

The logo features a stylized grey arrow pointing upwards and to the right, curving around the letter 'F' of the word 'FIRST'.

# FIRST MICHIGAN BANCORP, INC.

**Troy, Michigan**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**For the Year Ended December 31, 2008  
and the Period  
August 27, 2007 through December 31, 2007**

**FIRST MICHIGAN BANCORP, INC.**  
**Troy, Michigan**

**CONSOLIDATED FINANCIAL STATEMENTS**

**For the Year Ended December 31, 2008  
and the Period  
August 27, 2007 through December 31, 2007**

# FIRST MICHIGAN BANCORP, INC.

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**INDEPENDENT AUDITORS' REPORT**

June 12, 2009

Stockholders and Board of Directors  
First Michigan Bancorp, Inc.  
Troy, Michigan

We have audited the accompanying consolidated balance sheets of ***First Michigan Bancorp, Inc. and Subsidiary*** as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year ended December 31, 2008, and for the period August 27, 2007 (Bank Inception) through December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 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 ***First Michigan Bancorp, Inc. and Subsidiary*** as of December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for year ended December 31, 2008, and the period August 27, 2007 (Bank Inception) through December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.



# FIRST MICHIGAN BANCORP, INC.

## CONSOLIDATED BALANCE SHEETS

ASSETS	December 31	
	2008	2007
Cash and due from banks	\$ 565,392	\$ 272,050
Federal funds sold	13,842,336	4,972,642
<b>Cash and cash equivalents</b>	<b>14,407,728</b>	<b>5,244,692</b>
Interest-bearing time deposits	2,203,000	702,421
Investment securities available for sale	633,807	627,162
Federal Home Loan Bank stock, at cost	1,000	-
Net loans	45,553,247	3,332,015
Accrued interest receivable and other assets	488,227	177,620
Premises and equipment, net	570,089	564,464
<b>Total assets</b>	<b><u>\$ 63,857,098</u></b>	<b><u>\$ 10,648,374</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Deposits</b>		
Noninterest bearing	\$ 7,217,569	\$ 162,091
Interest bearing	49,285,432	641,265
<b>Total deposits</b>	<b>56,503,001</b>	<b>803,356</b>
Accrued interest payable and other liabilities	179,750	121,302
<b>Total liabilities</b>	<b><u>56,682,751</u></b>	<b><u>924,658</u></b>
<b>Commitments and contingencies (Notes 7, 10, 11, 12 and 13)</b>		
<b>Stockholders' equity</b>		
Common stock, \$1.00 par value; 2,500,000 shares authorized 1,116,361 shares issued and outstanding	1,116,361	1,116,361
Additional paid-in-capital	10,894,241	10,894,241
Accumulated other comprehensive income	10,046	4,115
Accumulated deficit	(4,846,301)	(2,291,001)
<b>Total stockholders' equity</b>	<b><u>7,174,347</u></b>	<b><u>9,723,716</u></b>
<b>Total liabilities and stockholders' equity</b>	<b><u>\$ 63,857,098</u></b>	<b><u>\$ 10,648,374</u></b>

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

**FIRST MICHIGAN BANCORP, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Year Ended December 31, 2008</b>	<b>Period from August 27, 2007 (Bank Inception) through December 31, 2007</b>
<b>Interest and dividend income</b>		
Loans, including fees	\$ 1,322,528	\$ 30,004
Investments	31,389	15,488
Federal funds sold	126,070	121,901
<b>Total interest and dividend income</b>	<b>1,479,987</b>	<b>167,393</b>
Interest expense	494,700	4,009
<b>Net interest income</b>	<b>985,287</b>	<b>163,384</b>
Provision for loan losses	533,417	42,200
<b>Net interest income, after provision for loan losses</b>	<b>451,870</b>	<b>121,184</b>
<b>Noninterest income</b>		
Service charges on deposit accounts	9,169	3,272
Other	41,308	1,851
<b>Total noninterest income</b>	<b>50,477</b>	<b>5,123</b>
<b>Noninterest expenses</b>		
Compensation and benefits	1,785,739	272,066
Occupancy	296,201	78,089
Other	975,707	198,696
<b>Total noninterest expenses</b>	<b>3,057,647</b>	<b>548,851</b>
<b>Net loss</b>	<b>\$ (2,555,300)</b>	<b>\$ (422,544)</b>
<b>Net loss per basic share of common stock</b>	<b>\$ (2.29)</b>	<b>\$ (0.38)</b>

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

# FIRST MICHIGAN BANCORP, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount				
<b>Balances, August 27, 2007 (Bank Inception)</b>	<b>1,116,361</b>	<b>\$ 1,116,361</b>	<b>\$ 10,894,241</b>	<b>\$ (1,868,457)</b>	<b>\$ -</b>	<b>\$ 10,142,145</b>
Comprehensive loss	-	-	-	(422,544)	4,115	(418,429)
<b>Balances, December 31, 2007</b>	<b>1,116,361</b>	<b>1,116,361</b>	<b>10,894,241</b>	<b>(2,291,001)</b>	<b>4,115</b>	<b>9,723,716</b>
Comprehensive loss	-	-	-	(2,555,300)	5,931	(2,549,369)
<b>Balances, December 31, 2008</b>	<b>1,116,361</b>	<b>\$ 1,116,361</b>	<b>\$ 10,894,241</b>	<b>\$ (4,846,301)</b>	<b>\$ 10,046</b>	<b>\$ 7,174,347</b>

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

**FIRST MICHIGAN BANCORP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year Ended December 31, 2008</b>	<b>Period from August 27, 2007 (Bank Inception) through December 31, 2007</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (2,555,300)	\$ (422,544)
Adjustments to reconcile net loss to net cash used in operating activities		
Provision for loan losses	533,417	42,200
Depreciation and amortization	117,169	31,503
Accretion of discounts on investments	(714)	-
Loss on disposition of assets	139,622	-
Net changes in operating assets and liabilities which (used) provided cash		
Accrued interest receivable	(99,995)	(26,742)
Other assets	(210,612)	(63,906)
Accrued interest payable and other liabilities	58,448	(122,077)
<b>Net cash used in operating activities</b>	<b>(2,017,965)</b>	<b>(561,566)</b>
<b>Cash flows from investing activities</b>		
Purchase of Federal Home Loan Bank stock	(1,000)	-
Purchases of interest-bearing time deposits	(2,203,000)	(1,325,468)
Maturities of interest-bearing time deposits	702,421	-
Net increase in loans	(42,754,649)	(3,374,215)
Purchases of premises and equipment	(262,416)	(257,077)
<b>Net cash used in investing activities</b>	<b>(44,518,644)</b>	<b>(4,956,760)</b>
<b>Cash flows provided by financing activities</b>		
Acceptances and withdrawals of deposits, net	55,699,645	803,356
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>9,163,036</b>	<b>(4,714,970)</b>
Cash and cash equivalents, beginning of period (August 27, 2007 - Bank Inception)	5,244,692	9,959,662
<b>Cash and cash equivalents, end of period</b>	<b>\$ 14,407,728</b>	<b>\$ 5,244,692</b>

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

# FIRST MICHIGAN BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Business and Concentrations of Risk*

*First Michigan Bancorp, Inc.* (the "Company"), through its wholly owned subsidiary First Michigan Bank (the "Bank") provides a variety of financial services to individuals and businesses in Oakland County, Michigan and the surrounding northern suburbs. The Bank, which is independently owned and operated as a community bank, commenced operations on August 27, 2007, and conducts business from a single location in Troy, Michigan. Active competition, principally from other commercial banks, savings banks and credit unions, exists in the Bank's primary market. The Bank's results of operations can be significantly affected by changes in interest rates or changes in the automotive industries, which comprise a significant portion of the local economic environment.

The Bank's primary deposit products are interest and noninterest bearing checking accounts, savings accounts and time deposits and its primary lending products are real estate mortgages, commercial and consumer loans. Note 3 further describes the types of lending the Bank engages in and Note 6 provides additional information on deposits. Note 2 discusses the type of securities invested in by the Bank. The Bank does not have significant concentrations with respect to any one industry, customer, or depositor, except related party deposits and loans as disclosed in Note 10.

The Bank is a state chartered bank and is a member of the Federal Deposit Insurance Corporation ("FDIC") Bank Insurance Fund. The Bank is subject to the regulations and supervision of the FDIC and state regulators and undergoes periodic examinations by these regulatory authorities. The Company is further subject to regulations of the Federal Reserve Board governing bank holding companies.

#### *Use of Estimates*

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the fair value of certain investment securities, and the valuation of deferred tax assets.

#### *Accounting Policies*

Significant accounting policies used in preparation of the accompanying consolidated financial statements conform to predominant banking industry practices and are based on generally accepted accounting principles. The principles which materially affect the determination of the financial position and results of operations of the Company and its subsidiary are summarized below:

# FIRST MICHIGAN BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

### *Fair Value Measurements*

On January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, “*Fair Value Measurements*,” (SFAS 157), which defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States, and enhances disclosures about fair value measurements. The Corporation elected to delay the application of SFAS 157 to nonfinancial assets and nonfinancial liabilities, as allowed by FASB Staff Position (FSP) SFAS 157-2. FSP SFAS 157-3 clarifies the application of SFAS 157 in a market that is not active. The initial adoption of SFAS No. 157 did not have any impact on the Bank’s financial position or results of operations.

### *Cash and Cash Equivalents*

For the purposes of the consolidated statement of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold. Generally, federal funds are sold for a one-day period. The Bank maintains deposit accounts in various financial institutions, which generally exceed federally insured limits or are not insured. Management believes the Company is not exposed to any significant interest rate or other financial risk as a result of these deposits.

### *Interest-Bearing Time Deposits*

Interest-bearing time deposits mature within one year and are carried at cost.

### *Securities*

Securities that management has the ability and positive intent to hold to maturity are classified as “held-to-maturity” and recorded at amortized cost. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as “available-for-sale” and recorded at fair value, with unrealized gains and losses, net of the effect of deferred income taxes, excluded from earnings and reported in other comprehensive income. The Bank classifies all securities held as available-for-sale.

Purchase premiums and discounts are recognized in interest income using the straight-line method over the terms of the securities. Declines in the fair value of available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including 1) the length of time and extent to

# FIRST MICHIGAN BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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which the fair value has been less than cost, 2) the financial condition and near-term prospects of the issuer, and 3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for anticipated recovery in fair value. Gains or losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

### *Loans*

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are generally reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct loan origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal and interest is considered doubtful. The Bank had no loans in non-accrual status as of December 31, 2008 and 2007 or that were charged off during the year ended December 31, 2008 or period August 27, 2007 (Bank Inception) through December 31, 2007.

When applicable, all interest accrued in the current period but not collected for on loans that are placed on non-accrual or charged off is reversed against interest income while interest accrued but not collected in prior years is reversed against the allowance for loan losses. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. For impaired loans not classified as nonaccrual, interest income continues to be accrued over the term of the loan based on the principal amount outstanding.

### *Allowance for Loan Losses*

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of the loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect

# FIRST MICHIGAN BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance could consist of specific, general and unallocated components. The specific component would relate to loans that are classified as doubtful, substandard or special mention. For such loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for various qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

### ***Premises and Equipment***

Leasehold improvements and equipment are carried at cost, less accumulated depreciation and amortization computed principally by the straight-line method based upon the estimated useful lives of the related assets ranging from 3-10 years or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

# FIRST MICHIGAN BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Maintenance, repairs and minor alterations are charged to current operations as expenditures occur and major improvements are capitalized. Management periodically reviews these assets to determine whether carrying values have been impaired.

### *Share-Based Compensation Plans*

The Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (SFAS) No. 123(R) Share-Based Payment requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost is measured based on the fair value of the equity or liability instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. The effect of the Statement is to require entities to measure the cost of employee services received in exchange for stock options based on the grant-date fair value of the award, and to recognize the cost over the period the employee is required to provide services for the award. SFAS No. 123(R) permits entities to use any option-pricing model that meets the fair value objective in the Statement. The Company would use the Black-Scholes valuation model for determining the fair value of the options issued.

### *Income Taxes*

Federal income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus the change in deferred income taxes. Deferred income taxes are recognized for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets or liabilities are recorded or settled. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. As changes in income tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

No income tax benefit has been reported related to net deferred tax assets. The Company does not have a history of earnings and, accordingly, a valuation allowance has been recognized for the full amount of the deferred tax assets. The significant items giving rise to deferred income taxes are the Company's net operating loss carryforward of approximately \$3,000,000 which expires in 2028, the allowance for loan losses of approximately \$500,000, organizational costs capitalized for income tax purposes of approximately \$1,400,000 which are being amortized over 15 years for federal income tax purposes.

# FIRST MICHIGAN BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN No. 48), an interpretation of Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. FIN No. 48 seeks to reduce the significant diversity in practice associated with financial statement recognition and measurement in accounting for income taxes and prescribes a recognition threshold and measurement attribute for disclosure of tax positions taken or expected to be taken on an income tax return, in order for those tax provisions to be recognized in the Company's financial statements. The adoption of FIN No. 48 had no effect on the Company's financial statements for 2008 or 2007.

### *Off-Balance Sheet Credit-Related Financial Instruments*

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commercial and consumer lines of credits. Such financial instruments are recorded only when they are funded.

### *Net Loss Per Share*

Net loss per basic share of common stock represents the net loss divided by the weighted-average number of common shares outstanding, which were 1,116,361 during both 2008 and 2007.

### *Reclassifications*

Certain amounts as reported in the 2007 consolidated financial statements have been reclassified to conform with the 2008 presentation.

## 2. INVESTMENT SECURITIES

The amortized cost and fair value of investment securities, including gross unrealized gains and losses, are as follows as of December 31:

	<u>Gross Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b><u>2008</u></b>				
<b>Available-for-Sale</b>				
Debt securities:				
State and municipal	\$ 623,761	\$10,046	\$ -	\$ 633,807

# FIRST MICHIGAN BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	<b>Gross Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b><u>2007</u></b>				
<b>Available-for-Sale</b>				
Debt securities:				
State and municipal	\$ <u>623,047</u>	\$ <u>4,251</u>	\$ <u>136</u>	\$ <u>627,162</u>

The amortized cost and fair values of available-for-sale securities by contractual maturity at December 31, 2008, are summarized as follows:

	<b>Amortized Cost</b>	<b>Fair Value</b>
<b>Contractual maturity</b>		
Due after one year through five years	\$ 623,761	\$ 633,807

### 3. LOANS

The Bank grants commercial, consumer and residential mortgage loans to customers situated primarily in Southeast Michigan. Substantially all of the consumer and residential loans are secured by various items of real and personal property and investment portfolio's, while commercial loans are secured primarily by business assets and personal guarantees; a portion of loans are unsecured.

Major loan classifications are summarized as follows at December 31:

	<b>2008</b>	<b>2007</b>
Mortgage loans on real estate		
Residential 1-4 family	\$ 6,954,724	\$ 91,214
Commercial	14,302,455	495,672
Equity lines of credit	<u>497,427</u>	<u>50,267</u>
Total mortgage loans on real estate	<u>21,754,606</u>	<u>637,153</u>
Commercial	<u>20,539,662</u>	<u>2,701,692</u>
Consumer loans		
Installment loans	16,741	18,444
Lines of credit	<u>3,817,855</u>	<u>16,926</u>
Total consumer loans	<u>3,834,596</u>	<u>35,370</u>

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Total loans	46,128,864	3,374,215
Less allowance for loan losses	<u>575,617</u>	<u>42,200</u>
<b>Net loans</b>	<b><u>\$ 45,553,247</u></b>	<b><u>\$ 3,332,015</u></b>

At December 31, 2008 and 2007, the Bank did not have any loans which were considered impaired.

#### 4. ALLOWANCE FOR LOAN LOSSES

The following is a summary of the changes in the allowance for loan losses during the periods ended December 31:

	<u>2008</u>	<u>2007</u>
<b>Balance, beginning of period</b>	\$ 42,200	\$ -
Provision for loan losses	<u>533,417</u>	<u>42,200</u>
<b>Balance, end of period</b>	<b><u>\$ 575,617</u></b>	<b><u>\$ 42,200</u></b>

#### 5. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment is as follows at December 31:

	<u>2008</u>	<u>2007</u>
Leasehold improvements	\$ 51,487	\$ 130,027
Furniture and equipment	431,717	275,383
Data processing software	<u>205,246</u>	<u>190,557</u>
Total	688,450	595,967
Less accumulated depreciation and amortization	<u>118,361</u>	<u>31,503</u>
<b>Premises and equipment, net</b>	<b><u>\$ 570,089</u></b>	<b><u>\$ 564,464</u></b>

Depreciation and amortization expense amounted to \$117,169 and \$31,503 for the year ended December 31, 2008 and the period August 27, 2007 (Bank Inception) through December 31, 2007, respectively.

# FIRST MICHIGAN BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 6. DEPOSITS

The following is a summary of the distribution of deposits at December 31:

	<u>2008</u>	<u>2007</u>
<b>Interest bearing</b>		
Money market and NOW accounts	\$ 22,482,406	\$ 212,342
Time, \$100,000 and over	21,100,454	300,000
Other time	<u>5,702,572</u>	<u>128,923</u>
Total interest bearing	49,285,432	641,265
Noninterest bearing demand	<u>7,217,569</u>	<u>162,091</u>
<b>Total deposits</b>	<b><u>\$ 56,503,001</u></b>	<b><u>\$ 803,356</u></b>

Interest expense on time deposits issued in denominations of \$100,000 or more was \$238,870 and \$1,922 for the year ended December 31, 2008 and the period August 27, 2007 (Bank Inception) through December 31, 2007, respectively.

All time deposits are scheduled to mature in 2009.

### 7. EMPLOYEE BENEFIT PLAN

The Bank is a participating employer in a multiple employer defined contribution savings plan qualified under Section 401(k) of the Internal Revenue Code. The plan's principal participating employer is a company related through common ownership. Substantially all employees of the Bank are covered under the plan. The Bank matches 100 percent of the employee's elective contributions up to a maximum of three percent of their compensation (subject to certain IRS limits). The cost of the plan amounted to \$25,194 and \$5,681 for the year ended December 31, 2008 and the period August 27, 2007 (Bank Inception) through December 31, 2007.

# FIRST MICHIGAN BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 8. STOCK OPTION PLAN

Under the Company's Non-Qualified Stock Option Plan (the Plan), the Company may grant non-qualified stock options to its directors, officers, organizers and employees for the purchase of up to 111,020 shares of common stock. Of these, 38,857 shares are reserved for the Seed Investor Group and 38,587 shares are reserved for key employees pursuant to the Private Placement Memorandum dated April 4, 2007, under various employment agreements or arrangements and as discussed in Note 13. Only non-qualified stock options may be granted under the Plan. The maximum duration of the Plan is ten years.

Stock options, not covered under the Seed Investor Group have an exercise price that shall not be less than 100% of the fair market value of the Company's common stock as of the date of grant. These stock options shall vest over a period of three years from the date of grant.

Stock options that are reserved under the Seed Investor Group have an exercise price of \$10 per share and can only be exercised in the event a "liquidity event" occurs. These stock options shall become immediately vested as of the grant date. The exercise period for these stock options begins on the first day following the Bank's third full year of operations. In the event of a change in control of the Company prior to the commencement of the exercise period, the options shall become immediately available to be exercised.

No stock options have been granted, exercised or forfeited as of December 31, 2008 or 2007.

### 9. SUPPLEMENTAL CASH FLOWS INFORMATION

Cash paid for interest amounted to \$402,359 and \$3,085 during the year ended December 31, 2008 and the period August 27, 2007 (Bank Inception) through December 31, 2007, respectively.

### 10. RELATED PARTY TRANSACTIONS

#### *Loans*

In the ordinary course of business, the Bank has granted loans to certain directors, executive officers, shareholders owning more than 5% of the Company and their affiliates. Activity was as follows for the year ended December 31, 2008 and period August 27, 2007 (Bank Inception) through December 31, 2007:

# FIRST MICHIGAN BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	<u>2008</u>	<u>2007</u>
Beginning Balance	\$ 1,049,000	\$ -
New loans	4,562,000	1,051,000
Repayments	<u>(1,776,000)</u>	<u>(2,000)</u>
<b>Ending Balance</b>	<b><u>\$ 3,835,000</u></b>	<b><u>\$ 1,049,000</u></b>

### *Deposits*

Deposits of Company directors, executive officers, shareholders owning more than 5% of the Company and their affiliates were approximately \$1,180,000 and \$106,792 at December 31, 2008 and 2007, respectively.

## 11. OPERATING LEASE

Beginning in August 27 2007 (Bank Inception), the Bank subleased its facility from a company related through common ownership. This lease was terminated March 31, 2008. Rental expenses for the period January 1, 2008 through March 31, 2008 and for the period August 27, 2007 (Bank Inception) through December 31, 2007 were \$25,266 and \$33,688, respectively.

On April 1, 2008, the Bank entered into a 6 month agreement with an unrelated party to lease office space in Troy, MI. Rental expenses for the period April 1, 2008 through September 30, 2008 totaled \$55,638.

In August of 2008, the Bank entered into a lease agreement with an unrelated party. The lease provides for escalating monthly payments beginning on January 1, 2009, or the date possession of the property takes place, through December 31, 2018. Possession of the property occurred on February 1, 2009. Related to this lease, the Company entered into a short-term lease for temporary office space beginning on October 1, 2008. The Company was required to pay shared costs for the space which totaled \$26,937 for the period October 1, 2008 through December 31, 2008.

Future minimum lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2009	\$ 176,176
2010	196,854
2011	201,432
2012	206,010
2013 and thereafter	1,332,198

# FIRST MICHIGAN BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 12. OFF-BALANCE SHEET ACTIVITIES

#### *Credit-Related Financial Instruments*

The Bank is a party to credit related 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 extend credit under consumer and commercial lines of credits. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policy in making commitments, including collateral, as it does for on-balance-sheet instruments; no significant losses are anticipated as a result of these commitments.

At December 31, 2008 and 2007, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>Contract Amount</u>	
	<u>2008</u>	<u>2007</u>
Unfunded commitments under lines of credit	\$2,450,000	\$ 201,918

Unfunded commitments under commercial lines-of-credit, revolving credit home equity lines of credit and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. The commitments for equity lines of credit may expire without being drawn upon. The lines-of-credit are collateralized and usually contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

### 13. OTHER COMMITMENTS

The Company has entered into formal employment agreements with the Bank's President and with its CEO. The agreements include customary provisions including salary, healthcare and termination matters. The agreement with the Bank's president includes a provision to acquire common stock through option grants under the Stock Option Plan discussed in Note 8. These agreements are to remain in force until terminated in accordance with the terms of the agreement.

As discussed in Note 8, pursuant to the Private Placement Memorandum dated April 4, 2007, organizers of the Bank have allocated 38,587 shares of common stock to the President and two other key individuals. The President will be entitled to at least 50% to 66% of these shares. The amounts allocated to the President will be determined at the discretion of management.

# FIRST MICHIGAN BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 14. EQUITY MATTERS

As of August 27, 2007, the Bank's inception, stockholders' equity is comprised of an accumulated deficit, which represents primarily pre-opening expenses totaling \$1,868,457 on a consolidated basis and the issuance of 1,116,361 shares of common stock with a value of \$12,010,602. Stock was issued at various times prior to the commencement of Bank operations on August 27, 2007. Pursuant to the Private Placement Memorandum dated April 4, 2007, the original organizing group of the Bank agreed to absorb organizing costs in excess of \$925,000; accordingly, approximately 98,100 shares of stock of the original investor group with a value of approximately \$981,000 was converted from shares of common stock into an additional paid-in capital contribution prior to the commencement of Bank operations. The Bank was initially capitalized by the Company in the amount of \$10,400,000 in cash and other assets.

### 15. STOCK SUBSCRIPTION AGREEMENT

On May 27, 2008, the Company issued a Private Placement Memorandum ("PPM"). The Company offered up to 1,200,000 shares of its common stock for sale with a subscription price of \$10.00 per share. The minimum subscription allowed per the agreement was for \$25,000 or 2,500 common shares and the maximum subscription allowed was for \$2,300,000 or 230,000 shares. The offering terminated on or before June 15, 2008. As a result of the PPM, 1,073,900 shares were subscribed for a total of \$10,739,000. The Company is currently awaiting approval from regulators regarding the PPM. Until such approval is received, the \$10,739,000 is being held in escrow as an interest bearing deposit at the Bank.

### 16. REGULATORY REQUIREMENTS

As a deNovo bank, the Bank is subject to certain regulatory restrictions. In January 2009, the Bank entered into a written agreement with its joint regulatory examiners, the FDIC and OFIR, requiring, among other stipulations, the Bank to develop and submit to the regulators certain Board-approved written plans, policies and management practices to correct certain oversight, operational and regulatory deficiencies, and restricting the Bank from declaring or paying dividends without prior written consent. Management believes the Bank is addressing these matters and will be corresponding with the regulators to ensure compliance with these requirements and restrictions.

# FIRST MICHIGAN BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### *Capital Requirements*

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that if undertaken, could have a direct material effect on the Company's and Bank'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 their assets, liabilities, capital and certain off-balance-sheet items as defined in the regulations and calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measurements established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted asset (as defined) and Tier 1 capital to average assets (as defined). Management believes, as of December 31, 2008 and 2007, that the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2008, the most recent notification from the Federal Deposit Insurance Company categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2008 and 2007 are also presented in the table.

	<u>Actual</u>		<u>Minimum Capital Requirement</u>		<u>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<b>December 31, 2008</b>						
Total Capital to Risk Weighted Assets:						
First Michigan Bank	\$ 7,708	16.60%	\$3,715	8.0%	\$4,643	10.0%
Tier 1 Capital to Risk Weighted Assets:						
First Michigan Bank	\$ 7,133	15.36%	\$1,857	4.0%	\$2,786	6.0%

# FIRST MICHIGAN BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Tier 1 Capital to Average Assets:							
First Michigan Bank	\$ 7,133	11.88%	\$2,403	4.0%	\$3,003	5.0%	
<b>December 31, 2007</b>							
Total Capital to Risk Weighted Assets:							
First Michigan Bank	\$ 9,730	157.7 %	\$ 494	8.0%	\$ 617	10.0%	
Tier 1 Capital to Risk Weighted Assets:							
First Michigan Bank	\$ 9,688	157.0%	\$ 247	4.0%	\$ 370	6.0%	
Tier 1 Capital to Average Assets:							
First Michigan Bank	\$ 9,688	92.5%	\$ 419	4.0%	\$ 524	5.0%	

### *Restrictions on Dividends, Loans and Advances and Minimum Reserve Requirements*

Banking regulations place certain restriction on the amounts of loans or advances that can be extended to the Company by the Bank and dividends that can be paid to the Company by the Bank. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of the Bank, and loans or advances are limited to 10 percent of the Bank's capital stock and surplus on a secured basis. In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. The Company and the Bank have agreed not to pay dividends for the first three years of their existence. As of December 31, 2007 and 2008 the Bank has no minimum reserve requirements.

## 17. FAIR VALUE

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans and certain other assets and liabilities, as applicable. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write-downs of individual assets.

# FIRST MICHIGAN BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### Fair Value Hierarchy

Under SFAS 157, the Company groups assets and liabilities at fair value into three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability.

Following is a description of the valuation methodologies used for assets and liabilities recorded at fair value.

**Investment Securities:** Investment securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices were not available, fair values would be measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government-sponsored entities, municipal bonds and corporate debt securities in active markets. Securities classified as Level 3 include securities in less liquid markets, including illiquid markets in some instances, and include certain municipal securities and money market preferred auction rate securities. All investment securities as described in Note 2 are Level 2 securities.

**Loans:** The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with SFAS 114, "*Accounting by Creditors for Impairment of a*

# FIRST MICHIGAN BANCORP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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*Loan,*” (SFAS 114). The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2008, there were no impaired loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as nonrecurring Level 2. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

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