and interest expense are attributable to changes in volume (changes in volume multiplied by prior year rate) and changes in rate (changes in rate multiplied by prior year volume). Changes attributable to the combined impact of volume and rate have been allocated proportionately to changes due to volume and changes due to rate.

(In thousands)	Three Months Ended June 30, 2004/2003			Six Months Ended June 30, 2004/2003		
	Average Balance	Average Rate	Net Change	Average Balance	Average Rate	Net Change
Assets						
Interest bearing deposits with banks	(\$ 26)	(\$ 16)	(\$ 42)	(\$ 85)	(\$ 28)	(\$ 113)
Federal funds sold	(11)	(6)	(17)	(26)	(15)	(41)
Investment securities, available for sale	(79)	(43)	(122)	(130)	(120)	(250)
Loans	1,726	(428)	1,298	3,681	(979)	2,702
Total earning assets	\$ 1,610	(\$ 493)	\$ 1,117	\$ 3,440	(\$ 1,142)	\$ 2,298
Liabilities						
Interest bearing deposits	\$ 325	(\$ 512)	(\$ 187)	\$ 725	(\$ 1,205)	(\$ 480)
Other borrowings	—	(22)	(22)	—	(20)	(20)
Total interest bearing liabilities	\$ 325	(\$ 534)	(\$ 209)	\$ 725	(\$ 1,225)	(\$ 500)
Net interest income			\$ 1,326			\$ 2,798
Net interest rate spread			0.66 %			0.78 %
Net interest margin on earning assets			0.55 %			0.62 %

Provision for Loan Losses

2004 Compared to 2003. The provision for loan losses was \$281,000 and \$505,000 for the three and six month periods ended June 30, 2004, compared to \$511,000 and \$739,000 for the same periods in 2003, a decrease of \$230,000 or 45% for the three month period and \$234,000 or 32% for the six month period. The provision for loan losses for the three and six month periods ended June 30, 2004 is based on the internal analysis of the adequacy of the allowance for loan losses. The provision for loan losses was based upon management's assessment of relevant factors, including types and amounts of non-performing loans, historical and anticipated loss experience on such types of loans, and current economic conditions.

Non-interest Income

2004 Compared to 2003. Non-interest income was \$419,000 and \$725,000 for the three and six month periods ended June 30, 2004, compared to \$906,000 and \$1,657,000 for the same periods in 2003, a decrease of \$487,000 or 54% for the three month period and \$932,000 or 56% for the six month period. The decrease was primarily due to the decrease in the gain on the sale of loans during the period. The volume of mortgage loans sold decreased during the period as a result of increased interest rates and a decrease in the size of the mortgage origination staff. Management expects the gain on sale of loans to continue at current levels during 2004.

Non-interest Expense

2004 Compared to 2003. Non-interest expense was \$2,848,000 and \$5,639,000 for the three and six month periods ended June 30, 2004, compared to \$2,735,000 and \$5,392,000 for the same periods in 2003, an increase of \$113,000 or 4% for the three month period and \$247,000 or 5% for the six month period. The largest component of non-interest expense was salaries and employee benefits which amounted to \$1,852,000 and \$3,669,000 for the three and six month periods ended June 30, 2004, compared to \$1,538,000 and \$3,046,000 for the same periods in 2003, an increase of \$314,000 or 20% for the three month period and \$623,000 or 20% for the six month period. The primary factors for the increase in salaries and benefits expense were the addition of one branch office in May 2003 and the expansion of the commercial lending and operations departments. As of June 30, 2004, the number of full time equivalent employees was 124 compared to 113 as of June 30, 2003. Salaries and employee benefits will continue to increase as a result of general staff increases.

Commissions on the origination of loans amounted to \$87,000 and \$150,000 for the three and six month periods ended June 30, 2004, compared to \$291,000 and \$560,000 for the same periods in 2003, a decrease of \$204,000 or 70% for the three month period and \$410,000 or 73% for the six month period. The primary reason for the decrease in the commissions on the origination of loans was the decrease in the volume of loans originated during the period. Management expects the commissions paid on the origination of loans to continue at current levels during 2004.

The second largest component of non-interest expense was occupancy and equipment expense. Occupancy and equipment expense amounted to \$365,000 and \$724,000 for the three and six month periods ended June 30, 2004, compared to \$349,000 and \$671,000 for the same periods in 2003, an increase of \$16,000 or 5% for the three month period and \$53,000 or 8% for the six month period. The primary factor in the increase in occupancy and equipment expense was the opening of the regional lending center in Auburn Hills, Michigan.

Income Tax Provision

2004 Compared to 2003. The income tax expense was \$715,000 and \$1,316,000 for the three and six month periods ended June 30, 2004, compared to \$390,000 and \$688,000 for the same periods in 2003, an increase of 325,000 or 83% for the three month period and \$628,000 or 91% for the six month period. The increase was primarily a result of increased pre-tax income.

Comparison of Financial Condition at June 30, 2004 and December 31, 2003

Assets. Total assets at June 30, 2004 were \$475,452,000 compared to \$446,075,000 at December 31, 2003, an increase of \$29,377,000 or 7%. The increase was primarily due to the increase in loans during the period.

Federal Funds Sold. Total federal funds sold at June 30, 2004 were \$3,422,000 compared to \$7,651,000 at December 31, 2003, a decrease of \$4,229,000 or 55%. The decrease was primarily due to the short term deployment of funds that were received as a result of an increase in deposits. Available funds are deployed into federal funds sold until they can be utilized to fund loan volume.

Interest bearing deposits with banks. Total interest bearing deposits with banks at June 30, 2004 were \$125,000 compared to \$8,325,000 at December 31, 2003, a decrease of \$8,200,000 or 98%. This investment was established to provide the Corporation with an alternate short term investment option. This short term investment is a variable-rate certificate of deposit with the Federal Home Loan Bank of Indianapolis that carries a similar rate of return to federal funds sold.

Mortgage Loans Held for Sale. Total mortgage loans held for sale at June 30, 2004 were \$1,415,000 compared to \$1,505,000 at December 31, 2003, a decrease of \$90,000 or 6%. This decrease was a result of the decrease in the level of residential real estate mortgage loans waiting to be purchased by mortgage correspondents.

Securities – Available for Sale. Total securities, available for sale, at June 30, 2004 were \$12,859,000 compared to \$16,948,000 at December 31, 2003, a decrease of \$4,089,000 or 24%. The decrease was due to the maturity and sale of securities, available for sale during the first half of 2004. The funds from the sale of these securities were utilized to fund loan volume.

Please refer to Note B of the Notes to Consolidated Financial Statements for the amortized cost and estimated market value of securities, available for sale.

Federal Home Loan Bank Stock. Federal Home Loan Bank stock was valued at \$1,098,000 at June 30, 2004, compared to \$1,073,000 at December 31, 2003, an increase of \$25,000 or 2%.

[Table of Contents](#)

Loans. Total loans at June 30, 2004 were \$439,776,000 compared to \$400,958,000 at December 31, 2003, an increase of \$38,818,000 or 10%. The increase was primarily due to the continued expansion of the commercial lending department during the past twelve months. This expansion included the addition of two experienced loan officers during the last twelve months. Major categories of loans included in the loan portfolio are as follows (in thousands):

	<u>06/30/04</u>	<u>12/31/03</u>	<u>06/30/03</u>
Consumer loans	\$ 26,045	\$ 25,200	\$ 21,521
Commercial, financial, & other	76,067	68,922	59,623
Commercial real estate construction	55,933	50,087	41,698
Commercial real estate mortgages	235,471	208,305	172,205
Residential real estate mortgages	46,260	48,444	32,336
	439,776	400,958	327,383
Allowance for loan losses	(4,894)	(4,314)	(3,514)
	\$ <u>434,882</u>	\$ <u>396,644</u>	\$ <u>323,869</u>

The following is a summary of non-performing assets and problems loans (in thousands):

	<u>06/30/04</u>	<u>12/31/03</u>	<u>06/30/03</u>
Over 90 days past due and still accruing	\$ 85	\$ 19	\$ 34
Non-accrual loans	1,674	2,056	2,564
Renegotiated loans	-	-	-
Other real estate owned	207	-	-
	\$ <u>1,966</u>	\$ <u>2,075</u>	\$ <u>2,598</u>

Non-accrual loans at June 30, 2004 were \$1,674,000, of which, \$791,000 was related to one commercial loan relationship that is well secured. The remaining non-accrual loans consisted of one slow paying home equity loan with a balance of \$28,000, one slow paying construction loan with a balance of \$525,000 and two well-secured residential mortgage loans with balances of \$212,000 and \$118,000.

Allowance for Loan Losses. The allowance for loan losses was \$4,894,000 at June 30, 2004 compared to \$4,314,000 at December 31, 2003, an increase of \$580,000 or 13%. The increase resulted from provisions recorded during the six months ended June 30, 2004 and a net recovery of \$75,000 during the six months ended June 30, 2004 and responds to the growth of the loan portfolio as well as the mix of loans and levels of nonperforming loans. The allowance for loan losses was based upon management' s assessment of relevant factors, including loan growth, types and amounts of non-performing loans, historical and anticipated loss experience on such types of loans, and current economic conditions.

[Table of Contents](#)

The following is an analysis of the allowance for loan losses (in thousands):

	Six Months Ended 06/30/04	Year Ended 12/31/03	Six Months Ended 06/30/03
Balance, beginning of year	\$ 4,314	\$ 2,875	\$ 2,875
Charge-offs:			
Consumer loans	5	38	16
Commercial, financial & other	—	141	100
Commercial real estate construction	—	50	—
Commercial real estate mortgages	—	124	—
Residential real estate mortgages	32	—	—
Recoveries:			
Consumer loans	11	13	4
Commercial, financial & other	40	30	12
Commercial real estate construction	—	50	—
Commercial real estate mortgages	61	—	—
Residential real estate mortgages	—	—	—
Net charge-offs	(75)	260	100
Additions charged to operations	505	1,699	739
Balance, end of period	\$ 4,894	\$ 4,314	\$ 3,514
Allowance to total loans	1.11 %	1.08 %	1.07 %
Allowance to nonperforming assets	248.93%	207.90%	136.20%
Net charge-offs to average loans	-0.02 %	0.08 %	0.04 %

Premises and Equipment. Bank premises and equipment at June 30, 2004 was \$10,404,000 compared to \$5,554,000 at December 31, 2003, an increase of \$4,850,000 or 87 %. The increase in premises and equipment was primarily due to the purchase and renovation of the Bank's operation center in Allen Park, Michigan.

Accrued Interest Receivable. Accrued interest receivable at June 30, 2004 was \$1,431,000 compared to \$1,461,000 at December 31, 2003, a decrease of \$30,000 or 2%. The increase was primarily due to the timing of loan payments.

Real Estate Owned. Real estate owned at June 30, 2004 was \$207,000 compared to \$0 at December 31, 2003. The increase was due to the Bank's foreclosure of one commercial loan, which was collateralized by three residential properties. These properties are in good condition with recently appraised values of \$277,000.

[Table of Contents](#)

Other Assets. Other assets at June 30, 2004 were \$1,850,000 compared to \$1,742,000 at December 31, 2003, an increase of \$108,000 or 6%. The increase was primarily due to changes in deferred tax assets.

[Table of Contents](#)

Deposits. Total deposits at June 30, 2004 were \$405,830,000 compared to \$379,619,000 at December 31, 2003, an increase of \$26,211,000 or 7%. The following is a summary of the distribution of deposits (in thousands):

	<u>06/30/04</u>	<u>12/31/03</u>	<u>6/30/2003</u>
Non-interest bearing:			
Demand	\$ 41,565	\$ 39,081	\$ 42,008
Interest bearing:			
Checking	\$ 19,472	\$ 24,069	\$ 25,417
Money market	15,232	10,998	14,587
Savings	110,251	126,596	99,666
Time, under \$100,000	74,041	65,120	66,571
Time, \$100,000 and over	145,269	113,755	80,248
	<u>364,265</u>	<u>340,538</u>	<u>286,489</u>
Total deposits	\$ <u>405,830</u>	\$ <u>379,619</u>	\$ <u>328,497</u>

Management continues to implement a strategy to change the mix of the deposit portfolio by focusing more heavily on savings and institutional deposits. The increase in deposits was primarily due to normal business development, marketing, telemarketing, referral programs and growth strategies which included a promotion that celebrated the Bank's 10th Anniversary during March 2004, which targeted time deposit growth. Management expects deposits to continue to grow at a similar rate during the remainder of 2004.

The Bank has enacted a strategy to utilize public funds to a higher degree. The Bank will also utilize brokered deposits. The Bank has designated a public funds officer to coordinate and manage these efforts. Public funds consist of interest checking and time deposits of local governmental units. They are the result of strong relationships between the Bank and the communities in the Bank's marketing area and are considered by the Bank to be core deposits. The following is a summary of the distribution of municipal deposits (in thousands):

	<u>06/30/04</u>	<u>12/31/03</u>	<u>06/30/03</u>
Interest bearing checking	\$ 8,781	\$ 14,419	\$ 15,326
Time, \$100,000 and over	57,586	46,580	21,648
Total municipal deposits	\$ <u>66,367</u>	\$ <u>60,999</u>	\$ <u>36,974</u>

Brokered deposits are included in the Time, \$100,000 and over category. Brokered deposits were \$6,050,000, \$1,330,000 and \$0 at June 30, 2004, December 31, 2003 and June 30, 2003, respectively.

[Table of Contents](#)

Federal Home Loan Bank Advances. Federal Home Loan Bank advances were \$20,638,000 at June 30, 2004 and December 31, 2003.

Other Liabilities. Other liabilities at June 30, 2004 were \$886,000 compared to \$463,000 at December 31, 2003, an increase of \$423,000 or 91%. The increase was primarily due to the increase in expenses payable during the period.

Accrued Interest Payable. Accrued interest payable at June 30, 2004 was \$823,000 compared to \$754,000 at December 31, 2003, an increase of \$69,000 or 9%. The increase was primarily due to the increasing amount of interest bearing deposits during the period.

Subordinated Debentures. Subordinated debentures were \$10,000,000 at June 30, 2004 and December 31, 2003. On December 19, 2002, the Corporation issued \$10,000,000 of floating rate obligated mandatory redeemable securities through a special purpose entity as part of a pooled offering. The securities have a term of thirty years. The Corporation may redeem the securities after five years at face value. They are considered to be Tier 1 capital for regulatory capital purposes. The funds from the issue of these securities were invested into the Bank to allow for additional growth. Debt issue costs of \$300,000 have been capitalized and are being amortized over the term of the securities. Unamortized debt issuance costs were \$285,000 at June 30, 2004.

[Table of Contents](#)

Capital

Stockholders' equity at June 30, 2004 was \$37,275,000 compared to \$34,601,000 as of December 31, 2003, an increase of \$2,674,000 or 8%.

The following is a presentation of the Corporation's and Bank's regulatory capital ratios (in thousands):

	Actual		Minimum for Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2004						
Total capital (to risk weighted assets)						
Consolidated	\$ 52,169	11.20%	\$ 37,253	8.00%	\$ 46,566	10.00%
Bank	49,031	10.59%	37,052	8.00%	46,315	10.00%
Tier 1 capital (to risk weighted assets)						
Consolidated	47,275	10.15%	18,626	4.00%	27,940	6.00 %
Bank	44,137	9.53 %	18,526	4.00%	27,789	6.00 %
Tier 1 capital (to average assets)						
Consolidated	47,275	9.96 %	18,982	4.00%	23,728	5.00 %
Bank	44,137	9.39 %	18,796	4.00%	23,496	5.00 %
As of December 31, 2003						
Total capital (to risk weighted assets)						
Consolidated	\$ 48,893	11.80%	\$ 33,237	8.00%	\$ 41,547	10.00%
Bank	42,763	10.50%	32,701	8.00%	40,877	10.00%
Tier 1 capital (to risk weighted assets)						
Consolidated	44,579	10.70%	16,639	4.00%	24,928	6.00 %
Bank	38,449	9.40 %	16,351	4.00%	24,526	6.00 %
Tier 1 capital (to average assets)						
Consolidated	44,579	10.20%	17,460	4.00%	21,825	5.00 %
Bank	38,449	9.00 %	17,113	4.00%	21,391	5.00 %

Based on the respective regulatory capital ratios at June 30, 2004 and December 31, 2003, the Corporation and Bank are considered well capitalized.

PART I – FINANCIAL INFORMATION

ITEM 3. – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity Analysis. The Corporation has sought to manage its exposure to changes in interest rates by matching the effective maturities or repricing characteristics of the Corporation's interest-earning assets and interest-bearing liabilities. The matching of the assets and liabilities may be analyzed by examining the extent to which the assets and liabilities are interest rate sensitive and by monitoring the expected effects of interest rate changes on net interest income.

An asset or liability is interest rate sensitive within a specific time period if it will mature or reprice within that time period. If the Corporation's assets mature or reprice more quickly or to a greater extent than its liabilities, the Corporation's net portfolio value and net interest income would tend to increase during periods of rising interest rates but decrease during periods of falling interest rates. If the Corporation's assets mature or reprice more slowly or to a lesser extent than its liabilities, its net portfolio value and net interest income would tend to decrease during periods of rising interest rates but increase during periods of falling interest rates.

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are "interest rate sensitive" and by monitoring an institution's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific period if it will mature or reprice within that period. The interest rate sensitivity "gap" is the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that time period. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities, and is considered negative when the amount of interest rate sensitive liabilities exceed the amount of interest rate sensitive assets. During a period of rising interest rates, a negative gap would be expected to adversely affect net interest income while a positive gap would be expected to result in an increase in net interest income, while conversely during a period of declining interest rates, a negative gap would be expected to result in an increase in net interest income and a positive gap would be expected to adversely affect net interest income.

[Table of Contents](#)

Different types of assets and liabilities with the same or similar maturities may react differently to changes in overall market rates or conditions, and thus changes in interest rates may affect net interest income positively or negatively even if an institution were perfectly matched in each maturity category. Additionally, the gap analysis does not consider the many factors as banking interest rates move. While the interest rate sensitivity gap is a useful measurement and contributes toward effective asset and liability management, it is difficult to predict the effect of changing interest rates solely on that measure, without accounting for alterations in the maturity or repricing characteristics of the balance sheet that occur during changes in market interest rates. During periods of rising interest rates, the Corporation's assets tend to have prepayments that are slower than those in an interest rate sensitivity gap and would increase the negative gap position. Conversely, during a period of declining interest rates, the Corporation's assets would tend to prepay faster than originally expected thus decreasing the negative gap position. In addition, some of the Corporation's assets, such as adjustable rate mortgages, have caps on the amount by which their interest rates can change in any single period, and therefore may not reprice as quickly as liabilities in the same maturity category.

The following table sets forth the amounts of interest earning assets and interest bearing liabilities outstanding at June 30, 2004, which are expected to mature or reprice in each of the time periods shown below.

(In thousands)	1-90 Days	91-365 Days	1-5 Years	Over 5 Years	Total
Earning assets					
Federal funds sold	\$ 3,422	\$ –	\$ –	\$ –	\$ 3,422
Interest bearing deposits with Banks	125	–	–	–	125
Mortgage loans held for sale	1,415	–	–	–	1,415
Securities available for sale	8,219	3,684	61	895	12,859
Federal Home Loan Bank stock	1,098	–	–	–	1,098
Total loans, net of non-accrual	<u>187,572</u>	<u>18,185</u>	<u>216,107</u>	<u>16,238</u>	<u>438,102</u>
Total earning assets	201,851	21,869	216,168	17,133	457,021
Interest bearing liabilities					
Total interest bearing deposits	208,686	90,878	64,701	–	364,265
Federal Home Loan Bank advances	–	–	20,638	–	20,638
Trust preferred securities	<u>10,000</u>	–	–	–	<u>10,000</u>
Total interest bearing liabilities	218,686	90,878	85,339	–	394,903
Net asset (liability) funding gap	<u>(16,835)</u>	<u>(69,009)</u>	<u>130,829</u>	<u>17,133</u>	<u>\$ 62,118</u>
Cumulative net asset (liability) funding gap	<u>(\$16,835)</u>	<u>(\$85,844)</u>	<u>\$ 44,985</u>	<u>\$ 62,118</u>	

[Table of Contents](#)

Liquidity. Liquidity refers to readily available funds to meet the needs of borrowers and depositors. Levels of liquidity are closely monitored in conjunction with loan funding requirements and deposit outflows. Adequate liquidity protects institutions from raising funds under duress at excessive expense and provides a necessary cushion for occasional unpredictable aberrations in demand. While adequate liquidity is imperative, excessive liquidity in lower yielding cash investments or other easily marketable assets reduces potential interest income. Thus, an appropriate balance must be maintained to protect the institution and at the same time, prudently maximize income opportunities. Sources of liquidity from both assets and liabilities include federal funds sold, securities available for sale, loan repayments, core deposits, Federal Home Loan Bank advances and a federal funds purchase credit facility.

The following tables provide information about the Bank's contractual obligations and commitments at June 30, 2004 (in thousands):

Contractual Obligations

	Payments Due By Period				Total
	Less Than 1 Year	1-3 Years	3-5 Years	Over 5 Years	
Long-term borrowings	\$ 24	\$ 10,052	\$ 10,562	–	\$ 20,638
Lease commitments	360	735	651	720	2,466
Subordinated debentures	–	–	–	10,000	10,000
Totals	\$ 384	\$ 10,787	\$ 11,213	\$ 10,720	\$ 33,104

Unused Loan Commitments and Letters of Credit

	Amount Of Commitment Expiration Per Period				Total
	Less Than 1 Year	1-3 Years	3-5 Years	Over 5 Years	
Unused loan commitments	\$ 56,786	\$ 12,609	\$ 1,216	\$ 14,969	\$ 85,580
Standby letters of credit	2,199	–	3,000	–	5,199
Totals	\$ 58,985	\$ 12,609	\$ 4,216	\$ 14,969	\$ 90,779

[Table of Contents](#)

DEARBORN BANCORP, INC. AND SUBSIDIARY
FORM 10-Q (continued)

Item 4. Controls and Procedures

Disclosure Controls and Procedures - As of the end of the period covered by this report, the registrant carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the registrant' s disclosure controls and procedures. Based on the review of the disclosure controls of the registrant, the Chief Executive Officer and the Chief Financial Officer have concluded that the registrant' s disclosure controls and procedures are effective in timely alerting them to the material information relating to the registrant that is required to be included in the periodic SEC filings.

Internal Controls Over Financial Reporting - There has been no change in the registrant' s internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect the registrant' s internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTER TO A VOTE OF SECURITY HOLDERS

The corporation held its regular annual meeting on May 18, 2004. At this meeting, there were several matters submitted to a vote of the security holders.

The first matter was the re-election of directors. Four directors were re-elected to serve three-year terms expiring in 2007. The voting results for each nominee were as follows:

Nominee _____	<u>Total For</u>
Margaret I. Campbell	2,680,390
John E. Demmer	2,661,652
Michael V. Dorian, Jr.	2,679,491
Donald G. Karcher	2,664,375

There were no votes against any nominee.

The second matter was the election of a director. Mr. William J. Demmer was elected to serve a one year term expiring in 2005. The voting results for the nominee were as follows:

Nominee _____	<u>Total For</u>
William J. Demmer	2,659,205

There were no votes against this nominee.

The final matter was the consideration of an amendment to the Articles of Incorporation to increase the number of authorized shares of Common Stock to 10,000,000 shares. The amendment passed. The voting results were:

Total For _____	<u>Total Against</u>
2,663,316	14,683

[Table of Contents](#)

ITEM 6. EXHIBITS AND REPORTS IN FORM 8-K.

(a) Exhibits

Exhibit 31.1	CEO Certification. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	CFO Certification. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 99.1	Underwriting agreement dated July 20, 2004 by and among the registrant, Oppenheimer & Co., Inc. and Howe Barnes Investments, Inc.

(b) Three Form 8-K Reports, dated April 20, 2004, May 18, 2004 and June 25, 2004 were filed during the quarter ended June 30, 2004.

(c) A Form S-2 Report, dated June 25, 2004 was filed during the quarter ended June 30, 2004.

SIGNATURES

Pursuant to the requirements 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.

Dearborn Bancorp, Inc.
(Registrant)

/s/ John E. Demmer

John E. Demmer
Chairman

/s/ Michael J. Ross

Michael J. Ross
President and Chief Executive Officer

/s/ Jeffrey L. Karafa

Jeffrey L. Karafa
Treasurer and Chief Financial Officer

Date: August 10, 2004

EXHIBIT INDEX

NO.	DESCRIPTION
Exhibit 31.1	CEO Certification. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	CFO Certification. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 99.1	Underwriting agreement dated July 20, 2004 by and among the registrant, Oppenheimer & Co., Inc. and Howe Barnes Investments, Inc.

RULE 13a-14(a) CERTIFICATION

I, Michael J. Ross, President and Chief Executive Officer, of Dearborn Bancorp, Inc., certify that:

1. I have reviewed this report on Form 10-Q of Dearborn Bancorp, Inc. (the "registrant");
2. Based on my knowledge, this quarterly 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 quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls

and procedures, as of the end of the period covered by this report based on such evaluation; and

- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

- 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 registrant'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 registrant's internal controls over financial reporting.

Date: August 10, 2004

/s/ Michael J. Ross

Michael J. Ross
President and Chief Executive Officer
Dearborn Bancorp, Inc.

RULE 13a-14(a) CERTIFICATION

I, Jeffrey L. Karafa, Chief Financial Officer and Treasurer, of Dearborn Bancorp, Inc., certify that:

1. I have reviewed this report on Form 10-Q of Dearborn Bancorp, Inc. (the "registrant");
2. Based on my knowledge, this quarterly 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 annual 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 quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls

and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant'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 registrant's internal controls over financial reporting.

Date: August 10, 2004

/s/ Jeffrey L. Karafa

Jeffrey L. Karafa
Chief Financial Officer and Treasurer
Dearborn Bancorp, Inc.

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

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, and accompanies the quarterly report on Form 10-Q for the quarter ended June 30, 2004 (the "Form 10-Q") of Dearborn Bancorp, Inc. (the "Issuer").

I, Michael J. Ross, President and Chief Executive Officer of the Issuer, certify that:

- (i) The Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (ii) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Dated: August 10, 2004

/s/ Michael J. Ross

Michael J. Ross
President and Chief Executive Officer,
Dearborn Bancorp, Inc.

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

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, and accompanies the quarterly report on Form 10-Q for the quarter ended June 30, 2004 (the "Form 10-K") of Dearborn Bancorp, Inc. (the "Issuer").

I, Jeffrey L. Karafa, Treasurer and Chief Financial Officer of the Issuer, certify that:

- (i) The Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (ii) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Dated: August 10, 2004

/s/ Jeffrey L. Karafa

Jeffrey L. Karafa
Treasurer and Chief Financial Officer,
Dearborn Bancorp, Inc.

1,265,000 SHARES

DEARBORN BANCORP, INC.

COMMON STOCK

UNDERWRITING AGREEMENT

July 20, 2004

Oppenheimer & Co. Inc.
Howe Barnes Investments, Inc.
As Representatives of the Underwriters
named in Schedule I
c/o Oppenheimer & Co. Inc.
300 River Place
Suite 400
Detroit, MI 48207

Dear Sirs:

The undersigned, Dearborn Bancorp, Inc., a Michigan corporation (the "Company"), hereby confirms its agreement with Oppenheimer & Co. Inc. ("Oppenheimer") and Howe Barnes Investments, Inc., as Representatives of the Underwriters named in Schedule I, as follows:

1. INTRODUCTION. The Company proposes to issue and sell to the Underwriters, jointly and not severally, 1,265,000 shares (the "Firm Stock") of the Company's common stock (the "Common Stock"). In addition, solely for the purpose of covering over-allotments, the Company proposes to grant to the Underwriters the option to purchase an additional 189,750 shares of Common Stock (the "Additional Stock"). The Firm Stock and the Additional Stock are sometimes collectively referred to herein as the "Stock." The Stock is more fully described in the Prospectus referred to below.

2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to the Underwriters that:

(a) The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-2 (No. 333-116857), as amended by Amendment No. 1 thereto, including any related preliminary prospectus ("Preliminary Prospectus"), under the Securities Act of 1933, as amended (the "Act"), and has filed a registration statement on Form S-2 (No. 333-117502) pursuant to Rule 462(b) under the Act that incorporates the Corporation's Registration Statement on Form S-2

(No. 333-116857), for the registration of the Stock under the Act. The Company and the transaction

contemplated hereby meet all of the requirements and comply with all of the conditions for registering the Stock with the Commission on a registration statement on Form S-2. Except as the context may otherwise require, such registration statements, as amended, on file with the Commission at the time the registration statements became effective (including the prospectus, financial statements, schedules, exhibits, and all other documents incorporated by reference therein or filed as a part thereof) collectively are herein called the "Registration Statement," and the prospectus, in the form filed with the Commission pursuant to Rule 424(b) of the General Rules and Regulations of the Commission under the Act (the "Regulations"), is herein called the "Prospectus." The term "Preliminary Prospectus" means each prospectus included in such Registration Statement before it became effective under the Act and any prospectus filed by the Company with the consent of Oppenheimer pursuant to Rule 424(a) of the Regulations. Reference made herein to any Preliminary Prospectus or to the Prospectus shall be deemed to refer to and include any documents incorporated by reference therein and any document attached as an exhibit thereto, as of the date of such Preliminary Prospectus or the Prospectus, as the case may be.

(b) Each Preliminary Prospectus, at the time of filing thereof, contained all material statements which were required to be stated therein in accordance with the Act and the Regulations, and conformed in all material respects with the requirements of the Act and the Regulations, and did not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided that the documents attached thereto as an exhibit are subject to subparagraph (g), below. All contracts and other documents required to be filed as exhibits to the Registration Statement have been filed with the Commission as exhibits to the Registration Statement. The Commission has not issued any order suspending or preventing the use of any Preliminary Prospectus. The Registration Statement at the time it became effective and the Prospectus at the time it is filed with the Commission pursuant to Rule 424(b) of the Regulations and on the Closing Date as defined herein, as then amended or supplemented, will contain all material statements which are required to be stated therein, respectively, in accordance with the Act and the Regulations and will conform to the requirements of the Act and the Regulations, and the Registration Statement and the Prospectus will not, on such dates (as then amended or supplemented), include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that no representations or warranties under this paragraph (b) are made with respect to statements or omissions made in reliance upon and in conformity with written information furnished to the Company by you with respect to the Underwriters expressly for use in connection with any

Preliminary Prospectus, the Registration Statement or Prospectus, or any amendment thereof or supplement thereto.

(c) Each of the Company and the subsidiaries of the Company as listed on Schedule II hereto (collectively, the "Subsidiaries") has been duly organized and is validly existing as a corporation or trust in good standing under the laws of the jurisdiction of its organization, with all requisite corporate or trust power and authority, as the case may be, and all necessary authorizations, consents, approvals, orders, licenses, grants, certificates,

2

and permits of and from all governmental regulatory officials and bodies, to own their properties and to conduct their businesses as described in the Prospectus, or are subject to no material liability or disability by reason of the failure to have any such authorization, consent, approval, order, license, grant, certificate or permit, and the Company has all such power, authority, authorizations, consents, approvals, orders, licenses, certificates, and permits appropriate or desirable to enter into this Agreement and to carry out the provisions and conditions hereof and the transactions contemplated hereby. The Company and each of the Subsidiaries are duly qualified to transact business in all jurisdictions in which the conduct of their business requires such qualification. The Company and the Subsidiaries own, or possess adequate rights to use, all patents, trademarks, service marks, copyrights, trademarks, trade secrets and rights necessary for the conduct of their businesses as described in the Prospectus and none of them has received any notice and is not otherwise aware of any conflict with the asserted rights of others, and the Company knows no basis therefor.

(d) The Subsidiaries are the only subsidiaries, direct or indirect, of the Company. The outstanding shares of capital stock of each of the Subsidiaries that is a corporation have been duly authorized and validly issued, are fully paid and nonassessable, except to the extent shares of capital stock of Community Bank of Dearborn, a Michigan banking corporation (the "Bank"), may be deemed assessable under 12 U.S.C. Section 1831o, or Sections 3803 or 3807 of the Michigan Banking Code, and, to the extent set forth in Schedule II hereto, are owned by the Company or another Subsidiary free and clear of all liens, encumbrances and equities and claims; and no options, warrants or other rights to purchase, agreements or other obligations to issue or other rights to convert any obligations into shares of capital stock or other ownership interests in the Subsidiaries are outstanding.

(e) The Company and its Subsidiaries have good and marketable title in fee simple to, or valid and enforceable leasehold estates in, all items of real and personal property which are stated in the Registration Statement and Prospectus to be owned or leased by them, in each case free and clear of all liens, encumbrances, claims, security interests and

defects, other than those which are referred to in the Registration Statement and the Prospectus, other than the security interest of the Federal Home Loan Bank of Indianapolis, and other than those which do not have a material adverse effect on the business, condition or prospects of the Company and the Subsidiaries, taken as a whole.

(f) There is no litigation or governmental proceeding pending or threatened against, or involving the assets, properties or business of, or the franchises, permits, grants, approvals, orders, or licenses of, the Company or the Subsidiaries which might in the aggregate materially and adversely affect the value or the operations of any such properties, business or assets of the Company and the Subsidiaries, taken as a whole, except as referred to in the Registration Statement and the Prospectus.

(g) The documents incorporated by reference in the Registration Statement and the Prospectus, when they were filed with the Commission, conformed in all material respects to the requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations of the Commission thereunder, and none of

3

such documents contained or, except as modified or superseded by the Prospectus, contains an untrue statement of a material fact or omitted or, except as modified or superseded by the Prospectus, omits or will omit to state a material fact therein or necessary to make the statements therein not misleading.

(h) Except as otherwise disclosed in the notes thereto or the reports thereon, the combined consolidated financial statements and related schedules of the Company and the Subsidiaries included in the Registration Statement and Prospectus fairly present the financial position and the consolidated results of operations of the Company and the Subsidiaries at the respective dates and for the respective periods to which they apply; such financial statements and related schedules have been prepared in conformity with generally accepted accounting principals, consistently applied throughout the periods involved; and all adjustments necessary for a fair presentation of results for such periods have been made. The summary financial and statistical data included or incorporated by reference in the Registration Statement and the Prospectus present fairly the information shown therein and such data have been compiled on a basis consistent with the financial statements presented therein and the books and records of the company.

(i) Crowe Chizek and Company LLC, whose reports with respect to the Company and the Subsidiaries are filed with the Commission as a part of the Registration Statement and the Prospectus, are independent certified public accountants as required by the Act and the Regulations.

(j) There has been no material adverse change in the condition,

prospects or business of the Company and the Subsidiaries taken as a whole, financial or otherwise, from that on the latest dates as of which such condition, prospect or business is set forth in the Registration Statement and the Prospectus except as referred to therein; and the capitalization, prospects and the business of the Company conform to the descriptions thereof contained in the Registration Statement and Prospectus.

(k) No default exists, and no event has occurred which, with notice or lapse of time, or both, would constitute a default or result in an acceleration in the due performance and observance of any term, covenant or condition of any indenture, mortgage, deed of trust, note, bank loan or credit agreement or any other material agreement, understanding or instrument to which the Company or one of the Subsidiaries is a party or by which any of them or any of their properties may be bound or affected (including, without limitation, any agreement or instrument filed as an exhibit to the Registration Statement or to any document incorporated by reference in the Registration Statement), except for any such breaches or defaults which, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on the Company and the Subsidiaries taken as a whole or prevent the sale of the Stock by the Company to the Underwriters in accordance with this Agreement or the Company's compliance with, or performance of its obligations under, the terms and provisions of this Agreement (any of such effects, a "Material Adverse Effect").

(l) Neither the Company nor any of the Subsidiaries is in violation of (i) any term or provision of its articles of incorporation, bylaws or declaration of trust, as

4

applicable, or (ii) any franchise, license, grant, permit, judgment, decree, order, statute, rule or regulation, except for, in the case of this clause (ii), any such violations which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect.

(m) Neither the execution and delivery of this Agreement, the consummation of the transactions herein contemplated, nor compliance with the terms and provisions hereof, will (i) conflict with, result in a breach of, or constitute a default under any of the terms, provisions or conditions of, (A) the articles of incorporation or bylaws of the Company or the articles of incorporation, bylaws or declaration of trust, as applicable, of any of the Subsidiaries or (B) any material agreement or instrument to which any of them is a party or by which any of them is bound (including, without limitation, any agreement or instrument filed as an exhibit to the Registration Statement or to any document incorporated by reference in the Registration Statement) or (ii) violate any franchise, license, permit, grant, judgment, decree, order, statute, rule or

regulation of any government, governmental instrumentality or court, except for, in the case of clauses (i)(B) or (ii), any such conflicts, breaches, defaults or violations which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect.

(n) The Company has authorized capital stock as set forth in the Prospectus. No preferred stock has been authorized by the Company. All of the issued shares of Common Stock of the Company are duly and validly authorized, issued and outstanding, fully paid and nonassessable, and free of preemptive rights, and the Stock, when issued and delivered in accordance with this Agreement, will be duly and validly authorized, issued and outstanding, fully paid and nonassessable, and free of preemptive rights. The Company's Common Stock and other securities conform to all statements in relation thereto contained in the Registration Statement and Prospectus.

(o) Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, and except as may otherwise be indicated or contemplated herein or therein, neither the Company nor any of the Subsidiaries, has (i) issued any securities or incurred any liability or obligation, direct or contingent, for borrowed money, other than in the ordinary course of business, (ii) entered into any transaction not in the ordinary course of business that is required to be disclosed in the Registration Statement, (iii) entered into any transaction with an affiliate of the Company required to be disclosed in the Registration Statement, or (iv) declared or paid any dividend on its shares of capital stock. The Company and the Subsidiaries have no material contingent obligations which are not disclosed in the Company's financial statements which are included in the Registration Statement.

(p) The Company has obtained from all of its executive officers and directors their written agreement that for a period of 120 days from the date of this Agreement they will not, without your prior written consent, sell, contract to sell or grant any option for the sale of or otherwise dispose of, directly or indirectly, of any shares of Common Stock of the Company (or any securities convertible into or exercisable for such shares of Common Stock) owned by them, except as provided herein or in the Registration Statement, and

5

except for bona fide gifts to persons who agree in writing with you to be bound by this clause.

(q) No person holds a right (which has not been waived, in writing), to (i) require or participate in the registration under the Act of the Stock to be affected by the Registration Statement, or (ii) require any other registration statement to be filed in connection with any capital stock of the Company within 120 days from the date of this Agreement without your prior written consent.

(r) This Agreement has been duly and validly authorized, executed and delivered by the Company.

(s) Neither the Company nor any of the Subsidiaries is involved in any labor dispute which would reasonably be expected to have a Material Adverse Effect and no such dispute is threatened.

(t) The Company and the Subsidiaries have filed all Federal, state, local and foreign tax returns which are required to be filed by any of them or have requested extensions thereof and have paid all taxes shown on such returns and all assessments received by any of them to the extent that the same have become due. All tax liabilities have been adequately provided for in the financial statements of the Company, and the Company does not know of any actual or proposed additional material tax assessments except as described in the Prospectus.

(u) Except for the order of the Commission declaring the Registration Statement effective and permits and similar authorizations required under the securities or Blue Sky laws of certain jurisdictions, no consent, authorization, or approval is required from any Federal, state or local governmental agency or body in connection with this Agreement and the transactions contemplated hereby other than such consents, authorizations or approvals as have been obtained.

(v) None of the Company, the Subsidiaries or any officer, director or employee of the Company or the Subsidiaries has made any payment of funds of the Company or any of the Subsidiaries or purchased any property with funds of the Company or any of the Subsidiaries in a manner prohibited by law, and no funds of the Company or any of the Subsidiaries or property purchased with funds of the Company or any of the Subsidiaries have been set aside to be used for any payment prohibited by law. There are no affiliations or associations between any member of the National Association of Securities Dealers, Inc. (the "NASD") and any of the Company's officers, directors or 5% or greater security holders, except as set forth in the Registration Statement.

(w) The Company has submitted a Notification Form: Listing of Additional Shares, relating to the Stock, with Nasdaq.

(x) Neither the Company nor any of the Subsidiaries nor any affiliate of either of them has taken, and they will not take, directly or indirectly, any action designed to cause or

result in, or which has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of the Company's Common Stock in order to facilitate the sale or resale of the Stock. The Company acknowledges that the Underwriters may engage in

passive market making transactions in the Common Stock in accordance with Regulation M under the Exchange Act.

(y) Except as disclosed on Schedule III, neither the Company nor any of the Subsidiaries owns any shares of stock or any securities of any corporation, except debt securities acquired in the ordinary course of business, or has any equity interest in any firm, partnership, association or other entity.

(z) The Company, for the past two years, has filed all reports, proxy statements and other information, and all amendments to previously filed reports, proxy statements and other information, required to be filed by it pursuant to Sections 13, 14 or 15(d) of the Exchange Act.

(aa) The Company is not and will not immediately after the offering be an "investment company," or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940 (the "1940 Act"), as amended.

(bb) The Company and each of its Subsidiaries maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to material assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(cc) The Company and each of its Subsidiaries carry, or are covered by, insurance in such amounts and covering such risks as it believes is adequate for the conduct of their respective businesses and the value of their respective properties; and neither the Company nor any of the Subsidiaries has any reason to believe that any of them will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business.

(dd) The Company and each Subsidiary, and each of their respective "pension plans" (as defined in the Employee Retirement Income Security Act of 1974, as amended, including the regulations and published interpretations thereunder ("ERISA")), are in compliance in all material respects with all currently applicable provisions of ERISA; no "reportable event" (as defined in ERISA) has occurred with respect to any "pension plan" (as defined in ERISA) for which the Company or any Subsidiary would have any liability; neither the Company nor any of its Subsidiaries has incurred, and neither the Company nor any of its Subsidiaries expects to incur, liability under (i) Title IV of ERISA with respect to

termination of, or withdrawal from, any "pension plan" or (ii) Sections 412 or 4971 of the Internal Revenue Code of 1986, as amended, including the regulations and published interpretations thereunder (the "Code"); and each "pension plan" for which the Company or any Subsidiary would have any liability that is intended to be qualified under Section 401(a) of the Code is so qualified in all material respects and nothing has occurred, whether by action or by failure to act, which would cause the loss of such qualification.

(ee) (i) The Company has established and maintains disclosure controls and procedures (as such term is defined in Rule 13a-14 under the Exchange Act); (ii) such disclosure controls and procedures are designed so that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and its principal financial officer, as appropriate, to allow timely decisions regarding disclosure; and (iii) such disclosure controls and procedures are effective in all material respects to perform the functions for which they were established.

(ff) Since the date of the filing of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, the Company's auditors and the audit committee of the Company have not been advised of (i) any significant deficiencies in the design or operation of internal controls which could adversely affect the Company's ability to record, process, summarize and report financial data nor any material weaknesses in internal controls; and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls.

(gg) Since the date of the filing of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, there have been no significant changes in internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

(hh) The chief executive officer and the chief financial officer of the Company have made all certifications required by the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and any related rules and regulations promulgated by the Commission, and the statements contained in any such certification are complete and correct; the Company is otherwise in compliance in all material respects with all applicable effective provisions of the Sarbanes-Oxley Act.

3. PURCHASE, SALE AND DELIVERY OF THE STOCK. On the basis of the representations and warranties herein contained, but subject to the terms and conditions herein set forth, the Company agrees to sell to the Underwriters, jointly and not severally, and the Underwriters, jointly and not severally,

agree to purchase from the Company, the Firm Stock at the purchase price of \$24.44 per share as set forth in Schedule I.

Payment for the Firm Stock shall be made by wire transfer to an account specified by the Company upon delivery of the Firm Stock to you for the account of the several Underwriters. Such

8

delivery and payments shall be made at 10:00 A.M., Detroit Time, on the third business day following the date of this Agreement or at such other time as shall be agreed upon among us. The hour and date of such delivery and payment are herein called the "Closing Date."

In addition, on the basis of the representations and warranties herein contained, but subject to the terms and conditions herein set forth, the Company grants to the several Underwriters the option to purchase, severally and not jointly, up to 189,750 shares of the Additional Stock as may be necessary to cover over-allotments, at the same purchase price to be paid by the several Underwriters to the Company for the Firm Stock as set forth in the first paragraph of this Section 3, and in the proportion set forth in Schedule I. The option may be exercised at any time (but not more than once) on or before the thirtieth day following the effective date of the Registration Statement by written notice by Oppenheimer to the Company. Such notice shall set forth the aggregate number of shares of Additional Stock as to which the options are being exercised, the name or names in which the shares of Additional Stock are to be registered, the denominations in which the Additional Stock are to be issued, and the date and time, as reasonably determined by you, when the Additional Stock is to be delivered (such date and time being herein sometimes referred to as the "Additional Closing Date"); provided, however, that the Additional Closing Date shall not be earlier than the Closing Date nor earlier than the second business day after the date on which the option shall have been exercised nor later than the eighth business day after the day on which the option shall have been exercised.

Payment for the Additional Stock shall be made by wire transfer to an account specified by the Company upon delivery of the Additional Stock to you.

The Company shall not be obligated to sell or deliver any shares of Firm Stock or Additional Stock except upon tender of payment by you for all the Firm Stock or Additional Stock, as the case may be, agreed to be purchased by you hereunder.

4. OFFERING. The Underwriters are to make a public offering of the Stock as soon, on or after the effective date of the Registration Statement, as you deem it advisable so to do. During the offering, the Stock is to be offered to the public at the public offering price set forth on the cover page of the Prospectus (such price being herein called the "public offering price"). After completion of the offering, you may from time to time thereafter increase or decrease the public offering price to such extent as you may determine.

5. COVENANTS OF THE COMPANY.

The Company covenants that it will:

(a) Will notify you immediately, and confirm the notice in writing, (i) of the issuance by the Commission of any stop order or of the initiation, or the threatening, of any proceedings for that purpose, and (ii) of the receipt of any comments from the Commission. The Company will make every reasonable effort to prevent the issuance of a stop order, and, if the Commission shall enter a stop order at any time, the Company will make every reasonable effort to obtain the lifting of such order at the earliest possible moment.

9

(b) During the time when a prospectus is required to be delivered under the Act, comply so far as it is able with all requirements imposed upon it by the Act, as now and hereafter amended, and by the Regulations, as from time to time in force, so far as necessary to permit the continuance of sales of or dealings in the Stock in accordance with the provisions hereof and the Prospectus. If at any time when a prospectus relating to the Stock is required to be delivered under the Act any event shall have occurred as a result of which, in the opinion of counsel for the Company or counsel for the Underwriters, the Registration Statement or Prospectus as then amended or supplemented includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary at any time to amend or supplement the Registration Statement or Prospectus to comply with the Act, the Company will notify you promptly and prepare and file with the Commission an appropriate amendment or supplement in form satisfactory to you. The cost of preparing, filing and delivering copies of such amendment or supplement shall be paid by the Company, unless such untrue statement or omission is made in reliance upon and in conformity with the written information furnished to the Company by you with respect to the Underwriters expressly for use in connection with the Registration Statement or Prospectus.

(c) Deliver to each of the Underwriters such number of copies of each Preliminary Prospectus as it may reasonably request and deliver to each of the Representatives one signed copy of the Registration Statement, including exhibits, and all post-effective amendments thereto and deliver to you such number of copies of the Prospectus, the Registration Statement and supplements and amendments thereto, if any, as you may reasonably request for the purposes contemplated by the Act.

(d) Endeavor in good faith, in cooperation with you, at or prior to the time the Registration Statement becomes effective, to qualify the Stock for offering and sale under the securities laws relating to the

offering or sale of the Stock in such jurisdictions as you may reasonably designate; provided that no such qualification shall be required in any jurisdiction where, as a result thereof, the Company would be subject to service of general process or taxation or be required to qualify to do business as a foreign corporation where it is not now so qualified. In each jurisdiction where such qualification shall be affected, the Company will, unless you agree that such action is not at the time necessary or advisable, file and make statements or reports at such times as may reasonably be required by the laws of such jurisdiction. The Company will, from time to time, prepare and file such statements, reports and other documents as are or may be required to continue any such qualifications in effect for so long a period as Oppenheimer may reasonably request for distribution of the Stock.

(e) Make generally available to its security holders as soon as practicable, but not later than the first day of the fifteenth full calendar month following the effective date of the Registration Statement (as defined in Rule 158(c) of the Regulations), an earning statement of the Company (which need not be certified by independent certified public accountants unless required by the Act or the Regulations, but which shall satisfy the provisions of Section 11(a) of the Act including, Rule 158 of the Regulations).

10

(f) For a period of 120 days after the date of this Agreement, not issue, sell, contract to sell, grant any option for the sale of or otherwise dispose of, directly or indirectly, any shares of Common Stock of the Company (or securities convertible into or exercisable for such Common Stock) other than the Firm Stock and Additional Stock (if applicable) being sold by the Company without the prior written consent of Oppenheimer, other than options and Common Stock granted and/or issued to officers, directors or employees from time to time in the ordinary course of business pursuant to employment agreements and stock option or stock bonus plans currently in effect.

(g) For a period of three years from the effective date of the Registration Statement furnish you with the following:

(i) as soon as practicable after they have been sent to shareholders of the Company or filed with the Commission, three copies of each annual and interim financial and other report or communications sent by the Company to its shareholders or filed with the Commission;

(ii) as soon as practicable, three copies of every press release and every material news item and article in respect of the Company or the affairs of the Company which was released by the Company; and

(iii) such additional documents and information with respect to the Company as you may from time to time reasonably request, including without limitation, information to comply with Rule 15c2-11 of the Exchange Act Rules, to the extent legally permissible and will not give rise to an obligation by the Company to make a public disclosure of the information.

(h) Apply the net proceeds from the offering received by it in the manner set forth under "Use of Proceeds" in the Prospectus.

(i) Furnish to you as early as practicable prior to the Closing Date, but not later than two full business days prior thereto, a copy of the latest available unaudited interim consolidated financial statements of the Company and the Subsidiaries which have been read by the Company's independent public accountants as stated in their letters to be furnished pursuant to Section 7(f) hereof.

(j) Not file any amendment or supplement to the Registration Statement or Prospectus after the effective date of the Registration Statement to which you shall reasonably object in writing after being furnished a copy thereof and a reasonable opportunity to review the copy.

(k) Use every reasonable effort to effect the listing of the Common Stock, including, without limitation, the Firm Stock and the Additional Stock, on the Nasdaq National Market (the "Market") as promptly as practicable and to the extent required by the Market.

11

(l) Comply with all registration, filing and reporting requirements of the Act or the Exchange Act which may be applicable to the Company or any of the Subsidiaries so as to permit the completion of the distribution of the Stock as contemplated by this Agreement.

(m) Not invest, or otherwise use, the proceeds received by the Company from its sale of the Stock in such a manner as would require the Company or any of the Subsidiaries to register as an investment company under the 1940 Act.

(n) For a period of two years from the date hereof, the Company will maintain a transfer agent while the Stock is publicly traded.

(o) For a period of two years from the date hereof, the Company will not take, directly or indirectly, any action designed to cause or result in, or that has constituted or might reasonably be expected to constitute, the stabilization or manipulation of the price of any securities of the Company.

6. PAYMENT OF EXPENSES. The Company hereby agrees to pay all expenses in connection with (i) the preparation, printing, filing and mailing of the

Registration Statement and the Prospectus and the printing and mailing of this Agreement and related documents, including the cost of all copies thereof and of the Preliminary Prospectus and of the Prospectus and any amendments thereof or supplements thereto supplied to you in quantities as hereinabove stated, (ii) the printing, engraving, issuance, transfer and delivery of the Stock, including any transfer or other taxes payable thereon, (iii) the qualification of the Stock under state securities or Blue Sky laws, including the costs of printing and mailing the "Blue Sky Survey" and disbursements and fees of counsel in connection therewith, (iv) the filing fee payable to the NASD, and (v) the listing of the Firm Stock and the Additional Stock on the Market.

Notwithstanding anything to the contrary contained above, upon completion of the offering, the Company shall not have any obligation for the fees and disbursements of counsel for the Underwriters or for any out-of-pocket expenses incurred by the Underwriters relating to the Registration Statement, including but not limited to road shows, syndicate expenses, sales literature and advertising; provided, however that the Company will be responsible for all of its own out-of-pocket expenses, including transportation, meals and lodging, incurred in connection with the road shows or other selling efforts.

7. CONDITIONS OF THE UNDERWRITERS' OBLIGATIONS. The obligations of the Underwriters to purchase and pay for the Stock, as provided herein, shall be subject to the continuing accuracy of the representations and warranties of the Company as of the date hereof and as of the Closing Date (with this and every other reference to the "Closing Date" in this Section 7 deemed to refer to the Closing Date or the Additional Closing Date, as applicable), to the performance by the Company of its obligations hereunder and to the following conditions:

(a) The Registration Statement shall have become effective not later than 5:00 P.M., Detroit Time, on the date of this Agreement or such later date and time as shall be consented to in writing by you, and, at the Closing Date, no stop order shall have been issued or proceedings therefor initiated or threatened by the Commission.

12

(b) At the Closing Date, you shall have received the opinion of Dickinson Wright PLLC, counsel for the Company, dated the Closing Date, addressed to the Underwriters and in form and scope reasonably satisfactory to counsel for the Underwriters, to the effect that:

(i) the Company (A) is a corporation organized and validly existing as a corporation in good standing under the laws of the State of Michigan, (B) has full corporate power and authority to own its properties and to conduct its business as described in the Registration Statement and Prospectus, and (C) to such counsel's knowledge, is not qualified to transact business in any jurisdiction other than the State of Michigan;

(ii) each of the Subsidiaries (A) is a corporation or trust organized and validly existing and in good standing under the laws

of the state of its organization, (B) has full corporate or trust power and authority to own its respective properties and conduct its respective business as described in the Registration Statement and Prospectus, (C) to such counsel's knowledge, is not qualified to transact business in any jurisdiction other than the state of its organization, and (D) to such counsel's knowledge, the Company has no directly or indirectly held subsidiary other than the Subsidiaries;

(iii) the Company and/or the Bank is the registered holder of all of the outstanding capital stock or ownership interests, as applicable, of the Subsidiaries as described in the Prospectus and, to such counsel's knowledge, any and all such shares of stock or ownership interests so owned are validly issued and outstanding, fully paid and nonassessable except to the extent shares of capital stock of the Bank may be deemed assessable under 12 U.S.C. Section 1831o, or Sections 3803 and 3807 of the Michigan Banking Code, and are owned free and clear of any liens, encumbrances or other claims or restrictions whatsoever other than the security interest of the Federal Home Loan Bank of Indianapolis;

(iv) the Company has authorized capital stock as set forth in the Prospectus; the Stock has been duly and validly authorized for issuance by the Company and, when issued and delivered in exchange for the Company's receipt of the consideration therefor as contemplated by this Agreement, will be validly issued, fully paid and nonassessable; and the Stock conforms to the description thereof contained under the caption "Description of Common Stock" in the Registration Statement and the Prospectus;

(v) the statements contained under the captions "Business" and "Description of Common Stock" in the Registration Statement and the Prospectus, insofar as they are descriptions of corporate documents, stock option plans, contracts or agreements or descriptions of laws, regulations, or regulatory requirements, or refer to compliance with law or to statements of law or legal conclusions, are correct in all material respects;

13

(vi) the certificates evidencing the Stock are in the form approved by the Board of Directors of the Company and the certificates evidencing the Stock comply with the articles of incorporation and the bylaws of the Company and the laws of the State of Michigan;

(vii) this Agreement has been duly authorized, executed and delivered by the Company, and is a valid and binding agreement of the Company enforceable in accordance with its terms;

(viii) there are, to such counsel's knowledge, (A) no contracts or other documents applicable to the Company or any of the Subsidiaries or to which the Company or any of the Subsidiaries is a party which are required to be filed as exhibits to the Registration Statement other than those filed as exhibits thereto, and (B) no legal or governmental proceedings pending or threatened against, or involving the assets, properties or business of, the Company or any of the Subsidiaries which, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect, except as disclosed and properly described in the Registration Statement and Prospectus;

(ix) the execution and delivery of this Agreement, the sale of the Stock by the Company to the Underwriters in accordance with this Agreement and the Company's compliance with, or performance of its obligations under, the terms and provisions of this Agreement will not (A) result in a breach of any of the terms and provisions or conditions of, or constitute a default (or an event which with notice or lapse of time, or both, would constitute a default or acceleration) under, or result in the creation or imposition of any lien, charge or encumbrance upon the Stock being sold by the Company hereunder or any property or asset of the Company pursuant to the terms of any material agreement or instrument known to such counsel (including, without limitation, any agreement or instrument filed as an exhibit to the Registration Statement or to any document incorporated by reference in the Registration Statement) to which the Company or any of the Subsidiaries is a party or by which the Company or any of the Subsidiaries may be bound or to which any of the properties or assets of the Company or any of the Subsidiaries is subject, except for any such breaches or defaults which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect, (B) result in any violation of the provisions of the articles of incorporation, bylaws or declaration of trust, as applicable, of the Company or any of the Subsidiaries, or (C) to such counsel's knowledge, result in any violation of any statute or any order, rule, or regulation applicable to the Company or any of the Subsidiaries of any court or of any Federal, state, local or other regulatory authority or other governmental body having jurisdiction over the Company or any of the Subsidiaries, except for, in the case of this clause (C), any such violations which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect;

(x) no consent, approval, authorization or order of any court or governmental agency or body, is required to be obtained by the Company or any of

the Subsidiaries in connection with the execution and delivery of this Agreement or the sale of the Stock by the Company to the Underwriters in accordance with this Agreement and the Company's compliance with, or performance of its obligations under, the terms and provisions of this Agreement, except the registration under the Act of the Stock and such consents, approvals, authorizations, registrations or qualifications as may be required under the Act or state securities or Blue Sky laws;

(xi) to such counsel's knowledge, (A) neither the Company nor any of the Subsidiaries is in breach of, or in default (nor has an event occurred which, with notice or lapse of time or both, would constitute a default or acceleration) under the terms and provisions or conditions of, any indenture, mortgage, deed of trust, bank loan or credit agreement or any other material agreement or instrument to which the Company or any of the Subsidiaries is a party or by which any of them or any of their properties or assets may be bound or affected (including, without limitation, any agreement or instrument filed as an exhibit to the Registration Statement or to any document incorporated by reference in the Registration Statement), except for any such breaches or defaults which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect, and (B) neither the Company nor any of the Subsidiaries is in violation of any term or provision of (i) its articles of incorporation, bylaws or declaration of trust, as applicable, or (ii) any franchise, license, grant, permit, judgment, decree, order, statute, rule or regulation, except as referred to in the Prospectus and except for, in the case of clause (ii), any such violations which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect;

(xii) the Registration Statement and the Prospectus and any amendments or supplements thereto (other than the financial statements, and other financial and statistical data included therein or any statements or omissions made in reliance upon and in conformity with written information furnished to the Company by the Underwriters expressly for use in connection therewith, as to which no opinion need be rendered) comply as to form in all material respects with the requirements of the Act and the Regulations; and

(xiii) that such counsel has received oral confirmation by the staff of the Securities and Exchange Commission that the Registration Statement has become effective under the Act, and, to such counsel's knowledge, no proceedings for a stop order are pending or threatened under the Act.

In addition, such counsel shall state that, although such counsel is not passing upon the accuracy, completeness or fairness of the statements contained in the Registration Statement and Prospectus (except to the extent stated in paragraph (ix)), no facts have come to the attention of such counsel that lead them to believe that either the Registration

Statement or any amendment thereto at the time such Registration Statement or amendment became effective contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus, as of its date,

15

or any supplement thereto, as of its date, contained an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading (it being understood that such counsel need express no view with respect to the financial statements, schedules and other financial and statistical data included therein).

Further, with respect to paragraph (ix), such counsel can also state that it has assumed that the Underwriters, dealers, brokers and agents offering and selling the Stock are duly registered and licensed in all relevant jurisdictions to make such offers and sales, and that such persons have complied with all relevant laws and regulations regarding sales practices and delivery of prospectuses in connection with such offers and sales. Further, with respect to paragraph (ix)(C), such counsel can also state that it has assumed no material misstatements or omissions of fact have been made in connection with the offer or sale of the Stock.

In rendering the foregoing opinion, such counsel may rely as to matters not governed by Federal law or the laws of the State of Michigan on opinions of legal counsel satisfactory to such counsel and upon which, in such counsel's opinions, you are justified in relying, and as to matters of fact upon certificates of public officials and officers of the Company. Copies of all such opinions and certificates shall be furnished to your counsel on the Closing Date. Such counsel's opinions may be qualified to the extent that: (i) enforcement of any of the documents mentioned therein may be limited by Title 11 of the United States Code and other applicable bankruptcy, insolvency, reorganization or other laws affecting or limiting the rights of creditors (including, without limitation, laws pertaining to the avoidance and/or recovery of preferences or fraudulent conveyances), and to the discretionary nature of specific performance, injunctive relief and other equitable remedies, including the appointment of a receiver; (ii) enforcement thereof may be subject to general principles of equity (regardless of whether such enforceability is considered to be in equity or at law); (iii) such counsel may express no opinion as to any provisions purporting to obligate any party to pay attorneys' fees or other costs of collection or relating to indemnification against liabilities arising under Federal or state securities laws; (iv) no opinion is expressed with respect to any provision in this Agreement authorizing the exercise of "self-help" remedies, to any provisions constituting a waiver of statutory or constitutional rights or exculpating a person or entity from liability for negligence or other misconduct or with respect to the authorization of any

person to reimbursement of expenses (including attorneys' fees) in excess of an amount deemed reasonable; and (v) the opinions of such counsel are not intended and shall not be construed to be an opinion on choice of law or conflicts of law, and such counsel may assume that the law of the State of Michigan and the federal law of the United States shall govern all matters which are the subject of this opinion.

(c) On or prior to the Closing Date, you shall have been furnished such documents, certificates and opinions as you may require for the purpose of enabling you to review the matters referred to in subsection (b) of this Section 7, and in order to evidence the accuracy, completeness or satisfaction of any of the representations, warranties or conditions herein contained.

16

(d) Prior to the Closing Date, (i) there shall have been no material adverse change in the condition or prospects or the business activities, financial or otherwise, of the Company and the Subsidiaries from that as of the latest date as of which such condition is set forth in the Registration Statement and Prospectus; (ii) there shall have been no material transaction, not in the ordinary course of business, entered into by the Company from the latest date as of which the financial condition of the Company is set forth in the Registration Statement and Prospectus, other than transactions referred to or contemplated therein or to which you have given your written consent; (iii) neither the Company nor any of the Subsidiaries shall be in default (nor shall an event have occurred which, with notice or lapse of time, or both, would constitute a default or acceleration) under any provision of any agreement, understanding or instrument relating to any outstanding indebtedness to which the Company or one of the Subsidiaries is a party or by which any of them or their properties may be bound or affected, which default could materially and adversely affect the business, operations, prospects or financial condition or income of the Company and the Subsidiaries, taken as a whole; (iv) no material amount of the assets of the Company and the Subsidiaries shall have been pledged or mortgaged, except as set forth in the Registration Statement and Prospectus; (v) no action, suit or proceeding, at law or in equity, shall have been pending or threatened against the Company or any of the Subsidiaries or affecting any of their properties, assets or businesses before or by any court or Federal, state or other commission, board or other administrative agency having jurisdiction over the Company or any of the Subsidiaries wherein an unfavorable decision, ruling or finding could materially adversely affect the business, operations, prospects or financial condition or income of the Company and the Subsidiaries, taken as a whole, except as set forth in the Registration Statement and Prospectus; (vi) neither the Company nor any of the Subsidiaries shall have been involved in any labor dispute nor, to the knowledge of the Company, shall any dispute be threatened which could have a material adverse effect on the Company and the Subsidiaries, taken as a whole; and (vii) no stop order shall have been issued under the Act with

respect to the Stock and no proceedings therefor shall have been initiated or threatened by the Commission.

(e) At the Closing Date, you shall have received a certificate of the President and the principal financial officer of the Company, dated the Closing Date, to the effect that the conditions set forth in subsection (d) above have been satisfied and as to the accuracy, as of the Closing Date, of the representations and warranties of the Company set forth in Section 2 hereof.

(f) At the time this Agreement is executed and at the Closing Date, you shall have received a letter, addressed to the several Underwriters and in form and substance satisfactory to you in all respects (including the non-material nature of the changes or decreases, if any, referred to in clause (iii) below), from Crowe Chizek and Company LLC, dated as of the date of this Agreement and as of the Closing Date:

(i) confirming that they are independent public accountants with respect to the Company and the Subsidiaries within the meaning of the Act and the applicable published Regulations and stating that the answer to Item 10 of the Registration Statement is correct insofar as it relates to them;

17

(ii) stating that, in their opinion, the consolidated financial statements and schedules of the Company audited by them and the selected financial data to the extent derived from financial statements examined by them included in the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the Act and the related published Regulations;

(iii) stating that, on the basis of procedures (but not an examination made in accordance with generally accepted auditing standards) which included a reading of the latest available unaudited interim consolidated financial statements of the Company and the Subsidiaries (with an indication of the date of the latest available unaudited interim consolidated financial statements), a reading of the latest available minutes of the meetings of the shareholders and boards of directors of the Company and the Subsidiaries and committees of such boards and inquiries to certain officers, trustees, and other employees of the Company and the Subsidiaries responsible for financial and accounting matters and other specified procedures and inquiries, nothing has come to their attention that would cause them to believe that (A) the unaudited consolidated financial statements of the Company and the Subsidiaries included in the Registration Statement and Prospectus (i) do not comply as to form in all material respects with the applicable accounting requirements of the Act and the related

published Regulations, or (ii) were not fairly presented in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements included in the Registration Statement and Prospectus, (B) at a specified date not more than five business days prior to the date of such letter, there was any change in the capital stock or long-term debt of the Company or decrease in shareholders' equity of the Company and the Subsidiaries as compared with the amounts shown on the consolidated balance sheet of the Company included in the Registration Statement and Prospectus, other than as set forth in or contemplated by the Registration Statement and Prospectus or, if there was any change or decrease, setting forth the amount of such change or decrease, and (C) during the period from January 1, 2004, to a specified date not more than the five business days prior to the date of such letter, there was any decrease in net interest income, net income or income per share of the Company, as compared with the corresponding period beginning January 1, 2003, other than as set forth in or contemplated by the Registration Statement and Prospectus, or, if there was any such decrease, setting forth the amount of such decrease; and

(iv) stating that they have compared specific dollar amounts, numbers of shares, percentages of revenues and income and other financial information pertaining to the Company set forth in the Prospectus, which have been specified by you prior to the date of this Agreement, to the extent that such amounts, numbers, percentages and information may be derived from the general accounting records of the Company and the Subsidiaries, and excluding any questions requiring an interpretation by legal counsel, with the results obtained from the application of specific readings, inquiries and other appropriate procedures (which procedures do

18

not constitute an audit in accordance with generally accepted auditing standards) set forth in the letter, and found them to be in agreement.

(g) All proceedings taken in connection with the sale of the Stock as herein contemplated shall be reasonably satisfactory in form and substance to you and to counsel for you, and you shall have received from said counsel for you a favorable opinion, dated as of the Closing Date, with respect to such of the matters set forth under subsection (b) of this Section 7, and with respect to such other related matters arising after the date of execution hereof, as you may reasonably require.

(h) No order suspending the sale of the Stock prior to the Closing Date in any jurisdiction designated by you pursuant to subsection (d) of Section 5 hereof shall have been issued on the Closing Date, and no

proceedings for that purpose shall have been instituted or to your knowledge or that of the Company shall be contemplated.

(i) The NASD, upon review of the terms of the public offering of the Stock, shall have indicated in writing that the NASD has no objections with respect to the fairness and reasonableness of the underwriting terms and arrangements.

(j) The Stock shall have been duly listed, subject to notice of issuance, on the Market, to the extent required by the Market.

Any certificate signed by the president or chief financial officer of the Company and delivered to you or to counsel for you shall be deemed a representation and warranty by the Company to you as to the statements made therein. If any condition to your obligations hereunder to be fulfilled prior to or at the Closing Date is not so fulfilled, you may terminate this Agreement or, if you so elect, waive any such conditions which have not been fulfilled or extend the time for their fulfillment.

8. REPRESENTATIONS OF THE UNDERWRITERS. The Underwriters represent and warrant to the Company that the information furnished to the Company in writing by the Underwriters expressly for use in the Registration Statement or the Prospectus does not, and any amendments thereof or supplements thereto thus furnished will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. The Company acknowledges that the statements relating to the terms of the offering by the Underwriters under the caption "Underwriting" in any Preliminary Prospectus and the Prospectus constitute the only information furnished in writing by or on behalf of the Underwriters for inclusion in any Preliminary Prospectus and the Prospectus.

9. INDEMNIFICATION.

(a) Subject to the conditions set forth below, the Company agrees to indemnify and hold harmless the Underwriters, and each person, if any, who controls any of them within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, against any and all loss, liability, claim, damage and expense whatsoever (including but not limited to any and all expense whatsoever reasonably incurred in investigating, preparing or

defending against any litigation, or any claim whatsoever) arising out of or based upon (i) any untrue statement or alleged untrue statement of a material fact contained (x) in any Preliminary Prospectus, the Registration Statement or the Prospectus (as from time to time amended and supplemented) or (y) in any application or other document (in this Section 9 collectively called "application") executed by the Company or based upon written information furnished by or on behalf of the Company filed in any jurisdiction in order to qualify the Stock under the securities laws

thereof or filed with the Commission, the Market or any securities exchange, or (ii) the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading, provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement, or omission or alleged omission made in the Registration Statement, the Prospectus, or such amendment or supplement, in reliance upon and in conformity with written information furnished to the Company by the Underwriters specifically for use in the preparation thereof. This indemnity agreement will be in addition to any liability which the Company may otherwise have.

If any action or proceeding (including any governmental investigation) is brought against any of the Underwriters or any controlling person in respect of which indemnity may be sought against the Company pursuant to the foregoing paragraph, such indemnified party shall promptly notify in writing the party or parties against whom indemnification is to be sought of the institution of such action and the Company shall assume the defense of such action, including the employment of counsel (satisfactory to the indemnified party) and payment of expenses. The indemnified party shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of the indemnified party unless the employment of such counsel shall have been authorized in writing by the Company in connection with the defense of such action or the Company shall not have employed counsel to have charge of the defense of such action, or counsel for such indemnified party or parties shall have reasonably concluded that there may be defenses available to it or them which are different from or additional to those available to the Company (in which case the Company shall not have the right to direct the defense of such action on behalf of the indemnified party or parties), in any of which events such fees and expenses shall be borne by the Company (it being understood, however, that the Company shall not, in connection with any one such action or proceeding, be liable for the fees and expenses of more than one separate firm of attorneys, together with appropriate local counsel, at any time for all such indemnified parties, which firm shall be designated in writing by you). Anything in this paragraph to the contrary notwithstanding, the Company shall not be liable for any settlement of any such claim or action effected without its written consent. The Company agrees promptly to notify Oppenheimer of the commencement of any litigation or proceedings against the Company, any of its officers or directors in connection with the issue and sale of the Stock or in connection with such Preliminary Prospectus, Registration Statement or Prospectus, or any amendment or supplement thereof, or any such application.

(b) Each Underwriter agrees to indemnify and hold harmless the Company, each of the directors of the Company, each of the officers of the Company who shall have signed

the Registration Statement and each other person, if any, who controls the Company within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act to the same extent as the foregoing indemnity from the Company to the several Underwriters, but only with respect to statements or omissions, or alleged statements or omissions, if any, made in any Preliminary Prospectus, Registration Statement or Prospectus, or any amendment or supplement thereto, or any application in reliance upon, and in conformity with, written information furnished to the Company by such Underwriter expressly for use in any Preliminary Prospectus, the Registration Statement or Prospectus or any amendment or supplement thereto or in any application, as the case may be. In case any action shall be brought against the Company, or any other person so indemnified, based on any Preliminary Prospectus, the Registration Statement or Prospectus or any amendment or supplement thereto or any application, and in respect of which indemnity may be sought against any Underwriter, such Underwriter shall have the rights and duties given to the Company, and the Company, and each other person so indemnified shall have the rights and duties given to the Underwriters, by the provisions of subsection (a) above. This indemnity will be in addition to any liability which any Underwriter may otherwise have.

(c) No indemnification provided for in (a) or (b) above shall be available to any party who shall fail to give notice as provided in such sections if the party to whom notice was not given was unaware of the proceeding to which such notice would have related and was materially prejudiced by the failure to give such notice, but the failure to give such notice shall not relieve the indemnifying party or parties from any liability which it or they may have to the indemnified party for contribution or otherwise than on account of the provisions of (a) or (b) above. Any losses, claims, damages, liabilities or expenses for which an indemnified party is entitled to indemnification or contribution under this Section 9 shall be paid by the indemnifying party to the indemnified party as such losses, claims, damages, liabilities or expenses are incurred.

(d) If the indemnification provided for in this Section 9 is unavailable to or insufficient to hold harmless an indemnified party under subsection (a) or (b) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other from the offering of the Stock. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative

benefits but also the relative fault of the Company on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The

21

relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or the Underwriters on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this subsection (d) were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (d), the Underwriters shall not be required to contribute any amount in excess of the amount by which the total price at which the Stock underwritten by it and distributed to the public was offered to the public exceeds the amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act or Section 10(b) of the Exchange Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentations.

10. REPRESENTATIONS AND AGREEMENTS TO SURVIVE DELIVERY. Except as the context otherwise requires, all representations, warranties and agreements contained in this Agreement shall be deemed to be representations, warranties and agreements at the Closing Date, and such representations, warranties and agreements of the Underwriters and the Company, including the indemnity and contribution agreements contained in Section 9 hereof, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any Underwriter or any controlling person, or by or on behalf of the Company or any controlling person, and shall survive termination of this Agreement and/or delivery of the Stock to the Underwriters. In addition, the covenants contained in Section 5 hereof, the agreements contained in this

Section 10 and in Sections 6, 11, 13 and 14 hereof and the indemnity and contribution agreements contained in Section 9 hereof shall survive termination of this Agreement, whether before or after the Closing Date.

11. TERMINATION.

(a) Oppenheimer (on behalf of the Underwriters) shall have the right to terminate this Agreement at any time prior to the Closing Date if: any domestic or international event or act or occurrence has materially disrupted, or in your opinion will in the immediate future materially disrupt, securities markets; or if trading in securities is suspended generally on the New York Stock Exchange, the American Stock Exchange or the Market or price limitations are imposed (other than limitations on hours or numbers of days of trading) for securities on either such Exchange; or if any statute, regulation, rule or order of any court or other governmental authority has been enacted, published, decreed or otherwise promulgated will, in your reasonable judgment, materially and adversely affect or may materially and adversely affect the business or operations of the Company; there is any outbreak or escalation of hostilities or declaration of war or national emergency or other

22

national or international calamity or crisis or change in economic or political conditions if the effect of such outbreak, escalation, declaration, emergency, calamity, crisis or change on the financial markets of the United States would, in your reasonable judgment, make it impracticable or inadvisable to market the Stock or to enforce contracts for the sale of the Stock; or if a banking moratorium has been declared by a state or federal authority; or if a moratorium in foreign exchange trading by major international banks or persons has been declared; or if the Company shall have sustained a material or substantial loss by fire, flood, accident, hurricane, earthquake, theft, sabotage or other calamity or malicious act which, whether or not said loss shall have been insured, will in your opinion, make it inadvisable to proceed with the delivery of the Stock; or if there shall have been such material change in the condition, business operations or prospects of the Company or the market for its and similar securities as in your judgment would make it inadvisable to proceed with the offering, sale and delivery of the Stock; or if the Company shall have failed to comply with any of the provisions of this Agreement on its part to be performed on or before the Closing Date; or if any of the material conditions, agreements, representations or warranties in this Agreement shall not have been fulfilled within the respective times herein provided.

(b) If Oppenheimer elects to prevent this Agreement from becoming effective or to terminate this Agreement as provided in this Section 11, the Company shall be notified promptly by Oppenheimer by telephone or facsimile, confirmed by letter. If the Company elects to prevent this Agreement from becoming effective, Oppenheimer shall be notified promptly

by the Company by telephone or facsimile, confirmed by letter.

(c) If this Agreement is terminated pursuant to any of its provisions, except as otherwise provided in this Agreement, the Company shall not be under any liability to any Underwriter (other than for obligations assumed in Section 5 hereof), and no Underwriter shall be under any liability to the Company; provided, however, that if this Agreement is terminated by Oppenheimer because of any failure, refusal or inability on the part of the Company to comply with the terms or to fulfill any of the conditions of this Agreement, or for any reason provided in subparagraph (a) above, the Company will reimburse the Underwriters for all accountable out-of-pocket expenses (including, without limitation, road show expenses and fees and disbursements of counsel to the Underwriters) up to a maximum of \$50,000 in aggregate amount incurred by them in connection with the proposed purchase and sale of the Stock or in contemplation the performing its obligations hereunder.

Notwithstanding any election hereunder or any termination of this Agreement, and whether or not this Agreement is otherwise carried out, the provisions of Section 9 shall not be in any way affected by such election or termination or failure to carry out the terms of this Agreement or any part hereof.

12. NOTICES. All communications hereunder, except as herein otherwise specifically provided, shall be in writing and, if sent to you, shall be mailed, delivered or telegraphed and confirmed to the Underwriters care of Oppenheimer & Co. Inc., 300 River Place, Suite 400, Detroit, Michigan 48207, Attention: Jason D. Janosz, with a copy to Liesl A. Maloney, Esq., Honigman Miller Schwartz and Cohn, 2290 First National Building, Detroit, Michigan 48226; if sent to the

23

Company shall be mailed, delivered or telegraphed and confirmed to Dearborn Bancorp, Inc., 1360 Porter Street, Dearborn, Michigan 48124, Attention: President, with a copy to Verne C. Hampton II, Esq., Dickinson Wright PLLC, 500 Woodward Avenue, Suite 4000, Detroit, Michigan 48226-3425.

13. PARTIES. This Agreement shall inure solely to the benefit of, and shall be binding upon, the several Underwriters, the Company, and the controlling persons, directors and officers referred to in Section 9 hereof, and their respective successors, legal representatives and assigns, and no other person shall have or be construed to have any legal or equitable right, remedy or claim under or in respect of or by virtue of this Agreement or any provision herein contained.

14. CONSTRUCTION. The laws of the State of Michigan shall govern this Agreement, its construction, and the determination of any rights, duties or remedies of the parties arising out of or relating to this Agreement. The parties acknowledge that the United States District Court for the Eastern District of Michigan or the Michigan Circuit Court for the County of Wayne shall

have exclusive jurisdiction over any case or controversy arising out of or relating to this Agreement and that all litigation arising out of or relating to this Agreement shall be commenced in the United States District Court for the Eastern District of Michigan or in the Wayne County (Michigan) Circuit Court.

24

If the foregoing correctly sets forth the understanding among the several Underwriters and the Company, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement among us.

Very truly yours,

DEARBORN BANCORP, INC.

By: /s/ Jeffrey L. Karafa

Jeffrey L. Karafa

Its: Vice-President and Treasurer

Accepted as of the date first above written.

OPPENHEIMER & CO. INC.,
For itself and as Representative
of the several Underwriters

By: /s/ Jason D. Janosz

Jason D. Janosz

Its: Senior Vice President

HOWE BARNES INVESTMENTS INC.,
For itself and as Representative
of the several Underwriters

By: /s/ Glenn C. Harris

Glenn C. Harris

Its: Senior Vice President

25

SCHEDULE I

<S>	<C>
Oppenheimer & Co. Inc.	948,750
Howe Barnes Investments Inc.	316,250

Total	1,265,000

26

SCHEDULE II

Dearborn Bancorp Trust I, a Delaware statutory trust which is 100% owned by the Company.

Community Bank of Dearborn, a Michigan banking corporation which is 100% owned by the Company (the "Bank").

Community Bank Mortgage, Inc., a Michigan corporation which is 100% owned by the Bank.

Community Bank Audit Services, Inc., a Michigan corporation which is 100% owned by the Bank.

Community Bank Insurance Agency, Inc., a Michigan corporation which is 100% owned by the Bank.

27

SCHEDULE III

Community Bank Insurance Agency, Inc., a Subsidiary, owns 8.74% of Michigan Bankers Title of East Michigan, LLC.

DET_B.429767.10

28