FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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D&N CAPITAL CORP

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 1998

Commission File Number 0-22767

D & N CAPITAL CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	31-1517665
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
400 Quincy Street, Hancock, Michigan	49930
(Address of Principal Executive Offices	(Zip Code)

Registrant's telephone number, including area code (906) 482-2700

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange Which Registered
9.00% Noncumulative Preferred Stock Series A (Par Value --$25 Per share)	NASDAQ

Securities Registered Pursuant to Section 12(g) of the Act: None

Number of Shares of Common Stock outstanding on December 31, 1998: 31,781

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 twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such requirements for the past 90 days.

YES X NO

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

All shares of Common Stock were held by D&N Bank at December 31, 1998; therefore, no Common Stock is held by non-affiliates.

Documents incorporated by reference in this Form 10-K	Part of Form 10-K which incorporated

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None	None

FORM 10-K

PART I

Item 1. Business

D&N Capital Corporation (the "Company") is a Delaware corporation incorporated on March 18, 1997 and created for the purpose of acquiring and holding real estate assets. The Company is a wholly-owned subsidiary of D&N Bank (the "Bank"), a federally chartered savings bank, which itself is wholly owned by D&N Financial Corporation ("D&N"), a financial services holding company organized under the laws of the state of Delaware.

The principal business of the Company is to acquire and hold residential and commercial mortgage loans that will generate net income for distribution to stockholders. The Company intends to acquire all its Mortgage Loans from the Bank, consisting of whole loans secured by first mortgages or deeds of trust on single-family residential real estate properties or on commercial real estate properties. Residential mortgage loans consist of Adjustable Rate Mortgages ("ARMs"), and Fixed Rate Mortgages ("FRMs"). The commercial mortgage loans consist of fixed and variable rate loans, a majority of which have balloon payments.

On July 17, 1997, the Company offered to the public and sold 1,210,000 shares of the Company's 9.00% noncumulative preferred stock, Series A, $25 par value per share, totaling $30,250,000 (the "Series A Preferred Shares"), and sold to D&N Bank, 31,781 shares of the Company's common stock, $300 par value ($1,000 cost) per share, net of offering costs, totaling $30,250,000 (the "Common Stock"). All shares of common stock are held by the Bank. The Series A Preferred Shares are traded on the NASDAQ stock market, under the symbol as "DNFCP".

The Company used the net proceeds raised from the initial public offering of the Series A Preferred Shares and the sale of the Common Stock to the Bank to purchase from the Bank the Company's initial portfolio of $60,524,000, of residential and commercial mortgage loans ("Mortgage Loans") at their estimated fair values. Reinvestments in mortgage loans have been and are intended to continue to be consistent in maintaining an approximate 90% and 10% ratio between residential and commercial mortgage loans, respectively. All Mortgage Loans are purchased from the Bank on a fair value basis.

In order to preserve its status as a real estate investment trust ("REIT") under the Code, the Company must distribute annually at least 95% of its

"REIT taxable income" (excluding capital gains) to stockholders and meet certain capital ownership and administrative tests as defined by the Code. The Company must also annually satisfy two gross income requirements. First, at least 75% of the Company's gross income for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property (as interest on obligations secured by mortgages on real property, certain "rents from real property" or as gain on the sale or exchange of such property and certain fees with respect to agreements to make or acquire mortgage loans), from certain types of temporary investments or certain other types of gross income. Second, at least 95% of the Company's gross income for each taxable year must be derived from the above described real property investments and from dividends, interest, and gain from the sale or other disposition of stock or securities and certain other types of gross income (or from any combination of the foregoing). The Company must also satisfy three tests relating to the nature of its assets at the close of each quarter of its taxable year. First, at least 75% of the value of the Company's total assets must be represented by real estate assets (including stock or debt instruments held for not more than one year that were purchased with the proceeds of a stock offering or long-term (at least five years) debt offering of the Company, cash, cash items, and government securities. Second, not more than 25% of the Company's total assets may be represented by securities other than those in the 75% asset class. Third, of the investments included in the 25% asset class, the value of any one issuer's securities owned by the Company may not exceed 5% of the value of the Company's total assets and the Company may not own more than 10% of any one issuer's outstanding voting securities.

The Company does not anticipate that it will engage in the business of originating Mortgage Loans and does not expect to compete with mortgage conduit programs, investment banking firms, savings and loan associations, banks, thrift and loan associations, finance companies, mortgage bankers or insurance companies in acquiring its Mortgage Loans. As noted above, the Company anticipates that all Mortgage Loans purchased by it, in addition to those in the initial Portfolio, and purchased to date, will be purchased from the Bank.

The Company does not have any employees, since it has retained the Bank to perform certain functions pursuant to the Advisory Agreement described below. All of the officers of the Company are also officers or employees of D&N, the Bank or their affiliates.

The Company has entered into an Advisory Agreement (the "Advisory

Agreement") with the Bank (the "Advisor") requiring an annual payment of $125,000. The Bank provides advice to the Board of Directors and manages the operations of the Company as defined in the Agreement. The Agreement

has an initial term of five years commencing on July 21, 1997 and automatically renews for additional five year periods, unless the Company delivers a notice of nonrenewal to the Advisor as defined in the Advisory Agreement.

The Company also entered into two servicing agreements with the Bank for the servicing of the commercial and residential mortgage loans. (The Bank in its role as servicer under the terms of the servicing agreements is herein referred to as the "Servicer"). Pursuant to each servicing agreement, the Bank performs the servicing of the Mortgage Loans held by the Company, in accordance with normal industry practice. The Servicing Agreements can be terminated without cause upon a thirty day advance notice given to the Servicer. The servicing fee is 0.375% of the outstanding principal balance for the residential mortgage loans and commercial mortgage loans.

The Company intends to operate in a manner that will not subject it to regulation under the Investment Company Act of 1940. The Company may, under certain circumstances, purchase the Series A Preferred Shares and other shares of its capital stock in the open market or otherwise, provided, however, that the Company will not redeem or repurchase any shares of its Common Stock for so long as any Series A Preferred Shares are outstanding without the approval of a majority of the Independent Directors (as defined in the Certificate of Designation relating to the Series A Preferred Shares). The Company has no present intention of repurchasing any shares of its capital stock, and any such action would be taken only in conformity with applicable federal and state laws and the regulations and the requirements for qualifying as a REIT.

The Company has no foreign operations.

ITEM 2: PROPERTIES

The principal executive offices of the Company are located at 400 Quincy Street, Hancock, Michigan 49930, telephone number (906) 482-2700.

ITEM 3: LEGAL PROCEEDINGS

The Company is not the subject of any material litigation. Neither the Company, the Bank, or any of its affiliates is currently involved in nor, to the Company's knowledge, currently threatened with any material litigation with respect to the Mortgage Loans included in the portfolio, which litigation would have a material adverse effect on the business or operations of the Company.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company is authorized to issue up to 250,000 shares of Common Stock and 2,500,000 shares of Preferred Stock, $25 par value per share ("Preferred

Stock"), of which 1,210,000 shares have been issued as the Series A Preferred Shares. The Bank owns 100% of the Company's 31,781 shares of Common Stock outstanding at December 31, 1998 and, accordingly, there is no trading market for the Company's Common Stock. In addition, the Bank intends that, as long as any Series A Preferred Shares are outstanding, it will maintain ownership of the outstanding Common Stock of the Company. Subject to the rights, if any, of the holders of Series A Preferred Stock, all voting rights are vested in the Common Stock. The holders of Common Stock are entitled to one vote per share.

Holders of Common Stock are entitled to receive dividends when, as and if declared by the Board of Directors of the Company out of funds legally available therefore, provided that, so long as any shares of Preferred Stock (including the Series A Preferred Shares) are outstanding, no dividends or other distributions (including redemption's and purchases) may be made with respect to the Common Stock unless full dividends on the shares of the Preferred Stock have been paid. The Company must distribute annually at least 95% of its annual "REIT taxable income" (not including capital gains) to stockholders.

In the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, after there have been paid or set aside for the holders of all series of Preferred Stock the full preferential amounts to which such holders are entitled, the holders of Common Stock will be entitled to share equally and ratably in any assets remaining after the payment of all debts and liabilities.

Restrictions on Ownership and Transfer:

The Company's Certificate of Incorporation contains certain restrictions on the number of shares of Common Stock and Preferred Stock that individual stockholders may own. For the Company to qualify as a REIT under the Code, no more than 50% in number or value of its outstanding shares of capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of a taxable year

(other than the first year) or during a proportionate part of a shorter taxable year (the "Five or Fewer Test"). The capital stock of the Company must also be beneficially owned by 100 or more persons during at least 335 days of a taxable year or during a proportionate part of a shorter taxable year (the "One Hundred Person Test"). The ownership by the Bank of 100% of the shares of Common Stock of the REIT will not adversely affect the Company's REIT qualification because each stockholder of D&N Financial Corporation (the sole stockholder of the Bank) counts as a separate beneficial owner for purposes of the Five or Fewer Test and the capital stock of D&N Financial Corporation is widely held. Further, the Certificate of Incorporation of the Company contains restrictions on the acquisition of Preferred Stock intended to ensure compliance with the One Hundred Persons Test. Such provisions include a restriction that if any transfer of shares of capital stock of the Company would cause the Company to be beneficially owned by fewer than 100 persons, such transfer shall be null and void and the intended transferee will acquire no rights to the stock.

COMMON STOCK

There is no established public trading market in the Company's Common Stock. As of March 22, 1999, there were 31,781 issued and outstanding shares of Common Stock held by one stockholder, the Bank. The following table reflects the distributions paid by the Company on the Common Stock since the Company's initial capitalization on April 4, 1997.

	Distribution

January 1 to December 31, 1998	$1,150,000 / (1)
April 4 to December 31, 1997	$ 600,000 / (2)

(1) On December 9, 1998, the Company declared a cash dividend in the aggregate of $1,150,000 payable on December 31, 1998 to D&N Bank as the holder of all the outstanding common stock of record on December 21, 1998.

(2) On December 11, 1997, the Company declared a cash dividend in the aggregate of $600,000 payable on December 31, 1997 to D&N Bank as the holder of all the outstanding common stock of record on December 17, 1997.

PREFERRED STOCK

The Series A Preferred Shares are listed on the Nasdaq Stock Market, under the trading symbol "DNFCP". As of March 22, 1999, there were 1,210,000 issued and outstanding Series A Preferred Shares held by approximately 2,360 shareholders. The following table reflects the respective high and

low sales prices for the Series A Preferred Shares for the periods of 1998, and from July 21, 1997, the date upon which trading of such shares commenced, through December 31, 1997. The table also indicates the distributions paid by the Company during these periods.

<TABLE>
<CAPTION>

Period	Price High	Price Low	Distributions	Distribution Date
July 21, 1997 to September 30, 1997	$26.25	$25.00	$536,938	September 30, 1997
October 1, 1997 to December 31, 1997	26.00	25.25	680,625	December 31, 1997
January 1, 1998 to March 31, 1998	26.38	25.13	680,625	March 31, 1998
April 1, 1998 to June 30, 1998	26.50	25.50	680,625	June 31, 1998
July 1, 1998 to September 30, 1998	25.88	24.63	680,625	September 30, 1998
October 1, 1998 to December 31, 1998	26.88	24.50	680,625	December 31, 1998

</TABLE>

During 1998, the Company declared and paid quarterly dividends of $0.5625 per Series A Preferred Share, the final quarterly dividend being paid on December 31, 1998, to holders of record on December 21, 1998.

On September 9, 1997 the Company declared a cash dividend of $0.44375 per Series A Preferred Share to stockholders of record on September 17, 1997. This dividend was paid on September 30, 1997. On December 11, 1997 the Company again declared a cash dividend of $0.5625 per Series A Preferred Share to stockholders of record on December 17, 1997. This dividend was paid on December 31, 1997.

ITEM 6: SELECTED FINANCIAL DATA

FINANCIAL DATA

For the Year Ended December 31, 1998 and for the Period

from Inception (March 18, 1997) through December 31, 1997
(In thousands, except per share and yield data)

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
INCOME STATEMENT:		
Interest income	$ 4,164	$ 1,952
Net income	3,914	1,852
Net income applicable to common shares	1,191	634
Income per common share	37.47	19.94
BALANCE SHEET:		
Mortgage loans	60,259	60,385
Total assets	60,645	60,745
Total stockholder's equity	60,575	60,534
OTHER DATA:		
Dividends paid on preferred shares	2,723	1,218
Number of preferred shares outstanding	1,210	1,210
Number of common shares outstanding	32	32
Average yield on mortgage loans	7.32%	7.57%

</TABLE>

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

On July 17, 1997, the Company offered to the public and sold 1,210,000 shares of the Company's 9.00% Series A Preferred Shares, and sold to D&N Bank 31,781 shares of the Company's Common Stock. All shares of Common Stock are held by the Bank.

RESULTS OF OPERATIONS

The Company reported net interest income for the year ended December 31, 1998 of approximately $4,164,000. Interest income from residential and commercial mortgage loans was $3,511,000 and $593,000, respectively. After a deduction of approximately $125,000 in advisory fees and $125,000 in other administrative expenses, the Company reported net income of approximately $3,914,000 for the year ended December 31, 1998.

For the period from inception, March 18, 1997, through December 31, 1997, the Company reported net interest income of approximately $1,952,000. Interest income from residential and commercial mortgage loans was $1,644,000 and $293,000 respectively. After deductions of approximately $100,000 in advisory and other administrative expenses, the Company reported net income of approximately $1,852,000.

The Company paid $2,722,500 in Preferred Stock dividends and reported net income per common share of $37.47 for the year ended December 31, 1998. For the period from inception, March 18, 1997, through December 31, 1997, the Company paid $1,217,563 in Preferred Stock dividends and reported net income per common share of $19.94.

MORTGAGE LOANS

As of December 31, 1998, the Company had $60,259,000 invested in Mortgage Loans. This amount represents the principal amount of mortgage loans purchased with the initial portfolio, plus additional purchases since then to replace runoff. All Mortgage Loans are purchased from the Bank.

The following table reflects the composition of interest-earning assets as a percentage of total interest-earning assets.

<TABLE>
<CAPTION>

(Dollars in thousands)	December 31, 1998 Amount	December 31, 1998 Percent	December 31, 1997 Amount	December 31, 1997 Percent
Interest-Earning Asset Mix:				
Residential mortgage loans	$52,858	87.7%	$52,784	87.4%
Commercial mortgage loans	7,401	12.3	7,601	12.6
Total interest-earning assets	$60,259	100.0%	$60,385	100.00%

</TABLE>

At December 31, 1998, there was one delinquent residential loan, totaling $129,552, or .21% of the portfolio. This loan paid current on February 22, 1999. Also, there were no delinquent commercial mortgage loans, and no residential or commercial mortgage loans in nonaccrual status as of December 31, 1998.

The following table illustrates the maturity of the Company's loan portfolio at December 31, 1998. Loans are shown as maturing in the period in which payment is due. This table does not reflect the effects of possible prepayments or enforcement of due-on-sale clauses.

<TABLE>
<CAPTION>

Amounts Due in Years Ending December 31,	Residential mortgage loans Amount	Residential mortgage loans Weighted Average Rate	Commercial mortgage loans Amount	Commercial mortgage loans Weighted Average Rate	Total Amount	Total Weighted Average Rate
			(Dollars in thousands)			
1999	$ 1,174	7.34%	$ 401	9.19%	$ 1,575	7.81%

2000	1,262	7.34	597	9.29	1,859	7.97
2001	1,358	7.34	4,137	8.78	5,495	8.42
2002	1,461	7.34	2,035	9.30	3,496	8.48
2003	1,572	7.35	177	8.60	1,749	7.48
Thereafter	45,237	7.41	--	--	45,237	7.41
Subtotal	52,064	7.40%	7,347	8.98%	59,411	7.60%
Plus:	794		54		848	
Premiums						
Total	$52,858		$7,401		$60,259	

</TABLE>

INTEREST RATE RISK

The Company's income consists primarily of interest payments on Mortgage Loans. Currently, the Company does not use any derivative products to manage interest rate risk. If there is a decline in interest rates (as measured by the indices upon which the interest rates of the Adjustable Rate Mortgage Loans are based), then the Company will experience a decrease in income available to be distributed to its shareholders. There can be no assurance that

an interest rate environment in which there is a significant decline in interest rates, over an extended period of time, would not adversely affect the Company's ability to pay dividends on the Series A Preferred Shares.

STATIC GAP ANALYSIS

D&N Capital Corporation's cumulative gap analysis for December 31, 1998 is found in the table below.

<TABLE>
<CAPTION>

	Maturity				
	0 to 3 Months	4 to 12 Months	1 to 5 Years	Over 5 Years	Total
	(Dollars in thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
ASSETS:					
Net loans receivable	$3,384	$ 9,612	$34,523	$ 12,739	$60,259
Cash and due from parent	23	--	--	--	23
Other assets	5	--	--	--	5
Accrued interest receivable	358	--	--	--	358
Total assets	$3,770	$ 9,612	$34,523	$ 12,739	$60,645
LIABILITIES:					
Other liabilities	$ 19	$ 51	$ --	$ --	$ 70
TOTAL LIABILITIES	$ 19	$ 51	$ --	$ --	$ 70

STOCKHOLDERS' EQUITY

Preferred stock	$ --	$ --	$ --	$ 30,250	30,250
Common stock	--	--	--	9,534	9,534
Additional paid-in capital	--	--	--	20,716	20,716
Retained earnings	--	--	--	75	75
Total liabilities and stockholders' equity	$ 19	$ 51	$ --	$ 60,575	$60,645
Reprice difference	$3,751	$ 9,561	$34,523	($47,835)	
Cumulative gap	$3,751	$13,312	$47,835	--	
% of total assets	6.18%	21.95%	78.88%	--	

</TABLE>

SIGNIFICANT CONCENTRATION OF CREDIT RISK

Concentration of credit risk arises when a number of customers engage in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Concentration of credit risk indicates the relative sensitivity of the Company's performance to both positive and negative developments affecting a particular industry.

The Company's balance sheet exposure to geographic concentrations directly affects the credit risk of the Mortgage Loans within the portfolio. The following table shows the Mortgage Loan portfolio by geographic area.

<TABLE>
<CAPTION>

Loans	December 31, 1998 Amount	December 31, 1998 Percent	December 31, 1997 Amount	December 31, 1997 Percent
	(Dollars in thousands)			
<S>	<C>	<C>	<C>	<C>
Residential Mortgage Loans:				
Michigan	$49,348	81.9%	$47,956	79.4%
Ohio	1,911	3.2	2,054	3.4
Wisconsin	365	0.6	1,062	1.8
Indiana	298	0.5	868	1.4
Other (no state has more than 1%)	936	1.5	844	1.4
Total Residential Mortgage Loans	52,858	87.7%	52,784	87.4%
Commercial Mortgage Loans:				
Michigan (all Commercial Mortgage Loans)	7,401	12.3	7,601	12.6
Total Mortgage Loan Portfolio	$60,259	100.0%	$60,385	100.0%

</TABLE>

Approximately 82% of the Company's total Mortgage Loan portfolio are loans secured by residential real estate properties located in Michigan. Consequently, these residential mortgage loans may be subject to a greater risk of default than other comparable residential mortgage loans in the event of adverse economic, political or business developments and natural hazards in Michigan that may affect the ability of residential property owners in Michigan to make payments of principal and interest on the underlying mortgages.

In addition, all of the commercial mortgage properties underlying the

Company's commercial mortgage loans are located in Michigan. Consequently, these commercial mortgage loans may be subject to greater risk of default than other comparable commercial mortgage loans in the event of adverse economic, political or business developments in Michigan that may affect the ability of businesses in the area to make payments of principal and interest on the underlying mortgages.

LIQUIDITY RISK MANAGEMENT

The objective of liquidity management is to ensure the availability of sufficient cash flows to meet all of the Company's financial commitments. In managing liquidity, the Company takes into account various legal limitations placed on a REIT as discussed below in REIT Qualification.

The Company's principal liquidity needs are to maintain the current portfolio size through the acquisition of additional Mortgage Loans as Mortgage Loans currently in the portfolio mature or prepay, and to pay dividends on the Series A Preferred Shares and Common Shares held. The acquisition of additional Mortgage Loans is intended to be funded with the proceeds obtained from repayment of principal balances by the individual mortgagees. The Company does not have and does not anticipate having any material capital expenditures.

To the extent that the Board of Directors determines that additional funding is required, the Company may raise such funds through additional equity offerings, debt financing or retention of cash flow (after consideration of provisions of the Code requiring the distribution by a REIT of at least 95% of its "REIT taxable income" and taking into account taxes that would be imposed on undistributed income), or a combination of these methods. The organizational documents of the Company do not contain any limitation on the amount or percentage of debt, funded or otherwise, the Company might incur. Notwithstanding the foregoing, the Company may not, without the approval of a majority of the Independent Directors, incur debt for borrowed money other than debt not in excess of 20% of the aggregate amount of net proceeds received from the sale of the Series A Preferred Shares and Common Stock of the Company. Any such debt incurred may include intercompany advances made by the Bank to the Company.

The Company may also issue additional series of Preferred Stock. However, the Company may not issue additional shares of Preferred Stock senior to the Series A Preferred Shares without the consent of holders of at least 66 2/3% of the shares of Preferred Stock outstanding at that time, including the Series A Preferred Shares, and the Company may not issue additional shares of Preferred Stock on a parity with the Series A Preferred Shares without the approval of a majority of the Company's Independent Directors.

REIT QUALIFICATION

As of December 31, 1998, the Company believed that it was in full compliance with the REIT tax rules and that it will continue to qualify as a REIT under the provisions of the Code. The Company calculates:

* its Qualified REIT Assets, as defined in the Code, to be 100% of its total assets, as compared to the federal tax requirements that at least 75% of its total assets must be Qualified REIT assets.

* that 99% of its revenues qualify for the 75% source of income test and 100% of its revenues qualify for the 95% source of income test under the REIT rules.

The Company also met all REIT requirements regarding the ownership of its common and preferred stocks and the 1998 and 1997, annual distribution and administrative requirements.

YEAR 2000 COMPLIANCE

D&N utilizes various electronic computer systems for the delivery of its financial services products, for the maintenance of its financial and other business records, and for general management purposes. Some of these systems include legacy procedures that may have been designed and historic data that may have been stored in such a manner that inconsistencies or failures might occur when dates from the new millennium are considered. Commonly known as the Year 2000 problem, a myriad of related potential computing difficulties face entities that rely extensively upon computer systems. D&N's major computer systems include financial control applications provided by M&I Data Services, Inc.; mortgage lending applications provided by ALLTEL Information Services, Inc. and FiTech, Inc.; and internally maintained micro-computer and network systems which support management functions and communications.

D&N's Year 2000 project is progressing on schedule. The project is addressing computer hardware, software, procedures, large borrowers and facilities. This project began in October 1996 and is scheduled for completion by June 1999.

To date all at-risk computer hardware has been tested and confirmed Year 2000 compliant.

The four primary business applications (deposit account processing, installment loan account processing, general ledger and mortgage loan processing) have been certified Year 2000 compliant. The remaining application systems are being tested and contingency plans have been developed to mitigate business operational risk.

D&N's internally maintained systems, consisting primarily of a Lotus Notes server array and various workstation-based business suite software, are Year 2000 compliant as currently installed.

All newly acquired software is being tested for Year 2000 compliance before acceptance. Software testing has been done to verify date changes from 1999 to 2000, the identification and correct processing of leap years, along with numerous date projections from 1999 through the next millennium using day, month and year increments.

Manual procedures have been reviewed and scheduled for change where date specific actions occur. Necessary changes to supporting forms to properly record dates in the new millennium have been identified and are being made.

Large commercial borrowers have been reviewed for their Year 2000 readiness and, where necessary, their progress is being monitored for corrective action, their business continuation and ability to repay their loans. New loan customers are also being assessed for Year 2000 risk.

The building facilities owned and leased by the Bank have been reviewed for Year 2000 associated issues such as device controllers used for HVAC, elevators, alarms and vaults. Where necessary, corrective actions have been taken.

Costs associated with addressing the Year 2000 issue as it affects D&N's third party applications is implicitly included in the contractual arrangements for those applications. D&N's total Year 2000 estimated project cost, which is based upon currently available information, included expenses or the review and testing of third parties including governmental applications. However, there can be no guarantee that the hardware, software and systems of such third parties will be without unfavorable Year 2000 issues and therefore not present a material adverse impact upon the Bank.

Year 2000 compliance costs incurred during fiscal 1998 totaled $26,000. This figure does not include the implicit costs associated with the reallocation of internal staff hours to Year 2000 project related efforts. At this time, management currently estimates Year 2000 compliance costs will not exceed $100,000. This estimate does not include normal ongoing costs for computer hardware, software, terminals and related devices that would be replaced with the Bank's ongoing programs for updating its delivery infrastructure without the presence of the Year 2000 issue. The aforementioned Year 2000 project cost estimate may change as the Bank progresses in its Year 2000 programs and obtains additional information associated with, and conducts further testing concerning third parties. At this time no significant projects have been delayed as a result of D&N's Year 2000 effort.

Management of the Bank believes it has an effective program in place to resolve the Year 2000 issue in a timely manner. As noted above, the Bank has not yet completed all necessary phases of the Year 2000 program. In the event that the Bank does not complete any additional phases, under the most reasonably likely worst case scenario, the Bank would be required to process certain transactions manually, which may effect customer service. In addition, disruptions in the economy generally resulting from Year 2000 issues could also materially adversely affect the Bank. The Bank could be subject to litigation for equipment shutdown or failure to properly date customer records. The amount of potential liability and lost revenue cannot be reasonably estimated at this time.

NEW ACCOUNTING PRONOUNCEMENTS

In October 1998, the Financial Accounting Standards Board ("FASB") issued SFAS 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise". When SFAS 134 is initially applied, an enterprise may reclassify mortgage-backed securities and other beneficial interests retained after the securitization of mortgage loans held for sale from the trading category, except for those with sales commitments in place. Those securities and other interests shall be reclassified based on the entity's ability and intent to hold those investments. This standard will be adopted effective January 1, 1999 and is not expected to have any material effect on the Company's financial statements.

OTHER MATTERS

On December 1, 1998, D&N announced that it had entered into a definitive agreement to merge with Republic Bancorp Inc. (Nasdaq:RBNC), whereby Republic Bancorp will be the surviving corporation. The combined company will create the fourth largest bank holding company with headquarters in Michigan with over $4 billion in assets. The merger is subject to shareholder and regulatory approvals, and is expected to be completed in the second quarter 1999.

The operations of D&N Financial Corporation, and the financial services industry generally, are influenced by many factors, including the interest rate environment, competition, legislative and regulatory developments and general economic conditions.

Except for the historical information contained in this report, certain statements made herein are forward-looking statements that involve risks and uncertainties and are subject to various factors that could cause actual results to differ materially from these statements. Factors that might cause such a difference include, but are not limited to: regional and national economic conditions substantial changes in levels of market interest rates, credit and other risks of lending and investments activities and competitive and regulatory factors.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT ACCOUNTANTS
PricewaterhouseCoopers LLP

To The Board of Directors and Stockholders of
D&N Capital Corporation

In our opinion, the accompanying Statements of Condition and the related Statements of Income, Stockholders' Equity and of Cash Flows present fairly, in all material respects, the financial position of D&N Capital Corporation at December 31, 1998 and 1997, and the results of its operations and its cash flows for the year ended December 31, 1998 and the period from inception (March 18, 1997) through December 31, 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

January 21, 1999

D&N CAPITAL CORPORATION
STATEMENTS OF CONDITION

<TABLE>
<CAPTION>

	December 31, 1998	December 31, 1997
ASSETS:	(Dollars in thousands, except share data)	

<S> <C> <C>

Loans receivable:		
Residential mortgage loans	$52,858	$52,784
Commercial mortgage loans	7,401	7,601
Net loans receivable	60,259	60,385
Cash	2	2
Due from Parent	21	--
Other assets	5	--
Accrued interest receivable	358	358
Total assets	$60,645	$60,745
LIABILITIES:		
Due to Parent	$ --	$ 202
Other liabilities	70	9
Total liabilities	70	211
STOCKHOLDERS' EQUITY:		
Preferred stock, par value $25.00; 2,500,000 authorized, 1,210,000 issued and outstanding	30,250	30,250
Common stock, par value $300.00 per share; 250,000 shares authorized, 31,781 shares issued and outstanding	9,534	9,534
Additional paid-in capital	20,716	20,716
Total paid-in capital	60,500	60,500
Retained earnings	75	34
Total stockholders' equity	$60,575	$60,534
Total liabilities and stockholders' equity	$60,645	$60,745

</TABLE>

See Notes to Financial Statements.

D&N CAPITAL CORPORATION
STATEMENTS OF INCOME

<TABLE>
<CAPTION>

	Year Ended December 31 1998	1997*
	(In thousands, except per share data)	
<S>	<C>	<C>
INTEREST INCOME:		
Loans:		
Residential mortgage loans	$ 3,511	$ 1,644
Commercial mortgage loans	593	293

Total loan interest income	4,104	1,937
Intercompany interest	60	15
Total interest income	4,164	1,952
NONINTEREST EXPENSE:		
Advisory fees:	125	57
Other expense	125	43
Total noninterest expense	250	100
Net income	3,914	1,852
Preferred stock dividends paid	2,723	1,218
Net income applicable to common shares	1,191	634
Common stock dividends paid	1,150	600
Retained Earnings increase (decrease)	$ 41	$ 34
Basic and dilutive earnings per common share	$37.47	$19.94
Weighted average common shares outstanding	31,781	31,781

</TABLE>

* The 1997 period is from inception, (March 18, 1997), through December 31, 1997.

See Notes to Financial Statements.

D&N CAPITAL CORPORATION
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

<TABLE>
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	Year Ended December 31 1998	1997*
	(In thousands)	
<S>	<C>	<C>
Preferred stock:		
Balance at beginning of period	$30,250	--
Issuance of preferred stock	--	30,250
Balance at end of period	30,250	30,250
Common stock:		
Balance at beginning of period	9,534	--
Issuance of common stock	--	9,534
Balance at end of period	9,534	9,534

Additional paid in capital:		
Balance at beginning of period	20,716	--
Issuance of common stock	--	22,247
Less: Preferred Stock offering costs	--	(1,531)
Balance at end of period	20,716	20,716
Retained earnings:		
Balance of beginning of period	34	--
Net income	3,914	1,852
Preferred dividends ($2.25 per share in 1998 and $1.01 per share in 1997.)	(2,723)	(1,218)
Common dividends($36.19 per share in 1998 and $18.88 per share in 1997.)	(1,150)	(600)
Balance at end of period	75	34
Total stockholders' equity	$60,575	$60,534

</TABLE>

* The 1997 period is from inception (March 18, 1997), through December 31, 1997.

See Notes to Financial Statements

D&N CAPITAL CORPORATION
STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Year Ended December 31, 1998	1997*
	(In thousands)	
<S>	<C>	<C>
Operating activities:		
Net income	$ 3,914	$ 1,852
Adjustments to reconcile net income to net cash provided by operating activities:		
Net change in:		
Accrued interest receivable	--	(358)
Due to or from Parent	(223)	202
Other assets	(5)	--
Accounts payable	61	9
Net cash provided by operating activities	3,747	1,705
Investing activities:		
Purchase of mortgage loans	(30,098)	(67,218)
Principal payments received	30,224	6,833

Net cash provided(used) by investing activities	126	(60,385)
Financing activities:		
Proceeds from common stock issued	--	31,781
Proceeds from preferred stock issued	--	30,250
Origination and underwriting costs	--	(1,531)
Preferred stock dividends paid	(2,723)	(1,218)
Common stock dividends paid	(1,150)	(600)
Net cash provided(used) by financing activities	(3,873)	58,682
Net increase in cash	--	2
Cash at beginning of year	2	--
Cash at end of year	$ 2	$ 2

</TABLE>

* The 1997 period is from inception (March 18, 1997), through December 31, 1997.

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

D&N Capital Corporation (the "Company"), is a Delaware corporation incorporated on March 18, 1997 and created for the purpose of acquiring and holding real estate assets. The Company is a wholly-owned subsidiary of D&N Bank (the "Bank"), a federally chartered savings bank, which itself is wholly owned by D&N Financial Corporation ("D&N"), a financial services holding company organized under the laws of the state of Delaware.

On July 17, 1997, the Company offered to the public and sold 1,210,000 shares of the Company's 9.00% noncumulative preferred stock, Series A, $25 par value per share, totaling $30,250,000 (the "Series A Preferred Shares"), and sold to D&N Bank, 31,781 shares of the Company's common stock, $300 par value ($1,000 cost) per share, net of offering costs, totaling $30,250,000 (the "Common Stock"). All shares of common stock are held by the Bank. The Series A Preferred Shares are traded on the NASDAQ stock market, under the symbol as "DNFCP".

The Company used the net proceeds raised from the initial public offering of the Series A Preferred Shares and the sale of the Common Stock to the Bank to purchase from the Bank the Company's initial portfolio of $60,524,000 of residential and commercial mortgage loans ("Mortgage Loans") at their estimated fair values.

The accounting and financial reporting policies of the Company conform to generally accepted accounting principles and prevailing industry practices. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mortgage Loans: Mortgage loans are carried at the principal amount outstanding, plus premium or discount, upon purchase from the Bank. Interest income is recognized using the interest method, which approximates a level rate of return over the term of the loan.

Allowance for Loan Losses: The allowance for possible losses on loans is maintained at a level believed adequate by management to absorb potential

losses from impaired loans as well as losses from the remainder of the portfolio. Management's determination of the level of the allowance is based upon evaluation of the portfolio, past experience, current economic conditions, size and composition of the portfolio, collateral location and values, cash flow positions, industry concentrations, delinquencies and other relevant factors. At December 31, 1998 and 1997, there was no allowance for losses on loans.

Due from Parent: Accounts Receivable from parent represents principal and interest payments due the Company from the Bank, partially offset by prior amounts due the Bank by the Company.

Due to Parent: Accounts payable to parent represents the Common Stock Dividend due the Bank, plus advisory fees and other expenses paid by the Bank for the Company, offset partially, by principal and interest payments due, which the Bank owes to the Company.

Offering Costs: Costs incurred in connection with the raising of capital through the sale of preferred stock were charged against stockholders' equity upon the issuance of Common Shares to the Bank.

Income Taxes: The Company has elected to be treated as a Real Estate Investment Trust ("REIT") pursuant to provisions of the Internal Revenue Code of 1986, as amended (the "Code"). As a result, the Company will not be subject to federal income tax on its taxable income to the extent it distributes at least 95% of its taxable income to its shareholders and it meets certain other requirements as defined in the Code. The Company intends to maintain its qualification as a REIT for federal income tax purposes. The Company intends to make qualifying dividends (for federal income tax purposes) of all of its taxable income to its Common and Preferred Stock shareholders, a portion of which may be in the form of "consent" dividends, as defined under the Code. As a result, the Company has made no provision for federal income taxes in the accompanying financial statements.

Dividends:

Preferred Stock. Dividends on the Series A Preferred Shares are noncumulative from issuance (July 17, 1997) and are payable quarterly on the last day of March, June, September and December at a rate of 9.00% per annum of the liquidation preference ($25.00 per share).

Common Stock. The Bank, as shareholder, is entitled to receive dividends when, as and if declared by the Board of Directors from funds legally available after all preferred dividends have been paid.

Earnings Per Common Share: Earnings per share is computed by dividing net income after preferred dividends by the weighted average number of common shares outstanding. There are no outstanding dilutive securities.

NOTE 3 - MORTGAGE LOANS

Mortgage loans consist of both residential and commercial mortgage loans. Residential mortgage loans consist of Adjustable Rate Mortgages ("ARMs") and Fixed Rate Mortgages ("FRMs"). The commercial mortgage loans consist of Fixed and Variable Rate loans, a majority of which have balloon payments.

The following represents the Mortgage Loan portfolio.

	December 31, 1998	December 31, 1997
	(In thousands)	
Residential mortgage loans	$52,858	$52,784
Commercial mortgage loans	7,401	7,601
Total	$60,259	$60,385

Each of the Mortgage Loans are secured by a mortgage, deed of trust or other security instrument which created a first lien on the residential dwellings and/or commercial property.

NOTE 4 - DIVIDENDS

For the year ended December 31, 1998, the Company paid dividends on the Series A Preferred Shares in the amount of $2,722,500 and dividends on the Common Shares of $1,150,000.

For the period from inception (March 18, 1997) through December 31, 1997, the Company paid dividends on the Series A Preferred Shares in the amount of $1,217,563, and dividends on the Common Shares of $600,000.

NOTE 5 - RELATED PARTY TRANSACTION

The Company has entered into an Advisory Agreement (the "Advisory Agreement") with the Bank (the "Advisor") requiring an annual payment of $125,000. The Advisor provides advice to the Board of Directors and manages

the operations of the Company as defined in the Agreement. The Agreement has an initial term of five years commencing on September 9, 1997 and automatically renews for additional five year periods, unless the Company delivers a notice of nonrenewal to the Advisor as defined in the Advisory Agreement. Advisory fees incurred for the period year ended December 31, 1998 totaled $125,000 and for the period from inception (March 18, 1997) through December 31, 1997 totaled approximately $57,000.

The Company also entered into two servicing agreements with the Bank for the servicing of the commercial and residential mortgage loans. Pursuant to each servicing agreement, the Bank performs the servicing of the Mortgage Loans owned by the Company, in accordance with normal industry practice. The Servicing Agreements can be terminated without cause upon a thirty day advance notice given to the Servicer. The servicing fee is 0.375% of the outstanding principal balance for the residential mortgage loans and commercial mortgage loans. The servicing fees of $217,000 and $94,000 for 1998 and 1997, respectively, are netted out of loan interest income, prior to remittance by the Bank to the Company.

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, entitled "Disclosures About Fair Value of Financial Instruments" ("SFAS 107"), requires Companies to disclose fair value information about financial instruments for which it is practicable to estimate values, whether or not such financial instruments are recognized on the balance sheet. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Certain financial instruments and all nonfinancial instruments are excluded from the scope of SFAS 107. Accordingly, the fair value disclosures required by SFAS 107 may provide only a partial estimate of the fair value of the Company. Fair values among REITs are not comparable due to the wide- range of limited valuation techniques and numerous estimates which must be made. This lack of an objective valuation standard, introduces a great degree of subjectivity to these derived or estimated fair values. Therefore, readers are cautioned against using this information for purposes of evaluating the financial condition of the Company compared with other REITs.

Loans:

Loans were valued using methodologies suitable for each loan type. These methodologies and the key assumptions made are discussed below.

The fair value of the Company's commercial loans was estimated by assessing the two main risk components: credit risk and interest rate risk. The estimated cash flows were discounted, using rates appropriate for each maturity that incorporates the effects of interest rate changes.

For residential mortgage loans for which market rates for comparable loans are readily available, the fair value was estimated by discounting expected cash flows, adjusted for prepayments. The discount rates used for residential mortgages were secondary market yields for comparable mortgage- backed securities, adjusted for risk. These discount rates incorporated the effects of interest rate changes only, since the estimated cash flows were previously adjusted for credit risk.

The book value and fair value of Mortgage Loans at December 31, 1998 and 1997, are as follows (in thousands):

<TABLE>
<CAPTION>

	1998		1997	
	Book Value	Fair Value	Book Value	Fair Value
<S>	<C>	<C>	<C>	<C>
Residential Mortgage Loans	$52,858	$52,821	$52,784	$52,796
Commercial Mortgage Loans	7,401	7,416	7,601	7,607
Total Portfolio	$60,259	$60,237	$60,385	$60,403

</TABLE>

Assets and liabilities in which carrying value approximates fair value:

The carrying values of certain financial assets and liabilities, including cash, accrued interest receivable, due-to-parent and other liabilities, are considered to approximate their respective fair value due to their short-term nature and negligible exposure to credit losses.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE CORPORATION

The persons who are directors and executive officers of the Company are as follows:

Name	Position and Office Held
George J. Butvilas	Director and Chairman
Kenneth R. Janson	Director, President and Chief Executive Officer
Richard E. West	Director and Vice President
James Bogan	Director
William J. McGarry	Director
Gail A. Mroz	Director
Daniel D. Greenlee	Treasurer and Chief Financial Officer
Peter L. Lemmer	Secretary
Eddie J. Johnson	Loan Portfolio Management Officer

The following is a summary of the experience of the executive officers and directors of the Company:

George J. Butvilas, age 53, Director and Chairman; joined D&N as President in May 1990, and was elected a Director in October, 1990. He was named Chief Executive Officer of the Bank in 1991 and Chief Executive Officer of D&N in 1992. Prior to joining the Bank, he had over 16 years experience as a commercial and community banker, most recently as Executive Vice President and Director of Boulevard Bancorp, Inc. of Chicago, Illinois.

Kenneth R. Janson, age 47, Director, President and Chief Executive Officer; is also Executive Vice President/Chief Financial Officer and Treasurer of D&N and the Bank. Prior to joining the Bank in May 1988 as Vice President/Financial Analysis, he was affiliated with various universities, the last six years as Associate Professor of Accounting at Michigan Technological University. Mr. Janson is responsible for directing the accounting, investment and investor relations functions for the Bank and D&N.

Richard E. West, age 52, Director and Vice President; is also Executive Vice President/Wholesale Banking of the Bank. Prior to joining the Bank in January 1990, he was Servicing Manager for 20 years with Rothschild Financial Corporation and Valley National Bank of Arizona. Mr. West is responsible for directing the loan servicing, residential lending, consumer lending, bank operations and information systems functions of the Bank.

James Bogan, age 47, Director; is also Chief Executive Officer of Portage Health System, Hancock, Michigan. Prior to joining the Health System in June 1989, he held various positions involving health care management, the last three years as Chief Operating Officer of Trinity Medical Center, Minot, North Dakota. Mr. Bogan is responsible for directing the affairs of Portage Health System, which include a 44 bed acute care unit, a 30 bed nursing home unit, a medical group including 15 physicians, a home health agency, and two retail pharmacies.

William J. McGarry, age 55, Director; is also the Treasurer and Chief Financial Officer of Michigan Technological University located in Houghton, Michigan. He was named to his current position at the University in December 1992, after serving two years as a senior associate with Coopers & Lybrand in Boston. Prior to his term with Coopers & Lybrand, Mr. McGarry served as principal consultant with Information Associates of Rochester, New York and was vice president in charge of the large financial services management consulting and systems integration practice of SEI Corporation of Cambridge, Massachusetts. He has also served as senior director of finance and administration at Rensselaer Polytechnic Institute and as director of administrative systems at Lehigh University.

Gail A. Mroz, age 46, Director; is also the Director of Finance and Operations of the Michigan Tech Fund in Houghton, Michigan. Previous to this, Ms. Mroz was Finance Director and Controller of Copper Country Mental Health, and has also been an instructor for the School of Business and Engineering Administration at Michigan Technological University, both of which are in Houghton, Michigan.

Daniel D. Greenlee, age 46, Treasurer and Chief Financial Officer; is also Senior Vice President/Controller of the Bank. He has been with the Bank in various capacities since 1984 and is presently responsible for the accounting, financial and regulatory reporting, financial analysis, tax and risk management functions of the Bank.

Peter L. Lemmer, age 41, Secretary; is also Senior Vice President/General Counsel of D&N and the Bank. Prior to joining the Bank in October 1990, he held various positions involving legal services, the last five years as Senior Vice President/Compliance and Vice President, Associate General Counsel/Compliance Officer with Cal America Savings, later known as Columbus Saving, and American Federal Bank, respectively. Mr. Lemmer is responsible for the legal and regulatory functions of the Bank and D&N.

Eddie J. Johnson, age 49, Loan Portfolio Officer; is also Secondary Marketing Manager and Investment Officer of the Bank. She has been with the Bank in various capacities since 1983 and is presently responsible for the management of secondary coverage on the Bank's residential mortgage pipeline, along with purchases and sales of loan product for the Bank.

Independent Directors

The Company's Certificate of Designation establishing the Series A Preferred Shares requires that, so long as any Series A Preferred Shares are outstanding, certain actions by the Company be approved by a majority of the Independent Directors of the Company. Messrs. Bogan, McGarry and Ms. Mroz are the Company's Independent Directors. When there are only two Independent Directors, any action that requires the approval of a majority of Independent Directors must be approved by both Independent Directors.

If at any time the Company fails to declare and pay a quarterly dividend on the Series A Preferred Shares, the number of directors constituting the Board of Directors of the Company will be increased by two at the Company's next annual meeting and the holders of Series A Preferred Shares, voting together with the holders of any other outstanding series of Preferred Stock as a single class, will be entitled to elect the two additional directors to serve on the Company's Board of Directors. Any member of the Board of Directors elected by holders of the Company's Preferred Stock will be deemed to be an Independent Director for purposes of the actions requiring the approval of a majority of the Independent Directors.

Audit Committee

The Company's audit committee reviews the engagement and independence its auditors. The audit committee also reviews the adequacy of the Company's internal accounting controls. The audit committee is comprised of Messrs. Bogan, McGarry and Ms. Mroz.

ITEM 11: EXECUTIVE COMPENSATION

The Company does not pay any compensation to its officers or to employees of the Bank, or to directors who are not Independent Directors. The Company pays the Independent Directors of the Company fees for their services as directors. The Independent Directors receive a fee of $250 for attendance (in person or by telephone) at each meeting of the Board of Directors and $100 for each meeting of a Committee of the Board. However, multiple fees are not be paid for two or more meetings attended on the same day.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The Bank owns 100% of the common stock of the Company.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Set forth below are certain transactions between the Company and its directors and affiliates. Management believes that the transactions with related parties described herein have been conducted on substantially the same terms as similar transactions with unrelated parties.

The Bank administers the day-to-day operations of the Company and is entitled to receive fees in connection with the Advisory Agreement. Advisory fees paid to parent for the period ended December 31, 1998 totaled $125,000.

The Bank services the Residential Mortgage Loans included in the Company's portfolio and is entitled to receive fees in connection with the Servicing Agreement.

The Company had cash balances of approximately $1,661 as of December 31, 1998 and 1997, held in a demand deposit account with the Bank.

PART IV

ITEM 14: EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) The following financial statements of the Company are included in Item 8 of this report:

Report of Independent Public Accountants and Statements of Condition at December 31, 1998 and 1997.

Statements of Income for the year ended December 31, 1998 and the period from inception (March 18, 1997) through December 31, 1997.

Statements of Changes in Stockholders' Equity for the year ended December 31, 1998 and the period from inception (March 18, 1997) through December 31, 1997.

Statements of Cash Flows for the year ended December 31, 1998 and the period from inception (March 18, 1997) through December 31, 1997.

Notes to Financial Statements

(a)(2) All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instruction or are inapplicable and therefore have been omitted.

(a)(3) Exhibits:

*12(a) Computation of Ratio of Earnings to Fixed charges.

*12(b) Computation of Ratio of Earnings to fixed charges and Preferred Stock dividend requirements.

*27 Financial Data Schedule

(b) No reports on Form 8-K were issued during the three months ended December 31, 1998.

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* Filed herewith.

SIGNATURES

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

D&N CAPITAL CORPORATION
(Registrant)

Date: March 22, 1999

By: /s/ KENNETH R. JANSON

KENNETH R. JANSON
Director and President
(Duly Authorized Representative)

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

By: /s/ GEORGE J. BUTVILAS
GEORGE J. BUTVILAS
Director, Chairman of the Board

Date March 22, 1999

By: /s/ KENNETH R. JANSON
KENNETH R. JANSON
Director and President

Date March 22, 1999

By: /s/ RICHARD E. WEST
RICHARD E. WEST
Director and Vice President

Date March 22, 1999

By: /s/ JAMES BOGAN
JAMES BOGAN
Director

Date March 22, 1999

By: /s/ WILLIAM J. MCGARRY
WILLIAM J. MCGARRY
Director

Date March 22, 1999

By: /s/ GAIL A. MROZ
GAIL A. MROZ
Director

Date March 22, 1999

By: /s/ DANIEL D. GREENLEE
DANIEL D. GREENLEE
Treasurer, Chief Financial Officer
and principal accounting officer.

Date March 22, 1999

Exhibit Index

*12(a) Computation of ratio of Earnings to Fixed charges.

*12(b) Computation of Ratio of Earnings to fixed charges and Preferred Stock dividend requirements,

*27 Financial Data Schedule

----

* Filed herewith.

EXHIBIT 12(a)

D&N CAPITAL CORPORATION
Computation of ratio of earnings to fixed charges

	1998	1997*
	(In thousands, except ratio):	
Net income	$3,914	$1,852
Fixed charges:		
Advisory fees	125	57
Total fixed charges	125	57
Earnings before fixed charges	$4,039	$1,909
Fixed charges, as above	$ 125	$ 57
Ratio of earnings to fixed charges	32.3	33.5

* For period from inception (March 18, 1997) through December 31,1997.

EXHIBIT 12(b)

D&N CAPITAL CORPORATION
Computation of ratio of earnings to fixed charges
and preferred stock dividend requirements

	1998	1997*
	(In thousands, except ratio)	
Net income	$3,914	$1,852
Fixed charges:		
Advisory fees	125	57
Total fixed charges	125	57
Earnings before fixed charges	4,039	1,909
Fixed charges, as above	125	57
Preferred stock dividend requirements	2,723	1,218
Fixed charges including preferred stock dividends	$2,848	$1,275
Ratio of earnings to fixed charges and preferred stock dividend requirements	1.42	1.50

* For period from inception (March 18, 1997) through December 31,1997.

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