UNIVERSITY BANCORP INC /DE/
Form 10-K
March 30, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2003 OR [ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from ____________ to ___________

Commission file number 0-16023

UNIVERSITY BANCORP, INC.
(Exact name of registrant as specified in its charter)
Delaware 38-2929531
(State or other jurisdiction of (I.R.S. Employer incorporation)
Identification No.

959 Maiden Lane, Ann Arbor, Michigan 48105
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to section 12(b) of the Act: NONE Securities registered pursuant to section 12(g) of the Act:
Common Stock, par value $.010 per share

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or other information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The number of shares outstanding of the Registrant's Common Stock as of March 22 2004: 4,086,548 shares. The aggregate market value of the voting stock held by non-affiliates of the Registrant based on $2.40 per share, the average bid and asked price for the Registrant's Common Stock on March 22, 2004, as reported by NASDAQ, was approximately $2,617,392.

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

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PART I.

Item 1. - Business

General

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

Bank. The Company changed its name to University Bancorp, Inc. from Newberry Bancorp, Inc. in 1996, in order to better identify itself with the Bank.

University Bank. The Bank is a state chartered community bank. The Bank was chartered by the state of Michigan in 1908 and began business in 1890. In 1994, we sold the bank's offices in Newberry, Michigan and Sault Ste. Marie, Michigan. As part of a non-compete agreement with the purchaser of the banks offices, we relocated the Bank's main office to the former offices of its mortgage operation in Sault Ste. Marie, Michigan. In 1995, the Bank changed its name from The Newberry State Bank to University Bank to more closely identify with its current place of business, Ann Arbor, Michigan. Ann Arbor is a university town, home to the University of Michigan and is the largest city in Washtenaw County, just west of the Detroit Metropolitan Statistical Area. The Banks primary market area is defined as the City of Ann Arbor and surrounding areas in greater Washtenaw County.

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

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

Michigan BIDCO. In 1993, Stephen Lange Ranzini founded a BIDCO, which is a Business and Industrial Development Company, called Michigan BIDCO, Inc. The BIDCO is licensed by the Michigan Office of Financial and Insurance Services under the State of Michigan BIDCO program. Michigan BIDCO invests in businesses in Michigan with the objective of fostering job growth and economic development. University Bancorp currently owns 6.10% of the BIDCO. The Bank also holds $600,000 of 7.5% cumulative preferred stock

of the BIDCO. Subsequent to year end, the BIDCO preferred stock was sold in exchange for a note to a company in which Stephen Lange Ranzini is a shareholder. The note is secured by all assets of the company. The note will be paid off by December 31, 2004.

Employees

The Company employed 68 full-time equivalents as of March 22, 2004:

University Bank, Ann Arbor	23

Midwest Loan Services	41
University Insurance & Investment	4

Lines of Business

Deposit Products & Services

University Bank offers traditional retail savings products and services to its customers. These include demand deposit and NOW interest-bearing checking accounts, money market deposit accounts, regular savings accounts and term deposit certificates ranging in maturity from three to three hundred months. The Bank also offers free access to 24-Hour ATM machines, telephone banking, internet banking, debit cards and Gold VISA accounts. From time to time to raise liquidity, the Bank relies on brokers to sell CDs. At December 31, 2003, the Bank had approximately $1.1 million in CDs issued through brokers. The Bank also offers Sharia compliant profit-sharing deposits for Muslim depositors.

Lending Products

University Bank offers a range of traditional lending products, including commercial small business loans, residential real estate mortgage loans, home equity loans, commercial real estate mortgage loans, consumer installment loans, and land development and construction loans.

Classifications of the loan portfolio as of December 31, 2003 are as follows:

	Amount Outstanding(1)	% of Total
Commercial, Real Estate & Other	$15,943,127	45.64%
Residential Construction	1,270,789	3.64%
Residential Real estate	13,140,378	37.62%
Residential Home equity	4,219,463	12.08%
Consumer	233,217	0.67%
Credit Card	121,612	0.35%
Gross Loans	$34,928,586	100.00%

(1) - Excludes loans held for sale.

The Bank's loan portfolio is geographically concentrated in Ann Arbor and Washtenaw County, Michigan. The ability of individual loan customers to honor their debts is partially dependent on the local economy.

The Ann Arbor area is primarily dependent on the education, healthcare, services, and manufacturing (automotive and other) industries.

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

Residential loans typically have a loan to value ratio less than 80% at the time the loan is originated, unless the borrower's financial position is very strong, in which case a loan to value ratio of up to 90% is considered. To meet the Bank's goals for first time homebuyers, the Bank has originated 97% to 100% loan to value residential loans and currently has about $2 million of these loans in its loan portfolio. Home equity secured residential loans have loan to value ratios of less than 90% at time of origination in the case of fixed rate fully-amortizing loans and 80% for home equity lines of credit, with a few exceptions with higher ratios for borrowers with strong credit. The Bank has also originated $2.65 million of mortgage alternative loan transactions which are Sharia-compliant mortgage alternatives for Muslim customers. The primary risk of residential lending is that home prices drop (typically this occurs during recessions) and borrowers walk away from their home or file for bankruptcy. All of the Banks construction loans are secured by residential properties with a loan to value ratio of 80% or less. The Bank controls the risk of construction lending by performing inspections prior to disbursing interim construction funds to avoid cost overruns.

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

The Bank makes very few business loans that are not secured by real estate. Business Lines of Credit are typically made up to a 50% ratio of inventory and other equipment at current market value, and 70% of current receivables. Business Manager Loans are also structured as Lines of Credit and are secured by individual receivables up to 90% of face value individually purchased with recourse to the borrower and additional insurance to protect the bank against fraud and bankruptcy of the issuer of the account that is receivable to the borrower. The primary risk of this type of lending backed by non-real estate business assets is that if the business suffers a financial reverse, an unscrupulous borrower can easily dissipate the collateral, causing the Bank a loss. For this reason, the Bank de-emphasizes this type of lending.

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

Mortgage Banking

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

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

Mortgage Subservicing

Mortgage servicing firms receive monthly payments from loan customers, aggregate and account for these payments, and send the funds to mortgage-backed securities holders, including pension funds and financial institutions. For some mortgage customers, escrow funds are also accumulated, and funds sent to taxing authorities and insurance companies as needed. Mortgage servicers also dun delinquent accounts and foreclose loans, if required. Mortgage servicers receive a fixed monthly fee for performing this service. When these services are performed for the Bank, it is called servicing. When these services are performed for other institutions, it is called subservicing. The Banks 80%-owned subsidiary, Midwest Loan Services, specializes in subservicing residential mortgage loans sold to FNMA and FHLMC and other non-agency private conduits for the account of credit unions, other financial institutions and mortgage brokers.

Investment Securities

The Bank maintains surplus available funds in investments consisting of short-term money market instruments, U.S. government bonds, U.S. federal

agency obligations, mortgage-backed securities backed by federal agency obligations and obligations of local units of government. The Banks President, who is a licensed Registered Representative, manages these investments, and purchase/sale decisions are subject to the review and approval of the Asset Liability Committee of the Bank and the Board of Directors. The securities portfolio provides a source of liquidity to meet Bank operating needs. At December 31, 2003, the portfolio had a net unrealized loss of $38,795 versus a net unrealized loss of $81,764 at December 31, 2002, and $167,112 at December 31, 2001.

Information regarding securities where cost exceeded more than 10% of the Companys stockholders' equity at December 31, 2002 is as follows:

Issuer	Coupon	Yield	Final Maturity	Market Value
FHLBI equity (1)	VAR	5.00%	None	$881,100
FNMA CMO 93-205H (2)	PO	3.37%	9/25/23	596,514
GNMA (various)	VAR	5.19%	6/20/22	1,040,209
Other	VAR	-	VAR	12,316

(1) The rate varies quarterly. The Bank is required to maintain the investment in Federal Home Loan Bank of Indianapolis common stock in an amount related to the Bank's single family mortgage related assets and FHLBI advances.

Shares can be redeemed or sold at par value to the FHLBI as required from time to time.

(2) This Principal Only strip has an expected average life of about five years. The bond is rated AAA.

Competition

Community Banking, Ann Arbor

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

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

The following table shows market share of deposits for Washtenaw County by financial institution for June 2003, June 2002 and June 2001, respectively from the FDIC and National Credit Union Associations annual branch deposit survey.

Washtenaw County Financial Institution Deposits:

	2003	2002	2001
TCF National	14.03%	15.63%	16.16%
National City	12.81%	12.51%	11.93%
Comerica	11.03%	11.08%	11.92%
Bank One	8.79%	8.89%	9.37%
Keybank	6.19%	6.41%	7.23%
Bank of Ann Arbor	6.06%	4.59%	3.94%
Ann Arbor Commerce	5.61%	5.22%	4.87%
University of Michigan CU	5.51%	5.21%	4.23%
Flagstar	4.86%	4.91%	5.06%
Standard Federal	4.19%	4.95%	6.22%
Huron River Area CU	3.54%	3.36%	3.09%
Chelsea State	3.09%	3.09%	3.10%
Citizens	2.54%	2.61%	2.82%
United Bank & Trust	2.53%	2.56%	1.40%
Midwest Financial CU	2.41%	2.24%	2.10%
Republic	2.00%	2.27%	2.03%
Automotive FCU	1.28%	1.31%	1.33%
Bank of Washtenaw	1.13%	1.05%	0.64%
Charter One	0.87%	0.67%	0.71%
University Bank	0.76%	0.89%	0.91%
5 Credit Unions	0.76%	0.75%	0.74%
Total deposits (in billions)	$4.89	$4.53	$4.34
Annual Increase	8.01%	4.23%	4.40%

Total deposits in the county increased 8.01% to $4.89 billion from June 2002 to June 2003. Total deposits in the county increased 4.23% to $4.53 billion from June 2001 to June 2002. In attracting deposits, the Banks 0primary competitors for deposits are mutual funds, other commercial banks, credit unions, savings and loans and insurance companies.

The Banks main office is adjacent to the University of Michigan Hospital complex. The complex employs a total of 7,800 persons. While the Bank competes with all of these financial institutions for loans and deposits and in particular the eight financial institutions that have branch offices in the northeast Ann Arbor market area, the other major competitor in the immediate local deposit market near the Medical Center complex is Midwest Financial Credit Union, formerly known as Hospital & Health Services Credit Union. The Banks main office was formerly the headquarters of this credit union, which moved its office to a new office building three miles from the Medical Center Complex.

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

Mortgage Banking

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

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

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

Mortgage Servicing and Subservicing. Servicing competition is somewhat less intense than the loan origination aspect of mortgage banking. Due to net worth and management requirements, many mortgage origination companies do not have the capacity to service loans. Falling interest rates present competitive challenges for the mortgage servicing operation in that mortgagors are more likely to refinance existing mortgages. The quality of service and the ability of the origination operation to compete on price

and service are important in retaining these customers by refinancing them internally, rather than losing the refinancing transaction to a competitor. Increased refinancing activity as a result of falling interest rates should decrease profitability of mortgage servicing by increasing amortization charges on purchased mortgage servicing rights.

In the subservicing business, Midwest Loan Services competes primarily with about 30 firms nationwide, including specialized subservicing units of mortgage banking companies, and specialized firms owned by banks and savings and loans. Most of these companies have substantially larger financial resources than Midwest Loan Services, and some of them are also located in rural areas with low prevailing wages.

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

Regulation

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

Acquisitions. The Company is generally prohibited from engaging in non-banking activities since it is a bank holding company. The Company cannot acquire more than 5% of the shares of another company engaged in non-banking activities. The Company can only acquire direct or indirect control of more than 5% of the voting shares of a company engaged in a banking related activity with the prior approval by the Federal Reserve Board to acquire these shares or by regulatory exemption. The Federal Reserve Board has identified specific banking related activities in which a bank holding company may engage with notice to the Federal Reserve. The Federal Reserve considers managerial, capital, and other financial factors, including the

impact on local competition of any proposal and past performance under the Community Reinvestment Act in acting on acquisition or merger applications. Bank holding companies may acquire other banks located in any state in the United States without regard to geographic restrictions or reciprocity requirements imposed by state law, but subject to certain conditions, including limitations on the aggregate amount of deposits that may be held by the acquiring company and all of its insured depository institution affiliates.

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

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

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

Financial Holding Companies. Beginning March 11, 2000, bank holding companies may apply to become Financial Holding Companies. We have not applied to become a Financial Holding Company. Financial Holding Companies may engage in a wider range of non-banking activities than Bank Holding Companies, including greater authority to engage in securities and insurance activities. The expanded powers are available to a bank holding company only if the bank holding company and its bank subsidiaries remain well-capitalized and well-managed. The new law also imposes various restrictions on transactions between the depository institution subsidiaries of bank holding companies and their non-bank affiliates. These restrictions are intended to

protect the depository institutions from the risks of the new non-banking activities permitted to affiliates.

Public Company Regulation. As a NASDAQ small-cap listed firm, the Company is subject to the Sarbanes-Oxley Act, and the extensive regulation imposed by that act with respect to financial reporting and director independence.

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

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

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

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

* the Community Reinvestment Act,
* the Federal Truth-in-Lending Act,
* the Home Mortgage Disclosure Act,
* the Gramm-Leach Bliley Privacy Act
* the Patriot Act
* the Check 21 Act
* the Equal Credit Opportunity Act,
* the Fair Credit Reporting Act,
* the Fair Debt Collection Act,
* the Right to Privacy Act,
* the Real Estate Settlement Procedures Act,
* the Bank Secrecy Act,
* the Electronic Funds Transfer Act,
* Federal Reserve regulations,
* State usury laws, and
* Federal laws concerning interest rates.

Also, University Bank may not engage in any activity not authorized by the

Michigan Banking Code unless it is authorized by the Commissioner of the OFIS as being closely related to banking.

These laws and regulations are primarily intended to protect depositors and the deposit insurance fund of the FDIC, not the Bank nor the Companys stockholders. The following is a summary of certain statutes and regulations affecting University Bank. The following information is qualified in its entirety by reference to the particular statutory and regulatory provisions.

Various changes to the Federal Deposit Insurance Act (FDIA) are currently proposed in Congress. Any change in applicable laws, regulations or regulatory policies of various governmental regulatory authorities may have a material effect on the Companys business, operations and prospects. Those authorities include, but are not limited to, the Board of Governors of the Federal Reserve System, the FDIC, the Commissioner of the Michigan Office of Financial and Insurance Services, the Internal Revenue Service, and state taxing authorities. The Company is unable to predict the nature or extent of the effects that fiscal or monetary policies, economic controls or new federal or state legislation may have on future business and earnings.

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

The Federal Deposit Insurance Act (FDIA) requires the FDIC to establish assessment rates at levels that will maintain the Deposit Insurance Fund at a mandated reserve ratio of not less than 1.25% of estimated insured deposits.

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

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

FICO Assessments. Pursuant to federal legislation enacted in 1996, University Bank, as a member of the BIF, is subject to assessments to cover the payments on outstanding obligations of the Financing Corporation (FICO). FICO was created in 1987 to finance the re-capitalization of the Federal

Savings and Loan Insurance Corporation, the predecessor to the FDIC's Savings Association Insurance Fund (SAIF), which insures the deposits of thrift institutions. Between January 1, 2000 and the maturity of the outstanding FICO obligations in 2019, BIF members and SAIF members will share the cost of the interest on the FICO bonds on a pro rata basis. It is estimated that FICO assessments during this period will be less than 0.025% of deposits. In addition, the Federal Home Loan Banks, including the Federal Home Loan Bank of

Indianapolis, in which University Bank is an investor, pay 20% of their annual net income to a sinking fund to retire the FICO bonds until they are paid in full.

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

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

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

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

Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: requiring the submission of a capital restoration plan; placing limits on asset growth and restrictions on activities; requiring the institution to issue additional capital stock, including additional voting stock, or to be acquired; restricting transactions with affiliates; restricting the interest rate the institution may pay on deposits; ordering a new election of directors of the institution; requiring that senior executive officers or directors be dismissed; prohibiting the institution from accepting deposits from correspondent banks; requiring the institution to divest certain subsidiaries; prohibiting the payment of principal or interest on subordinated debt; and ultimately, appointing a receiver for the institution.

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

The extent of the regulators' powers depends on whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically

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

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

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

Federal law generally prohibits the Bank from making any capital distribution, including payment of a dividend, or paying any management fee to us if the Bank would thereafter be undercapitalized. The FDIC may prevent the Bank from paying dividends if the Bank is in default of payment of any assessment due to the FDIC. In addition, the FDIC may prohibit the payment of dividends by the Bank, if a payment is determined, by reason of the financial condition of the Bank, to be an unsafe and unsound banking practice.

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

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

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

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

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

* the Equal Credit Opportunity Act,
* the Fair Credit Reporting Act,
* the Truth in Lending Act,
* the Real Estate Settlement Procedures Act, and
* the Home Mortgage Disclosure Act.

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

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

* the Truth in Savings Act,
* the Expedited Funds Availability Act,
* the Bank Secrecy Act,
* the Electronic Funds Transfer Act and
* the Federal Deposit Insurance Act

* The Patriot Act
* The Check 21 Act
* The Gram-Leach Bliley Privacy Act.

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

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

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

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

* acquisition of all or substantially all of the assets of a Michigan-chartered bank by an FDIC-insured bank, savings bank, or savings and loan association located in another state;
* acquisition by a Michigan-chartered bank of all or substantially all of the assets of an FDIC-insured bank, savings bank or savings and loan association located in another state;
* consolidation of one or more Michigan-chartered banks and FDIC-insured banks, savings banks or savings and loan associations located in other states having laws permitting this consolidation, with the resulting organization chartered by Michigan;
* establishment by a foreign bank, which has not previously designated any other state as its home state under the International Banking Act of 1978, of branches located in Michigan;
* establishment or acquisition of branches in Michigan by FDIC-insured banks located in other states, the District of Columbia or U.S. territories or protectorates having laws permitting Michigan-chartered banks to establish branches in these jurisdictions.

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

* acquisition by a Michigan-chartered bank of one or more branches, not comprising all or substantially all of the assets, of an FDIC-insured bank, savings bank or savings and loan association located in another state, the District of Columbia, or a U.S. territory or protectorate;
* establishment by Michigan-chartered banks of branches located in other states, the District of Columbia, or U.S. territories or protectorates; and
* consolidation of one or more Michigan-chartered banks and FDIC-insured banks, savings banks or savings and loan associations located in other states, with the resulting organization chartered by one of the other states.

Primary Regulators for Michigan BIDCO. BIDCO is regulated and supervised by the Michigan Department of Commerce, Office of Financial and Insurance Services, Bank & Trust Division. BIDCO is examined annually by the Bank & Trust Division, and is required to make annual filings of financial statements, to maintain a license from the Bureau and to operate under strict rules on transactions with affiliates. Licensing under the terms of the Michigan BIDCO Act conveys certain exemptions upon BIDCO under Michigan law that is beneficial to the operations and investment flexibility of the BIDCO. Most importantly, BIDCO is partially exempt from the state's usury law. As a result, BIDCO can lend money and take equity participation in the firm it lends to, with the result that BIDCO's overall combined yield on the investment and loan can exceed the state's usury limit. The amount of BIDCO's return from the equity participation or contingent payments is excluded from the calculation to determine compliance with the state's usury limits.

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

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

Item 2. Properties

Properties

The Bank leases a building in Ann Arbor, Michigan that is the Bank's main office and sole branch location. The lease ends in June 2005. There are also 5 options to extend for an additional six-months per option. Previously, the building was owned by the Bank. In June 2003, the Bank sold the building to Lowertown Development, LLC (Lowertown) for $1,173,833

at a gain of $342,851. Simultaneously, the Bank entered into a 24 month lease agreement with Lowertown to lease the facility. Lowertown is developing the neighboring area with a major office, retail and apartment development. The Bank has an option to purchase 10,000 square feet of office space in this new development. The gain on the sale of the building is being amortized into to income over the life of the initial lease term.

The Bank leases a site that includes a registered historic building in Ann Arbor, at the corner of Washtenaw Avenue and Stadium Boulevard as a ATM drive-through location, a BIDCO office and an off-site storage facility. The minimum lease period ends May 2006 with two optional five-year extensions. The Bank also owns 1/3 of the Company which owns the site, Tuomy, LLC.

The Bank leases an ATM location in Ann Arbor at the corner of State and Liberty near the University of Michigan Campus. The minimum period of this lease ends December 2005.

The Bank owns a former loan office in Sault Ste. Marie and such space is leased to an unrelated third-party. Management is in negotiations to sell this property.

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

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

Contractual Obligations

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

	Payments Due By Period				
	Total	Less than year	1-3 years	3-5 years	More than 5 years
Operating leases	$297,400	$185,400	$112,000	$0	$0
Certifcates of deposit	$9,455,982	$5,347,629	$3,392,458	$295,873	$420,022
Long term borrowings	$166,000	$134,000	$32,000	$0	$0
Totals	$9,919,382	$5,667,029	$3,536,458	$295,873	$420,022

Item 3. - Legal Proceedings

At December 31, 2003 the Company had no outstanding legal proceedings that would have a material affect on the financial statements.

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

Not applicable.

PART II.

Item 5. - Market for Registrant's Common Equity and Related Stockholder Matters

Common Stock and Dividend Information

Our common stock trades on the NASDAQ Small-Cap Market under the symbol UNIB. The high and low sales prices of our common stock as quoted by NASDAQ, for each quarter since January 1, 2002 are listed below:

	High	Low
2002		
First Quarter	$1.40	$0.55
Second Quarter	1.10	0.66
Third Quarter	1.08	0.71
Fourth Quarter	1.15	0.56
2003		
First Quarter	$3.00	$0.62
Second Quarter	2.25	0.91
Third Quarter	5.73	1.06
Fourth Quarter	3.38	2.22
2004		
First Quarter through March 16	$2.80	$2.05

These quotations represent inter-dealer prices, without retail markup, markdown or commission, and may not represent actual transactions. As of the March 22, 2004 we had approximately 360 stockholders including approximately 200 beneficial owners of shares held by brokerage firms or other institutions.

Our shareholders authorized a 1 for 2 reverse stock split in November 2002, however, management has opted, at this time, not to implement the reverse stock split. No cash dividends have been paid on our common stock. We do not currently anticipate declaring or paying dividends in the first three quarters of 2004. We plan to reevaluate our dividend policy in late 2004.

Certain Sales of Equity Securities

Not applicable.

Item 6. Selected Financial Data

University Bancorp, Inc.
Selected Consolidated Financial and Other Data
(Dollars in Thousands Except Per Share Data)

	2003	2002	2001
Summary of operations (1)			
Interest income	$2,732	$3,194	$3,543
Interest expense	842	1,039	1,805
Net interest income	1,890	2,155	1,738
Provision for loan losses	189	100	40
Net interest income after provision for loan losses	1,701	2,055	1,698
Net gain (loss) on securities	(54)	70	13
Profit(loss)from investment in Michigan BIDCO	-	-	(115)
Gain on the sale of mortgage loans	756	236	67
Other non-interest income	5,230	4,205	3,990
Non-interest expense	7,619	6,291	5,960
Income (loss) before tax	14	206	(307)
Income tax expense (benefit)	(80)	-	-
Net income (loss) from continuing operations	94	206	(307)
Net income (loss)	94	206	(307)
Selected Year End Balances			
Total assets	43,549	46,249	45,623
Loans, net	34,474	32,784	34,447
Loans, held for sale	206	1,551	2,138
Cash, cash equivalents and investment securities	4,701	6,521	3,946
Deposits	38,808	41,920	40,198
Short-term borrowings	-	-	92
Long-term borrowings	-	298	1,658
Minority interest	445	360	305
Stockholders' equity	3,435	3,156	2,737
Per Share Data			
Common shares, year-end	4,027	3,900	3,753
Weighted avg shares, year-end	3,940	3,859	2,278
Cash dividends	-	-	-
Net income (loss) from continuing operations - basic and diluted	$0.02	$0.05	($0.13)
Net income (loss)- basic and diluted	$0.02	$0.05	($0.13)
Book value of common shares	$0.85	$0.81	$0.73
Selected Ratios			
Net yield on earning assets	4.78%	5.30%	4.37%

Return on average assets	0.22%	0.47%	(0.67%)
Return on average equity	2.80%	7.43%	(12.49%)
Average equity to avg. assets	7.75%	6.26%	5.38%

(1) Excludes results from discontinued operations.

Item 7. - Management's Discussion and Analysis of Financial Condition and Results of Operations

The purpose of the following discussion and analysis is to assist the reader in understanding and evaluating the changes in financial position and results of operations over the past several years. Investors should refer to the consolidated financial statements, the related notes thereto, and statistical information presented elsewhere in this report when reading this section of the report.

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

Critical Accounting Policies

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

ALLOWANCE FOR LOAN LOSSES - The allowance for loan losses is determined based on management estimates of the amount required for losses inherent in the portfolio. These estimates are based on past loan loss experience, known and inherent risks in the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in managements judgment, should be charged-off.

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

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

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

RISK FACTORS

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

Described below, are the material risks of investing in University Bancorps common stock. Investors should carefully consider these prior to purchasing any shares.

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

University Bank's operations were relocated to Ann Arbor in 1996. University Bank has a history of losses and prior to 2002 incurred substantial operating losses. The Banks future profitability is not assured. Management of the Bank believes that as the size of loan portfolio and retail deposits increase that the Bank should become more profitable, but there is no assurance that expenses will not rise at a faster rate than expected as the Bank grows. There is no assurance that University Bank will grow to a size that will enable it to sustain profitability. University Bancorp had an accumulated deficit from operations of $1,905,404 at December 31, 2003.

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

Insiders hold a majority of the shares outstanding of the Company. The Ranzini Group (Mr. Stephen Lange Ranzini, Dr. Joseph Lange Ranzini, Mr. Paul Lange Ranzini, Orpheus Capital, L.P. and the Ranzini Family Trust dated 12/20/89) beneficially owns 2,995,968, or 74.41% of the issued and outstanding shares at March 22, 2004. These individuals are able to exert a significant measure of control over University Bancorps affairs and policies. This control could be used, for example, to help prevent an acquisition of University Bancorp, precluding shareholders from possibly realizing any possible premium that may be offered for the common stock by a potential acquirer.

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

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

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

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

The Year Ended December 31, 2003 Compared to the Years Ended December 31, 2002 and 2001

Summary of Results of Operations

The Companys net income was $94,442 versus $205,598 in 2002 and a net loss of $306,573 in 2001. Basic and diluted earnings (loss) per share from continuing operations for 2003, 2002 and 2001 were $0.02, $0.05 and $(0.13), respectively.

The net income in 2003 includes an income tax benefit of $80,000. This benefit represents a portion of the net operating loss carry-forward benefit that Management reasonably expects to utilize in 2004 against future taxable income. Overall, the Company has a net deferred tax asset of $1,571,790, however a valuation allowance for deferred tax assets of $1,491,790 has been established, leaving a net deferred tax asset of $80,000.

Community Banking incurred a pre-tax loss of $301,000 during the current year as opposed to pre-tax income of $20,000 from the year before. A drop in the net interest margin and an increase in the provision for loan losses accounted for the most of this variance. In contrast, pre-tax income at Midwest Loan Services increased to $426,000 in 2003 from a $281,000 last year. Income at Midwest Loan Services increased with rapidly increasing mortgage originations and an 80% increase in mortgage loans sub-serviced.

The operations of the Company showed significant progress in 2002 as compared to 2001 as a result of an aggressive cost cutting program at the bank as well as efforts to increase income. Net income increased 167.06% over the 2001 results. Fourth quarter 2002 net income established a new record of $308,130 or $0.08 per share compared to a loss of ($183,906) or ($0.06) per share for the comparable quarter in 2001. Return on average shareholders equity was 7.43% for the year ended December 31, 2002 compared to a negative 12.49% for the year ended December 31, 2001. Return on average assets for the same comparable years were 0.47% and (0.67%), respectively.

The following table summarizes the pre-tax income (loss) of each profit center of the Company for the years ended December 31, 2003, 2002, and 2001 (in thousands):

Twelve months ended December 31, 2003, 2002 and 2001 Pre-tax Income (Loss) Summary

	2003	2002	2001
Community Banking	$(301)	$ 20	$(414)
Midwest Loan Services	426	281	237
Merchant Banking (Michigan BIDCO)	0	0	(115)
Corporate Office	(111)	(95)	(15)
Total	$ 14	$ 206	$(307)

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Net Interest Income

For 2003, net interest income declined 12.29% year-over-year, falling to $1.9 million for the year ended December 31, 2003 compared to $2.2 million the prior year. During 2002 and 2003 short term interest rates remained at 45-year lows while long-term interest rates showed a decline. Net interest income for 2003 declined from the previous period because the average yield on earning assets declined at a higher rate than the average yield on interest bearing deposits. The yield on average earning assets dropped from 7.85% in 2002 to 6.91% in 2003. The cost of interest bearing liabilities decreased from 2.66% for the 2002 period to 2.21% for the year ended December 31, 2003. The net yield on interest earning assets decreased from 5.30% to 4.78%. Management is actively addressing the decline in the net yield and is implementing action to mitigate and reverse the trend by attracting lower cost deposits. During the fourth quarter of 2003, net interest income was $483,000, slightly higher than any quarter during the year and higher than the fourth quarter 2002 net interest income of $473,000. This positive trend has continued into the first quarter of 2004.

For 2002, net interest income improved 23.99% year-over-year, rising to $2.2 million for the year ended December 31, 2002 compared to $1.7 million the prior year. For the fourth quarters ended December 31, 2002 and 2001, net interest income was $473,000 and $424,000, respectively, an improvement of 11.71%. While Community Banking experienced a decline in interest on loans during the record low interest rate environment of the past year, it enjoyed a 38.18% increase in interest on securities and a 42.42% savings in interest expense. Expanding the base of core deposits also allowed us to realize a 76.95% reduction in interest expense on other borrowings. The average yield on interest rate liabilities declined 41% to 2.66% in 2002 from 4.54% in 2001. The average yield on interest bearing assets decreased to 7.85% from 8.91% in 2001. The spread between the average yield on rate sensitive assets and liabilities rose from 4.37% in 2001 to 5.19% in 2002. Additionally, the net interest income was positively affected in 2002 by higher volume of earning assets. Total interest bearing assets increased by $0.91 million to $40.67 million in 2002 from $39.76 million in 2001. For the year ended December 31, 2002, the Banks net interest margin expanded to 5.30% compared to 4.37% for the previous year.

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

NET INTEREST INCOME

	200	
	Average Balance	Int Inc
Interest Earning Assets:		
Commercial Loans	$18,283,474	$
Real Estate Loans (1)	14,353,880	
Installment Loans	2,102,820	
Total Loans	34,740,174	
Investment Securities	3,789,545	

Federal Funds & Bank Deposits	982,244	
Total Interest Bearing Assets	39,511,963	
Interest Bearing Liabilities:		
Deposit Accounts:		
Demand	6,365,212	
Savings	409,633	
Time	13,658,810	
Money Market Accts	17,220,500	
Short-term Borrowings	227,063	
Long-term Borrowings	232,000	
Total Interest Bearing Liabilities	38,113,218	
Net earning assets, net interest income, and interest rate spread	$ 1,398,745	$
Net yield on interest-earning assets		

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

NET INTEREST INCOME

	200	
	Average Balance	Int Inc
Interest Earning Assets:		
Commercial Loans	18,047,370	
Real Estate Loans (1)	14,104,750	
Installment Loans	3,237,782	
Total Loans	35,389,902	
Investment Securities	3,809,545	
Federal Funds & Bank Deposits	1,470,693	
Total Interest Bearing Assets	40,670,140	
Interest Bearing Liabilities:		
Deposit Accounts:		
Demand	5,287,117	
Savings	423,482	
Time	20,029,396	
Money Market Accts	12,282,311	
Short-term Borrowings	472,079	
Long-term Borrowings	572,547	

Total Interest Bearing Liabilities	39,066,932
Net earning assets, net interest income, and interest rate spread	1,603,208
Net yield on interest-earning assets	

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

NET INTEREST INCOME

	200	
	Average Balance	Int Inc
Interest Earning Assets:		
Commercial Loans	16,111,575	
Real Estate Loans (1)	15,545,774	
Installment Loans	4,635,651	
Total Loans	36,293,000	
Investment Securities	2,929,515	
Federal Funds & Bank Deposits	538,676	
Total Interest Bearing Assets	39,761,191	
Interest Bearing Liabilities:		
Deposit Accounts:		
Demand	3,346,502	
Savings	349,364	
Time	23,172,173	
Money Market Accts	10,273,959	
Short-term Borrowings	1,931,660	
Long-term Borrowings	699,398	
Total Interest Bearing Liabilities	39,773,056	
Net earning assets, net interest income, and interest rate spread	(11,865)	
Net yield on interest-earning assets		

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

The tables above do not specify the average level of non-interest bearing demand deposits, which were $1,979,705, $2,432,737, and $2,643,856 for the years ended December 31, 2003, 2002 and 2001, respectively.

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

RATE VOLUME TABLE

	2003 2002	
	Change Due To Volume	Change Due To Rate
Interest Income:		
Commercial Loans	$ 18,950	$(28,493)
Real Estate Mortgage Loans	18,245	(138,762)
Installment/Consumer Loans	(96,551)	(24,583)
Investment Securities	(1,916)	(199,306)
Federal Funds & Bank Deposits	(6,439)	(3,498)
Total Interest Income	(67,711)	(394,642)
Interest Bearing Liabilities:		
Demand Deposits	10,687	(12,811)
Savings Deposits	(157)	(34)
Time Deposits	(199,868)	(51,129)
Money Market Accounts	100,884	(27,944)
Short-term Borrowings	(4,515)	(4,108)
Long-term Borrowings	(15,446)	6,915
Total Interest Expense	(108,415)	(89,111)
Net Interest Income	$40,704	$ (305,531)

RATE VOLUME TABLE

	2002 - 2001	
	Change Due To Volume	Change Due To Rate
Interest Income:		

Commercial Loans	$168,534	$(204,239)
Real Estate Mortgage Loans	(113,699)	(126,571)
Installment/Consumer Loans	(131,221)	(41,187)
Investment Securities	83,870	17,486
Federal Funds & Bank Deposits	21,324	(22,942)
Total Interest Income	28,808	(377,453)
Interest Bearing Liabilities:		
Demand Deposits	30,117	(42,119)
Savings Deposits	1,113	(2,322)
Time Deposits	(153,498)	(432,204)
Money Market Accounts	56,933	(116,138)
Short-term Borrowings	(47,147)	(28,601)
Long-term Borrowings	(8,243)	(23,585)
Total Interest Expense	(120,725)	(644,969)
Net Interest Income	$149,533	$267,516
Net Interest Income	$40,704	$ (305,531)

Loan Portfolio

Information regarding the Bank's loan portfolio as of December 31, 2003 and 2002 is set forth under Note 5 to University Bancorp's consolidated financial statements included with this report.

Provision for Loan Losses

The Bank charges to operations a provision for loan losses which is intended to create an allowance for future loan losses inherent in the Bank's portfolio. Each year's provision reflects management's analysis of the amount necessary to maintain the allowance for loan losses at a level adequate to absorb anticipated losses. In its evaluation, management considers factors like historical loan loss experience, specifically identified problem loans, composition and growth of the loan portfolio, current and projected economic conditions, and other pertinent factors. A loan is charged-off by management as a loss when deemed uncollectible, although collection efforts continue and future recoveries may occur. Non-performing loans are defined as loans which have been placed on non-accrual status and loans over 90 days past due as to principal or interest and still in an accrual status. Where serious doubt exists as to the collectibility of a loan, the accrual of interest is discontinued. See Note 5 of the Consolidated Financial Statements for additional information regarding impaired and past due loans. Non-performing loans amounted to $1,117,127 and $679,560 at December 31, 2003 and 2002, respectively. The provision for loan losses in 2003 was $189,400, compared to $100,000 in 2002 and $40,000 in 2001. The provision in 2003 was increased

over prior years to due to an increase in non-accrual loans. Loans charged off, net of recoveries, were $143,501, $270,874 and $23,884 in 2003, 2002 and 2001, respectively. The decrease in net loans charged off from 2002 to 2003 resulted primarily to two loans charged off in late 2002 that relate to long standing problem loan relationships that were specifically reserved, but not charged off, in prior year periods. The allowance for possible loan losses totaled $454,118, $408,219 and $579,113 at the end of 2003, 2002 and 2001, respectively. The following table summarizes the loan loss expense for the Bank for the years ended December 31, 2003, 2002 and 2001.

Analysis of the Allowance for Loan Losses ($ amounts in thousands)

	2003	2002
Balance at beginning of the period	$ 408	$ 579
Charge offs - Domestic:		
Commercial loans	227	270
Real estate mortgages	-	-
Installment loans	13	17
Subtotal	240	287
Recoveries - Domestic:		
Commercial loans	94	13
Real estate mortgages	-	-
Installment loans	3	3
Subtotal	97	16
Net charge offs	143	271
Provision for loan losses	189	100
Balance at end of period	$ 454	$ 408
Ratio of net charge offs during period to average loans outstanding during period	0.42%	0.79%

Analysis of the Allowance for Loan Losses ($ amounts in thousands)

	Allocated portion of allowance at December 31		Percentage of l t
	2003	2002	2
Loan category:			
Domestic:			
Commercial loans	$ 350	$ 341	56.
Real estate mortgages	40	42	35.
Installment loans	43	19	12.
Unallocated	21	6	
	$ 454	$ 408	100

	At December 31, 2003	At December 31,

Total loans (1)	$34,928,586	$33,192,0
Reserve for loan losses	$ 454,118	$ 408,2
Reserve/Loans %	1.30%	1.2

(1) Excludes loans held for sale.

The Bank's overall loan portfolio is geographically concentrated in Ann Arbor and the future performance of these loans is dependent upon the

performance of relatively limited geographical areas. As a result of the ongoing business depression, the Banks future loss ratios may exceed historical loss ratios.

Management believes that the allowance for loan losses is adequate to absorb losses inherent in the loan portfolio, although the ultimate adequacy of the allowance for loan losses is dependent upon future economic factors beyond our control. A downturn in the general nationwide economy will tend to aggravate, for example, the problems of local loan customers currently facing some difficulties. A general nationwide business expansion could result in fewer loan customers being unable to repay their loans.

Non-Interest Income and Non-Interest Expense

Non-interest income. Non-interest income was $5.9 million in 2003 compared to $4.4 million in 2002. Income generated in this category is principally from Midwest Loan Services. During 2003, the mortgage re-financing market was stimulated by record low long-term interest rates. Midwest and the Bank significantly increased income from loan origination, loan sub-servicing fee income, and gain on the sale of mortgage loans originated for sale into the secondary market. The Banks wholly owned insurance and investment subsidiary, University Insurance & Investment Services, also enjoyed a record year, producing $168,577 in fee income compared to $113,870, a 48.0% increase. Non-interest income was $4.4 million in 2002 compared to $4.0 million in 2001. Activity throughout the year was brisk at Midwest Loan Services. University Insurance & Investment Services also enjoyed a record year, producing $113,870 in fee income compared to $97,489 for the year ended December 31, 2001, a 16.8% increase. Money under fee management in the brokerage side of the agency increased to over $5 million during the year.

Mortgage banking. At December 31, 2003, Midwest Loan Services was sub-servicing15,033mortgages, an increase of80% from 8,360 mortgages at December 31, 2002. The balance of loans sub-serviced was $2.0 billion at January 1, 2004 as compared with over $1.0 billion at December 31, 2002. Midwest had a highly successful year attracting some of the nations premier credit unions to its Members for Life program. Mortgage banking, servicing and origination fees, and gain on the sale of loans increased to $5,267,418 in 2003 from $4,040,363 in 2002. In 2003, Midwest originated670 mortgage loans, an increase of 31% over last year. During the year, Midwest increased its credit union partners so that at year-end 2003 it had credit union partners with a total of 1,585,000 active members, 20,434,000 potential members and aggregate assets of $11.48 billion. Mortgage banking, servicing and origination fees increased to $4,040,363 in 2002 from $3,783,721 in 2001. During the year, Midwest grew its mortgages sub-serviced by 65% from 5,057 to 8,360 and to over $1 billion of mortgages sub-serviced. In 2002, Midwest originated 1,769 mortgage loans, an increase of 88%. Growth was consistent in each month throughout the year. In the fourth quarter of 2002, a new record of 664 mortgages was originated by Midwest.

Securities. Proceeds from sales of marketable equity securities included in proceeds from sales of investment securities was $54,464 for the year ended December 31, 2003. Gross losses of $26,574 were realized in this period.

Proceeds from sales of available for sale debt securities were $59,879, $1,034,160 and $541,460 for the years ended December 31, 2003, 2002 and 2001, respectively, excluding sales associated with the Bank's mortgage banking operation. There were gross gains of $0, $69,733 and $12,639 on 2003, 2002 and 2001 sales, respectively and a gross loss of $54,011 on 2003 sales. At December 31, 2003 gross unrealized losses in our available-for-sale securities were $38,795 and gross unrealized gains were $0. At December 31, 2002 gross unrealized losses in our available-for-sale securities were $81,997 and gross unrealized gains were $0.

Non-interest expense. Non-interest expenses increased by $1.3 million in 2003 or 20.1% to $7.6 million from $6.3 million in 2002. All but $200,353 of the increase was due to increased non-interest expenses at Midwest, as Midwests origination and sub-servicing activity increased. As the volume expanded Midwest increased its workforce to perform the required tasks. Other servicing and sub-servicing related expenses, such as occupancy, supplies and postage increased also. Non-interest expense was also impacted by an increase in the amortization of the mortgage servicing rights due to the low long-term interest rate environment. Personnel expenses at Community Banking were higher due to higher commissions paid to mortgage and deposit origination personnel. Subsequent to year-end 2003, Community Banking made several changes in its non-interest expenses which are targeted to reduce expenses in 2004 by approximately $400,000.

Non-interest expenses increased 5.54% to $6.3 million in 2002 from $6.0 million in 2001. Non-interest expenses during the fourth quarter 2002 increased as Midwests mortgage origination function expanded. During the 4th quarter Midwest reached a new level of 664 mortgages originated and succeeded in retaining over 80% of all refinanced mortgages in its servicing rights portfolio that paid-off. Non-interest expense for the quarter ended December 31, 2002 was $1.8 million compared to $1.3 million for the fourth quarter in the prior year. Year-end employee performance bonuses increased the fourth quarter 2002 non-operating expenses as well. The increase was primarily the result of increased operational expenses at Midwest Loan Services, and an increase in state small business tax and the start-up of the Business Manager product at Community Banking, which more than offset cost control efforts in other areas at Community Banking. During the year Community Bankings non-interest expenses increased by $97,189 or 3.6% to $2,773,262 from $2,676,073, and all of the increase was caused by the two categories mentioned above. Midwests operations were expanded in 2002 due to a substantial increase in mortgage sub-servicing and origination activity. Non-interest expense was also impacted by an increase in the amortization of the mortgage servicing rights due to the low interest rate environment after September 2001.

Liquidity and Capital Resources

Liquidity. Our total assets at December 31, 2003 amounted to $43.55 million compared to $46.25 million at December 31, 2002. Loans receivable, net of reserves and including loans held for sale, increased to $34.47 million from $32.78 million. Cash and cash equivalents including Federal Funds sold on an overnight basis at the end of 2003 were $2.17 million, while securities were $1.65 million. At year-end 2003, the Bank had an unused line of credit from the Federal Home Loan Bank of Indianapolis of $3.0 million, and an unused line of credit from the Federal Reserve Bank of Chicago of $5.4 million.

University Bank, as an FDIC-insured bank, is subject to certain regulations that require the maintenance of minimum liquidity levels of cash

and eligible investments. The Bank has historically exceeded this minimum as a result of its investments in federal funds sold, U.S. government and U.S. agency securities and cash. In addition, University Bancorp had $12,985 in cash and equity securities at the end of 2003 to meet cash needs, primarily operating expenses and interest and principal reductions on the University Bancorp's note payable. The balance of the loan was $166,000 and $298,000 at year-end 2003 and 2002. The note is a fully amortizing loan maturing in early 2005. Subsequent to year-end, University Bancorp received $120,000 in cash from the exercise of stock options. Management intends that the cash and securities on hand, the exercise of stock options and possible sale of stock to be sufficient to cover the remaining required principal reductions during 2004 and 2005 on University Bancorp's loan.

Capital. The Companys total stockholders' equity at December 31, 2003 was approximately $3.43 million (or 6.8% of total assets) compared to $3.16 million (or 6.8% of total assets) at December 31, 2002. The Bank's Tier 1 Capital at December 31, 2003 was $3.76 million or 8.7% of the Bank's total regulatory assets. The risk-adjusted capital ratio of 11.2% exceeded the minimum regulatory risk-based capital requirement of 8% of the risk-adjusted assets for the Bank. The following table provides detailed information about the Banks risk-adjusted assets and actual capital percentages:

	2003	2002
TIER 1 CAPITAL		
Total Equity Capital	$3,558	$3,310
Less: Unrealized losses on available-for-Sale Securities	(39)	(82)
Plus: Minority Interest	445	360
Less: Other identifiable Intangible Assets	287	206
Total Tier 1 Capital	3,755	3,546
TIER 2 CAPITAL		
Allowance for loans & Lease losses	454	408
Less: Excess Allowance	33	-
Total Tier 2 Capital	421	408
Total Tier 1 & Tier 2 Capital	$4,176	$3,954
CAPITAL RATIOS		
-		
Tier 1/Total Average Assets	8.69%	7.89%
Tier 1/Total Risk-Weighted Assets	11.17%	9.98%
Tier 1 & 2/Total Risk-Weighted Assets	12.42%	11.13%
-		

Recently Issued Accounting Standards

In November 2002, the FASB issued Interpretation No.45, Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN45), which covers guarantees such as performance guarantees, standby letters of credit, and direct or indirect guarantees of the indebtedness of others, but not guarantees of funding. FIN 45 requires a guarantor to recognize, at the commencement of a guarantee, a liability in the amount equal to the fair value of the obligation undertaken in issuing the guarantee, and requires disclosure about the maximum potential payments that might be required, as well as the collateral or other recourse

obtainable. The recognition and measurement provisions of FIN45 were effective on a prospective basis after December31, 2002, and its adoption by the Company on January1, 2003 has not had a material impact on the Companys consolidated financial statements. In January 2003, the FASB issued Interpretation No.46 (FIN46), Consolidation of Variable Interest Entities, which addresses consolidation by business enterprises of variable interest entities that possess certain attributes as defined within the interpretation. However, in December 2003, the FASB issued Interpretation No.46(R) (FIN46(R)), which amends FIN46 and is intended to clarify some of the provisions of FIN46 and to exempt certain entities from its requirements. FIN46(R) requires the deconsolidation of trust preferred security subsidiaries. FIN46(R) grants the companies the option to adopt its provisions as of the end of the first period ending after December31, 2003 or elect to defer until the first period ending after March15, 2004. As of December31, 2003, the Company has decided to defer the application of FIN46(R) until March15, 2004. Management believes the adoption of FIN46(R) in the first quarter of 2004 will not have a material impact on the financial statements. On April30, 2003, the FASB issued SFASNo.149, Amendment of Statement133 on Derivative Instruments and Hedging Activities (SFAS149) which is effective for hedging relationships entered into or modified after June30, 2003. SFAS149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS133. The adoption of this rule did not have a material impact on the Companys results of operations or financial condition. On May15, 2003, the FASB issued Statement of Financial Accounting Standards (SFAS) No.150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (SFAS150) and was effective May31, 2003 for all new and modified financial instruments and otherwise was effective at the beginning of the first interim period beginning after June15, 2003. SFAS150 changes the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. SFAS150 requires that those instruments be classified as liabilities (or assets in some circumstances). The adoption of this rule had no impact on the Companys results of operations or financial condition.

ITEM 7A. MARKET RISK

Impact of Inflation

The primary impact of inflation on our operations is reflected in increased operating costs. Since our assets and liabilities are primarily monetary in nature, changes in interest rates have a more significant impact on our performance than the general effects of inflation. However, to the extent that inflation affects interest rates, it also affects our net income.

Quantitative and Qualitative Disclosures about Market Risk

All financial institutions are significantly affected by fluctuations in interest rates commonly referred to as "interest rate risk." The principal exposure of a financial institution's earnings to interest rate risk is the difference in time between interest rate adjustments or maturities on interest-earning assets compared to the time between interest rate adjustments or maturities on interest-bearing liabilities. This difference is commonly referred to as a financial institution's "gap position." In periods when interest rates are increasing, a negative gap position will result in generally lower earnings as long-term assets are repricing upward slower than short-term liabilities. However during a declining rate environment, the opposite effect on earnings is true, with earnings rising due to long-term assets repricing downward slower than short-term liabilities.

Rising long term and short term interest rates tend to increase the value of Midwest Loan Services' investment in mortgage servicing rights and improve Midwest Loan Services' current return on these rights by lowering required amortization rates on the rights and decreasing the opportunity for customers to refinance those loans. Rising interest rates tend to decrease new mortgage origination activity, negatively impacting current income from the Bank's retail mortgage banking operations and Midwests mortgage banking operations. Rising interest rates also slow Midwest Loan Services' rate of growth, but increases the duration of its existing mortgages being sub-serviced under contract.

The Bank's securities portfolio is designed to offset a portion of the market value risk associated with the servicing rights. During period of declining interest rates, the estimated duration period for the Banks FNMA CMO tends to shorten, thus accelerating the income from the accretion of the bonds discount. This income mitigates the rapid amortization of the servicing rights. In a rising rate environment, the accretion of income on the bond tends to lessen.

The table on the following page details our interest sensitivity gap between interest-earning assets and interest bearing liabilities at December 31, 2003. Certain items in the table are based upon various assumptions that may not necessarily reflect future experience, and therefore, certain assets and liabilities may in fact mature or re-price differently from what is illustrated. The one-year static gap position at December 31, 2003 was estimated at ($12.6 million) or (28.96%):

Asset/Liability Position Analysis as of December 31, 2003
(Dollar amounts in Thousands)
Maturing or Repricing in

ASSETS	3 Mos Or Less	91 Days to 1 Year	1 - 3 Years	3 - 5 Years	Over 5 Yea
Loans - net	8,019	2,472	5,912	13,227	
Non-accrual loans		-	-	-	
Securities	112	500		-	
Other assets	-	729	156	-	
Cash and Due from banks	499	-	-	-	
Total assets	8,6300	3,701	6,068	13,227	
LIABILITIES					
Time deposits	1,664	3,685	3,392	587	
Demand -interest					

bearing	9,731	9,731	6,365	-
Demand - non interest	-	-	-	-
Savings	-	-	377	-
Long term borrowings	32	100	34	-
Other liabilities	-			-
Stockholders' equity	-	-	-	-
Total liabilities	11,427	13,516	10,168	587
Gap	(2,797)	(9,815)	(4,100)	12,640
Cumulative gap	(2,797)	(12,612)	(16,712)	(4,072) 1
Gap percentage	-6,42%	-28.96%	-38.38%	-9.35%

The following repricing information is provided for the Banks investment portfolio, using book values, as of December 31, 2003:

Investment Portfolio Maturities ($ amounts in thousands) and Yield by Type:

	Maturity or Repricing Interval: Less Than One Year	1 Year to 5 Years	5 Years to 10 Years
Government Agencies:			
Amount	$12	$0	$0
Yield	0%	0%	0%

The following information illustrates maturities and sensitivities of the Bank's loan portfolio to changes in interest rates as of December 31, 2003:

Loan Portfolio Maturities by Type ($ amounts in thousands):

	Maturity Interval: Less Than One Year	1 Year to 5 Years	More Th 5 Yea
Commercial	$ 4,702	$ 11,081	$1,5
Real Estate Mortgage (1)	$ 2,222	$11,526	$1,9
Installment/Consumer	$ 233	$ 578	$1,0
Total	$ 7,157	$ 23,185	$ 4,5

	Maturity Less	Maturity

	Than One Year	More Than One Year	Tot
Total Variable Rate Loans	$5,336	$ 13,920	$ 19,
Total Fixed Rate Loans	$1,821	$ 13,852	$ 15,
Total Loans (1)	$7,157	$ 27,772	$ 34,

(1) Excludes loans held for sale of $206 and the allowance for loan losses.

Income Taxes

Income tax expense (benefit) in 2003 was $(80,000) and $0 in 2001 and 2000. The tax benefit in 2003 was recognized since a portion of existing net operating loss carryforwards are reasonably expected to reduce future 2004 amounts of taxable income. In 2002 and 2001 no tax benefit was realized due to net taxable losses from operations and uncertainties of future taxable income. The effective tax (benefit) rate was (34)% for 2003 and 0% for the previous two years.

At December 31, 2003, the Company had unrecognized deferred tax assets of $1,491,790 that could be utilized to shelter approximately $4,387,000 of future taxable income. Realization of income tax benefits in excess of $80,000 are not recorded in the financial statements as realization of these benefits is dependent upon generating sufficient future taxable revenue. See footnote 13 to the financial statements for more information.

Item 8. - Financial Statements and Supplementary Data

UNIVERSITY BANCORP, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003, 2002, 2001

Report of Independent Certified Public Accountants

Board of Directors and Stockholders
University Bancorp, Inc.

We have audited the accompanying consolidated balance sheet of University Bancorp, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, comprehensive income (loss), stockholders equity and cash flows for each of the three years ended December 31, 2003. These financial statements are the responsibility of the Companys management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of University Bancorp, Inc. and subsidiaries as of December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years then ended, in conformity with accounting principles generally accepted in the United States of America.

GRANT THORNTON LLP

Southfield, Michigan
March 25, 2004

UNIVERSITY BANCORP, INC.
Consolidated Balance Sheets
December 31, 2003 and 2002

	December 31, 2003	D
ASSETS		

Cash and due from banks	$ 2,171,189	$
Securities available for sale, at market	1,649,169	
Federal Home Loan Bank Stock	881,100	
Loans held for sale, at the lower of cost or market	206,008	
Loans	34,928,586	
Allowance for loan losses	(454,118)	
Loans, net	34,474,468	
Premises and equipment, net	829,807	
Investment in Michigan BIDCO Inc.	629,258	
Investment in Michigan Capital Fund LPI	256,244	
Mortgage servicing rights , net	1,031,575	
Real estate owned, net	429,500	
Accounts receivable	122,067	
Accrued interest receivable	129,808	
Prepaid expenses	183,143	
Goodwill, net	103,914	
Other assets	451,290	
TOTAL ASSETS	$ 43,548,540	$

-Continued-

UNIVERSITY BANCORP, INC.
Consolidated Balance Sheets (continued)
December 31, 2003 and 2002

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2003	Dec
Liabilities:		
Deposits:		
Demand - non interest bearing	$ 3,146,688	$
Demand - interest bearing	25,827,337	
Savings	377,545	
Time	9,455,982	
Total Deposits	38,807,552	
Long term borrowings	166,000	
Accounts payable	289,150	
Accrued interest payable	51,613	
Other liabilities	354,273	
Total Liabilities	39,668,588	
Minority Interest	445,324	
Stockholders' equity:		
Preferred stock, $0.001 par value;		
$1,000 liquidation value;		
Authorized - 500,000 shares;	-	
Common stock, $0.01 par value;		
Authorized - 5,000,000 shares;		

Issued - 4,141,732 shares in 2003 and 4,014,732 shares in 2002	41,417	
Additional paid-in-capital	5,677,940	
Accumulated deficit	(1,905,404)	
Treasury stock - 115,184 shares in 2003 and 2002	(340,530)	
Accumulated other comprehensive loss, unrealized losses on securities available for sale, net	(38,795)	
Total Stockholders' Equity	3,434,628	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 43,548,540	$

The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSITY BANCORP, INC.
Consolidated Statements of Operations
For the Years Ended December 31, 2003, 2002 and 2001

	2003	2002	2001
Interest income:			
Interest and fees on loans	$ 2,554,510	$ 2,805,704	$ 3,2
Interest on securities:			
U.S. Government and agencies	81,269	270,127	20
Other securities	84,302	96,666	6
Other interest income	12,018	21,955	2
Total interest income	2,732,099	3,194,452	3,54
Interest expense:			
Interest on deposits:			
Demand deposits	400,994	330,178	40
Savings deposits	4,634	4,825	
Time certificates of deposit	420,932	671,929	1,25
Short term borrowings	2,933	11,556	8
Long term borrowings	12,144	20,675	5
Total interest expense	841,637	1,039,163	1,80
Net interest income	1,890,462	2,155,289	1,73
Provision for loan losses	189,400	100,000	4
Net interest income after provision for loan losses	1,701,062	2,055,289	1,69
Other income:			
Loan servicing and subservicing fees	3,382,955	3,090,838	2,14
Initial loan set-up and other fees	1,128,293	713,427	1,57
Gain on sale of mortgage loans	756,170	236,098	6
Merchant banking/ BIDCO income			(114

Insurance and investment fee income	168,577	113,870	9
Deposit service charges and fees	110,608	92,955	8
Net security gains (losses)	(54,011)	69,733	1
Gain on the sale and leaseback of premises	217,053	-	
Other	222,847	124,098	
Total other income	5,932,492	4,441,019	3,9

-Continued-

UNIVERSITY BANCORP, INC.
Consolidated Statements of Operations (continued)
For the Years Ended December 31, 2003, 2002 and 2001

	2003	2002	2001
Other expenses:			
Salaries and benefits	$ 3,358,060	$ 2,929,540	$ 3,25
Occupancy, net	422,767	349,186	46
Data processing and equipment	487,701	433,239	28
Legal and audit expense	202,865	173,139	12
Consulting fees	173,132	181,545	23
Mortgage banking expense	710,907	579,040	13
Servicing rights amortization	871,175	529,048	32
Advertising	142,996	92,944	11
Memberships and training	118,581	103,095	6
Travel and entertainment	121,631	91,330	10
Supplies and postage	244,615	199,338	33
Insurance	89,532	87,662	8
Other operating expenses	675,150	541,604	44
Total other expenses	7,619,112	6,290,710	5,96
Income (loss) before income taxes	14,442	205,598	(30
Income tax benefit	(80,000)	0	
Net income (loss)	$ 94,442	$ 205,598	$ (30
Preferred stock dividends	0	0	5
Net income (loss) available to common shareholders	$ 94,442	$ 205,598	$ (35
Basic and diluted income (loss) per common share	$ 0.02	$ 0.05	$
Weighted average shares outstanding -Basic	3,940,433	3,859,433	2,
Weighted average shares outstanding -Diluted	4,074,415	4,058,342	2,

The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSITY BANCORP, INC.
Consolidated Statements of Comprehensive Income (Loss)
For the Years Ended December 31, 2003, 2002 and 2001

	2003	2002
Net income (loss)	$94,442	$205,598
Other comprehensive income (loss):		
Unrealized gains on securities available for sale	(11,042)	155,081
Less: reclassification adjustment for accumulated Gains (losses) included in net Income (loss)	(54,011)	69,733
	42,969	85,348
Comprehensive income (loss)	$137,411	$290,946

The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSITY BANCORP, INC.
Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2003, 2002, and 2001

	Preferred Stock $.001 Par Value		Common Stock $.01 Par Value		Treas
	Number of Shares	Par Value	Number of Shares	Par Value	Number of Shares
Balance January 1, 2001	725	$ 725,000	2,142,985	$ 21,430	(115,1
Issuance of preferred stock	733	733,000	-	-	-
Conversion of preferred stock to common stock	(1,458)	(1,458,000)	1,458,000	14,580	-
Issuance of common stock at weighted average price of $1.00 per share, net of expenses of $114,090			266,747	2,667	
Payment of preferred dividend					
Unrealized gain on securities available for sale, net of tax					
Net loss					
December 31, 2001	-	$ -	3,867,732	$ 38,677	(115,
Issuance of common stock at weighted average price of $1.00 per share, net of expenses of $18,587			147,000	1,470	

Unrealized gain on securities available for sale, net of tax						
Net loss						
December 31, 2002	-	$	-	4,014,732	$ 40,147	(115,
Issuance of common stock at weighted average price of $1.11 per share, net of expenses of $0				127,000	1,270	
Unrealized gain on securities available for sale, net of tax						
December 31, 2003	-	$	-	4,141,732	$ 41,417	(115,184)

UNIVERSITY BANCORP, INC.
Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2003, 2002, and 2001

	Retained Earnings	Accumulated Other Comprehensive	To Stockh
Balance January 1, 2001	$(1,846,627)	$(334,599)	$2,
Issuance of preferred stock	-	-	
Conversion of preferred stock to common stock	-	-	-
Issuance of common stock at weighted average price of $1.00 per share, net of expenses of $114,090			
Payment of preferred dividend	(52,244)		(
Unrealized gain on securities available for sale, net of tax		167,487	
Net loss	(306,573)		(3
Balance December 31, 2001	$(2,205,444)	$ (167,112)	$2,
Issuance of common stock at weighted average price of $1.00 per share, net of expenses of $18,587			
Unrealized gain on securities available for sale, net of tax		85,348	
Net income	205,598		
December 31, 2002	$(1,999,846)	$ (81,764)	$3,
Issuance of common stock at weighted average price of $1.11 per share, net of expenses of $0			
Unrealized gain on securities			

available for sale, net of tax		42,969	
Net income	94,442		
December 31, 2003	$(1,905,404)	$ (38,795)	$3,

The accompanying notes are an integral part of the consolidated financial statements.

UNIVERSITY BANCORP, INC.
Consolidated Statements of Cash Flows
For the years ended December 30, 2003, 2002 and 2001

	2003	
Cash flow provided by (used in) operating activities:		
Net income (loss)	$ 94,442	$
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	305,740	
Amortization	971,175	
Provision for loan loss	189,400	
Gain on sale of mortgages	(756,170)	
Gain on the sale and leaseback of premises	(217,053)	
Accretion on securities	(15,836)	
Originations of mortgage loans	(129,039,261)	(
Proceeds from mortgage loan sales	131,140,418	
Net loss (gain) on sale of securities	54,011	
Net change in:		
Real estate owned	423,698	
Other assets	(1,091,478)	
Other liabilities	265,470	
Net cash provided by (used in) operating activities	2,324,556	
Cash flow provided by (used in) investing activities:		
Purchase of investment securities	(98,533)	(
Proceeds from sales of investment securities	59,879	
Proceeds from maturities/pay downs of investment securities	1,497,117	
Net change in Michigan BIDCO equity investments	0	
Loans granted, net of repayments	(1,880,053)	
Proceeds from sale of premises	1,033,464	
Premises and equipment expenditures	(231,056)	
Net cash provided by investing activities	380,818	

UNIVERSITY BANCORP, INC.
Consolidated Statements of Cash Flows
For the years ended December 30, 2003, 2002 and 2001

		2003
Cash flow provided by (used in) financing activities:		
Change in deposits		(3,112,904)
Change in short term borrowings		0
Issuance of long term borrowings		0
Issuance of equity conversion notes		0
Principal payments on long term borrowings		(132,000)
Payment of preferred dividends		0
Issuance of common stock		141,250
Net cash provided by (used in) financing activities		(3,103,654)
Net change in cash and cash equivalents		(398,280)
Cash and cash equivalents:		
Beginning of year		2,569,469
End of year	$	2,171,189
Supplemental disclosure of cash flow information:		
Cash paid for interest	$	887,092
Supplemental disclosure of non-cash transactions:		
Preferred stock converted to common stock		
Equity conversion notes converted to preferred stock		

The accompanying notes are an integral part of the consolidated financial statements.

1. Summary of significant accounting policies

Principles of Consolidation and Nature of Operations
The consolidated financial statements of University Bancorp, Inc. (the Company) include the operations of its wholly-owned subsidiary, University Bank (the Bank), the Bank's wholly-owned subsidiary, University Insurance & Investment Services, Inc. (Agency) and an 80% owned subsidiary, Midwest Loan Services, Inc. (Midwest). Michigan BIDCO (BIDCO) is accounted for using the equity method. The

accounts are maintained on an accrual basis in accordance with generally accepted accounting principles and predominant practices within the banking and mortgage banking industries. All significant intercompany balances and transactions have been eliminated in preparing the consolidated financial statements.

The Company is a bank holding company. University Bank, which is located in Michigan, is a full service community bank, which offers all customary banking services, including the acceptance of checking, savings and time deposits. The Bank also makes commercial, real estate, personal, home improvement, automotive and other installment, credit card and consumer loans, and provides fee based services such as annuity and mutual fund sales, stock brokerage and money management, life insurance, property casualty insurance and foreign currency exchange. The Banks customer base is primarily located in the Ann Arbor, Michigan area. The Bank established its main office in Ann Arbor in February 1996, by relocating from the eastern Upper Peninsula of Michigan.

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

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

Midwest Loan Services (Midwest) is engaged in the business of servicing and subservicing residential mortgage loans. Midwest

1. Summary of significant accounting policies (continued)

began operations in 1992 and was acquired by University Bank in December, 1995. Midwest is based in Houghton, Michigan, and also originates mortgage loans for itself and other financial institutions, including the Bank (See Note 3).

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

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

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

Securities
Securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income or loss. Realized gains are based on specific identification of amortized cost. Securities are written down to fair value when a decline in fair value is not temporary. Interest income includes amortization of purchase premium or discount. Other securities such as Federal Home Loan Bank stock are carried at cost.

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

1. Summary of significant accounting policies (continued)

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

Allowance for loan losses
The allowance for loan losses is a valuation allowance for probable credit losses, increased by the provision for loan losses and recoveries and decreased by charge-offs. Management estimates the balance required based on past loan loss experience, known and inherent risks in the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in managements judgment, should be charged-off.

Loan impairment is reported when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature such as residential mortgage, consumer, and credit card loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loans existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Loans are evaluated for impairment when payments are delayed, typically 90 days or more, or when it is probable that all principal and interest amounts will not be collected according to the original terms of the loan.

Premises and equipment
Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed primarily on the straight-line method for bank premises and the accelerated method for equipment and land improvements over their estimated useful lives. The Company uses the following useful lives as of December 31, 2003:

B

Buildings and building improvements	39 years
Land and leasehold improvements	15 years
Furniture, fixtures, and equipment	3-7 years
Software	2-5 years

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

1. Summary of significant accounting policies (continued)

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

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

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

Retirement plan
The Bank has a 401(K) Plan that allows an employee to contribute up to 15% of salary pre-tax, to the allowable limit prescribed by the Internal Revenue Service. Management has discretion to make matching contributions to the Plan. However, the Bank made no matching contributions for the years ended December 31, 2003, 2002 and 2001.

Employees Stock Ownership Plan (ESOP)
The Company has a noncontributory ESOP covering all full-time employees who have

met certain service requirements. The employees' share in the Company's contribution is based on their current compensation as a percentage of the total employee compensation. As shares are contributed to the plan they are allocated to employees and compensation expense is recorded at the shares' fair value. The Company made no contribution in 2003, 2002 and 2001.

Stock options
At December 31, 2003, the Company has a stock-based employee compensation plan, which is described more fully in Note 8. The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price greater than or equal to the market value of the underlying

1. Summary of significant accounting policies (continued)
common stock on the date of grant. The following table illustrates the effect on net income (loss) and earnings (loss) per share if the company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Years Ended December 31,		
	2003	2002	2001
Net income (loss), as reported	$94,442	$205,578	$(306,57
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	5,000	6,000	72,00
Pro forma net income (loss)	$89,442	$199,578	$(378,57
Basic and Diluted Earnings (loss) per share:			
As reported	$0.02	$0.05	$(0.13
Pro forma	$0.02	$0.05	$(0.16

Dividend restriction
Banking regulations require the maintenance of certain capital levels and may limit the amount of dividends that may be paid by the bank to the holding company or by the holding company to shareholders. In addition, the Bank cannot pay a dividend until it has net retained earnings or unless it receives a waiver from the State of Michigan banking regulators. The accumulated deficit of the Bank was $1,483,994 and $1,689,153 at December 31, 2003 and 2002, respectively.

Earnings (loss) per share Basic earnings per share are computed by dividing net income (loss) available to common shareholders by the weighted average common shares outstanding. Diluted earnings per share reflect the potential dilution that would occur if dilutive securities were exercised or converted into common stock. The following table presents a reconciliation of the weighted average common shares outstanding for the earnings per share calculation for the years ended December 31:

	2003	2002	2001
Shares Per Share			
Weighted average shares outstanding	3,940,433	3,859,433	2,278,364
Net dilutive effect of stock options	133,982	198,909	-
Diluted average shares outstanding	4,074,415	4,058,342	2,278,364

30

1. Summary of significant accounting policies (continued)

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

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

Reclassification
Certain items in the 2002 and 2001 consolidated financial statements and notes have been reclassified to conform to the 2003 presentation.

2. Michigan BIDCO, Inc.
BIDCO was incorporated for the purpose of providing financing to small businesses located in Michigan for the purpose of creating business and industrial development in the State of Michigan. BIDCO is licensed under the Michigan BIDCO Act, and is regulated by the Michigan Office of Financial and Insurance Services, Bank and Trust Division. The President of the Company serves as Chairman and President of BIDCO.

At December 31, 2003 and 2002, University Bancorp currently owns 6.10% of the BIDCO. The Bank also holds $600,000 of 7.5% cumulative preferred stock of the BIDCO. On March 24, 2003, the Bank exchanged its preferred stock in BIDCO for a note from a company in which Stephen Lange Ranzini, the Banks President, is a shareholder. The note is collateralized by all assets of the company.The note bears interest at 7.5% and is due not later than December 31, 2004.

3. Secondary Market Operations
Midwest Loan Services provides servicing and subservicing of real estate mortgage loans for University Bank and several other financial institutions. The unpaid principal balance of these loans was approximately $1.94 billion, $1.06 billion and $576 million as of December 31, 2003, 2002 and 2001 respectively. Custodial escrow balances maintained in connection with these respective loans was $26.8 million, $23.4 million, and $18.4 million, at December 31, 2003, 2002 and 2001 respectively. The following summarizes the operations of Midwest for the years ended December 31:

3. Secondary Market Operations (continued)

	2003	
Loan servicing and subservicing fees	$2,865,708	$2,677
Loan set-up and other fees	1,128,293	713
Interest income	42,940	45
Gain on sale of loans	756,170	236
Total income	4,793,111	3,673
Salaries and benefits	1,646,483	1,348
Amortization expense	865,977	522
Interest expense	3,798	2
Other operating expenses	1,851,073	1,365
Total expenses	4,367,331	3,238
Pretax income of Midwest	$ 425,780	$ 434

University Bank and Midwest sell conforming residential mortgage loans to the secondary market. These loans are owned by other institutions and are not included in the Companys consolidated balance sheets. Such mortgage loans have been sold predominately without recourse or with limited recourse. The unpaid principal balance of these loans was $112.3 million, $87.0 million and $67.5 million at December 31, 2003, 2002 and 2001 respectively.

Following is an analysis of the change the Companys mortgage servicing rights:

2

	2003	2002
Balance, January 1	$1,014,939	$606,537
Additions - originated	887,811	937,450
Amortization expense	(871,175)	(529,048)
Balance, December 31	$ 1,031,575	$1,014,939

Included in the amortization expense is a valuation allowance for the years ended December 31, 2003, 2002 and 2001 of $448,000, $49,000 and $224,000 respectively.

4. Securities available for sale

T

	December 31, 2003			
	Amortized Cost	Gross Gains	Unrealized Losses	Fair Value
U.S. agency mortgage-backed	$1,675,648	$ -	$(38,795)	$1,636,853
Stocks	12,316	-	-	12,316
	$1,687,964	-	$(38,795)	$1,649,169

	December 31, 2002			
	Amortized Cost	Gross Gains	Unrealized Losses	Fair Value
U.S. agency mortgage-backed	$3,184,835	$ -	$(81,997)	$3,102,838

At December 31, 2003 and 2002, the fair value of securities pledged to secure certain borrowings were $1,636,723 and $3,048,182, respectively. Unrealized losses at December 31, 2003 have existed for longer than twelve months. Thisdecline is consideredtemporaryas thevalues of the mortgage-backed securities fluctuate based on changes in current interest rates and prepayment assumptionsrelated to the underlying mortgages.

Sales of available for sale securities:

Sales of available for sale securities:	2003	2002	2001
Proceeds	$59,879	$1,034,160	$541,460
Realized gains	-	69,733	12,639
Realized losses	54,011	-	-

The scheduled maturity date of the securities available for sale at December 31, 2003 is:

	Amortized Cost	Fair Value
2003	$ 12,446	$ 12,446
2004-2007	0	0
2008-2012	1,048,968	1,040,209
After 2012	626,550	596,514
	$1,687,964	$1,649,169

5. Loans

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

	2003	2002
Commercial	$ 15,943,127	$ 16,550,325
Real estate -mortgage	15,687,265	11,633,060
Real estate -construction	1,270,789	2,113,747
Installment	1,905,793	2,799,490
Credit cards	121,612	95,412
Gross Loans	34,928,586	33,192,034
Allowance for loan losses	(454,118)	(408,219)
Net Loans	$ 34,474,468	$ 32,783,815

Changes in the allowance for loan losses were as follows:

	2003	2002	2001
Balance, beginning of year	$ 408,219	$ 579,113	$ 562,997
Provision charged to operations	189,400	100,000	40,000
Recoveries	97,008	16,570	20,058
Charge-offs	(240,509)	(287,464)	(43,942)
Balance, end of year	$ 454,118	$ 408,219	$ 579,113

There are no past due loans over 90 days and still accruing interest at December 31, 2003 and 2002. Non-accrual loans at December 31 are summarized as follows:
5. Loans (continued)

	2003	2002
Non accrual loans:		
Real estate - mortgage and construction loans	$ 907,599	$ 102,713
Installment loans	5,128	67,546
Commercial loans	204,400	509,301
	$ 1,117,127	$ 679,560

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

Impaired loans:	2003	2002	2001
Loans with no allowance allocated	$ 0	$ 0	$ 0
Loans with allowance allocated	$1,117,127	$679,560	$770,024
Amount of allowance for loan losses allocated	$ 291,754	$177,069	$ 76,501
Impaired loans:			
Average balance during the year	$ 946,261	$ 531,823	$770,714
Interest Income recognized thereon	$ 6,248	$ 8,412	$ 8,454
Cash-basis interest income recognized	$ 6,248	$ 8,412	$ 8,454

6. Premises and equipment

Classifications at December 31 are summarized as follows:

	2003	2002
Land	$ 32,811	$ 132,931
Buildings and improvements	234,984	1,157,624
Furniture,fixtures,equipment and software	2,327,279	2,108,391
	2,595,074	3,398,946
Less: accumulated depreciation	1,765,267)	1,678,044)
Net premises and equipment	$ 829,807	$ 1,720,902

In June 2003 the Bank sold its Maiden Lane office to Lowertown Development LLC for $1,173,833. The Bank is leasing the office for a term of 24 months, until completion of the new Lowertown development. A gain on the sale of $342,851 over book value is being recognized over the same 24 month period. The Bank has an option to purchase 10, 100 square feet and move into the new Lowertown development upon completion.

Depreciation expense amounted to $305,741, $290,516 and $268,529 for the years ended December 31, 2003, 2002 and 2001, respectively.

The Bank began leasing its Maiden Lane building in June 2003. The seven month rent totaled $62,265. The Bank leases an ATM drive-thru location in Ann Arbor for approximately $25,000 per year and one off-site ATM location for $9,000 per year. Midwest leases its office space for approximately $38,000 per year in Houghton, Michigan. Total rental 6. Premises and equipment (continued) expense for all operating leases was $144,778, $55,861 and $50,995 in 2003, 2002 and 2001. As of December 31, 2002, the Company had no minimum rental commitments under non-cancelable operating leases.

Prior to 2002, the Bank leased part of its main office in Ann Arbor to the University of Michigan. Under this lease agreement (which expired in September 2001), the Bank was reimbursed for 40.4% of its occupancy expense.

7. Time deposits
Time deposit liabilities issued in denominations of $100,000 or more were $2,632,451 and $2,784,947 at December 31, 2003 and 2002 respectively.

At December 31, 2003, stated maturities of time deposits were:

2004	$5,347,629
2005	2,856,658
2006	535,800
2007	152,075
2008	143,798
Thereafter	420,022
	$9,455,982

The Bank had issued through brokers $1,101,000 and $7,890,000 of time deposits as of December 31, 2003 and 2002, respectively. These time deposits have maturities ranging from one to five months and are included in the table above. These deposits are issued in denominations of less than $100,000.

The Bank had deposits of $1,550,233 and $1,131,416 from directors, officers and their affiliates as of December 31, 2003 and 2002, respectively.

8. Stock options
In 1995, the Company adopted a stock option and stock award plan (the 1995 Stock Plan), which provides for the grant of incentive stock options, as defined in Section 422(b) of the Internal Revenue Code of 1986, as amended, as well as the grant of non-qualified stock options and other stock awards. The plan provides for the grant to officers, directors and key employees of the Company, and independent contractors providing services to the Company, of options to purchase and other awards of common stock. The exercise price of options granted under the plan shall be determined by the Board of Directors, or a compensation committee thereof. Options shall expire on the date specified by the Board of Directors or such committee, but not more than 10 years from the date of grant (or five years from the date of grant for incentive stock options if the grantee owned 10% of the Company's voting stock at the date of grant). Unless amended, the 1995 Stock Plan will terminate on November 15, 2005.

8. Stock options (continued)
The following table summarizes the activity relating to options to purchase the Company's common stock:

	Number of Options	Weighted Average Exercise price
Outstanding at December 31, 2000	164,909	1.30
Granted - 2001 ($0.72) Fair Value)	100,000	2.00
Exercised - 2001	(5,000)	0.75

Forfeited - 2001	(8,000)	1.00
Outstanding at December 31, 2001	251,909	1.60
Forfeited - 2002	(47,000)	1.61
Granted - 2002 ($0.08)Fair Value)	75,000	1.00
Outstanding at December 31, 2002	279,909	$1.44
Granted - 2003 ($0.10) Fair Value)	54,000	$1.85
Exercised - 2003	(36,000)	1.33
Forfeited - 2003	(26,500)	1.26
Outstanding at December 31, 2003	271,409	1.60

At December 31, 2003:	
Number of options immediately exercisable	133,982
Weighted average exercise price of immediately exercisable options	$1.47
Range of exercise price of options outstanding	$0.75 - $2.47
Weighted-average remaining life of options outstanding	3.53 years

The following summarizes assumptions used to value stock options.

	2003	2002	2001
Risk-free interest rate	4.00%	4.13%	5.43%
Expected option life	5.0 years	5.0 years	2.6 years
Expected stock price volatility	22.5%	21.2%	21.6%
Expected dividends	$0	$0	$0

9. Employee stock ownership plan (ESOP)
The employees allocation of ESOP assets is based on their current compensation, after 1 year of service and upon reaching the age of 21. The annual contribution to the ESOP is at the discretion of the Board of Directors. Assets of the plan are comprised entirely of 77,018 shares of the Companys stock at December 31, 2003 and 2002, all of which were fully allocated at December 31, 2003. Upon retirement from the plan, participants can receive distributions of their allocated shares of the Company's stock. The assets of the ESOP are held in trust and were valued at approximately $199,000, and $53,000 at December 31, 2002 and 2002, respectively.

10. Minority Interest
The Bank owns an 80% interest in the common stock of Midwest Loan Services, with the remaining 20% owned by the President of Midwest. At December 31, 2003 and 2002, total common stockholders' equity of Midwest was $2,226,820 and $1,800,830 resulting in a $445,324 and $360,166 minority interest reflected on the Company's consolidated balance sheet, respectively. The results of Midwest's operations for 2003, 2002 and 2001 are included in the Company's consolidated statement of operations.

11. Commitments and contingencies
The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These

financial instruments include commitments to buy, sell and fund loans, letters of credit and unused lines of credit. The Banks exposure to credit loss in the event of non-performance is equal to or less than the contractual amount of these instruments. The Bank follows the same credit policy to make such commitments as that followed by loans recorded in the consolidated financial statements. The following is a summary of commitments as of December 31:

2

	2003	2002
Unused lines of credit	$ 3,762,000	$ 2,094,000
Commitments to fund loans	$ 2,562,000	$ 3,748,000
Foreign exchange future	$ 75,000	-
Total	$ 6,399,000	$ 5,842,000

12. Related party transactions

The Company's President also serves as President and Chairman of Michigan BIDCO. As such, the President is actively involved in the BIDCOs operations, including investment activity and estimation of the fair value of its equity investments. On March 24, 2003, the Bank exchanged its preferred stock in BIDCO for a note from a company in which Stephen Lange Ranzini, the Banks President, is a shareholder. The note is collateralized by all assets of the company.The note bears interest at 7.5% and is due not later than December 31, 2004.

12. Related party transactions (continued)

The Bank had loans of $280,690 and $950,513 to related officers and directors at December 31, 2003 and 2002, respectively. There were no related party loans that were originated during 2003 that were outstanding at year end. During 2003, a construction line of credit issued in 2002 was terminated. Available lines of credit to related parties at the December 31, 2003 and 2002, totaled $156,373 and $229,487, respectively. Related party loans were made in the normal course of business and were performing pursuant to terms at December 31, 2003.

13. Income taxes

The Company has recorded an $80,000 tax benefit in 2003 as a deferred tax asset at December 31, 2003 which represents a portion of the existing net operating loss carryforward that is expected to be utilized to offset future taxable income. At December 31, 2002 and 2001 no income tax expense or benefit was recorded due to uncertainties as to the future benefits of the net operating losses.

The net deferred tax asset at December 31, 2003 and 2002 is comprised of the following:

	2003	2002
Allowance for loan losses	$ 276,579	$ 212,183
Net operating loss carry-forward	487,663	677,617
Tax credit carryforward	989,123	866,436
Donation carryforward	46,819	43,667
Other	143,276	15,617
Deferred tax assets	1,943,460	1,815,521
Servicing rights	(339,009)	(353,350)

Depreciation	(32,661)	
Deferred tax liabilities	(371,670)	(353,350)
Net deferred tax asset	1,571,790	1,462,171
Valuation allowance for deferred tax assets	(1,491,790)	(1,462,171)
Net deferred tax asset	$ 80,000	$ 0

The Company has net operating loss carryforwards of approximately $1,434,302 which expire beginning in 2012; and general business credit carryforwards of approximately $989,123 which expire beginning in 2011.

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

14. Short Term Borrowings The Bank had a line of credit available from the Federal Home Loan Bank (the FHLB) in the amount of $3.0 million and $3.5 million at December 31, 2003 and 2002, respectively. At December 31, 2003, borrowings were secured by the pledge of specific mortgage loans held for investment with unpaid principal balances of $5.4 million and available-for-sale securities with a balance of $1.6 million.

The Bank had a line of credit available from the Federal Reserve Bank of Chicago (the FRB) in the amount of $5.4 million. There were no amounts outstanding on this line from the FRB at December 31, 2003 and 2002. Borrowings are secured by the pledge of specific commercial loans held for investment with unpaid principal balances of $8.1 million. The following information provides a summary of short-term borrowings for the years indicated:

	2003		2002	
Amount outstanding at the end of the year and interest rate	$ 0.00		$ 0.00	
Maximum amount of borrowing outstanding at any month end during the year	$991,000		$2,881,000	
Average amount outstanding during the year and weighted average rate	$227,063	1.29%	$472,079	2.09%

15. Long Term Borrowings
The Company had a note payable to North Country Bank & Trust (NCB&T) secured by the stock of the Bank with a balance of $166,000 and $298,000 at December 31, 2003 and 2002, respectively. The note has a maturity date of February 15, 2005. Interest is payable quarterly at the prime rate (4.00% at December 31, 2003) of NCB&T plus 1.00 percent. Principal payments required are as follows:

2004	$132,000
2005	$ 34,000
Total	$166,000

Dividends by the Bank to the holding company in excess of the prior year's annual net income are not permitted without prior permission from NCB&T under the terms of the Company's credit facility.

16. Regulatory matters
University Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by regulators 16.

Regulatory matters (continued)

about components, risk weightings, and other factors.

The Bank is also subject to prompt corrective action capital requirement regulations set forth by the FDIC. The FDIC requires the Bank to maintain a minimum of total capital and Tier 1 capital (as defined) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average total assets (as defined). Management believes, as of December 31, 2003, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2003, the most recent guidelines from the FDIC categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. At December 31, 2002 the Bank was classified as well capitalized. To be categorized as "well capitalized," the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table.

	Actual		To Be Adequately Capitalized Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount	Ratio	
As of December 31, 2003:					
Total capital (to risk weighted assets)	$4,176,000	12.4 %	$2,689,000	8.0 %	$
Tier I capital (to risk weighted assets)	3,755,000	11.2 %	1,345,000	4.0 %	
Tier I capital (to average assets)	3,755,000	8.7 %	1,728,000	4.0 %	
As of December 31, 2002:					
Total capital (to risk weighted assets)	$3,954,000	11.1 %	$2,841,000	8.0 %	$
Tier I capital (to risk weighted assets)	3,546,000	9.9 %	1,421,000	4.0 %	
Tier I capital (to average assets)	3,546,000	7.9 %	1,797,000	4.0 %	

The Bank presently has a written understanding with its regulators that the Bank will maintain the ratio of Tier 1 capital to average assets at 7% or more.

17. Managements Plan Regarding Continuing Operations

At December 31, 2003, University Bancorp had an accumulated deficit of $1,905,404 and recurring losses from operations for 3 of the past 5 years. University Bancorps operations are intended to continue in the future. Management has reviewed operating results, prepared projections of possible future results, performed other analyses of its operations to reduce operating costs and entered new product lines of business. Management of the Company has implemented a plan to improve core earnings by adding low-cost deposits, adjusting fees, growing the loan portfolio of the Bank, improving the synergy between its subsidiary operations, and eliminating inefficient or redundant costs at the Bank level. Both the Bank and Midwest Loan Services are projected to have profits in 2004, however, the Company's continued existence is dependent upon its ability to maintain profitable operations and retain adequate capital levels.

18. Fair Value of Financial Instruments

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

18. Fair Value of Financial Instruments (continued)

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

	December 31, 2003	
Financial Assets	Carrying Amount	Fair Value
Cash and short term investments	$ 2,171,000	$ 2,171,000
Securities available for sale	1,649,000	1,649,000
Federal Home Loan Bank stock	881,100	881,100

Loans held for sale	206,000	206,000
Loans	34,929,000	36,084,000
Mortgage servicing rights	1,032,000	1,032,000
Accrued interest receivable	130,000	130,000
Financial Liabilities		
Deposits	38,808,000	39,048,000
Long term borrowings	166,000	166,000
Accrued interest payable	52,000	52,000

	December 31, 2002	
	Carrying	Fair
Financial Assets	Amount	Value
Cash and short term investments	$ 2,569,000	$ 2,569,000
Securities available for sale	3,103,000	3,103,000
Federal Home Loan Bank stock	848,000	848,000
Loans held for sale	1,551,000	1,551,000
Loans	32,784,000	34,860,000
Mortgage servicing rights	1,015,000	1,015,000
Accrued interest receivable	170,000	170,000
Financial Liabilities		
Deposits	41,920,000	42,102,000
Long term borrowings	298,000	298,000
Accrued interest payable	97,000	97,000

19. Segment Reporting

The Companys operations include three primary segments: retail banking, mortgage banking, and merchant banking. Through its banking subsidiarys branch in Ann Arbor, the Company provides traditional community banking services such as accepting deposits, making loans, and providing cash management services to individuals and local businesses. Mortgage banking activities includes servicing of residential mortgage loans for others (See Note 2). Merchant banking is conducted entirely through Michigan BIDCO, which makes loans to growing businesses. As additional consideration for the loans it makes, BIDCO typically receives equity or options in each business. (See Note 3)

19. Segment Reporting (continued)

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

The segment financial information provided below has been derived from the internal profitability reporting system used by management to monitor and manage the financial performance of the Company. The accounting policies of the three segments are the same as those described in the summary of significant accounting policies. The Company evaluates segment performance based on profit or loss before income taxes, not including nonrecurring gains and losses. Certain indirect expenses have been allocated based on actual volume measurements and other criteria, as appropriate. The Company accounts for transactions between segments at current market prices. Segment profit is measured before allocation of corporate overhead and income tax expense.

Information about reportable segments for the year ended December 31, 2003 follows:

	Retail Banking	Mortgage Banking	
Interest income	$2,689,157	$42,942	$2
Gain on the sale of mortgage loans	0	756,170	
Other non-interest income	1,182,413	3,993,999	5
Interest expense	836,734	4,903	
Provision for loan losses	189,400	0	
Salaries and benefits	1,711,577	1,646,483	3
Occupancy	245,931	176,836	
Other operating expense	1,524,729	2,313,466	3
(Loss) income before tax expense	(636,801)	651,423	
Income tax (benefit) expense	(145,643)	225,643	
Segment (loss) profit	$(331,158)	$425,780	
Segment assets	$40,667,106	$2,356,200	$43
Capital expenditures	$108,309	$136,326	
Depreciation	$153,744	$151,997	
Amortization	$5,198	$865,977	

19. Segment Reporting (continued)

I Information about reportable segments for the year ended December 31, 2002 follows:

	Retail Banking	Mortgage Banking	
Interest income	$3,148,530	$45,922	$3
Gain on the sale of mortgage loans	0	236,098	
Other non-interest income	813,528	3,391,393	4
Interest expense	1,036,643	2,520	1
Provision for loan losses	110,000	(11,000)	
Salaries and benefits	1,580,656	1,348,884	2
Occupancy	185,859	163,327	
Other operating expense	1,246,494	1,755,051	3
(Loss) income before tax expense	(229,239)	434,837	
Income tax (benefit) expense	(153,665)	153,665	
Segment (loss) profit	$(75,574)	$281,172	
Segment assets	$44,078,661	$2,170,652	$46
Capital expenditures	$22,255	$106,699	
Depreciation	$75,831	$119,239	
Amortization	$106,967	$522,081	

Information about reportable segments for the year ended December 31, 2002 follows:

	Retail Banking	Mortgage Banking	Merch Bank
Interest income	$3,313,473	$229,624	
Gain on the sale of mortgage loans	0	67,202	
Other non-interest income	769,026	3,233,733	(114,5
Interest expense	1,804,856	0	
Provision for loan losses	40,000	0	
Salaries and benefits	1,543,918	1,706,795	
Occupancy	336,109	128,074	
Other operating expense	877,007	1,368,322	
(Loss) income before tax expense	(552,275)	360,253	(114,5
Income tax (benefit) expense	(122,830)	122,830	
Segment (loss) profit	$(429,445)	$237,423	$(114,5
Segment assets	$43,955,154	$1,667,577	
Capital expenditures	$288,753	$391,037	
Depreciation	$159,332	$109,197	
Amortization	$129,497	$312,233	

20. Quarterly Financial Data -Unaudited

The following tables represent summarized data for each of the quarters in 2003 and 2002 (in thousands, except loss per share data).

	2003		
	Quarter Ended March 31	Quarter Ended June 30	Quarter Ended September 30
Interest income	$ 695	$ 681	$ 6
Interest expense	227	218	1
Net interest income	468	463	4
Provision for losses	106	39	
Net interest income after Provision for losses	362	424	4
Loan set-up and other fees	822	1,068	9
Loan servicing and subservicing fees	201	232	2
Gain on sale of loans	184	305	1
Other non-interest income	115	90	2
Non-interest expense	1,611	2,105	2,1
Income before tax benefit	73	14	
Income tax benefit	-	-	(8
Net (loss) earnings available to common shareholders	$ 73	$ 14	$ 1

Basic and diluted (loss) earnings per share	$ 0.02	$ 0.00	$0.
Weighted average shares outstanding	3,899,548	3,899,548	3,951,

20. Quarterly Financial Data –Unaudited (continued)

	2002		
	Quarter Ended March 31	Quarter Ended June 30	Quarter Ended September 30
Interest income	$ 788	$ 838	$ 839
Interest expense	283	252	248
Net interest income	505	586	591
Provision for losses	23	23	15
Net interest income after Provision for losses	482	563	576
Loan set-up and other fees	652	471	663
Loan servicing and subservicing fees	259	133	143
Gain on sale of loans	35	20	43
Other non-interest income	86	58	171
Non-interest expense	1,536	1,483	1,439
Income before tax benefit	(22)	(238)	157
Income tax expense	-	-	-
Net (loss) earnings available to common shareholders	$ (22)	$ (238)	$ 157
Basic and diluted (loss) earnings per share	$ (0.01)	$ (0.06)	$0.04
Weighted average shares outstanding	3,810,326	3,850,130	3,875,538

21. Parent Company Only Condensed Financial Information

	Condensed Balance Sheet	
	December 31, 2003	December 31, 2002
ASSETS		
Cash and cash equivalents	$ 669	$ 212,273
Securities available for sale	12,316	233

Investment in University Bank	3,557,977	3,309,617
Investment in Michigan BIDCO	29,258	29,258
Receivable from University Bank	-	-
Other assets	3,768	3,362
Total Assets	$ 3,603,988	$ 3,554,743
LIABILITIES AND STOCKHOLDERS' EQUITY		
Notes payable	$ 166,000	$ 298,000
Accounts payable	2,000	98,805
Accrued interest payable	1,361	1,972
Total Liabilities	169,361	398,777
Stockholders' Equity	3,434,627	3,155,966
Total Liabilities and Stockholders' Equity	$ 3,603,988	$ 3,554,743

21 Parent Company Only Condensed Financial Information (continued)

Condensed Statements of Income

	2003	2002	2001
INCOME:			
Interest and dividends on investments	$ 339	$ 328	$ 407
Net security losses	(26,574)		-
Other income			(114,551)
Total (loss)income	(26,235)	328	(114,144)
EXPENSES:			
Interest	12,144	20,675	52,503
Amortization of goodwill			(139,412)
Public listing	43,088	38,202	45,902
Professional fees	24,000	33,513	43,330
Other miscellaneous	5,250	3,014	4,788
Total Expense	84,482	95,404	7,111
Loss before federal income taxes and equity in undistributed net loss of subsidiaries	(110,717)	(95,076)	(121,255)
Federal income taxes			
Loss before equity in undistributed net loss of subsidiaries	(110,717)	(95,076)	(121,255)
Equity in undistributed net income (loss) of subsidiaries	205,159	300,674	(185,318)
Net income (loss)	$ 94,442	$205,598	$(306,573)

-

21. Parent Company Only Condensed Financial Information (continued)

Condensed Statements of Cash Flows

	2003	For 200
Cash flow provided by (used in) investing activities:		
Net Income (Loss)	$ 94,442	$
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of goodwill	-	
Gain on sale of investments	27,783	
Decrease/(increase) in receivable from affiliate	-	
(Increase)/decrease in other assets	(407)	
Decrease in other liabilities	(97,414)	
(Increase)/decrease investment in subsidiaries	(205,159)	
Decrease in investment in Michigan BIDCO	-	
Net cash (used in) provided by operating activities	(180,755)	
Cash flow from investing activities:		
Purchase of available for sale securities	(98,563)	
Proceeds from sale of available for sale securities	58,464	
Net cash used in investing activities	(40,099)	
Cash flow from financing activities:		
Principal payment on notes payable	(132,000)	
Issuance of equity conversion bonds	-	
Conversion of equity conversion bonds	-	
Issuance of preferred stock	-	
Conversion of preferred stock	-	
Payment of preferred dividend	-	
Issuance of common stock	141,250	
Net cash provided by (used in) financing activities	9,250	
Net change in cash and cash equivalents	(211,604)	
Cash and cash equivalents:		
Beginning of year	212,273	
End of year	$ 669	$
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$ 12,755	$

Item 9. - Changes in and Disagreements with Accountants on Accounting and Financial Disclosures.

None

ITEM 9A. - Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures. The companys Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the companys disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Report, have concluded that as of the end of the period covered by this Report the companys disclosure controls and procedures were adequate and effective to ensure that material information relating to the company would be made known to them by others within the company, particularly during the period in which this Form 10-K Annual Report was being prepared.

(b) Changes in Internal Controls. There were no significant changes in the companys internal controls over financial reporting during the fiscal year ended December 31, 2003, that have materially affected, or are reasonably likely to materially affect, the Companys internal control over financial reporting.

PART III.

Item 10. - Directors and Executive Officers of the Registrant

The information required by this item is incorporated by reference herein from the portions of the Company's Proxy Statement for its 2003 Annual Meeting (the "Proxy Statement") to be under the captions:

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

Item 11. - Executive Compensation

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

Executive Compensation
Compensation Plans

Item 12. - Security Ownership of Certain Beneficial Owners and Management

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

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Security Ownership of Certain Beneficial Owners and Management

Equity Compensation Plan Information
The University Bancorp, Inc. 1995 Stock Option Plan authorizes stock options for issuance to employees, consultants and directors in exchange for services. The following table sets forth certain information regarding the above referenced

equity compensation plan as of December 31, 2003.

Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding ptions, warrants and rights (1)	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c Num securiti availabl ssuance compens (excludin reflecte (a
Equity compensation plans approved by security holders	271,409	$1.60	4
Equity compensation plans not approved by security holders	0	NA	
Total	271,409	$1.60	4

(1) University Bancorp has not granted rights or warrents applicable to this chart.

Item 13. - Certain Relationships and Related Transactions

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

Certain Relationships and Related Transactions

ITEM 14: Principal Accountant Fees and Services.
Information relating to principal accountant fees and services is contained on page 20, under the caption Independent Public Accountants in the University Bancorp, Inc. definitive Proxy Statement dated April 30, 2003, relating to the 2003 Annual Meeting of Stockholders and the information within that section is incorporated by reference.

PART IV.

Item 15. - Exhibits, Financial Statement Schedules and Report on Form 8-K

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

Audited consolidated balance sheets as of December 31, 2003 and December 31, 2002, and consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the years ended December 31, 2003, 2002, and 2001 of the Company.

(b) Reports on Form 8-K:

None

(c) Form S-8 relating to the University Bancorp, Inc. 1995 Stock Option Plan

(d) Exhibits:

(3) Certificate of Incorporation and By-laws:

3.1 Composite Certificate of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).

3.1.1 Certificate of Amendment, dated June 10, 1998, of the Company's Certificate of Incorporation (incorporated by reference to Exhibit 3.1.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).

3.2 Composite By-laws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989).

(10) Material Contracts.

10.1 Loan Agreement and Promissory Note dated December 31, 1997 issued to North Country Bank & Trust (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).

10.2 University Bancorp, Inc. Employee Stock Ownership Plan (the "ESOP"), as amended November 27, 1990 (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990). *

10.2.1 Amendment to the ESOP, effective as of December 31, 1991 (incorporated by reference to Exhibit 10.2.A to the Company's Annual Report on Form 10-K for the year ended December 31, 1991). *

10.3 University Bank 401(k) Profit Sharing Plan, adopted August 1, 1996, effective as of January 1, 1996 (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1996). *

10.4 1995 Stock Plan of the Company (incorporated by reference to Exhibit A to the definitive Proxy Statement of the Company for 1996 Annual Meeting of Stockholders). *

10.4.1 Form of Stock Option Agreement related to the 1995 Stock Plan (incorporated by reference to Exhibit 10.7.1 to the Annual Report on Form 10-K for the year ended December 31, 1995). *

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

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

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

21 Subsidiaries of Registrant: List of subsidiaries filed herewith.

23.1 Reports of Independent Auditors, Richard C. Woodbury, P.C., dated March 8, 2001 regarding Midwest Loan Services, Inc.

23.2 Consent of Grant Thornton, LLP, Certified Public Accountants

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

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

32.1 Certificate of the Chief Executive Officer and of University Bancorp, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.1 Certificate of the Chief Financial Officer of University Bancorp, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

UNIVERSITY BANCORP, INC.

By: /s/Stephen Lange Ranzini
Stephen Lange Ranzini,
President and Chief Executive Officer
Date: March 29, 2004

By: /s/Nicholas K. Fortson
Chief Financial Officer
Date: March 29, 2004

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

Signature	Title	Date
/s/Stephen Lange Ranzini Stephen Lange Ranzini	Director, President,	March 29, 2004
/s/Robert Goldthorpe Robert Goldthorpe	Director, Chairman	March 29, 2004
/s/Gary Baker Gary Baker	Director	March 29, 2004

/s/Michael Talley Michael Talley	Director	March 29, 2004
/s/Dr. Joseph L. Ranzini Dr. Joseph Lange Ranzini	Director	March 29, 2004
/s/Paul Lange Ranzini Paul Lange Ranzini	Director	March 29, 2004

Index of Exhibits

Exhibit Number and Description	Sequentially Numbered Page

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3.1.1 Certificate of Amendment, dated June 10, 1998, of the Company's Certificate of Incorporation (incorporated by reference to Exhibit 3.1.1 to the June 30, 1998 10-Q").

3.2 Composite By-laws of the Company (incorporated by reference to Exhibit 3.2 to the 1989 10-K).

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10.4 1995 Stock Plan of the Company (incorporated by reference to Exhibit A to the definitive Proxy Statement of the Company for the 1996 Annual Meeting of Stockholders (the "1996 Proxy).

10.4.1 Form of Stock Option Agreement related to the 1995 Stock Plan (incorporated by reference to Exhibit 10.7.1 to the 1995 10-K).

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21 Subsidiaries of Registrant. 82

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Exhibit 21. Subsidiaries of Registrant.

University Bank, a Michigan state chartered bank.

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

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

EXHIBIT 23.2

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS We have issued our report dated March 25, 2004 accompanying the consolidated financial statements incorporated by reference in the annual report of University Bancorp, Inc. on Form 10-K for the year ended December 31, 2003. We hereby consent to the incorporation by reference of said report in the Registration Statement of University Bancorp, Inc. on Form S-8 (File No. 333- 109930) effective October 23, 2003.

/S/ GRANT THORNTON LLP
Southfield, Michigan
March 26, 2004

Exhibit 31.1
FORM 10-K 302 CERTIFICATION

I, Stephen Ranzini certify that:

1) I have reviewed this annual report on Form 10-K of University Bancorp, Inc.; 2) Based on my knowledge, this annual 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 annual 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 annual report; 4) The registrants other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures 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 annual report is being prepared;

b) evaluated the effectiveness of the registrants disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrants other certifying officers and I have disclosed, based on our most recent evaluation, to the registrants auditors and the audit committee of registrants board of directors (or persons performing the equivalent functions): a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrants ability to record, process, summarize and report financial data and have identified for the registrants auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrants internal controls; and

6. The registrants other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 29,2004 /s/Stephen Lange Ranzini
Stephen Lange Ranzini
President and Chief Executive Officer

Exhibit 31.2

FORM 10-K 302 CERTIFICATION

I, Nicholas K. Fortson certify that:

1) I have reviewed this annual report on Form 10-K of University Bancorp, Inc.; 2) Based on my knowledge, this annual 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 annual 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 annual report; 4) The registrants other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures 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 annual report is being prepared;

b) evaluated the effectiveness of the registrants disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the Evaluation Date); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5) The registrants other certifying officers and I have disclosed, based on our most recent evaluation, to the registrants auditors and the audit committee of registrants board of directors (or persons performing the equivalent functions): a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrants ability to record, process, summarize and report financial data and have identified for the registrants auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrants internal controls; and

6) The registrants other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 29,2004 /s/Nicholas K. Fortson
Nicholas K. Fortson
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT
TO 18 U.S.C. SECTION 1350,

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

In connection with the annual report of University Bancorp, Inc. (the "Registrant") on Form 10-K for the period ended December 31, 2002 as filed with the Securities and Exchange Commission on March 29, 2004, hereof (the "Report"), the undersigned officers certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that: (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

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

University Bancorp, Inc

Date: March 29, 2004
By:/s/ Stephen Lange Ranzini
Stephen Lange Ranzini
President and Chief Executive Officer

Exhibit 32.2

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

In connection with the annual report of University Bancorp, Inc. (the "Registrant") on Form 10-K for the period ended December 31, 2002 as filed with the Securities and Exchange Commission on March 29, 2004, hereof (the "Report"), the undersigned officers certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that: (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

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

University Bancorp, Inc

Date: March 29, 2004
By: /s/ Nicholas K. Fortson
Nicholas K. Fortson

Chief Financial Officer