

**UNIVERSITY BANCORP, INC.
AND SUBSIDIARIES**

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

Years ended December 31, 2024 and 2023

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES

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Independent Auditor's Report

Board of Directors and Stockholders
University Bancorp, Inc. and Subsidiaries
Ann Arbor, Michigan

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of University Bancorp, Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of operations and comprehensive income, equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying 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, 2024 and 2023, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated March 25, 2025, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Forvis Mazars, LLP

**Fort Wayne, Indiana
March 25, 2025**

Name of Engagement Executive: Matthew Stout, CPA

Federal Employer Identification Number: 44-0160260

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2024	2023
ASSETS		
Cash and cash equivalents	\$ 29,527,991	\$ 25,120,714
Available-for-sale securities, at fair value	2,495,664	45,612
Equity securities, at fair value	10,720,133	16,803,275
Held-to-maturity securities, at amortized cost	16,592,980	17,110,365
Investment in non-marketable equity securities	1,193,075	1,093,075
Federal Home Loan Bank stock	6,030,000	6,030,000
Loans and financings held for sale or assignment, at fair value	54,659,212	63,883,059
Loans and financings, net of allowance for credit losses of \$5,082,605 and \$4,429,843	777,625,832	729,673,890
Premises and equipment, net	9,366,642	8,453,688
Mortgage and financing servicing rights	46,946,041	40,530,048
Accounts receivable and advances to fund loans	7,218,949	5,860,819
Accrued interest and financing income receivable	3,694,000	3,181,340
Prepaid expenses	5,868,635	5,439,050
Prepaid income taxes	1,823,755	1,782,751
Real estate owned, net	-	593,478
Derivatives designated as hedges	889,071	-
Mortgage banking derivatives	850,314	986,989
Goodwill	319,067	422,981
Customer relationships, net	320,693	382,761
Operating lease right of use assets	3,686,995	4,132,599
Other assets	177,297	104,756
Total assets	<u>\$ 980,006,346</u>	<u>\$ 931,631,250</u>

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)

	December 31,	
	2024	2023
LIABILITIES AND EQUITY		
LIABILITIES		
Deposits:		
Demand - non-interest bearing	\$ 371,315,190	\$ 375,459,874
Demand - interest bearing and profit sharing	12,201,979	13,815,526
Savings	31,151,564	527,767
Time	57,600,300	41,654,794
Brokered time	243,184,000	243,532,000
Total deposits	715,453,033	674,989,961
Mortgage banking derivatives	-	825,479
Accounts payable	1,538,538	1,212,924
Accrued interest and profit sharing payable	2,104,662	1,846,684
Allowance for loan and financing recourse	438,030	549,398
Escrow, mortgage and financing insurance liabilities	1,119,096	590,335
Liability to fund closed but undisbursed loans and financings	1,090,105	1,511,000
Deferred income taxes	8,730,648	8,926,623
Accrued expenses and other liabilities	7,625,816	5,166,974
Line of credit	-	1,000,000
Federal Home Loan Bank advances	90,000,000	105,000,000
Unsecured debt	42,063,705	27,403,539
Operating lease liability	3,773,447	4,165,390
Loan repurchase liability	-	3,861,742
Dividends payable - common stock	516,952	-
Total liabilities	874,454,032	837,050,049
COMMITMENTS AND CONTINGENCIES		
EQUITY		
University Bancorp, Inc. stockholders' equity:		
Common stock	52,069	52,069
Treasury stock, at cost	(338,298)	(338,298)
Additional paid-in capital	7,978,048	7,978,048
Retained earnings	85,195,554	76,279,027
Accumulated other comprehensive income (loss), net of income taxes of \$186,903 and \$0, respectively	703,400	(470)
Equity attributable to stockholders of University Bancorp, Inc.	93,590,773	83,970,376
Noncontrolling interest	11,961,541	10,610,825
Total equity	105,552,314	94,581,201
Total liabilities and equity	\$ 980,006,346	\$ 931,631,250

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME

	Years ended December 31,	
	2024	2023
Interest and financing income:		
Interest and fees on loans and financing income	\$ 54,538,659	\$ 42,265,128
Interest on securities:		
U.S. government agencies	651,323	387,569
Other securities	453,766	183,019
Interest on federal funds and other	2,654,802	4,924,815
Total interest and financing income	58,298,550	47,760,531
Interest and profit sharing expense:		
Interest and profit sharing on deposits:		
Demand	509,999	348,606
Savings	460,652	4,512
Time	13,130,679	12,562,706
Short-term Federal Home Loan Bank advances	3,440,275	507,320
Long-term debt	3,605,309	3,080,139
Total interest and profit sharing expense	21,146,914	16,503,283
Net interest and financing income	37,151,636	31,257,248
Provision for credit losses	713,697	961,795
Net interest and financing income after provision for credit losses	36,437,939	30,295,453
Noninterest income:		
Loan and financing servicing and sub-servicing fees	24,525,768	21,878,026
Origination and other fees	9,728,110	8,970,716
Gain on sale of mortgage loans, net, and net fee income for assignment of financings	30,073,554	27,211,023
Insurance & investment agency fee income	1,992,051	1,549,186
Deposit service charges and fees	59,107	64,212
Change in fair value of mortgage and financing servicing rights	(2,258,982)	(1,694,134)
Change in fair value of loans and financings held for sale or assignment, interest and financing rate locks, and forward commitments	1,825,247	456,304
Realized and unrealized loss on equity securities	(496,147)	(1,685,228)
Other income	1,514,338	1,057,560
Total noninterest income	66,963,046	57,807,665

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (Continued)

	Years ended December 31,	
	2024	2023
Noninterest expense:		
Compensation and benefits	\$ 58,546,575	\$ 54,185,523
Occupancy	2,965,410	3,081,789
Data processing and equipment	11,329,409	8,107,382
Legal and audit	1,263,024	1,711,378
Consulting	2,188,841	2,128,050
Mortgage banking	3,847,998	3,223,635
Advertising	1,226,028	1,023,466
Membership and training	1,017,712	779,186
Travel and entertainment	890,064	839,364
Supplies and postage	2,105,578	1,576,103
Insurance	1,409,828	437,487
Director related	673,400	500,100
FDIC assessments	670,017	583,219
Amortization of customer relationships	62,068	62,068
Other operating	624,700	793,842
	88,820,652	79,032,592
Total noninterest expense		
	88,820,652	79,032,592
Income before income taxes	14,580,333	9,070,526
Income tax expense	2,762,234	2,270,907
	14,580,333	9,070,526
Income tax expense	2,762,234	2,270,907
	11,818,099	6,799,619
Net income	\$ 11,818,099	\$ 6,799,619

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME (Continued)

	Years ended December 31,	
	2024	2023
COMPREHENSIVE INCOME		
Net income	\$ 11,818,099	\$ 6,799,619
Unrealized gain on derivative hedge, net of income taxes of \$186,705 and \$-0-, respectively	702,366	-
Net unrealized gain on debt securities available-for-sale, net of income taxes of \$198 and \$-0-, respectively	1,504	693
COMPREHENSIVE INCOME	\$ 12,521,969	\$ 6,800,312
Net income and comprehensive income attributable to the noncontrolling interest	\$ 1,350,716	\$ 1,373,061
Net income attributable to stockholders of University Bancorp, Inc.	\$ 10,467,383	\$ 5,426,558
Comprehensive income attributable to stockholders of University Bancorp, Inc.	\$ 11,171,253	\$ 5,427,251
 EARNINGS PER SHARE		
Basic earnings per share attributable to common stockholders of University Bancorp, Inc.	\$ 2.02	\$ 1.07
Diluted earnings per share attributable to common stockholders of University Bancorp, Inc.	\$ 2.02	\$ 1.07
Weighted-average common shares outstanding		
Basic	5,169,518	4,936,751
Diluted	5,169,518	4,936,751
Dividends declared per common share	\$ 0.30	\$ -

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY

	University Bancorp, Inc. Stockholders'										
	Common Stock, \$.01 par value, 6,000,000 shares authorized		Preferred Stock, \$.001 par value, 500,000 shares authorized		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Compre- hensive Income (Loss)	Non- controlling Interest	Total
	Number of Shares	Par Value	Number of Shares	Par Value	Number of Shares	Cost					
Balance at January 1, 2023	5,206,899	\$ 52,069	24,000	\$ 24	277,381	\$ (2,510,298)	\$ 10,150,024	\$ 70,992,869	\$ (1,163)	\$ 9,237,764	\$ 87,921,289
Preferred dividends	-	-	-	-	-	-	-	(140,400)	-	-	(140,400)
Conversion of preferred stock	-	-	(24,000)	(24)	(240,000)	2,172,000	(2,171,976)	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	693	-	693
Net income	-	-	-	-	-	-	-	5,426,558	-	1,373,061	6,799,619
Balance at December 31, 2023	5,206,899	52,069	-	-	37,381	(338,298)	7,978,048	76,279,027	(470)	10,610,825	94,581,201
Common stock dividends	-	-	-	-	-	-	-	(1,550,856)	-	-	(1,550,856)
Other comprehensive income	-	-	-	-	-	-	-	-	703,870	-	703,870
Net income	-	-	-	-	-	-	-	10,467,383	-	1,350,716	11,818,099
Balance at December 31, 2024	5,206,899	\$ 52,069	-	\$ -	37,381	\$ (338,298)	\$ 7,978,048	\$ 85,195,554	\$ 703,400	\$ 11,961,541	\$ 105,552,314

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31,	
	2024	2023
OPERATING ACTIVITIES		
Net income	\$ 11,818,099	\$ 6,799,619
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	1,773,497	1,706,799
Net amortization of discount (accretion of premium) on purchased loans held for investment	77,526	(57,190)
Amortization of debt issuance costs	77,877	106,273
Change in fair value of mortgage and financing servicing rights	2,258,982	1,694,134
Goodwill impairment	103,914	-
Change in fair value of loans and financings held for sale or assignment, interest and financing rate locks, and forward commitments	(1,825,247)	(456,304)
Foreign currency exchange (gain) loss	(136,575)	(166,081)
Deferred income tax (benefit) expense	2,544,551	2,012,440
Provision for credit losses	713,697	961,795
Loss on sale of other real estate owned	47,484	-
Net gain on sale of mortgage loans and net fee income for assignment of financings	(30,073,554)	(27,211,023)
Unrealized (gain) loss on equity securities	2,179,212	(115,820)
Realized (gain) loss on sale of equity securities	(1,675,711)	1,801,048
Realized (gain) loss on sale of securities held-to-maturity	(7,355)	-
Net amortization on securities available-for-sale	(37,578)	-
Net amortization on securities held-to-maturity	(75,684)	(325,427)
Originations of mortgage loans and financings	(1,092,010,784)	(999,889,713)
Proceeds from mortgage loan sales and assignment of financings	1,123,237,390	1,021,855,311
Non-cash lease expense	53,661	89,318
Net change in:		
Various other assets	(2,352,457)	(1,550,522)
Various other liabilities	3,546,182	(2,028,905)
Net cash provided by operating activities	<u>20,237,127</u>	<u>5,225,752</u>
INVESTING ACTIVITIES		
Proceeds from paydowns of debt securities held-to-maturity	1,071,562	355,425
Proceeds from paydowns of debt securities available-for-sale	1,053,848	16,588
Purchase of securities available-for-sale	(3,465,653)	-
Purchase of debt securities held-to-maturity	(5,114,094)	(5,446,737)
Purchase of equity securities	(5,906,265)	(10,392,158)
Proceeds from sale of equity securities	11,486,741	1,426,145
Proceeds from sale of debt securities held-to maturity	4,779,531	-
Purchase of non-marketable equity securities	(100,000)	-
Purchase of Federal Home Loan Bank stock	-	(1,755,000)
Purchase of loans held for investment	(5,938,804)	(9,863,883)
Investment in solar tax credits	(3,002,743)	-
Loans and financings granted, and repayments, net	(46,627,041)	(178,062,623)
Proceeds from sale of mortgage servicing rights	-	1,914,962
Proceeds from sale of real estate owned	574,772	-
Costs to improve other real estate owned	(28,778)	-
Purchases of premises and equipment	(2,624,383)	(1,167,283)
Net cash used in investing activities	<u>(53,841,307)</u>	<u>(202,974,564)</u>

See notes to consolidated financial statements .

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Years ended December 31,	
	2024	2023
FINANCING ACTIVITIES		
Net change in deposits	\$ 40,463,072	\$ 69,210,280
Brokered time deposits issuance costs	-	(774,250)
Payment of preferred dividends	-	(411,372)
Net change in short-term borrowings	(1,000,000)	1,000,000
Net change in short-term FHLB borrowings	(15,000,000)	55,000,000
Proceeds from issuance of debt	15,000,000	13,500,000
Debt issuance costs	(417,711)	(328,270)
Payment of common dividends	(1,033,904)	-
Net cash provided by financing activities	<u>38,011,457</u>	<u>137,196,388</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,407,277	(60,552,424)
Cash and Cash Equivalents, Beginning of Year	<u>25,120,714</u>	<u>85,673,138</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 29,527,991</u></u>	<u><u>\$ 25,120,714</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest	\$ 20,888,936	\$ 15,398,056
Cash paid during the year for income taxes	\$ 72,165	\$ 475,800
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:		
Increase (decrease) in mortgage loans recorded for repurchase option	\$ (3,861,742)	\$ (10,706,323)
Loans and financings converted to real estate owned	\$ -	\$ 593,478
Coverion of preferred stock for treasury shares	\$ -	\$ 2,280,000

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation

The consolidated financial statements of University Bancorp, Inc. (the “Parent”) include the operations of its two wholly-owned subsidiaries, University Bank (the “Bank”) and Crescent Assurance, PCC (“Crescent”), the Bank’s wholly-owned subsidiaries, Ann Arbor Insurance Centre, Inc. (“AAIC”) and Hoover, LLC (“Hoover”), and the Bank’s 80% owned subsidiary, UIF Corporation (“UIF”). These consolidated financial statements also include the operations of Hoover’s wholly-owned subsidiary, Tuomy, LLC, as well as the operations of AAIC’s wholly-owned subsidiary, 2621 Carpenter Road, LLC.

Also included in these consolidated financial statements are the operations of Hyrex Servicing, LLC (“Hyrex”), named Arbor Street, LLC prior to changing its name during 2024. Hyrex was 100% owned by the Bank until it was sold on July 31, 2024 to Hyrex Servicing Holding Company, LLC (“Hyrex Holding”). Hyrex Holding is 100% owned by the Parent.

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. University Bancorp, Inc. and Subsidiaries are herein referred to as the “Company”.

The Parent is a financial holding company. The 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 foreign currency exchange. The Bank also services and subservices loans. The Bank is also engaged in the business of marketing, originating, processing, closing and selling retail mortgage loans through its fourteen retail branches throughout the United States. The Bank’s customer base is primarily located in the Ann Arbor, Michigan metropolitan statistical area.

The 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.

Crescent is a protected cell captive insurance company and commenced operations in March 2023. Crescent is authorized to form protected cells. No cells have been established by Crescent to date. Crescent is engaged in the business of providing commercial property and various liability insurance to its Parent, the Parent’s subsidiaries, and unaffiliated entities.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nature of Operations and Principles of Consolidation (Continued)

AAIC is engaged in the sale of insurance products including life, health, property and casualty, and investment products such as annuities. AAIC is located in the building owned by 2621 Carpenter Road, LLC in Ann Arbor, MI.

Hoover owns the Bank's headquarters facility. Tuomy owns commercial land with a drive through ATM and a rental building located near the Bank's headquarters facility.

Hyrex invests in real estate-related assets including residential mortgage loans, mortgage servicing rights, real property, small commercial mortgage loans, securities that are backed by these underlying assets, and related investments.

UIF is a faith-based financial services firm and was formed in December 2005. UIF is based in Southfield, Michigan. Its current products, which comply with federal, state and faith-based law, are deposits (as agent for the Bank) that are insured by the Federal Deposit Insurance Corporation (the "FDIC"), home financings (as agent for the Bank), home financings and commercial real estate financings (as principal for its own account), and consumer vehicle financing. Products compliant with faith-based law are offered to service the large number of faith-based customers who have an ethical aversion to paying or receiving fixed interest.

For several years, UIF offered three distinct financing methods offered to both residential and commercial customers, which include redeemable lease, installment sale contracts, and declining balance partnerships. However, due to a significant shift in demand, UIF shifted solely to originating the declining balance partnership model for all real estate financing.

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

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nature of Operations and Principles of Consolidation (Continued)

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

The lease and contract-for-deed payment streams are combined and considered as a single transaction. These redeemable lease arrangements are treated as sales-type leases in accordance with U.S. generally accepted accounting principles ("GAAP"), with no profit or loss at lease commencement. This financing model is no longer used, but a legacy portfolio remains on the Company's consolidated balance sheet.

Accordingly, the Company's accounting for this product is essentially the same as a conventional mortgage product. To reflect the substance of the residential and commercial redeemable lease transactions, the Company uses the consolidated balance sheet account title "Loans and financings" instead of a typical title of "Loans". In the consolidated statements of operations, "Interest and fees on loans" is modified to state, "Interest and fees on loans and financing income".

The second form of financing was the installment sale method. As agent for the Bank, UIF bought either a residential or a commercial property selected by a customer and then resold it to the customer, at a selling price higher than the purchase price. The difference between UIF's purchase price and the selling price is the profit that the ultimate holder of the installment contract would accrete into income over the life of the contract. After the residential financing contract was executed by UIF and the customer, the contract was assigned to the Bank, and then assigned to the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Freddie Mac then reimbursed the Bank for the outlay of cash to purchase the property and paid the Bank a fee for origination. The cash, origination fees and servicing rights were retained by UIF under a master agreement between UIF and the Bank. The customer pays Freddie Mac for the property that was purchased on an installment basis, in accordance with an agreed repayment schedule.

The Company recorded these contracts at fair value for the short period of time that they were held before assignment to Freddie Mac. The residential financing installment contracts were assigned with servicing retained. Thus, the value of the installment contract and value of the servicing was determined to calculate the fair value and any gain or loss on the assignment of the underlying installment contract. After commercial financing contracts were executed, they are retained on UIF's balance sheet as financings. See Note 24 for additional discussion of the determination of fair value. This financing model is no longer used, but a legacy portfolio remains on the Company's consolidated balance sheet.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nature of Operations and Principles of Consolidation (Continued)

The third and only remaining financing method uses the declining balance partnership model to enter into a declining balance agreement and payment agreement as joint owner, secured by a mortgage or deed of trust, with a commercial or residential customer once the customer selects the property. With the customer holding registered title, the declining balance agreement outlines the percentage of ownership which shifts over time from the joint owner to the customer as the customer makes monthly buyout payments towards the buyout price.

The monthly buyout payments are also inclusive of use payments to the joint owner (UIF) in consideration for UIF allowing the customer to use their portion of the property. After the residential declining balance agreements are executed by UIF and the customer, the contract and UIF's ownership rights are assigned to either Freddie Mac or the Federal National Mortgage Association ("Fannie Mae") or are retained on the Company's consolidated balance sheet as financings. After commercial financing contracts are executed, they are retained on the Company's consolidated balance sheet as financings or could involve a participating bank. This model can be utilized for both fixed and variable rate mortgage transactions. Upon closing, if these residential financings are to be transferred to Freddie Mac or Fannie Mae, the Company records these residential financings at fair value for the short period of time that they are held before being transferred. These residential financings are assigned with servicing retained. See Note 24 for additional discussion of the determination of fair value.

The Company also offers a vehicle financing product using a joint purchase agreement and an installment sale contract. After vehicle financing contracts are executed, they are retained as a fully amortizing installment sale financing on the Company's consolidated balance sheet as financings.

On the liability side of the balance sheet, UIF (as agent for the Bank) also offers FDIC-insured faith-based profit-sharing deposit accounts. These deposits are specifically invested in investments compliant with faith-based law such as, but not limited to, home and commercial real estate financings, MSR's, and consumer vehicle financings. The profits shared with depositors are derived specifically from the revenues from the investments compliant with faith-based law, net of expenses. In compliance with the FDIC definition of a deposit, balances in these accounts, like all deposit accounts, are FDIC-insured. An anticipated profit-sharing arrangement is disclosed to the depositor, and the account is structured as a variable rate deposit that can accommodate fluctuations in profit sharing depending on the earnings of the specific portfolio. The earnings paid to the depositors by the Bank are accounted for as an expense. This expense is analogous to interest expense paid on deposits in conventional financing. To reflect the legal substance of the profit-sharing deposits, the Company uses the balance sheet account title "Demand/time deposits – interest bearing and profit sharing" instead of the typical title of "Demand/time deposits – interest bearing". In the consolidated statements of operations and comprehensive income, "Interest on deposits" is modified to state, "Interest and profit sharing on deposits".

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions based upon available information. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The significant estimates incorporated into these financial statements, which are most susceptible to change in the near term, include the identification and valuation of mortgage and financing servicing rights, the allowance for credit losses, the valuation of real estate owned, impairment analysis of goodwill and other intangible assets, the valuation allowance for deferred tax assets, the fair value of loans and financings held for sale or assignment, the fair value of derivative instruments such as mortgage interest and financing rate locks and forward commitments, recourse liabilities related to loans sold and financings assigned and loans and financings held for sale or assignment, the valuation of stock options and related stock based-compensation, if any, the fair value of the contingent earn-out liabilities, the amount of contingent liabilities, and the determination and the fair value of other financial instruments.

Cash Flow Reporting

For purposes of the consolidated statements of cash flows, cash and cash equivalents is defined to include the cash on hand, interest bearing deposits in other institutions, federal funds sold, and other investments with an original maturity of three months or less. Net cash flows are reported for customer loans and financings, deposit transactions, and interest-bearing deposits with other banks.

Investment in Marketable Securities

Marketable debt securities held-to-maturity are carried at amortized cost, net of an allowance for credit losses. Marketable debt securities available-for-sale are carried at fair value, net of any allowance for credit losses, with unrealized holding gains and losses reported in other comprehensive income or loss. Realized gains and losses on the sale of marketable debt securities available-for-sale are recorded in the consolidated statements of operations.

Marketable equity securities are carried at fair value, with unrealized and realized gains and losses reported in earnings.

Investment securities transactions are recorded on the trade date for purchases and sales. Interest earned on investment securities, including the amortization of premiums and the accretion of discounts, are determined using the effective interest method over the period of maturity and recorded in interest income in the consolidated statements of operations.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in Non-Marketable Equity Securities

Non-marketable equity securities consist of an investment in shares of a privately-held trust bank without a readily determinable fair value. All gains and losses on non-marketable equity securities, realized and unrealized, are recognized in earnings.

The Company elected the measurement alternative in Accounting Standards Update (“ASU”) 2016-01 Financial Instruments, as amended by ASU 2018-03 Technical Corrections and Improvements to Financial Instruments, to account for non-marketable equity securities. Under this alternative, the carrying value of non-marketable equity securities is adjusted up or down for observable price changes in orderly transactions for identical or similar investments of the same issuer. All gains and losses on non-marketable equity securities, realized and unrealized, are recognized in earnings.

Fair value may differ from the observed transaction price due to a number of factors, including marketability adjustments and differences in rights and obligations when the observed transaction is not for the identical investment held. The Company applies a price-based methodology, which utilizes, where available, quoted prices or other market information obtained from recent trading activity in positions with the same or similar characteristics to the position being valued. The frequency and size of transactions are among the factors that are driven by the liquidity of markets and determine the relevance of observed prices in those markets. Determining whether an observed transaction is similar to a security within the Company’s portfolio requires judgment based on the rights and obligations of the security. Recording upward and downward adjustments to the carrying value of the Company’s non-marketable equity securities as a result of observable price changes requires quantitative assessments of the fair value of securities using various valuation methodologies and involves the use of estimates. The Company’s estimate of fair value may differ significantly from the value that would have been used had an orderly market existed for the securities, and the difference could be material.

Non-marketable equity securities under the measurement alternative are also assessed for impairment. Impairment indicators that are considered include, but are not limited to, (a) a significant deterioration in the earnings performance, credit rating, asset quality or business prospects of the investee, (b) a significant adverse change in the regulatory, economic or technological environment of the investee, (c) a significant adverse change in the general market condition of either the geographical area or the industry in which the investee operates (d) a bona fide offer to purchase, an offer by the investee to sell or a completed auction process for the same or similar investment for an amount less than the carrying amount of that investment, and (e) factors that raise significant concerns about the investee’s ability to continue as a going concern, such as negative cash flows from operations, working capital deficiencies or noncompliance with statutory capital requirements or debt covenants. When the qualitative assessment indicates that impairment exists, the investment is written down, with impairment recognized in earnings.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank (the “FHLB”), the Bank is required to invest in FHLB stock, which is carried at cost since there is no readily available market value. When redeemed, the Bank receives an amount equal to the par value of the stock. Dividends paid on the FHLB stock are subject to economic events, regulatory actions, and other factors.

Loans and Financings

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

Recently Adopted Accounting Pronouncement - CECL

Effective January 1, 2023, the Company adopted ASU 2016-13, Financial Instruments - Credit Losses (“ASC 326”). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts, and generally applies to financial assets measured at amortized cost, including loan and financing receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures, such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

In addition, CECL made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities if management does not intend to sell and does not believe that it is more likely than not, they will be required to sell.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncement - CECL (Continued)

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL did not have a material impact on the financial statements, and hence, management determined that an adjustment to retained earnings as of January 1, 2023 for the cumulative effect of adopting CECL was not necessary.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other than-temporary impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available-for-sale securities was not deemed material.

The Company elected not to measure an allowance for credit losses for accrued interest and financing income receivable and instead elected to reverse interest and financing income on loans and financings or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest and financing income is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest and financing income.

Allowance for Credit Losses – Held-to-Maturity Securities

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. The estimate of expected credit losses is primarily based on the ratings assigned to the securities by debt rating agencies and the average of the annual historical loss rates associated with those ratings. The Company then multiplies those loss rates, as adjusted for any modifications to reflect current conditions and reasonable and supportable forecasts as considered necessary, by the remaining lives of each individual security to arrive at a lifetime expected loss amount. Management classifies the held-to-maturity portfolio into the following major security types: mortgage-backed securities or foreign corporate bonds.

All the mortgage-backed securities held by the Company are issued by government-sponsored corporations. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies, and have a long history of no credit losses. Management monitors the fair value of the foreign corporate bonds held by the Company through market indicators, and the fair value exceeded the carrying value. As a result, no allowance for credit losses was recorded on held-to-maturity securities at December 31, 2024 and 2023. Accrued interest receivable is excluded from the estimate of credit losses.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Available-for-Sale Securities

For available-for-sale securities, management evaluates all investments in an unrealized loss position on a regular basis. If the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings.

If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments, and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected are compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income.

Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available-for-sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2024 and 2023, there was no allowance for credit loss related to the available-for-sale portfolio. Accrued interest receivable is excluded from the estimate of credit losses.

Allowance for Credit Losses – Loans and Financings

The allowance for credit losses is a valuation account that is deducted from the loan's or financing's amortized cost basis to present the net amount expected to be collected on the loans. Loans and financings are charged off against the allowance when management believes the uncollectibility of a loan or financing balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest and financing income receivable is excluded from the estimate of credit losses.

The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans and financings as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Loans and Financings (Continued)

The Company measures expected credit losses for loans and financings on a pooled basis when similar risk characteristics exist. The Company has identified the following portfolio segments for calculating the allowance for credit losses: commercial, commercial real estate, residential real estate, and consumer loans. These segments are evaluated based on the failure of the borrower to make scheduled interest and financing income or principal payments, performance of underlying collateral, and market conditions.

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for lending management experience and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan and financing portfolio growth, industry concentrations, trends in underlying collateral, external factors, and economic conditions not already captured.

Loans and financings that do not share risk characteristics are evaluated on an individual basis. When management determines that foreclosure is probable and the borrower is experiencing financial difficulty, the expected credit losses are based on the fair value of collateral at the reporting date, adjusted for selling costs as appropriate.

Allowance for Credit Losses - Unfunded Commitments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and financings, and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan and financing commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision in the Company's statement of operations. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan and financing segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans and financings, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. As of December 31, 2024 and 2023 the Company recorded an allowance for credit loss for off-balance sheet credit exposures of \$102,197 and \$63,135, respectively, as a liability included in accrued expenses and other liabilities on the consolidated balance sheets.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed primarily on the straight-line method over the assets' estimated useful lives which range from three to thirty-nine years. In the case of a leasehold improvement, the life will be the lesser of the term of the lease and the estimated useful life.

Leases

The Company is party to certain operating leases. In accordance with ASC 842, Leases, the Company determines if an arrangement is a lease at inception. A lease liability and a right-of-use asset are recognized at the start of the lease for these operating leases based on the present value of lease payments over the lease term. The cost of the right-of-use asset also includes any initial direct costs and any lease payments made on or before the inception date, less any incentives received. A right-of-use asset is amortized to lease expense on a straight-line basis from the inception date until the earlier of the end of the asset's useful life or the end of the lease term. Right-of-use assets are subject to impairment.

Lease payments are discounted using the interest rate implicit in the lease if that rate can be readily determined. If it cannot be easily determined, the lessee's incremental borrowing rate is used. Book value is re-measured if the lease term changes. The Company applies the exemptions for recognizing short-term leases (those leases with terms of 12 months or less from the inception date and that do not include a purchase option) and leases in which the underlying asset is of low value. The lease payments deriving from these contracts are expensed on a straight-line basis over the lease term. The Company also elected not to separate lease and non-lease components for all leases.

The Company establishes the lease term as the irrevocable period of a lease plus: (i) any periods covered by an option to extend the lease, if the Company is reasonably certain that it will exercise this option; and (ii) any periods covered by an option to terminate the lease if the Company is reasonably certain that it will not exercise this option.

Variable lease payments that include payments based upon changes in a rate or index, such as consumer price indexes, as well as usage of the lease asset, such as utilities, real estate taxes, insurance, and variable common area maintenance, are expensed as incurred. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgage Banking Activities

The Company's mortgage banking activities consist of retail and servicing operations. Loans and financings held for sale are sold or assigned with selective loans or financings having their servicing or financing rights retained, and others are sold or assigned on a servicing released basis. The Company has elected to record all loans and financings held for sale at fair value. Loans and financings are generally sold or assigned without recourse, except in certain events as defined in the related sale or assignment documents.

An allowance was booked for potential recourse liabilities related to loans and financings sold or assigned, and loans and financings held for sale or assignment, in the amount of \$438,030 and \$549,398 as of December 31, 2024 and 2023, respectively.

At certain times the Company may be required to buyback loans from a purchaser in accordance with loan purchase documents if certain representations and warranties regarding eligibility and underwriting are not met. Also, certain securitization programs allow the Company to buy back individual delinquent mortgage loans from the securitized loan pool once certain conditions are met. When individual loans meet the specified delinquency criteria and are eligible for repurchase, the Company has the option to repurchase the delinquent loan for an amount equal to 100% of the loan's remaining principal balance and must account for loans as if they had been repurchased, provided the buyback option provides the Company with a "more-than-trivial benefit." The delinquent loans must be brought back onto the Company's balance sheet as assets and initially recorded at fair value, regardless of whether the Company intends to exercise the buyback option. An offsetting liability is also recorded. Included in the loans held for investment at December 31, 2024 and 2023 are \$-0- and \$3,861,742, respectively, of delinquent residential loans that the Company has the option to buy back. As of December 31, 2024, and 2023, a loan repurchase liability of \$-0- and \$3,861,742, respectively, is recorded on the balance sheet related to these repurchase options.

Mortgage and financing servicing rights ("MSRs") represent both purchased rights and the allocated value of servicing rights retained on loans or financings originated and sold or assigned. Loan and financing servicing and sub-servicing fees are contractually based and are recognized monthly as earned over the life of the loans or financings.

MSRs are initially recognized at their fair value and subsequently can either be: (1) carried at fair value with changes in fair value recognized in earnings; or (2) amortized and assessed for impairment. These options may be applied by class of servicing assets or liabilities. The Company has elected to apply fair value accounting to all MSRs.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Real Estate Owned

Real estate properties acquired upon foreclosure of a loan or financing are recorded at fair value upon foreclosure, establishing a new cost basis. Any difference between the fair value of the real estate from the carrying value of the related loan or financing is accounted for as a credit loss. After foreclosure, management periodically performs valuations to ensure real estate is carried at the lower of cost or fair value, less estimated costs to sell. Expenses, gains and losses on disposition, and decreases in the fair value are reported in noninterest expense. The Company had real estate owned totaling \$-0- and \$593,478 as of December 31, 2024 and 2023, respectively, which related to residential real estate loans and financings. As of December 31, 2024, there were no other loans and financings that are in the process of foreclosure.

Derivatives

At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("non-designated derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income (loss) and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. Changes in the fair value of derivatives not designated are reported currently in earnings, as non-interest income.

Accrued settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Accrued settlements on derivatives not designated are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are designated are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivatives (Continued)

terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended. When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

The Company is exposed to losses if a counterparty fails to make its payments under a contract in which the Company is in the net receiving position. The Company anticipates that the counterparties will be able to fully satisfy their obligations under the agreements.

Mortgage Banking Derivatives

The Company enters into interest and financing rate lock commitments ("IRLCs") in connection with its mortgage banking activities to fund residential mortgage loans and financings within specified times in the future. These instruments are accounted for as non-designated derivatives. IRLCs that relate to the origination of mortgage loans and financings that will be held for sale or assignment are considered derivative instruments. As such, these IRLCs are recorded at fair value (see Note 24) with net changes in fair value recorded in earnings.

Outstanding IRLCs expose the Company to the risk that the price of the loans or financings underlying the commitments might decline from inception of the rate lock to the funding of the loan or financing. To protect against this risk, the Company utilizes forward loan and financing sales commitments to economically hedge the risk of potential changes in the value of the loans and financings that would result from the commitments. These forward commitments are recorded at fair value (see Note 24) with net changes in fair value recorded in earnings.

Goodwill

Goodwill is the excess costs of acquired businesses over the fair value amounts assigned to identifiable assets acquired and liabilities assumed. The Company reviews goodwill for impairment annually or whenever events and circumstances have occurred that indicate a potential impairment.

When performing an impairment test, management compares the fair value of a reporting unit with its carrying value at the measurement date. If the carrying value of the reporting unit exceeds the reporting unit's fair value, an impairment loss is recognized in an amount not to exceed the total amount of goodwill allocated to that reporting unit.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Lived Assets

Management periodically reviews the potential impairment of long-lived assets to assess recoverability. If a long-lived asset is deemed to be impaired, the write-down is recorded as a periodic expense. There was no impairment recorded during 2024 or 2023.

Income Taxes

Deferred income tax assets and liabilities are recorded for estimated future tax consequences attributable to the differences between the financial carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income taxes are to be computed on the liability method and deferred tax assets are recognized only when realization is certain. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. If necessary, a valuation allowance is booked to reduce net deferred tax assets to a net amount that is more likely than not to be realized.

The benefit of an uncertain tax position is recognized in the financial statements if it meets a minimum recognition threshold. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more-likely-than-not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. At December 31, 2024 and 2023, there are no uncertain tax positions for which a reserve or liability is recognized.

From time to time, the Company invests in tax credit structures. The Company has elected to account for its investment in its solar tax credit structure using the proportional amortization method. Under this method, the tax credit investment is amortized in proportion to the allocation of tax credits and other tax benefits in each period. The resulting amortization is presented net with the tax credits and other tax benefits within income tax expense.

The Parent and the Bank have a tax sharing agreement with some of its subsidiaries in which the subsidiaries record their share of federal and state taxes in accordance with the tax sharing agreements.

Share Based Compensation

The Company sometimes issues stock options to directors of the Company in lieu of director fees.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share Based Compensation (Continued)

The Company recognizes compensation cost relating to share-based payment transactions in the consolidated financial statements. That cost is measured based on the fair value of the equity or liability instruments issued. The fair value of the Company's options are determined pursuant to the Black-Scholes model at the date of issuance. As the options vest, the Company recognizes compensation expense in earnings.

The grant date fair value of options is determined using the Black-Scholes option pricing model, which values options based on the stock price at the grant date, expected term of the option, expected volatility of the stock, expected dividend payments, exercise price, and risk-free interest rate over the expected term of the option. The Company accounts for any forfeitures of options when they occur.

The Black-Scholes option valuation model was developed for estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because option valuation models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options. As the Company's options do not have the characteristics of traded options, the option valuation models do not necessarily provide a reliable measure of the fair value of its options.

During the years ended December 31, 2024 and 2023, the Company did not have any outstanding stock options. As a result, the Company did not have any share-based compensation expense during the years ended December 31, 2024 and 2023.

Computation of EPS

Basic earnings per share ("EPS") is computed by dividing net income attributable to common stockholders by the weighted-average common shares outstanding in the period. Diluted EPS is computed by giving effect to all potentially dilutive securities that are outstanding and excludes the effect of any potentially antidilutive securities. The number of shares related to options included in diluted EPS is based on the treasury stock method.

During 2023, the Company had issued and outstanding preferred shares that earned preferred dividends. In the determination of EPS for the year ended December 31, 2023, net income available to common stockholders was reduced by the amount of preferred dividends.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Company has performed a review of events subsequent to December 31, 2024, through March 25, 2025, the date the consolidated financial statements were available to be issued.

Recently Adopted Accounting Pronouncements

Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2023-02 - Investments - Equity Method and Joint Ventures (Topic 323) - Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method

ASU 2023-02 is intended to improve the accounting and disclosures for investments in tax credit structures by allowing reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. This ASU responds to stakeholder feedback that the proportional amortization method provides investors and other allocators of capital with a better understanding of the returns from investments that are made primarily for the purpose of receiving income tax credits and other income tax benefits.

Reporting entities were previously permitted to apply the proportional amortization method only to qualifying tax equity investments in low-income housing tax credit structures. In recent years, stakeholders asked the FASB to extend the application of the proportional amortization method to qualifying tax equity investments that generate tax credits through other programs.

ASU 2023-02 is effective for the Company for fiscal years beginning after December 15, 2023. The Company adopted this guidance effective January 1, 2024 and applied the guidance to its only investment in a tax credit structure which was initially made in 2024.

FASB ASU 2023-07 - Segment Reporting (Topic 280) - Improvements to Reportable Segment Disclosures

ASU 2023-07 is intended to improve disclosures about reportable segments and addresses requests from investors and other allocators of capital for additional, more detailed information about a reportable segment’s expenses.

ASU 2023-07 applies to all public entities that are required to report segment information in accordance with Topic 280 and is effective for the Company for fiscal years beginning after December 15, 2023. The Company adopted this guidance effective January 1, 2024 and adoption did not have a significant impact on the Company’s consolidated financial statements, as the Company has one operating segment. See Note 25 for segment information disclosures.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements Not Yet Adopted

FASB ASU 2023-09 - Income Taxes (Topic 740) - Improvements to Income Tax Disclosures

ASU 2023-09 is intended to enhance income tax disclosures to address investor requests for more information about the tax risks and opportunities present in an entity's worldwide operations.

The two primary enhancements disaggregate existing income tax disclosures related to the effective tax rate reconciliation and income taxes paid. These amendments require that public business entities disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. The amendments also require that all entities disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state and foreign, and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than five percent of total income taxes paid (net of refunds received).

For the Company, ASU 2023-09 is effective for fiscal years beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issue. The amendments should be applied on a prospective basis. The Company is assessing the terms of this guidance. Adoption of the standard is not expected to have a significant impact on the Company's consolidated financial statements.

FASB ASU 2024-03 - Income Statement - Reporting Comprehensive Income-Expense Disaggregation Disclosures

ASU 2024-03 requires public business entities to disclose specific information about certain costs and expenses in the notes to the financial statements.

The objective of the disclosure requirements is to provide disaggregated information about a public business entity's expenses to help investors (a) better understand the entity's performance, (b) better assess the entity's prospects for future cash flows, and (c) compare an entity's performance over time and with that of other entities.

The amendments in this ASU are effective for fiscal years beginning after December 15, 2026. Early adoption is permitted. The Company is assessing the terms of this guidance. Adoption of the standard is not expected to have a significant impact on the Company's consolidated financial statements.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 2 – INVESTMENT SECURITIES

Marketable Securities

Marketable investment securities have been classified according to management's intent. The amortized cost of marketable investment securities and their approximate fair values are as follows:

<u>December 31, 2024</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
At amortized cost:				
U.S. agency mortgage-backed securities held-to-maturity	<u>\$ 16,592,980</u>	<u>\$ -</u>	<u>\$ (1,326,184)</u>	<u>\$ 15,266,796</u>
At fair value:				
U.S. Treasury securities available-for-sale	<u>\$ 2,494,630</u>	<u>\$ 1,271</u>	<u>\$ (237)</u>	<u>\$ 2,495,664</u>
Equity securities	<u>13,880,393</u>	<u>1,562,355</u>	<u>(4,722,615)</u>	<u>10,720,133</u>
Total at fair value	<u>\$ 16,375,023</u>	<u>\$ 1,563,626</u>	<u>\$ (4,722,852)</u>	<u>\$ 13,215,797</u>

There was no allowance for credit losses on held-to-maturity or available-for-sale debt securities as of December 31, 2024 and 2023.

The Company monitors the credit quality of debt securities held-to-maturity using credit ratings. At December 31, 2024 and 2023, the Company had no securities held-to-maturity that were past due 30 days or more as to principal or interest payments. The Company had no securities held-to-maturity classified as nonaccrual during the years ended December 31, 2024 and 2023.

<u>December 31, 2023</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
At amortized cost:				
U.S. agency mortgage-backed securities held-to-maturity	<u>\$ 12,563,467</u>	<u>\$ -</u>	<u>\$ (996,930)</u>	<u>\$ 11,566,537</u>
Foreign corporate bonds	<u>4,546,898</u>	<u>187,655</u>	<u>-</u>	<u>4,734,553</u>
Total at amortized cost	<u>\$ 17,110,365</u>	<u>\$ 187,655</u>	<u>\$ (996,930)</u>	<u>\$ 16,301,090</u>
At fair value:				
U.S. agency mortgage-backed securities available-for-sale	<u>\$ 46,082</u>	<u>\$ -</u>	<u>\$ (470)</u>	<u>\$ 45,612</u>
Equity securities	<u>17,547,476</u>	<u>3,179,999</u>	<u>(3,924,200)</u>	<u>16,803,275</u>
Total at fair value	<u>\$ 17,593,558</u>	<u>\$ 3,179,999</u>	<u>\$ (3,924,670)</u>	<u>\$ 16,848,887</u>

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 2 – INVESTMENT SECURITIES (Continued)

Marketable Securities (Continued)

At December 31, 2024 and 2023, the fair value of marketable investment securities pledged to secure certain line of credit borrowings was \$15,254,142 and \$11,612,149, respectively. The balance of these borrowings at both December 31, 2024 and 2023 was \$-0-.

The following is a summary of maturities of marketable debt securities held-to-maturity and available-for-sale as of December 31, 2024:

	Held-to-maturity		Available-for-sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amounts maturing in:				
One year or less	\$ -	\$ -	\$ 2,453,232	\$ 2,454,176
After one year through five years	-	-	-	-
After five years through ten years	-	-	-	-
After ten years	16,592,980	15,266,796	41,398	41,488
	<u>\$ 16,592,980</u>	<u>\$ 15,266,796</u>	<u>\$ 2,494,630</u>	<u>\$ 2,495,664</u>

Actual maturities may differ from contractual maturities because issuers and borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Unrealized Loss Disclosures

The following table shows the gross unrealized losses and fair value of available-for-sale debt securities for which an allowance for credit losses has not been recorded, aggregated by category and length of time that the securities have been in a continuous unrealized loss position at December 31, 2024:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities available-for-sale	<u>\$ 1,558,001</u>	<u>\$ (237)</u>	<u></u>	<u></u>	<u>\$ 1,558,001</u>	<u>\$ (237)</u>

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 2 – INVESTMENT SECURITIES (Continued)

Unrealized Loss Disclosures (Continued)

The following table shows the gross unrealized losses and fair value of available-for-sale debt securities for which an allowance for credit losses has not been recorded, aggregated by category and length of time that the securities have been in a continuous unrealized loss position at December 31, 2023:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. agency mortgage-backed securities available-for-sale	\$ -	\$ -	\$ 45,612	\$ (470)	\$ 45,612	\$ (470)

Unrealized losses on mortgage-backed securities have not been recognized into income as management does not intend to sell, and it is likely that management will not be required to sell, the securities prior to their anticipated recovery. Also, the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments.

Non-Marketable Securities

Non-marketable equity securities consist of an investment in capital stock of a privately held trust bank without a readily determinable fair value. The Company purchased this investment during 2022 for \$1,093,075. During the year ended December 31, 2024, an additional \$100,000 was invested. As of December 31, 2024 and 2023, the Company's non-marketable equity securities had a carrying value of \$1,193,075 and \$1,093,075, respectively. The Company owns 12.5% of the trust bank. There were no upward or downward adjustments to the Company's non-marketable securities and there were no realized or unrealized gains or losses on non-marketable equity securities during the years ended December 31, 2024 and 2023.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 3 – LOANS AND FINANCINGS

Major classifications of loans and financings are as follows:

	December 31,	
	2024	2023
Commercial	\$ 39,014,391	\$ 42,508,054
Commercial real estate	117,731,758	115,018,496
Residential real estate	616,089,724	571,646,526
Consumer	9,504,957	4,624,005
Credit cards	33,809	50,380
Gross loans and financings	782,374,639	733,847,461
Allowance for credit losses	(5,082,605)	(4,429,843)
Unamortized premium on residential real estate loans	333,798	256,272
Net loans and financings	<u>\$ 777,625,832</u>	<u>\$ 729,673,890</u>

Allowance for Credit Losses – Loans and Financings

The following table summarizes the activity related to the allowance for credit losses for the year ended December 31:

	2024		
	Commercial	Retail	Total
Balance, beginning of year	\$ 900,450	\$ 3,529,393	\$ 4,429,843
Provision charged to operations	128,667	545,968	674,635
Recoveries credited to allowance	-	17,576	17,576
Charge-offs	-	(39,449)	(39,449)
Balance, end of year	<u>\$ 1,029,117</u>	<u>\$ 4,053,488</u>	<u>\$ 5,082,605</u>

	2023			
	Commercial	Retail	Unallocated	Total
Balance, beginning of year	\$ 444,609	\$ 1,272,889	\$ 1,842,507	\$ 3,560,005
Adjustment to allowance for adoption of ASU 2016-13	277,157	1,565,350	(1,842,507)	-
Provision charged to operations	178,684	719,976	-	898,660
Recoveries credited to allowance	-	20,700	-	20,700
Charge-offs	-	(49,522)	-	(49,522)
Balance, end of year	<u>\$ 900,450</u>	<u>\$ 3,529,393</u>	<u>\$ -</u>	<u>\$ 4,429,843</u>

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 3 – LOANS AND FINANCINGS (Continued)

Collateral Dependent Loans and Financings

The Company has certain loans and financings for which repayment is dependent upon the operation or sale of collateral, as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan or financing. The following provides more detail about the types of collateral that secure collateral dependent loans and financings.

- Commercial loans and financings are typically secured by business assets or business owner assets.
- Commercial real estate loans and financings can be secured by either owner-occupied commercial real estate or non-owner-occupied investment commercial real estate. Typically, owner occupied commercial real estate loans and financings are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner occupied commercial real estate loans and financings are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate.
- Consumer loans and financings are generally secured by automobiles, motorcycles, recreational vehicles and other personal property. Some consumer loans and financings are unsecured and have no underlying collateral.
- Residential real estate loans and financings, and home equity lines of credit are typically secured by first or second mortgages.

The following table details the amortized cost of collateral dependent loans and financings:

	December 31,	
	2024	2023
Commercial	\$ -	\$ -
Commercial real estate	174,076	391,044
Consumer/credit card	-	-
Residential real estate	2,322,139	2,589,405
Total	<u>\$ 2,496,215</u>	<u>\$ 2,980,449</u>

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 3 – LOANS AND FINANCINGS (Continued)

Credit Quality

The following tables present informative data by class of loan and financing regarding their age and interest or financing income accrual status:

December 31, 2024	Current	Past Due			Total Past Due	Total Loans and Financings
		30-59 Days	60-89 Days	≥ 90 Days		
Commercial	\$ 38,984,255	\$ 30,136	\$ -	\$ -	\$ 30,136	\$ 39,014,391
Commercial real estate	117,557,814	173,944	-	-	173,944	117,731,758
Consumer	9,470,131	34,826	-	-	34,826	9,504,957
Credit card	33,809	-	-	-	-	33,809
Residential real estate	610,262,158	4,148,208	431,970	1,247,388	5,827,566	616,089,724
Total	<u>\$776,308,167</u>	<u>\$ 4,387,114</u>	<u>\$ 431,970</u>	<u>\$ 1,247,388</u>	<u>\$ 6,066,472</u>	<u>\$ 782,374,639</u>

December 31, 2023	Current	Past Due			Total Past Due	Total Loans and Financings
		30-59 Days	60-89 Days	≥ 90 Days		
Commercial	\$ 42,496,497	\$ 11,557	\$ -	\$ -	\$ 11,557	\$ 42,508,054
Commercial real estate	114,725,218	175,668	117,610	-	293,278	115,018,496
Consumer	4,623,642	363	-	-	363	4,624,005
Credit card	50,380	-	-	-	-	50,380
Residential real estate	566,654,103	170,484	-	4,821,939	4,992,423	571,646,526
Total	<u>\$728,549,840</u>	<u>\$ 358,072</u>	<u>\$ 117,610</u>	<u>\$ 4,821,939</u>	<u>\$ 5,297,621</u>	<u>\$ 733,847,461</u>

Included in the residential real estate loans and financings past due over 90 days are \$-0- and \$3,861,742 at December 31, 2024 and 2023, respectively, of delinquent residential loans that the Company has the option to buy back as further discussed in Note 1. The principal balances of these loans are fully guaranteed by GNMA.

The following tables are a summary of the Company's nonaccrual loans and financings by major categories:

	December 31, 2024		
	Nonaccrual Loans and Financings With No Allowance	Nonaccrual Loans and Financings With an Allowance	Total Nonaccrual Loans
Commercial	\$ -	\$ -	\$ -
Commercial real estate	-	-	-
Consumer/credit card	-	-	-
Residential real estate	883,016	364,372	1,247,388
Total	<u>\$ 883,016</u>	<u>\$ 364,372</u>	<u>\$ 1,247,388</u>

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 3 – LOANS AND FINANCINGS (Continued)

	December 31, 2023		
	Nonaccrual Loans and Financings With No Allowance	Nonaccrual Loans and Financings With an Allowance	Total Nonaccrual Loans
Commercial	\$ -	\$ -	\$ -
Commercial real estate	-	-	-
Consumer/credit card	-	-	-
Residential real estate	260,665	699,532	960,197
Total	<u>\$ 260,665</u>	<u>\$ 699,532</u>	<u>\$ 960,197</u>

At December 31, 2024 and 2023, the Company had no loans and financings held for sale or assignment that were on nonaccrual status. The Company did not recognize any significant interest and financing income on nonaccrual loans and financings during the years ended December 31, 2024 and 2023, nor did the Company write off any significant accrued interest and financing income receivable during the years ended December 31, 2024 and 2023.

The Company has a grading system to help evaluate and classify the Company's loan and financing portfolio with respect to credit quality and risk.

The Company reviews commercial loans and financings on a regular basis and categorizes those loans and financings into risk categories based on relevant information about the ability of the customers to service their loan or financings, including financial information, payment experience, credit documentation, public information, and current economic trends.

Commercial loans and financings that are considered to be of lesser quality are considered substandard, doubtful, or loss (classified). The Company considers a loan or financing substandard when there is an inadequate primary or secondary source of repayment, hence inadequately protected by the current net worth and financial capacity of the borrower or of the collateral pledged, if any. Substandard loans and financings include those in which there is the distinct possibility that the Company will sustain some loss of principal if the deficiencies are not corrected. Loans and financings that are classified as doubtful have all of the weaknesses inherent in those loans and financings that are classified substandard, but also have the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans and financings classified as loss, are those considered uncollectible and of such little value that their continuance as an asset is not warranted, and the uncollectible amounts are charged off.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 3 – LOANS AND FINANCINGS (Continued)

Loans and financings that do not expose the Company to risk sufficient to warrant classification in one of the aforementioned categories, but which possess some weakness, are designated as special mention. A special mention loan or financing has a potential weakness that deserves close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special mention assets are not adversely classified and do not expose the Company to sufficient risks to warrant classification. Special mention loans and financings are included with substandard performing loans and financings in the following table. Commercial loans and financings not meeting the above criteria are considered to be pass rated loans and financings.

For residential real estate and consumer loans and financings, the Company uses payment status to monitor the credit risk in these loans and financings. Substandard loans and financings are those that are ninety days or more past due. Residential real estate and consumer loans and financings that don't meet these criteria are considered performing.

The following tables present the Company's recorded investment in loans and financings by credit quality indicators by year of origination as of December 31:

	2024							
	Term Loans and Financings by Year of Origination							
	2024	2023	2022	2021	2020	Prior	Revolving	Total
Commercial Real Estate								
Pass	\$ 24,573,372	\$ 28,098,927	\$ 24,510,307	\$ 17,896,061	\$ 7,485,546	\$ 13,077,399	\$ -	\$ 115,641,612
Classified - performing	-	-	522,825	405,920	-	1,161,401	-	2,090,146
Classified - nonperforming	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total Commercial Real Estate	<u>\$ 24,573,372</u>	<u>\$ 28,098,927</u>	<u>\$ 25,033,132</u>	<u>\$ 18,301,981</u>	<u>\$ 7,485,546</u>	<u>\$ 14,238,800</u>	<u>\$ -</u>	<u>\$ 117,731,758</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Commercial								
Pass	\$ 16,355,311	\$ 20,752,296	\$ 1,002,556	\$ 143,869	\$ 312,119	\$ 372,555	\$ -	\$ 38,938,706
Classified - performing	19,541	-	-	-	14,705	41,439	-	75,685
Classified - nonperforming	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total Commercial	<u>\$ 16,374,852</u>	<u>\$ 20,752,296</u>	<u>\$ 1,002,556</u>	<u>\$ 143,869</u>	<u>\$ 326,824</u>	<u>\$ 413,994</u>	<u>\$ -</u>	<u>\$ 39,014,391</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Residential Real Estate								
Performing	\$ 31,083,468	\$ 101,365,459	\$ 260,497,721	\$ 16,004,336	\$ 5,815,786	\$ 4,354,278	\$ 190,464,716	\$ 609,585,764
Substandard	-	198,287	2,041,265	579,339	1,215,042	2,470,027	-	6,503,960
Total Residential Real Estate	<u>\$ 31,083,468</u>	<u>\$ 101,563,746</u>	<u>\$ 262,538,986</u>	<u>\$ 16,583,675</u>	<u>\$ 7,030,828</u>	<u>\$ 6,824,305</u>	<u>\$ 190,464,716</u>	<u>\$ 616,089,724</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,449</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,449</u>
Consumer/Credit Card								
Performing	\$ 6,536,038	\$ 2,375,892	\$ 554,762	\$ -	\$ 18,238	\$ 20,027	\$ 33,809	\$ 9,538,766
Substandard	-	-	-	-	-	-	-	-
Total Consumer/Credit Card	<u>\$ 6,536,038</u>	<u>\$ 2,375,892</u>	<u>\$ 554,762</u>	<u>\$ -</u>	<u>\$ 18,238</u>	<u>\$ 20,027</u>	<u>\$ 33,809</u>	<u>\$ 9,538,766</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 3 – LOANS AND FINANCINGS (Continued)

	2023						
	Term Loans and Financings by Year of Origination						
	2023	2022	2021	2020	2019	Prior	Revolving
Commercial Real Estate							
Pass	\$ 33,069,153	\$ 30,315,719	\$ 24,831,284	\$ 7,831,218	\$ 7,802,946	\$ 10,513,749	\$ -
Classified - performing	-	175,133	-	16,346	-	462,948	-
Classified - nonperforming	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total Commercial Real Estate	\$ 33,069,153	\$ 30,490,852	\$ 24,831,284	\$ 7,847,564	\$ 7,802,946	\$ 10,976,697	\$ -
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial							
Pass	\$ 21,612,573	\$ 19,072,338	\$ 425,842	\$ 774,163	\$ 265,216	\$ 357,922	\$ -
Classified - performing	-	-	-	-	-	-	-
Classified - nonperforming	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total Commercial	\$ 21,612,573	\$ 19,072,338	\$ 425,842	\$ 774,163	\$ 265,216	\$ 357,922	\$ -
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential Real Estate							
Performing	\$ 113,202,866	\$ 284,494,867	\$ 16,513,439	\$ 6,550,008	\$ 905,972	\$ 4,298,102	\$ 140,125,683
Substandard	200,829	1,145,696	-	1,236,037	446,824	2,526,203	-
Total Residential Real Estate	\$ 113,403,695	\$ 285,640,563	\$ 16,513,439	\$ 7,786,045	\$ 1,352,796	\$ 6,824,305	\$ 140,125,683
Current period gross write-offs	\$ -	\$ -	\$ 49,522	\$ -	\$ -	\$ -	\$ 49,522
Consumer/Credit Card							
Performing	\$ 3,481,795	\$ 1,094,616	\$ -	\$ 21,306	\$ 26,288	\$ -	\$ 50,380
Substandard	-	-	-	-	-	-	-
Total Consumer/Credit Card	\$ 3,481,795	\$ 1,094,616	\$ -	\$ 21,306	\$ 26,288	\$ -	\$ 50,380
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Modifications Made to Borrowers Experiencing Financial Difficulty

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. In some cases, the Company will modify a certain loan or financing by providing multiple types of concessions, typically term extension or interest rate reduction. During the years ended December 31, 2024 and 2023, the Company did not have a significant amount of loan or financing modifications for borrowers experiencing financial difficulty.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 4 – MORTGAGE BANKING ACTIVITIES

University Bank provides sub-servicing of real estate mortgage loans for over 300 financial institutions. The unpaid principal balance of these loans was approximately \$30.6 billion and \$30.5 billion as of December 31, 2024 and 2023, respectively. The value of the mortgage servicing rights associated with these sub-serviced loans belong to the customer and therefore are not included in the accompanying consolidated financial statements.

University Bank, Hyrex, and UIF sell residential mortgage loans and financings to the secondary market with servicing rights retained for selected loans and financings. These loans and financings are owned by other institutions and are not included in the Company's consolidated balance sheets, but the associated MSRs are included in the accompanying consolidated financial statements. Such mortgage loans and financings have been sold or assigned generally without recourse or with limited recourse. The unpaid principal balance of these loans and financings was \$4.4 billion and \$3.9 billion at December 31, 2024 and 2023, respectively.

Custodial escrow balances maintained in connection with these loans and financings were approximately \$402 million and \$417 million, of which approximately \$83 million and \$85 million were held at other banks and were not included in the accompanying consolidated financial statements at December 31, 2024 and 2023, respectively.

The following summarizes the activity relating to MSR's:

	December 31,	
	2024	2022
Balance, January 1	\$ 40,530,048	\$ 32,970,830
Amount capitalized	8,674,975	9,253,352
Change in fair value due to:		
Pay-offs and pay-downs	(3,671,118)	(2,046,941)
Changes in market conditions	1,412,136	352,807
Balance, December 31	<u>\$ 46,946,041</u>	<u>\$ 40,530,048</u>

The Company enters into IRLCs in connection with its mortgage banking activities to fund residential mortgage loans and financings within specified times in the future. As of December 31, 2024 and 2023, IRLCs amounted to approximately \$39.8 million and \$41.9 million, respectively, of which management estimated approximately \$36.3 million and \$35.6 million, respectively, to eventually close and be funded. These IRLCs were recorded in assets in the consolidated balance sheets at a fair value of \$430,919 and \$986,989 as of December 31, 2024 and 2023, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 4 – MORTGAGE BANKING ACTIVITIES (Continued)

The Company also utilizes forward loan and financing sales commitments in order to economically hedge the risk of potential changes in the value of the loans and financings that would result from the IRLCs. Forward sales commitments to fund loans and financings at specified rates amounted to approximately \$89.3 million and \$93.8 million as of December 31, 2024 and 2023, respectively. These forward commitments were recorded in the consolidated balance sheet at a fair value in assets of \$419,395 as of December 31, 2024 and in liabilities of \$825,479 as of December 31, 2023.

The net change in fair value of the IRLCs and the related forward loan and financing sales commitments held at December 31, 2024 resulted in a gain of \$688,804 and at December 31, 2023 resulted in a loss of \$1,407,319, which have been recognized in the noninterest income section in the consolidated statements of operations. These gains and losses are due principally to the inclusion of day one gains/losses associated with the adoption of fair value accounting as discussed in Note 24.

Market interest rate conditions can quickly affect the fair value of MSRs, IRLCs, and forward loan and financing sales commitments in a positive or negative fashion, as long-term interest rates rise and fall. See Note 24 for further discussion of management's assumptions used in determination of fair value of these assets and liabilities.

NOTE 5 – PREMISES AND EQUIPMENT, NET

Premises and equipment consist of the following:

	December 31,	
	2024	2023
Land	\$ 1,520,363	\$ 1,043,400
Buildings and improvements	7,593,074	7,293,947
Furniture, fixtures, equipment and software	18,062,120	15,525,755
Construction in process	53,212	741,284
	27,228,769	24,604,386
Less accumulated depreciation and amortization	(17,862,127)	(16,150,698)
Premises and equipment, net	<u>\$ 9,366,642</u>	<u>\$ 8,453,688</u>

Depreciation and amortization expense related to premises and equipment amounted to \$1,711,429 and \$1,644,731 for the years ended December 31, 2024 and 2023, respectively.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 – PREMISES AND EQUIPMENT, NET (Continued)

Leases

The Company leases office space for its operations under operating leases. Several leases have an option to renew at the Company's discretion for an additional term. Only lease options that the Company believes are reasonably certain to be exercised are included in the measurement of lease assets and liabilities. The Company's present leases have a weighted average remaining term of 6.4 years.

During the years ended December 31, 2024 and 2023, the Company recorded \$288,544 and \$1,909,222, respectively of operating lease right of use assets obtained in exchange for operating lease liabilities.

Maturities of operating lease liabilities for office space are as follows:

Years ending December 31,	Amount
2025	\$ 836,256
2026	719,654
2027	692,594
2028	688,952
2029	496,866
Thereafter	<u>1,071,593</u>
Total minimum future payments	4,505,915
Less: Present value discount	<u>(732,468)</u>
Present value of operating lease liabilities	<u><u>\$ 3,773,447</u></u>

The weighted average discount rate used to calculate the present value of future lease payments was 5.8%. Operating lease expense for the years ended December 31, 2024 and 2023 totaled \$1,262,986 and \$1,198,876, respectively. These operating lease expense amounts include short-term and variable lease expense.

NOTE 6 – DERIVATIVES DESIGNATED AS HEDGES – INTEREST RATE SWAP

The Company utilizes an interest rate swap agreement as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swap does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreement.

This interest rate swap was entered into during the year ended December 31, 2023, and is designated as a cash flow hedge of certain unsecured debt. This cash flow hedge was determined to be effective during all periods presented in the consolidated financial statements and is expected to remain effective during the remaining term of the swap.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 – DERIVATIVES DESIGNATED AS HEDGES – INTEREST RATE SWAP

(Continued)

As disclosed in Note 21, the Company has unsecured debt totaling \$28,000,000 that accrues interest at a fixed rate through January 31, 2028, and at an adjusting rate thereafter until maturity. To minimize the effect of changes in adjusting interest rates, the Company entered into the interest rate swap agreement under which it pays interest quarterly at a fixed 3.21% rate and receives interest quarterly at the Secured Overnight Financing Rate (“SOFR”) on the notional amount of \$28,000,000 (the SOFR was 4.49% at December 31, 2023) commencing January 31, 2028 up to January 31, 2033.

As of December 31, 2024 and 2023, the fair value of the interest rate swap was determined to be an asset of \$889,071 and \$-0-, respectively. During the years ended December 31, 2024 and 2023, the change in fair value of the interest rate swap totaled a gain of \$889,071 and \$-0-, respectively, and was recorded in other comprehensive income.

The Company did not have any fair value hedges during the years ended December 31, 2024 and 2023.

NOTE 7 – GOODWILL

The following table summarizes goodwill by reporting unit:

	December 31,	
	2024	2023
Hyrex	\$ -	\$ 103,914
AAIC	319,067	319,067
	<u>\$ 319,067</u>	<u>\$ 422,981</u>

During the year ended December 31, 2024 and 2023, the Company recorded goodwill impairment totaling \$103,914 and \$-0-, respectively.

NOTE 8 – CUSTOMER RELATIONSHIPS, NET

During 2020, AAIC acquired customer relationships of \$620,691 as part of the acquisition of a local insurance agency. These customer relationships are being amortized on a straight-line basis over their estimated economic lives, which were determined to be 10 years. Amortization expense amounted to \$62,068 for each of the years ended December 31, 2024 and 2023, respectively. The carrying value of customer relationships totaled \$320,693 and \$382,761 at December 31, 2024 and 2023, respectively.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 9 – TIME DEPOSITS

Non-brokered time deposit liabilities issued in denominations of \$250,000 or more were \$22,576,232 and \$12,589,215 at December 31, 2024 and 2023, respectively.

At December 31, 2024, stated maturities of time deposits were:

<u>Years ending December 31,</u>	<u>Non-brokered time</u>	<u>Brokered time</u>
2025	\$ 48,808,225	\$ 19,950,000
2026	4,516,699	44,859,000
2027	2,156,836	64,900,000
2028	834,391	113,475,000
2029 and thereafter	1,284,149	-
	<u>\$ 57,600,300</u>	<u>\$ 243,184,000</u>

NOTE 10 – DEFERRED COMPENSATION

The Company had a deferred compensation agreement (the “Agreement”) with one of its key employees that provided this employee with a phantom interest in the net income of a subsidiary based on years of service. During 2022 the Agreement was dissolved. In relation to the Agreement, the Company recognized compensation expense of \$4,257 during the year ended December 31, 2022, and had remaining unpaid accrued deferred compensation of \$4,246,666 as of December 31, 2022, that was paid in full during 2023.

NOTE 11 – CONTINGENT CONSIDERATION LIABILITY

The Company has a contingent consideration agreement as part of a 2019 acquisition, which could require the Company to pay the former owner annually through 2025 if certain loan production thresholds are met. The fair value of the contingent consideration liability related to the acquisition was \$-0- as of December 31, 2024 and 2023. No contingent consideration payments were made during the years ended December 31, 2024 and 2023.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 – INCOME TAXES

Income tax expense (benefit) is summarized as follows:

	December 31,	
	2024	2023
Current expense (benefit)		
Federal	\$ 16,692	\$ 149,665
State	200,991	108,802
	<u>217,683</u>	<u>258,467</u>
Deferred expense (benefit)		
Federal	\$ 2,459,052	\$ 1,539,084
State	85,499	473,356
	<u>2,544,551</u>	<u>2,012,440</u>
Income tax expense, net	<u>\$ 2,762,234</u>	<u>\$ 2,270,907</u>

The effective tax rate varies from the current U.S. federal statutory income tax rate as follows:

	Year ended December 31,	
	2024	2023
Statutory rate	21.0%	21.0%
State income taxes	1.5%	2.4%
Permanent differences	-1.1%	-0.9%
Investment tax credits	-3.1%	0.0%
Change in expected rate of realization of deferred state income taxes	0.0%	2.7%
Other	0.6%	-0.2%
Effective rate	<u>18.9%</u>	<u>25.0%</u>

During the year ended December 31, 2023, the Company determined that the rate at which it expects to realize its deferred state income taxes has increased, resulting in an increase to the deferred tax liability and tax expense of \$244,622.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 12 – INCOME TAXES (Continued)

Significant components of the Company's deferred income tax assets and liabilities consist of the following:

	December 31,	
	2024	2023
Deferred income tax assets:		
Allowance for credit losses and recourse liabilities	\$ 1,122,190	\$ 988,685
Equity securities	726,860	171,166
Tax credits	1,362,003	-
Other	230,613	191,824
	<u>3,441,666</u>	<u>1,351,675</u>
Deferred income tax liabilities:		
Mortgage and financing servicing rights	(10,797,589)	(9,321,911)
Derivatives and LHFS	(456,954)	(465,780)
Derivatives designated as hedges	(204,486)	-
Premises and equipment	(709,194)	(487,539)
Other	(4,091)	(3,068)
	<u>(12,172,314)</u>	<u>(10,278,298)</u>
Net deferred tax liability	<u>\$ (8,730,648)</u>	<u>\$ (8,926,623)</u>

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before calendar year 2021.

Investment in Tax Credit Structure

During the year ended December 31, 2024, the Company entered into a \$3,450,000 commitment to invest in a solar tax credit structure. During the year ended December 31, 2024, the Company invested in \$3,002,743 of this commitment. At December 31, 2024 the balance of the unamortized investment in the solar tax credit structure was \$61,463 which is included in "other assets" in the December 31, 2023 consolidated balance sheet. Total unfunded commitments related to the investment in the solar tax credit structure totaled \$447,257 at December 31, 2024. The Company expects to fulfill this commitment during the year ending December 31, 2025.

During the year ended December 31, 2024, the Company recognized amortization expense of \$2,941,280 which was included in income tax expense in the 2024 consolidated statement of operations.

Additionally, during the year ended December 31, 2024, the Company recognized tax credits and other benefits from its investment in the tax credit structure of \$3,387,285. The Company has not incurred any impairment losses related to these tax credits.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 13 – CONVERTIBLE PREFERRED STOCK

The Company had 24,000 shares of convertible preferred stock outstanding at December 31, 2022. On December 20, 2023, the Company triggered the conversion of the 24,000 preferred shares into 240,000 common shares. These 240,000 common shares were issued out of treasury shares. On the conversion date, the liquidation value of these preferred shares totaled \$2,400,000 and the carrying value totaled \$2,280,000. The Company had no outstanding preferred shares at December 31, 2023 or during the year ended December 31, 2024.

The preferred stock had a liquidation preference over common stock and the preferred shares had a \$100 per share liquidation value, on which cumulative dividends accrued at 6% per annum, payable quarterly. If the tangible book value of the Company, as defined in the preferred stock certificate of designation, reached at least seven times the value of the liquidation value of preferred shares, the 6% preferred dividends became noncumulative and were to be paid quarterly only if declared by the Company's Board of Directors. The Company couldn't declare or pay dividends to any other classes of stock until the cumulative preferred dividends were paid, along with any noncumulative preferred dividends declared.

Each share of preferred stock could be converted into common stock initially at a rate of \$10 preferred stock liquidation value per common share. The conversion price was subject to certain antidilution provisions as defined in the stock certificate designation. Beginning December 20, 2023, the Company could cause some or all of the preferred stock to be converted into common stock at the then prevailing conversion price, if the closing price of the Company's common stock exceeded 130% of the then applicable conversion price for twenty out of thirty consecutive trading days. The holder was also prevented from exercising the conversion right if, after the conversion, it resulted in the holder owning more than one third of the Company's outstanding equity.

During the year ended December 31, 2023, preferred dividends of \$411,372 were paid out, of which \$270,972 were accrued in the consolidated balance sheet at December 31, 2022.

NOTE 14 – TREASURY STOCK

During the year ended December 31, 2020, the Company repurchased 441,381 common shares at an aggregate cost of \$3,994,498. These treasury stock shares are recorded at cost in the consolidated statement of equity. The Company reissued -0- and 240,000 shares out of treasury during the years ended December 31, 2024 and 2023, respectively. In 2023, the shares were issued upon the conversion of preferred shares.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
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NOTE 15 – NONCONTROLLING INTEREST

Included in the consolidated financial statements are the results for UIF. The Bank owns 80% of the common stock of UIF. An outside investor owns the remaining 20%. At December 31, 2024 and 2023, total equity of UIF was \$59,807,703 and \$53,054,118, respectively. The noncontrolling interest at December 31, 2024 and 2023 was \$11,961,541 and \$10,610,825, respectively.

NOTE 16 – EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	Years ended December 31,	
	2024	2023
Basic earnings per share		
Net income attributable to stockholders	\$ 10,467,383	\$ 5,426,558
Less: cumulative dividends on preferred stock	-	(140,400)
Net income attributable to common stockholders	<u>\$ 10,467,383</u>	<u>\$ 5,286,158</u>
Weighted-average common shares outstanding	5,169,518	4,936,751
Basic earnings per share	\$ 2.02	\$ 1.07
Diluted earnings per share		
Net income attributable to common stockholders - diluted	<u>\$ 10,467,383</u>	<u>\$ 5,286,158</u>
Weighted-average common shares outstanding - basic	5,169,518	4,936,751
Dilutive effect of stock options	-	-
Weighted-average common shares outstanding - diluted	<u>5,169,518</u>	<u>4,936,751</u>
Diluted earnings per share	\$ 2.02	\$ 1.07

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 17 – EMPLOYEE STOCK OWNERSHIP AND RETIREMENT SAVINGS PLAN

The Bank has an employee stock ownership and retirement savings plan (the “Plan”) that allows employees of the Bank and the Bank’s subsidiaries to contribute a portion of their salary pre-tax, to the allowable limit prescribed by the Internal Revenue Service (the “401(k) Component”). Management has discretion to make matching contributions to the Plan. All amounts have been funded or accrued at each respective balance sheet date. Matching contributions for the years ended December 31, 2024 and 2023 totaled \$1,426,768 and \$1,307,724, respectively.

The Company may also make discretionary contributions to the employee stock ownership component (the “ESOP Component”). A participant’s share in the Company’s ESOP contribution is based on his or her current compensation as a percentage of total employee compensation. Upon retirement from the Company, participants can receive distributions of their allocated shares of the Company’s stock. At December 31, 2024, the Company had accrued \$177,204, which is expected to be contributed to the ESOP in 2025. At December 31, 2023, the Company had accrued \$-0-. Compensation expense related to the ESOP contributions amounted to \$275,356 and \$-0-, during the years ended December 31, 2024 and 2023, respectively.

The annual contribution to the ESOP is at the discretion of the Board of Directors. Assets of the ESOP include 239,003 shares of the Company’s stock at December 31, 2024 and 2023, respectively, all of which were fully allocated. The shares of the ESOP are held in trust and were valued at \$3,943,550 and \$3,585,045 at December 31, 2024 and 2023, respectively.

NOTE 18 – COMMITMENTS AND CONTINGENCIES

Commitments

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 fund lines of credit and credit card limits. The Bank’s exposure to credit loss in the event of non-performance is equal to or less than the contractual amount of these instruments. The Bank follows the same credit policy to make such commitments as that followed by loans recorded in the consolidated financial statements.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 18 – COMMITMENTS AND CONTINGENCIES (Continued)

Commitments (Continued)

The following is a summary of commitments:

	December 31,	
	2024	2023
Unused lines of credit	\$ 51,860,754	\$ 94,237,445
Commitment to fund residential loans	90,806,411	52,932,458
Commitment to fund commercial loans	8,637,299	3,763,054
Unused credit card limits	406,380	168,879
Unused home equity lines of credit	73,813,806	58,418,195
Unused commitments for residential construction	13,190,717	18,081,463
	<u>\$ 238,715,367</u>	<u>\$ 227,601,494</u>

Loss Reserves

Crescent is a participant in a quota share reinsurance agreement with other unrelated captive insurance companies collectively referred to as the “Pool”. The reinsurance agreement is between Crescent and each Pool participant. The quota share participation percentage includes a portion of Crescent’s own ceded Pool premium. The premium ceded by Crescent is then pooled with the ceded premiums from all other participating captives and redistributed back to each captive as assumed premium according to its participation percentage. Ceded and assumed losses are treated in the same manner. The reinsured claims are subject to per occurrence limits up to \$1,500,000, excess varying deductibles, and aggregate limits up to \$3,500,000 per participant. The policies are written on a claims-made basis of coverage within the policy year and include a 60-day extended reporting period.

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NOTE 18 – COMMITMENTS AND CONTINGENCIES (Continued)

Loss Reserves (Continued)

The liability for loss and loss adjustment expense reserves represents the estimated ultimate net cost of all reported and unreported losses incurred through the balance sheet date. The loss reserves are estimated on an undiscounted basis, using individual case-basis valuations and statistical analyses utilizing actuarial studies of Crescent's historical experience and industry data. In establishing its aggregate liability for loss and loss adjustment expenses, the Company utilizes the findings of an independent consulting actuary. The principal methodologies utilized by the actuary are the loss development method and the Bornhuetter-Ferguson method. Crescent projects an estimate of ultimate loss and loss adjustment expenses at each reporting date. Although considerable variability is inherent in such estimates, management believes the loss reserves are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations. However, because of uncertainty associated with the limited population of insured risks, current economic conditions, judicial decisions, legislation and other matters, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such liabilities at the balance sheet date. Accordingly, the ultimate liability could be significantly in excess of or less than the amount indicated in the financial statements.

Crescent's loss and loss adjustment expense reserves at December 31, 2024 and 2023 totaled \$106,000 and \$54,000, respectively, and are included in accrued expenses and other liabilities in the consolidated balance sheet. Crescent commenced operations in March 2023.

Contingencies

The Company from time to time may maintain cash balances with other financial institutions in excess of insured limits. Management has deemed this as a normal business risk.

The Company has been party to various legal claims that have arisen from time to time in the normal course of business. Any impact of these legal claims has been reflected in the Company's consolidated financial statements.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
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NOTE 19 – RELATED PARTY TRANSACTIONS

Available lines of credit to directors, officers and their affiliates at both December 31, 2024 and 2023 amounted to \$90,000 and \$70,000, respectively, of which \$15,171 and \$17,062 had been borrowed against, respectively. The Company has closed and sold related party loans during the normal course of business. These loans were performing pursuant to terms at December 31, 2024 and 2023.

The Bank had demand deposits of \$1,363,992 and \$1,576,980 from directors, officers and their affiliates as of December 31, 2024 and 2023, respectively. The Bank also holds demand deposits from various employees in the normal course of business.

NOTE 20 – LINES OF CREDIT

The Bank has a line of credit available from the FHLB. The limit on this line is \$25,000,000 and \$9,000,000 as of December 31, 2024 and 2023, respectively. The line is secured by the pledge of specific mortgage loans held for investment along with FHLB stock and certain investment securities. At both December 31, 2024 and 2023, the Bank's outstanding balance on the line was \$-0-. This line matures in May 2025.

During 2022, the Parent entered into a \$10,000,000 line of credit with a bank with interest due quarterly at the prime rate, with a floor of 3.25% and a ceiling of 6.25%. The Parent could borrow on this line through October 2024, on which date any outstanding balance converted to a term note with payments due quarterly based on a 120-month amortization, with a balloon payment due at maturity in October 2025. The line expired in October 2024 as the Parent had no outstanding balance on the line. This line was secured by certain assets, including a life insurance policy and all outstanding shares of common stock of University Bank. At December 31, 2024 and 2023, advances on the line totaled \$-0- and \$1,000,000, respectively. The line was subject to certain restrictive financial covenants.

The Company also has a \$1,000,000 revolving warehouse line of credit with a bank so that UIF could meet a state licensing requirement. The Company does not intend to draw on this line. Interest on this line is at the greater of the prime rate or 5%. This line is secured by financings and matures in August 2025. At both December 31, 2024 and 2023, there was no outstanding balance on this line of credit.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
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NOTE 21 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

FHLB Advances

In addition to the FHLB line of credit discussed in Note 20, the Company regularly borrows money from the FHLB on a short-term basis. At December 31, 2024 and 2023, the Company could take advances up to approximately \$254,300,000 and \$189,200,000, respectively. At December 31, 2024 and 2023, the Company had amounts due to the FHLB for short-term advances totaling \$90,000,000 and \$105,000,000, respectively. The outstanding advances at December 31, 2024 bore interest from 4.48% - 4.67% per annum, and all mature in 2025. The Company had additional borrowing capacity under this FHLB advance line of approximately \$164,300,000 and \$84,200,000 as of December 31, 2024 and 2023, which was based on qualified collateral, as determined by the FHLB.

Unsecured Debt

At December 31, 2022, the Parent had subordinated debt totaling \$14,500,000, and during the year ended December 31, 2023 issued additional subordinated debt totaling \$13,500,000 (collectively, the “2022/2023 Notes”). The 2022/2023 Notes have a maturity date of January 31, 2033, and bear interest at 8.25% through January 31, 2028, and at a variable rate tied to SOFR thereafter until maturity. Principal is due at maturity, and interest is due semi-annually. The Company has the option to redeem all or a part of the 2022/2023 Notes beginning on January 31, 2028, or earlier in the event of a Tier 2 Capital Event, Tax Event, or Investment Company Event, as defined in the 2022/2023 Notes. The outstanding principal balance of the 2022/2023 Notes totaled \$28,000,000 at both December 31, 2024 and 2023.

During the year ended December 31, 2024, the Parent issued additional unsecured debt totaling \$15,000,000 (the “2024 Notes”). The 2024 Notes bear interest at 9.25% through the maturity date of January 31, 2030 and are senior unsecured debt. Principal is due at maturity, and interest is due semi-annually. The Company has the option to redeem all or a part of the 2024 Notes beginning on January 31, 2028, as defined in the 2024 Notes. The outstanding principal balance of the 2024 Notes totaled \$15,000,000 and \$-0- at December 31, 2024 and 2023, respectively. The 2022/2023 Notes are subordinated to the 2024 Notes in priority of repayment.

In conjunction with the issuance of the 2022/2023 Notes and the 2024 Notes, the Company incurred debt issuance costs which are amortized to interest expense over the term of the respective notes. As a result, the carrying value of the outstanding unsecured debt amounted to \$42,063,705 and \$27,403,539 in the consolidated balance sheet at December 31, 2024 and 2023, respectively.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 22 – REGULATORY MATTERS

Dividend Restriction

Banking regulations require the maintenance of certain capital levels and limits the amount of dividends that may be paid by a bank to a holding company or by a holding company to shareholders. The Bank paid dividends to University Bancorp, Inc. totaling \$4,840,000 and \$681,000 during the years ended December 31, 2024 and 2023, respectively. During the year ended December 31, 2024, University Bancorp, Inc. also made contributions to the Bank totaling \$1,709,718. University Bancorp, Inc. declared common stock dividends totaling \$1,550,856 and \$-0- during the years ended December 31, 2024 and 2023, respectively.

Regulatory 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 consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by regulators about components, risk weightings, and other factors.

The Economic Growth, Regulatory Relief, and Consumer Protection Act was passed in 2018. Included among the provisions was the Community Bank Leverage Ratio ("CBLR"), a special alternative capital framework available only to banks holding less than \$10 billion in assets. On April 6, 2020, the federal banking regulators issued interim rules which modified the CBLR framework so that: (i) beginning in the second quarter 2020 through the end of 2020, a banking organization that has a leverage ratio of 8% or greater and meets certain other criteria may elect to use the CBLR framework; and (ii) community banking organizations had until January 1, 2022, before the CBLR requirement was reestablished at greater than 9%. Under the interim rules, the minimum CBLR was 8% beginning in the second quarter and for the remainder of calendar year 2020, 8.5% for calendar year 2021, and 9% thereafter. The interim rules also maintain a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than 1% below the applicable community bank leverage ratio.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 22 – REGULATORY MATTERS (Continued)

Regulatory Capital Requirements (Continued)

The Bank has opted into the CBLR framework. At December 31, 2024 and 2023, the Bank's CBLR ratio was 10.39% and 10.05%, respectively, which exceeded the regulatory capital requirements under the CBLR framework and the Bank was considered to be "well-capitalized". Federal law requires each federal banking agency to take prompt corrective action to resolve the problems of insured financial institutions, including but not limited to those that fall below one or more of the prescribed minimum capital ratios. As discussed above, a qualifying community banking organization, such as the Bank, that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the prompt corrective action regulations and will not be required to report or calculate risk-based capital.

NOTE 23 – OTHER CAPITAL REQUIREMENTS

The Bank, Hyrex and UIF are each subject to certain capital requirements in connection with seller/servicer agreements that these entities have entered into with secondary market investors. Failure to maintain minimum capital requirements could result in these entities' inability to originate and service loans for the respective investor and, therefore, could have a direct material effect on the Company's consolidated financial statements.

The Bank's, Hyrex's and UIF's actual capital amounts and the minimum amounts required for capital adequacy purposes, by investor, are as follows:

	Actual Capital	Minimum Capital
As of December 31, 2024:		
Bank		
HUD	\$ 100,525,997	\$ 2,500,000
FHLMC	\$ 95,879,139	\$ 14,622,235
FNMA	\$ 95,879,139	\$ 14,622,235
GNMA	\$ 111,225,984	\$ 14,684,911
Hyrex		
HUD	\$ 5,095,048	\$ 1,000,000
FHLMC	\$ 5,245,133	\$ 3,346,631
FNMA	\$ 5,245,133	\$ 3,346,631
UIF		
FHLMC	\$ 55,119,198	\$ 9,856,539
FNMA	\$ 55,119,198	\$ 9,856,539

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 23 – OTHER CAPITAL REQUIREMENTS (Continued)

	Actual Capital	Minimum Capital
As of December 31, 2023:		
Bank		
HUD	\$ 89,255,757	\$ 2,500,000
FHLMC	\$ 100,680,095	\$ 4,201,171
FNMA	\$ 100,680,095	\$ 3,463,540
GNMA	\$ 100,575,339	\$ 14,147,227
Hyrex		
HUD	\$ 5,331,057	\$ 1,000,000
FHLMC	\$ 5,334,586	\$ 2,505,084
FNMA	\$ 5,334,586	\$ 2,721,126
UIF		
FHLMC	\$ 50,146,079	\$ 6,511,206
FNMA	\$ 50,146,079	\$ 4,254,321

As of December 31, 2024 and 2023, the Bank, Hyrex, and UIF were also each required to have a minimum amount of liquid assets under certain liquidity requirements and were in compliance with these requirements.

NOTE 24 – FAIR VALUE MEASUREMENTS

The ASC standards establish a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. Determining which hierarchical level an asset or liability falls within requires significant judgment.

Hierarchical levels, as defined by the standards and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 24 – FAIR VALUE MEASUREMENTS (Continued)

Because valuation methodologies require the use of subjective assumptions, changes in these assumptions can materially affect fair value. Furthermore, the reported fair value amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein. A description of the valuation methodologies used by the Company for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Investment Securities

The fair value of the securities represents the amount the Company would realize upon sale of the securities currently in the portfolio. The Company receives current fair values of its marketable debt securities from The Federal Home Loan Bank on a monthly basis as part of its collateral positions. These marketable debt securities are Level 2 assets in the valuation hierarchy. The Company determines the fair value of its marketable equity securities using quoted prices in active markets. Hence, these marketable equity securities are Level 1 assets in the valuation hierarchy. The Company determines the fair value of its non-marketable equity securities using a price-based methodology, which utilizes, where available, quoted prices or other market information obtained from recent trading activity in positions with the same or similar characteristics to the position being valued, along with quantitative assessments of the fair value of securities using various valuation methodologies and involves the use of estimates. Hence, these non-marketable equity securities are Level 3 assets in the valuation hierarchy.

Loans and Financings Held for Sale or Assignment

The Company elected to account for certain loans and financings held for sale or assignment at fair value. These loans and financings held for sale or assignment are recorded at fair value based on quoted market prices, where available, or are determined by discounting cash flows using interest rates approximating the Company's current origination rates for similar loans and financings and adjusted to reflect the inherent credit risk. In most situations, these loans and financings are locked into buckets to be sold under forward loan and financing sales commitments (as discussed below), in which case the fair value of these loans and financings held for sale or assignment are approximated by the value to be received soon thereafter under the forward sales commitments. Loans and financings held for sale or assignment are Level 2 assets in the valuation hierarchy. Net changes in the fair value of the Company's loans and financings held for sale or assignment are included in earnings. The net change in fair value of loans and financings held for sale or assignment at December 31, 2024 and 2023 was a gain of \$1,136,443 and \$1,863,623, respectively, which is included in the noninterest income section in the consolidated statements of operations.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 24 – FAIR VALUE MEASUREMENTS (Continued)

MSRs

The fair value of MSRs represents the amount that the Company would receive upon the sale of the MSRs. The Company receives an independent valuation of its MSRs on a quarterly basis. The fair value of MSRs is determined by projecting cash flows which are then discounted to estimate an expected fair value. The fair value of MSRs is impacted by a variety of quantitative factors (including a range of the assumptions used): expected servicing life (3.5-4.3 years), discount rates (9%-11%), float rate (1.5%), servicing costs (\$75-\$90), and underlying observable portfolio characteristics. Because many of these inputs are not transparent in market trades, MSRs are Level 3 assets in the valuation hierarchy.

Derivatives – IRLCs and Forward Commitments

The Company estimates the fair value of an IRLC subsequent to inception of the commitment. In estimating the fair value of an IRLC, the Company assigns a probability to the loan or financing commitment based on an expectation that it will be exercised, and the loan or financing will be funded. The fair value of IRLCs, while based on interest rates observable in the market, is highly dependent on the ultimate closing of the loans or financings. These “pull-through” rates are based on the Company’s historical data and reflect an estimate of the likelihood that a commitment will ultimately result in a closed loan or financing.

Also, the fair value of these commitments is derived from the fair value of the related mortgage loans or financings. Unobservable quantitative factors used in the valuation of IRLCs include the following (including a range of the assumptions used): pull-through rates (63%-99%). Because some inputs are not transparent in market trades, IRLCs are Level 3 assets or liabilities in the valuation hierarchy. Changes in the fair value of the IRLCs are recognized based on interest rate changes, changes in the probability that the commitment will be exercised, and the passage of time. Changes from the expected future cash flows related to the customer relationship or loan or financing servicing are excluded from the valuation of IRLCs.

The fair value of forward sales commitments is based primarily on the fluctuation of interest rates between the date on which the particular forward sales commitment was entered into and year end. Unobservable inputs include (including a range of the assumptions used): volatility, counterparty credit risk. Forward commitments are considered to be Level 3 assets or liabilities in the valuation hierarchy.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 24 – FAIR VALUE MEASUREMENTS (Continued)

Derivatives Designated As Hedges – Interest Rate Swap

The Company's interest rate swap is valued based on models using market interest rates, the fixed interest rate on the notional amount of the swap, the floating rate on the notional amount, and volatility factors to value the position. The fair value of the interest rate swap is determined using quantitative models that utilize multiple market inputs (Level 2). The majority of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services.

Real Estate Owned

Real estate properties acquired in collection of a loan or financing are recorded at fair value upon foreclosure, establishing a new cost basis. After foreclosure, management periodically performs valuations to ensure real estate is carried at lower of cost or fair value, less estimated costs to sell. Fair value of the real estate is estimated by considering appraisals, which are updated on a periodic basis to reflect current housing market conditions.

Contingent Consideration Liability

The fair value of the contingent consideration liability is determined by management based on projected future originations, which drives the amount of the contingent consideration obligation that will actually be paid. As this measure is based on significant inputs that are not observable in the market, the Company classifies the contingent consideration liabilities within level 3.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 24 – FAIR VALUE MEASUREMENTS (Continued)

The following tables summarize assets and liabilities measured at fair value on a recurring basis as of December 31, 2024 and 2023, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Level 1	Level 2	Level 3
December 31, 2024			
Assets:			
Investment securities	\$ 10,720,133	\$ 2,495,664	
Loans and financings held for sale or assignment		\$ 54,659,212	
Derivatives designated as hedges - interest rate swap		\$ 889,071	
Mortgage and financing servicing rights			\$ 46,946,041
Interest and financing rate lock commitments			\$ 430,919
Forward sales commitments			\$ 419,395
Liabilities:			
Contingent consideration			\$ -
December 31, 2023			
Assets:			
Investment securities	\$ 16,803,275	\$ 45,612	
Loans and financings held for sale or assignment		\$ 63,883,059	
Mortgage and financing servicing rights			\$ 40,530,048
Interest and financing rate lock commitments			\$ 986,989
Liabilities:			
Forward sales commitments			\$ 825,479
Contingent consideration			\$ -

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 24 – FAIR VALUE MEASUREMENTS (Continued)

The table below includes a roll forward of the fair value of assets and liabilities that are classified by the Company within Level 3 of the valuation hierarchy:

	MSRs	IRLCs	Forward Sales Commitments	Contingent Consideration Liability
Fair value at January 1, 2023	\$ 32,970,830	\$ 664,454	\$ 904,375	\$ -
Purchases, sales, issuances, settlements, net	9,253,352	(664,454)	(904,375)	-
Net gains (losses)	<u>(1,694,134)</u>	<u>986,989</u>	<u>(825,479)</u>	<u>-</u>
Fair value December 31, 2023	40,530,048	986,989	(825,479)	-
Purchases, sales, issuances, settlements, net	8,674,975	(986,989)	825,479	-
Net gains (losses)	<u>(2,258,982)</u>	<u>430,919</u>	<u>419,395</u>	<u>-</u>
Fair value December 31, 2024	<u>\$ 46,946,041</u>	<u>\$ 430,919</u>	<u>\$ 419,395</u>	<u>\$ -</u>

There were no assets or liabilities valued on a nonrecurring basis during the year ended December 31, 2024. During the year ended December 31, 2023, the only assets or liabilities valued at fair value on a nonrecurring basis was real estate owned which was recorded at fair value of \$593,478.

The methodologies for estimating the fair value of financial assets and financial liabilities that are not measured at fair value on a recurring or non-recurring basis are discussed below.

The estimated fair value approximates carrying value for cash and cash equivalents, FHLB stock, FHLB advances, accounts receivable, and accounts payable. The methodologies for other financial assets and financial liabilities are discussed below.

Loans and Financings

The fair value of fixed-rate loans and financings is estimated by discounting the future cash flows for each loan and financing category using the current rates at which similar loans or financings would be made to borrowers with similar credit ratings and for the same remaining maturities. These loans and financings are considered to be Level 2 assets in the valuation hierarchy. The fair value of adjustable-rate loans is assumed to approximate their carrying amount.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 24 – FAIR VALUE MEASUREMENTS (Continued)

Time Deposits

The fair value of time deposits is estimated by discounting the future cash flows using the market rates offered for similar deposits with the same remaining maturities. These time deposits are considered to be Level 2 liabilities in the valuation hierarchy.

Unsecured Debt

The fair value of fixed-rate debt is estimated by discounting the future cash flows using the current rates at which similar debt would be issued. This debt is considered to be a Level 2 liability in the valuation hierarchy.

The estimated fair values of financial instruments in which fair value differs from carrying value are as follows (in thousands):

	December 31,			
	2024		2023	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Significant financial assets:				
Securities, at amortized cost	\$ 16,593	\$ 15,267	\$ 17,110	\$ 16,301
Non-marketable equity securities	1,193	1,193	1,093	1,093
Loans and financings, net	777,626	763,215	729,674	708,999
Significant financial liabilities:				
Deposits:				
Time	300,784	302,123	285,187	286,758
Line of credit	-	-	1,000	1,000
Unsecured debt	43,000	43,000	28,000	28,000

All other financial instruments not presented in the table above had fair values that did not differ from their carrying values.

UNIVERSITY BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024 and 2023

NOTE 25 – SEGMENT INFORMATION

The Company has one reportable segment, community banking. The Company's reportable segment is determined by Stephen Ranzini, the Chief Executive Officer, who is the designated chief operating decision maker ("CODM"), based upon information provided about the Company's products and services offered. The CODM will evaluate the financial performance of the Company's business components by evaluating revenue streams, significant expenses, and budget to actual results in assessing the Company's segment. The Company generates revenue primarily by providing banking and mortgage services to its customers. Interest and profit-sharing expense, provisions for credit losses, and payroll and benefits provide the significant expenses in the segment. All operations are domestic. The CODM evaluates performance, allocates resources and makes key operating decisions based on consolidated net income that is reported in the Consolidated Statements of Operations. The measure of segment assets is reported in the Consolidated Balance Sheets as total consolidated assets.

SUPPLEMENTARY INFORMATION

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the Financial
Statements Performed in Accordance with *Government Auditing Standards***

Independent Auditor's Report

Board of Directors and Stockholders
University Bancorp, Inc. and Subsidiaries
Ann Arbor, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the consolidated financial statements of University Bancorp, Inc. and Subsidiaries, which comprise the consolidated balance sheet as of December 31, 2024, and the related consolidated statements of operations and comprehensive income, equity, and cash flows for the year then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated March 25, 2025.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered University Bank's (the Bank) internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bank's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Bank's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bank's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Bank 's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Forvis Mazars, LLP

**Fort Wayne, Indiana
March 25, 2025**

Report on Compliance for Each Major HUD Program and Report on Internal Control over Compliance Required by the *Consolidated Audit Guide for Audits of HUD Programs*

Independent Auditor’s Report

Board of Directors and Stockholders
University Bancorp, Inc. and Subsidiaries
Ann Arbor, Michigan

Report on Compliance for Each Major HUD Program

Opinion on Each Major HUD Program

We have audited University Bank’s (the Bank) compliance with the compliance requirements described in the *Consolidated Audit Guide for Audits of HUD Programs* (the audit guide) that could have a direct and material effect on each of the Bank’s major U.S. Department of Housing and Urban Development (HUD) programs for the year ended December 31, 2024. The Bank’s major HUD programs and the related direct and material compliance requirements are as follows:

Name of Major HUD Programs	Direct and Material Compliance Requirements
GNMA	Federal financial reports; eligibility to issue mortgage-backed securities; review of the custodial documents; issuer’s administration of pooled mortgages; review of monthly accounting reports and quarterly submissions; securities marketing and trading practices; adjusted net worth; institution wide capital requirements; and liquid asset requirements.
Title II	Quality control plan; loan origination; loan servicing; federal financial and activity reports; lender annual recertification; adjusted net worth; liquidity and licensing; loan settlement; escrow accounts and kickbacks

In our opinion, University Bank complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major HUD programs for the year ended December 31, 2024.

Basis for Opinion on Each Major HUD Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit guide. Our responsibilities under those standards and the audit guide are further described in the “Auditor’s Responsibilities for the Audit of Compliance” section of our report.

We are required to be independent of the Bank and to meet our other ethical responsibilities, in accordance with relevant ethical requirements related to our audit. We believe that our audit provides a reasonable basis for our opinion on compliance for each major HUD program. Our audit does not provide a legal determination of the Bank's compliance.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, regulations, rules, and provisions of contracts or grant agreements applicable to its HUD programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Bank's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the audit guide will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Bank's compliance with the requirements of each major HUD program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the audit guide, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Bank's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Bank's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the audit guide, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a HUD program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement of a HUD program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a compliance requirement of a HUD program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Board of Directors and Stockholders
University Bancorp, Inc. and Subsidiaries

Our consideration of internal control over compliance was for the limited purpose described in the “Auditor’s Responsibilities for the Audit of Compliance” section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the audit guide. Accordingly, this report is not suitable for any other purpose.

Forvis Mazars, LLP

**Fort Wayne, Indiana
March 25, 2025**

UNIVERSITY BANK
COMPUTATION OF ADJUSTED NET WORTH TO DETERMINE
COMPLIANCE WITH HUD NET WORTH REQUIREMENTS
December 31, 2024

FHA servicing portfolio at December 31, 2024		\$ 485,592,912
FHA originations during 2024		91,158,655
FHA purchases during 2024		<u>-</u>
Total FHA loan activity		576,751,567
FHA originations during 2024 retained at December 31, 2024	-	
FHA purchases during 2023 retained at December 31, 2023	<u>-</u>	
Total adjustments		<u>-</u>
Total adjusted FHA loan activity		576,751,567
Minimum net worth required		1,000,000
Additional net worth required (1% of total adjusted FHA loan activity greater than \$25,000,000)		<u>5,517,516</u>
Total net worth required (maximum \$2,500,000)		<u><u>\$ 2,500,000</u></u>
Stockholder's equity per balance sheet	\$ 112,043,041	
Less unacceptable assets		
Real estate assets not part of home office	(5,784,476)	
Intangible assets	(639,760)	
Other assets	(177,297)	
Prepaid expenses	<u>(4,915,511)</u>	
Adjusted net worth		<u><u>\$ 100,525,997</u></u>
Adjusted net worth above (below) required minimum amount		<u><u>\$ 98,025,997</u></u>

UNIVERSITY BANK
COMPUTATION OF LIQUIDITY TO DETERMINE COMPLIANCE
WITH HUD LIQUIDITY REQUIREMENTS
December 31, 2024

Cash and cash equivalents	<u>\$ 27,171,101</u>
Total liquid assets	<u><u>\$ 27,171,101</u></u>
Total net worth required (minimum \$1,000,000 maximum \$2,500,000)	<u><u>\$ 2,500,000</u></u>
Liquidity required (20% of total net worth required)	<u><u>\$ 500,000</u></u>
Liquidity assets above (below) required minimum amount	<u><u>\$ 26,671,101</u></u>

UNIVERSITY BANK
COMPUTATION OF ADJUSTED NET WORTH TO DETERMINE
COMPLIANCE WITH GINNIE MAE NET WORTH REQUIREMENTS
December 31, 2024

Adjusted net worth:

Equity	<u>\$ 112,043,041</u>
Less unacceptable assets:	
Category 1 - Any asset or portion thereof pledged to secure obligations of another entity or any person	\$ -
Category 2 - An asset due from an officer or stockholder of the lender or from a related entity, except for a. a construction loan receivable secured by a first mortgage from a related entity b. a mortgage loan receivable established in the normal course of business in an arm's-length transaction and secured by a first mortgage on the related property c. a receivable from a related party when the affected parties have executed a cross-default agreement or corporate guarantee agreement with Ginnie Mae	-
Category 3 - An investment in a related entity in which any officer or stockholder of the lender has a personal interest unrelated to that person's position as an officer or stockholder of the lender	-
Category 4 - That portion of an investment in a joint venture, subsidiary, affiliate, or other related entity, which is greater than equity as adjusted ("Equity as adjusted" means the book value of the related entity reduced by the amount of unacceptable assets carried by the related entity)	-
Category 5 - Any intangible asset, including but not limited to goodwill, covenants not to compete, franchise fees, organization costs, software, value placed on insurance renewals, and value placed on property management contract renewals	639,760
Category 6 - The value of any servicing contract not determined in accordance with Statement of Financial Accounting Standards (SFAS) No. 65, and SFAS No. 125, or their revisions	-
Category 7 - Any asset not readily marketable and for which appraised values are very subjective (i.e, antiques, artwork, and gemstones)	-
Category 8 - That portion of any marketable security (listed or unlisted) in excess of the lower of cost or market	-
Category 9 - Any amount in excess of the LCM value of mortgages in foreclosure, construction loans, or property acquired through foreclosure	-
Category 10 - Any asset that is principally used for the personal enjoyment or benefit of an officer, director, or stockholder and not for business purposes	-
Category 11 - "Other assets" unless the financial statements are accompanied by a schedule prepared by the auditor, or a schedule prepared by the issuer-lender and signed by an officer of the issuer-lender	177,297
Category 12 - That portion of contributed property in excess of the value as of the date of contribution determined by an independent appraisal	-
Category 13 - Net deferred tax assets	-
Total unacceptable assets	<u>817,057</u>
Adjusted net worth	<u><u>\$ 111,225,984</u></u>

UNIVERSITY BANK
COMPUTATION OF ADJUSTED NET WORTH TO DETERMINE
COMPLIANCE WITH GINNIE MAE NET WORTH REQUIREMENTS (Continued)
December 31, 2024

Adjusted net worth (from previous page) \$ 111,225,984

Required net worth:

<u>Category</u>	<u>Amount</u>	<u>Required Percentage</u>	<u>Required Amount</u>
Base requirement			\$ 2,500,000
Total effective Ginnie Mae single-family outstanding obligations	\$ 503,500,405	0.35%	1,762,251
Total GSE single-family outstanding servicing portfolio	\$ 3,529,619,817	0.25%	8,824,050
Total non-agency single-family outstanding servicing portfolio	\$ 639,444,206	0.25%	<u>1,598,611</u>
Required net worth			<u><u>\$ 14,684,912</u></u>
			<u>Yes/No</u>
Meets requirement?			<u>Yes</u>

UNIVERSITY BANK
COMPUTATION OF GINNIE MAE CAPITAL REQUIREMENT
December 31, 2024

Capital requirement for depository institutions:

Tier 1 capital	<u>\$ 99,736,000</u>
Total assets for the leverage ratio	<u>\$ 959,828,000</u>
Community bank leverage ratio	<u>10.39%</u>
	<u>Yes/No</u>
Meets requirement?	<u>Yes</u>

UNIVERSITY BANK
COMPUTATION OF GINNIE MAE LIQUID ASSET REQUIREMENT
December 31, 2024

Liquid assets:

Cash and cash equivalents	\$ 27,171,101
AAA rated government securities - fair value	-
GSE MBS	2,495,664
GSE obligations	-
Advances	4,281,275

Total liquid assets	\$ 33,948,040
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Required liquid assets:

Category	Amount	Required Percentage	Required Amount
Outstanding Ginnie Mae single-family servicing UPB	\$ 485,592,912	0.100%	\$ 485,593
Outstanding GSE single-family servicing UPB, if the issuer remits (or the Enterprise draws) the principal and interest only as actually collected from the borrower	\$ 1,094,095,335	0.035%	382,933
Outstanding GSE single-family servicing UPB, if the issuer remits (or the Enterprise draws) the principal or interest, or both, as scheduled, regardless of whether principal or interest has been collected from the borrower	\$ 2,435,524,481	0.070%	1,704,867
Outstanding non-agency single-family servicing UPB	\$ 639,444,206	0.035%	223,805
Additional requirement for single-family Issuers that originated more than \$1,000,000,000 in UPB of any residential first mortgages, regardless of channel (including retail, wholesale correspondent, and wholesale broker) in the most recent four-			
Loans held-for-sale	\$ 54,659,212	0.500%	273,296
UPB of IRLCs after fallout adjustments	\$ 36,283,539	0.500%	181,418
Total			\$ 3,251,912
Required liquid assets (greater of \$1,000,000 or Total above)			\$ 3,251,912

Meets requirement?	Yes/No
	Yes

UNIVERSITY BANK
COMPUTATION OF GINNIE MAE INSURANCE REQUIREMENT
December 31, 2024

Identification of affiliated Ginnie Mae issuers:

Affiliated Ginnie Mae issuers:	<u>University Bank 4444</u>
Affiliated issuers on same insurance policies:	<u></u>

Required insurance calculation:

Servicing portfolio	
Ginnie Mae	\$ 485,592,912
Fannie Mae	1,094,875,835
Freddie Mac	2,434,743,982
Conventional (other)	<u>639,444,206</u>
Total servicing portfolio	<u>\$ 4,654,656,935</u>
Required fidelity bond coverage	<u>\$ 5,179,657</u>
Required mortgage servicing errors and omissions coverage	<u>\$ 5,179,657</u>

Verification of insurance coverage:

Fidelity bond coverage at end of reporting period	<u>\$ 40,000,000</u>
Mortgage servicing errors and omissions coverage at end of reporting period	<u>\$ 20,000,000</u>

Excess (deficit) insurance coverage:

Fidelity bond coverage	<u>\$ 34,820,343</u>
Mortgage servicing errors and omissions coverage	<u>\$ 34,820,343</u>

Policies contain the required elements:

	<u>Yes/No</u>
Fidelity bond coverage	<u>Yes</u>
Mortgage servicing errors and omissions coverage	<u>Yes</u>

University Bank
Schedule of Findings, Questioned Costs, and Recommendations
Year Ended December 31, 2024

Corrective Actions Not Started or In Process

Reference Number	Finding	Questioned Costs
	Our audit disclosed no findings that are required to be reported herein under the HUD Consolidated Audit Guide.	

Corrective Actions Completed

Reference Number	Finding	Questioned Costs
	Our audit disclosed no findings that are required to be reported herein under the HUD Consolidated Audit Guide.	

UNIVERSITY BANK

SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS, QUESTIONED COSTS AND RECOMMENDATIONS

Year Ended December 31, 2024

1. Audit report dated March 28, 2024, for the period ended December 31, 2023, issued by Forvis, LLP:

There were no open findings, questioned costs, or recommendation from the prior audit report.

2. There were no reports issued by HUD OIG or other Federal agencies or contract administrators during the period covered by this audit.
3. There were no letters or reports issued by HUD management during the period covered by this audit.