Birmingham Bloomfield Bancshares
Form 10-Q
August 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10 - Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

Commission File Number 000-52584

BIRMINGHAM BLOOMFIELD BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Michigan	**20-3993452**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

33583 Woodward Avenue, Birmingham, MI 48009

(Address of principal executive offices, including zip code)

(248) 723-7200

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant: (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (ii) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filed, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes ¨ No x

The number of shares outstanding of the issuer s Common Stock as of August 9, 2012, was 1,824,662 shares.

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PART 1 FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF CONDITION

	(Unaudited) June 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents		
Cash	$ 17,114,837	$ 4,693,585
Federal funds sold		
Total cash and cash equivalents	17,114,837	4,693,585
Securities, available for sale (Note 2)	3,932,096	4,594,761
Federal home loan bank stock	218,100	169,900
Loans held for sale		2,484,829
Loans (Note 3)		
Total portfolio loans	113,074,270	106,297,926
Less: allowance for loan losses	(1,644,350)	(1,574,350)
Net portfolio loans	111,429,920	104,723,576
Premises & equipment	1,327,169	1,395,187
Bank-owned Life Insurance	2,141,791	2,100,000
Interest receivable and other assets	3,687,380	4,235,623
Total assets	$ 139,851,293	$ 124,397,461
Liabilities and Shareholders Equity		
Deposits (Note 4)		
Non-interest bearing	$ 20,714,602	$ 19,662,283
Interest bearing	101,935,329	88,015,546
Total deposits	122,649,931	107,677,829
Interest payable and other liabilities	655,566	755,090
Total liabilities	123,305,497	$ 108,432,919
Shareholders equity (Note 10)		
Senior non-cumulative perpetual preferred stock series D		
$1,000 liquidation value per share, 1%		
Authorized, issued and outstanding 4,621 shares	4,621,000	4,621,000
Common stock, no par value		
Authorized 4,500,000 shares		
Issued and outstanding 1,824,662 and 1,812,662 shares, respectively	17,105,618	17,066,618
Additional paid in capital	493,154	493,154
Accumulated deficit	(5,767,185)	(6,311,398)
Accumulated other comprehensive income	93,209	95,168
Total shareholders equity	16,545,796	15,964,542
Total liabilities and shareholders equity	$ 139,851,293	$ 124,397,461

See accompanying notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2012	2011	2012	2011
Interest Income				
Interest and fees on loans	$ 1,690,514	$ 1,534,244	$ 3,282,831	$ 3,090,053
Interest on securities	25,252	24,811	50,948	52,722
Interest on fed funds and bank balances	3,176	5,733	6,590	10,364
Total interest income	1,718,942	1,564,788	3,340,369	3,153,139
Interest Expense				
Interest on deposits	223,390	313,877	450,947	627,932
Interest on fed funds and short-term borrowings			64	14,509
Total interest expense	223,390	313,877	451,011	642,441
Net Interest Income	1,495,552	1,250,911	2,889,358	2,510,698
Provision for Loan Losses	50,000	15,000	70,000	54,000
Net Interest Income After Provision for Loan Losses	1,445,552	1,235,911	2,819,358	2,456,698
Non-interest Income				
Service charges on deposit accounts	20,499	12,589	39,297	24,161
Mortgage banking activities	34,039	47,322	196,867	58,761
SBA loan sales	26,958	209,439	148,749	500,733
Other Income	30,130	10,814	210,702	21,618
Total non-interest income	111,626	280,164	595,615	605,273
Non-interest Expense				
Salaries and employee benefits	640,169	643,368	1,401,839	1,225,385
Occupancy expense	114,936	125,583	234,667	243,685
Equipment expense	51,127	42,188	100,279	77,588
Advertising and public relations	47,874	44,697	90,468	80,743
Data processing expense	58,039	60,560	117,041	109,573
Professional fees	159,267	145,916	276,301	257,440
Loan origination expense	38,044	22,681	107,056	49,050
Regulatory assessments	23,715	33,901	48,975	82,327
Other expenses	83,059	87,625	178,099	164,144
Total non-interest expense	1,216,230	1,206,519	2,554,725	2,289,935
Net Income Before Federal Income Tax	340,948	309,556	860,248	772,036
Federal income tax expense	111,298		282,651	
Net Income	229,650	309,556	577,597	772,036
Dividend on senior preferred stock	21,831	44,082	33,384	88,165
Accretion of discount on preferred stock		4,100		8,200
Net Income Applicable to Common Shareholders	$ 207,819	$ 261,374	$ 544,213	$ 675,671

Basic and Diluted Income per Share	$ 0.11	$ 0.15	$ 0.30	$ 0.38
Average Shares Outstanding	1,816,222	1,800,000	1,814,442	1,800,000

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income applicable to common shareholders	$ 207,819	$ 261,374	$ 544,213	$ 675,671
Other comprehensive income (loss), net of applicable taxes				
Change in value of investments available for sale	2,333	27,804	(1,959)	27,067
Comprehensive income	$ 210,152	$ 289,178	$ 542,254	$ 702,738

See accompanying notes to consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (Unaudited)

	Six Months Ended June 30,	
	2012	2011
Total Shareholders Equity		
Balance at beginning of period	$ 15,964,542	$ 10,985,525
Net income	577,597	772,036
Net change in unrealized gains on securities available for sale	(1,959)	27,067
Stock Awards	39,000	
Preferred dividends	(33,384)	(88,165)
Balance at end of period	$ 16,545,796	$ 11,696,463

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	For the Six Months Ended June 30,	
	2012	2011
Cash flows from operating activities		
Net income	$ 577,597	$ 772,036
Stock awards	39,000	
Provision for loan losses	70,000	54,000
Gain on sale of loans	(196,867)	(58,761)
Proceeds for sales of loans originated for sale	8,476,596	2,209,009
Loans originated for sale	(5,794,900)	(2,620,957)
Discount (Accretion) of securities	2,587	(2,234)
Depreciation expense	107,977	95,117
Deferred income taxes	282,651	
Net decrease (increase) in other assets	224,810	(385,251)
Net (decrease) in other liabilities	(99,524)	(27,177)
Net cash provided by operating activities	3,689,927	35,782
Cash flows from investing activities		
Net change in portfolio loans	(6,776,344)	300,098
Purchase of securities	(1,049,200)	(9,700)
Proceeds from calls or maturities of securities	1,500,000	200,000
Principal payments on securities	158,109	77,617
Purchases of premises and equipment	(39,959)	(216,014)
Net cash (used in) provided by investing activities	(6,207,394)	352,001
Cash flows from financing activities		
Increase in deposits	14,972,103	9,054,747
Net change in short term borrowings		(1,469,095)
Dividend on senior preferred stock	(33,384)	(88,165)
Net cash provided by financing activities	14,938,719	7,497,487
Increase in cash and cash equivalents	12,421,252	7,885,270
Cash and cash equivalents beginning of period	4,693,585	5,366,304
Cash and cash equivalents end of period	$ 17,114,837	$ 13,251,574
Supplemental Information:		
Interest paid	$ 456,986	$ 675,006
Income tax paid		
Loans transferred to other real estate		297,806

See accompanying notes to consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 Summary of Significant Accounting Policies

Basis of Statement Presentation

The accompanying unaudited consolidated interim financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) with the instructions to Form 10-Q. Accordingly, certain information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements are not included herein. The interim financial statements should be read in conjunction with the financial statements of Birmingham Bloomfield Bancshares, Inc. (the Corporation) and the notes thereto included in the Corporation s annual report on Form 10-K for the year ended December 31, 2011.

All adjustments, consisting of normal recurring adjustments, which in the opinion of management are necessary for a fair presentation of financial position, results of operations, and cash flows, have been made. The results of operations for the three and six month periods ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ended December 31, 2012.

Certain amounts in the prior period financial statements have been reclassified to conform to the current period presentation.

Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiary the Bank of Birmingham (the Bank). All significant intercompany balances and transactions have been eliminated in consolidation.

Changes in Significant Accounting Policies

Comprehensive Income In June 2011, the FASB issued ASU 2011-05 Presentation of Comprehensive Income . This standard requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but continuous statements. This standard eliminates the option to present the components of other comprehensive income as part of the statement of equity. This standard is effective for fiscal years and interim periods with those years beginning after December 15, 2011. The implementation of this standard will only change the presentation of comprehensive income; it will not have an impact on the Company s financial position or results of operations. This guidance was adopted in the first quarter of 2012 with no impact to the financial statements.

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Note 2 Securities

The amortized cost and estimated fair value of securities, with gross unrealized gains and losses, follows (000s omitted):

June 30, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U. S. Government agency securities	$ 1,846	$ 12	$	$ 1,858
Municipal securities	705	19		724
Mortgage backed securities	990	97		1,087
Corporate bonds	250	13		263
Sub-Total Available for Sale	$ 3,791	$ 141	$	$ 3,932
FHLB Stock	218			218
Total Securities	$ 4,009	$ 141	$	$ 4,150

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U. S. Government agency securities	$ 2,347	$ 9	$ (2)	$ 2,354
Municipal securities	709	16	(4)	721
Mortgage backed securities	1,145	113		1,258
Corporate bonds	250	12		262
Sub-Total Available for Sale	$ 4,451	$ 150	$ (6)	$ 4,595
FHLB Stock	170			170
Total Securities	$ 4,621	$ 150	$ (6)	$ 4,765

As of June 30, 2012 and December 31, 2011, all securities are classified as available for sale excluding the FHLB stock. Unrealized gains and losses within the investment portfolio are determined to be temporary. The Bank has performed an analysis of the portfolio for other than temporary impairment and concluded no losses are required to be recognized. Management has no specific intent to sell any securities and it is not more likely than not the Bank will be required to sell any securities before recovery of the cost basis. Management expects to collect all amounts due according to the contractual terms of the security. The Corporation had no securities with unrealized losses at June 30, 2012 and a total of $6,000 in gross unrealized losses related to three individual securities at December 31, 2011.

At June 30, 2012 and December 31, 2011, securities with a market value of $2.9 million and $3.6 million, respectively, were pledged to the Federal Home Loan Bank of Indianapolis as collateral to access funding.

Federal Home Loan Bank stock is restricted and can only be sold back to the Federal Home Loan Bank. The carrying value of the stock approximates its fair value.

The amortized cost and estimated fair value of all securities at June 30, 2012, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations without call or prepayment penalties. The contractual maturities of securities are as follows (000s omitted):

	Amortized cost	Estimated fair value

Due in one year or less	$ 750	$ 754
Due in one year through five years	3,041	3,178
Due in five years through ten years		
Due after ten years		
Total	$ 3,791	$ 3,932

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Note 3 Loans

A summary of the portfolio loan balances as of June 30, 2012 and December 31, 2011 is as follows (000s omitted):

	June 30, 2012	December 31, 2011
Mortgage loans on real estate:		
Residential 1 to 4 family	$ 7,254	$ 4,005
Multifamily	14,923	14,508
Commercial	54,005	50,426
Construction	671	2,541
Second mortgage	108	112
Equity lines of credit	10,619	11,119
Total mortgage loans on real estate	87,580	82,711
Commercial loans	24,576	22,512
Consumer installment loans	1,000	1,141
Total loans	113,156	106,364
Less: Allowance for loan losses	(1,644)	(1,574)
Net deferred loan fees	(82)	(66)
Net loans	$ 111,430	$ 104,724

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Note 3 Loans Continued

An analysis of the allowance for loan losses for the three and six month periods ended June 30, 2012 and 2011 (000s omitted):

Three months ended June 30, 2012

	Commercial	Home Equity	Residential	Consumer	Total
Allowance for Loan Losses					
Beginning balance	$ 1,160	$ 407	$ 21	$ 6	$ 1,594
Charge-offs					
Recoveries					
Provision	145	(100)	5		50
Ending balance	$ 1,305	$ 307	$ 26	$ 6	$ 1,644
Percent of principal balance	1.34%	3.29%	0.51%	0.52%	1.45%
Ending balance: individually evaluated for impairment	$ 318	$ 184	$	$	$ 502
Ending balance: collectively evaluated for impairment	$ 987	$ 123	$ 26	$ 6	$ 1,142
Portfolio Loans					
Ending unpaid principal balance	$ 97,538	$ 9,334	$ 5,124	$ 1,160	$ 113,156
Ending unpaid principal balance: individually evaluated for impairment	$ 1,629	$ 590	$	$	$ 2,219
Ending unpaid principal balance: collectively evaluated for impairment	$ 95,909	$ 8,744	$ 5,124	$ 1,160	$ 110,937

Three months ended June 30, 2011

	Commercial	Home Equity	Residential	Consumer	Total
Allowance for Loan Losses					
Beginning balance	$ 1,113	$ 350	$ 14	$ 10	$ 1,487
Charge-offs					
Recoveries					
Provision	18	(1)	(5)	3	15
Ending balance	$ 1,131	$ 349	$ 9	$ 13	$ 1,502
Percent of principal balance	1.28%	3.57%	1.18%	1.23%	1.50%
Ending balance: individually evaluated for impairment	$ 56	$ 212	$	$	$ 268
Ending balance: collectively evaluated for impairment	$ 1,075	$ 137	$ 9	$ 13	$ 1,234
Portfolio Loans					
Ending unpaid principal balance	$ 88,563	$ 9,771	$ 760	$ 1,063	$ 100,157
Ending unpaid principal balance: individually evaluated for impairment	$ 699	$ 590	$	$	$ 1,289
Ending unpaid principal balance: collectively evaluated for impairment	$ 87,864	$ 9,181	$ 760	$ 1,063	$ 98,868

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Note 3 Loans Continued

Six months ended June 30, 2012

	Commercial	Home Equity	Residential	Consumer	Total
Allowance for Loan Losses					
Beginning balance	$ 1,142	$ 416	$ 10	$ 6	$ 1,574
Charge-offs					
Recoveries					
Provision	163	(109)	16		70
Ending balance	$ 1,305	$ 307	$ 26	$ 6	$ 1,644
Percent of principal balance	1.34%	3.29%	0.51%	0.52%	1.45%
Ending balance: individually evaluated for impairment	$ 318	$ 184	$	$	$ 502
Ending balance: collectively evaluated for impairment	$ 987	$ 123	$ 26	$ 6	$ 1,142
Portfolio Loans					
Ending unpaid principal balance	$ 97,538	$ 9,334	$ 5,124	$ 1,160	$ 113,156
Ending unpaid principal balance: individually evaluated for impairment	$ 1,629	$ 590	$	$	$ 2,219
Ending unpaid principal balance: collectively evaluated for impairment	$ 95,909	$ 8,744	$ 5,124	$ 1,160	$ 110,937

Six months ended June 30, 2011

	Commercial	Home Equity	Residential	Consumer	Total
Allowance for Loan Losses					
Beginning balance	$ 1,070	$ 352	$ 14	$ 12	$ 1,448
Charge-offs					
Recoveries					
Provision	61	(3)	(5)	1	54
Ending balance	$ 1,131	$ 349	$ 9	$ 13	$ 1,502
Percent of principal balance	1.28%	3.57%	1.18%	1.23%	1.50%
Ending balance: individually evaluated for impairment	$ 56	$ 212	$	$	$ 268
Ending balance: collectively evaluated for impairment	$ 1,075	$ 137	$ 9	$ 13	$ 1,234
Portfolio Loans					
Ending unpaid principal balance	$ 88,563	$ 9,771	$ 760	$ 1,063	$ 100,157
Ending unpaid principal balance: individually evaluated for impairment	$ 699	$ 590	$	$	$ 1,289
Ending unpaid principal balance: collectively evaluated for impairment	$ 87,864	$ 9,181	$ 760	$ 1,063	$ 98,868

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Note 3 Loans continued

Management uses a loan rating system to identify the inherent risk associated with portfolio loans. Loan ratings are based on a subjective definition that describes the conditions present at each level of risk and identifies the important aspect of each loan. The Bank currently uses a 1 to 8 grading scale for commercial loans. Each loan grade corresponds to a specific qualitative classification. All other consumer and mortgage loan types are not graded using the risk rating scale but are internally rated based on various credit quality characteristics using the same qualitative classification. The risk rating classifications included: pass, special mention, substandard, doubtful and loss.

Loans risk-rated as special mention are considered criticized loans, exhibiting some potential credit weakness that requires additional attention by management and are maintained on the internal watch list and monitored on a regular basis. Loans risk-rated as substandard or higher are considered classified loans exhibiting well-defined credit weakness and are recorded on the problem loan list and evaluated more frequently. The Bank s credit administration function is designed to provide increased information on all types of loans to identify adverse credit risk characteristics in a timely manner. Total criticized and classified loans increased to $16,024,000 at June 30, 2012 from $13,821,000 at December 31, 2011. The increase is isolated to commercial loans and is the result of deterioration in specific credits identified by Credit Administration. The general condition of the portfolio remains strong. The Bank has no loans in non-accrual status. There were no loans that were risk rated doubtful or loss at June 30, 2012 or December 31, 2011. Management closely monitors each loan adversely criticized or classified and institutes appropriate measures to eliminate the basis of criticism.

The primary risk elements considered by management regarding each consumer and residential real estate loan are lack of timely payment and loss of real estate values. Management has a reporting system that monitors past due loans and has adopted policies to pursue its creditor s rights in order to preserve the Bank s position. The primary risk elements concerning commercial and industrial loans and commercial real estate loans are the financial condition of the borrower, the sufficiency of collateral, and lack of timely payment. Management has a policy of requesting and reviewing periodic financial reporting from its commercial loan customers and verifies existence of collateral and its value.

An analysis of credit quality indicators at June 30, 2012 and December 31, 2011 follows (000s omitted):

June 30, 2012

Commercial Loans

Credit Quality		Commercial Real Estate	Commercial Term	Commercial LOC	Commercial Construction
1	pass	$	$	$	$ 18
2	pass		80	239	
3	pass	16,987	3,603	5,452	653
4	pass	43,254	9,122	3,052	
5	special mention	7,466	3,744	1,272	
6	substandard	694	1,382	520	
7	doubtful				
8	loss				
		$ 68,401	$ 17,931	$ 10,535	$ 671

Consumer Loans

Credit Quality	Home Equity LOC	Residential Mortgage	Home Equity Term	Consumer Installment	Consumer LOC
Pass	$ 8,402	$ 5,016	$ 108	$ 435	$ 711
Special mention	342			14	
Substandard	590				

Doubtful					
Loss					
	$ 9,334	$ 5,016	$ 108	$ 449	$ 711

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Note 3 Loans continued

December 31, 2011

Commercial Loans

Credit Quality	Commercial Real Estate	Commercial Term	Commercial LOC	Commercial Construction
1 pass	$	$	$	$
2 pass	217	89		
3 pass	16,023	3,793	4,644	
4 pass	41,184	8,754	5,248	683
5 special mention	5,586	2,524	511	1,858
6 substandard	1,426	598	365	
7 - doubtful				
8 - loss				
	$ 64,436	$ 15,758	$ 10,768	$ 2,541

Consumer Loans

Credit Quality	Home Equity LOC	Residential Mortgage	Home Equity Term	Consumer Installment	Consumer LOC
Pass	$ 8,686	$ 1,828	$ 111	$ 583	$ 700
Special mention	343			20	
Substandard	590				
Doubtful					
Loss					
	$ 9,619	$ 1,828	$ 111	$ 603	$ 700

A loan is considered a troubled debt restructuring (TDR) if the Bank for economic or legal reasons related to the borrower s financial condition grants a concession to the debtor that the Bank would not otherwise consider. TDRs represent loans where the original terms of the agreement have been modified to provide relief to the borrower and are individually evaluated for impairment. The loans continue to perform according to the modified contractual terms.

Information regarding modified loans as of June 30, 2012 and December 31, 2011 (000s omitted):

June 30, 2012 **Troubled Debt Restructuring**	Number of Contracts	Pre-Modification Investment	Post-Modification Investment
Commercial Real Estate	1	$ 699	$ 699
Commercial Term	1	$ 60	$ 60
Commercial LOC			
Construction			
Home Equity			
Residential Mortgage			
Consumer			

December 31, 2011

Troubled Debt Restructuring					
Commercial Real Estate	1	$	699	$	699
Commercial Term					
Commercial LOC					
Construction					
Home Equity					
Residential Mortgage					
Consumer					

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Note 3 Loans continued

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all principal and interest payments according to the contractual terms of the loan agreement. Characteristics considered by management in determining impairment include delinquency status, collateral value, and known factors adversely affecting the ability of the borrower to satisfy the terms of the agreement. When an individual loan is classified as impaired, the Corporation measures impairment using (1) the present value of expected cash flows discounted at the loans effective interest rate, (2) the loans observable market price, or (3) the fair value of the collateral. The method used is determined on a loan by loan basis, except for a collateral dependent loan. All collateral dependent loans are required to be measured using the fair value of collateral method. If the value of an impaired loan is less than the recorded investment in the loan an impairment reserve is recognized. All modified loans are considered impaired.

Large groups of homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures, except if modified and considered to be a troubled debt restructuring.

Information regarding impaired loans at June 30, 2012; December 31, 2011; and June 30, 2011 (000s omitted):

June 30, 2012					Year to Date
Impaired loans	Recorded Investment	Unpaid Principal	Allowance	Average Investment	Interest Recognized
Loans with no related allowance recorded:					
Commercial Term	$ 935	$ 935	$	$ 935	$ 31
Loans with allowance recorded:					
Commercial Real Estate	$ 694	$ 694	$ 318	$ 697	$ 18
Home Equity Line of Credit	$ 590	$ 590	$ 184	$ 590	$ 15
Total loans:					
Commercial	$ 1,629	$ 1,629	$ 318	$ 1,632	$ 49
Home Equity	$ 590	$ 590	$ 184	$ 590	$ 15
December 31, 2011					
Impaired loans					
Loans with allowance recorded:					
Commercial Real Estate	$ 699	$ 699	$ 115	$ 699	$ 35
Home Equity Line of Credit	$ 590	$ 590	$ 212	$ 590	$ 29
Total loans:					
Commercial	$ 699	$ 699	$ 115	$ 699	$ 35
Home Equity	$ 590	$ 590	$ 212	$ 590	$ 29
June 30, 2011					
Impaired loans					
Loans with allowance recorded:					
Commercial Real Estate	$ 699	$ 699	$ 56	$ 699	$ 18
Home Equity Line of Credit	$ 590	$ 590	$ 212	$ 590	$ 15
Total loans:					
Commercial	$ 699	$ 699	$ 56	$ 699	$ 18
Home Equity	$ 590	$ 590	$ 212	$ 590	$ 15

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Note 3 Loans continued

As of June 30, 2012 there were no loans more than 30 days past due while at December 31, 2011 loans representing $4,000 were more than 30 days past due. There were no nonperforming loans, which represents non-accruing loans and loans past due 90 days or more and still accruing interest, at June 30, 2012 and December 31, 2011. Loans are placed in non-accrual status when, in the opinion of management, uncertainty exists as to the ultimate collection of principal and interest. Commercial loans are reported as being in non-accrual status if: (a) they are maintained on a cash basis because of deterioration in the financial position of the borrower, (b) payment in full of interest or principal is not expected, or (c) principal or interest has been in default for a period of 90 days or more. If it can be documented that the loan obligation is both well secured and in the process of collection, the loan may remain on accrual status. However, if the loan is not brought current before becoming 120 days past due, the loan is reported as non-accrual. A non-accrual asset may be restored to accrual status when none of its principal or interest is due and unpaid, when it otherwise becomes well secured, or is in the process of collection.

Information regarding past due loans at June 30, 2012 and December 31, 2011 follows (000s omitted):

June 30, 2012	Loans past due			Total Past Due	Current	Total Loans	Non-Accrual	>90 days Accruing
	30 59	60 - 90	Over 90					
Commercial real estate	$	$	$	$	$ 68,401	$ 68,401	$	$
Commercial term					17,931	17,931		
Commercial LOC					10,535	10,535		
Construction					671	671		
Home equity LOC					9,334	9,334		
Residential mortgage					5,016	5,016		
Home equity term					108	108		
Consumer installment					449	449		
Consumer LOC					711	711		
	$	$	$	$	$ 113,156	$ 113,156	$	$

	Loans past due			Total Past Due	Current	Total Loans	Non-Accrual	>90 days Accruing
December 31, 2011	30 59	60 - 90	Over 90					
Commercial real estate	$	$	$	$	$ 64,436	$ 64,436	$	$
Commercial term					15,758	15,758		
Commercial LOC					10,768	10,768		
Construction					2,541	2,541		
Home equity LOC					9,619	9,619		
Residential mortgage					1,828	1,828		
Home equity term					111	111		
Consumer installment	4			4	599	603		
Consumer LOC					700	700		
	$ 4	$	$	$ 4	$ 106,360	$ 106,364	$	$

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Note 4 Deposits

Deposits are summarized as follows (000s omitted):

	June 30, 2012		December 31, 2011	
	Balance	Percentage	Balance	Percentage
Noninterest bearing demand	$ 20,715	16.89%	$ 19,662	18.26%
NOW accounts	9,751	7.95%	8,040	7.47%
Money market	10,335	8.43%	6,622	6.15%
Savings	17,317	14.12%	18,188	16.89%
Time deposits under $100,000	9,757	7.96%	11,469	10.65%
Time deposits over $100,000	43,545	35.49%	43,697	40.58%
Brokered deposits	11,230	9.16%		0.00%
Total deposits	$ 122,650	100.0%	$ 107,678	100.0%

At June 30, 2012, the scheduled maturities of time and brokered deposits are as follows (000s omitted):

	<$100,000	>$100,000	Total
2012	$ 1,715	$ 7,050	$ 8,765
2013	2,686	18,660	21,346
2014	4,474	10,568	15,042
2015	170	8,817	8,987
2016	465	5,574	6,039
Thereafter	247	4,106	4,353
Total	$ 9,757	$ 54,775	$ 64,532

Note 5 Loan Servicing

Loans serviced for others are not included in the accompanying consolidated financial statements. The unpaid principal balance of loans serviced for others was $11,440,904 and $10,457,902 at June 30, 2012 and December 31, 2011, respectively. Unamortized cost of loan servicing rights included in accrued interest receivable and other assets on the consolidated balance sheet, for the periods ended June 30, 2012 and December 31, 2011 are shown below:

	June 30, 2012	December 31, 2011
Balance, beginning of period	$ 123,820	$
Amount capitalized	24,066	129,783
Amount amortized	5,486	5,963
Balance, end of period	$ 142,400	$ 123,820

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Note 6 Leases and Commitments

The Corporation has entered into a lease agreement for its main office facility. Payments began in February 2005 and the initial term of the lease expires in October 2015. In October 2007, the Corporation exercised its first renewal option on the property which expires in October 2025. The main office lease has one additional ten year renewal option. In March 2011, a new one year lease was signed for additional office space in the building adjacent to the main office. During the first quarter of 2012, the Corporation renewed the lease for an additional three year period.

Rent expense was $67,000 and $73,000 for the three month period ended June 30, 2012 and 2011, respectively. Rent expense was $134,000 and $137,000 for the six month period ended June 30, 2012 and 2011, respectively.

The following is a schedule of future minimum rental payments under operating leases on a calendar year basis:

2012	$ 135,000
2013	274,000
2014	279,000
2015	258,000
2016	254,000
Thereafter	2,473,000
Total	$ 3,673,000

Note 7 Fair Value of Financial Instruments

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. FASB ASC 825 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Corporation.

The following methods and assumptions were used by the Corporation in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents The carrying values of cash and cash equivalents approximate fair values.

Securities Fair values of securities are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities or other observable inputs.

Loans Receivable For variable-rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values of nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposit Liabilities The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Accrued Interest The carrying value of accrued interest approximates fair value.

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Note 7 Fair Value of Financial Instruments (continued)

Other Financial Instruments - The fair value of other financial instruments, including loan commitments and unfunded letters of credit, based on discounted cash flow analyses, is not material.

The carrying values and estimated fair values of financial instruments at June 30, 2012 and December 31, 2011, are as follows (000s omitted):

June 30, 2012

	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 17,115	$ 17,115	$ 17,115	$	$
Securities available for sale	4,150	4,150		4,150	
Net portfolio loans	111,430	111,872			111,872
Loans held for sale					
Accrued interest receivable	460	460		460	
Financial liabilities:					
Deposits	122,650	122,887		122,887	
Accrued interest payable	55	55		55	

December 31, 2011

	Carrying Value	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets:					
Cash and cash equivalents	$ 4,694	$ 4,694	$ 4,694	$	$
Securities available for sale	4,764	4,764		4,764	
Net portfolio loans	104,724	104,638			104,638
Loans held for sale	2,485	2,485		2,485	
Accrued interest receivable	450	450		450	
Financial liabilities:					
Deposits	107,678	107,987		107,987	
Accrued interest payable	61	61		61	

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Note 8 Fair Value Accounting

Valuation Hierarchy

Accounting standards establish a three-level valuation hierarchy for fair value measurements. The valuation hierarchy prioritizes valuation techniques based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and are the primary method of valuation used by Birmingham Bloomfield Bancshares, Inc. A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows.

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets which the Corporation can participate.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement, and include inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

Following is a description of the inputs and valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as general classification of those instruments under the valuation hierarchy.

Available-for-sale Securities

Quoted market prices in an active market are used to value securities when such prices are available. Those securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, the fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows using reasonable inputs. Level 2 securities include U.S. Government agency securities, mortgage backed securities, obligations of states and municipalities, and certain corporate securities. Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities, but rather relying on the investment securities relationship to other benchmark quoted investment securities. In certain cases where Level 1 or Level 2 inputs are not available, securities would be classified within Level 3 of the hierarchy.

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the valuation hierarchy in which the fair value measurements fall at June 30, 2012 and December 31, 2011 (000s omitted):

June 30, 2012	Level 1	Level 2	Level 3	Fair Value
U.S. government agency	$	$ 1,858	$	$ 1,858
Municipal securities		724		724
Mortgage backed securities		1,087		1,087
Corporate bonds		263		263
Securities available for sale	$	$ 3,932	$	$ 3,932

December 31, 2011	Level 1	Level 2	Level 3	Fair Value
U.S. government agency	$	$ 2,354	$	$ 2,354
Municipal securities		721		721

Mortgage backed securities		1,258		1,258
Corporate bonds		262		262
Securities available for sale	$	$ 4,595	$	$ 4,595

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Note 8 Fair Value Accounting continued

Following is a description of the inputs and valuation methodologies used for instruments measured at fair value on a non-recurring basis and recognized in the accompanying consolidated balance sheets, as well as general classification of those instruments under the valuation hierarchy.

Impaired Loans

Loans for which it is probable the Corporation will not collect all principal and interest due according to the contractual terms are measured for impairment. The fair value of impaired loans is estimated using one of three methods; market value, collateral value, or discounted cash flow. Those impaired loans not requiring an allowance represent loans for which the fair value of collateral exceeds the recorded investment. When the fair value of the collateral is based on an observable market price or current appraised value, the impaired loan is classified within Level 2. When a market value is not available or management applies a discount factor to the appraised value, the Corporation records the impaired loan in Level 3.

Other Real Estate Owned (ORE)

Loans on which the underlying collateral has been repossessed are adjusted to fair value less costs to sell upon transfer to repossessed assets. Subsequently, repossessed assets are carried at the lower of carrying value or fair value, less anticipated marketing and selling costs. Fair value is based upon independent market prices, appraised values of the collateral or management s estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the repossessed asset as a nonrecurring Level 2 valuation. When a market value is not available or management applies a discount factor to the appraised value, the Corporation records the repossessed asset in Level 3.

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a non-recurring basis and the level within the valuation hierarchy in which the fair value measurements fall at June 30, 2012 and December 31, 2011 (000s omitted):

June 30, 2012	Balance	Level 1	Level 2	Level 3	Losses
Impaired Loans	$ 2,219	$	$	$ 2,219	$
ORE	$	$	$	$	$
December 31, 2011					
Impaired Loans	$ 1,289	$	$	$ 1,289	$
ORE	$ 298	$	$	$ 298	$

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Note 9 Minimum Regulatory Capital Requirements

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The prompt corrective action regulations provide four classifications, well capitalized, adequately capitalized, undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required. The Bank was classified as well-capitalized as of June 30, 2012. For the period ended June 30, 2012, the Corporation qualifies for an exemption from regulatory capital requirements due to its asset size.

The Bank s actual capital amounts and ratios as of June 30, 2012 and December 31, 2011 are presented in the following table (000s omitted):

	Actual		For Capital Adequacy Purposes		To be Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2012						
Total risk-based capital						
(to risk weighted assets)						
Bank of Birmingham	$ 14,532	11.9%	$ 9,758	8.0%	$ 12,198	10.0%
Tier I capital						
(to risk weighted assets)						
Bank of Birmingham	$ 13,005	10.7%	$ 4,879	4.0%	$ 7,319	6.0%
Tier I capital						
(to average assets)						
Bank of Birmingham	$ 13,005	9.8%	$ 5,317	4.0%	$ 6,646	5.0%
As of December 31, 2011						
Total risk-based capital						
(to risk weighted assets)						
Bank of Birmingham	$ 13,504	12.0%	$ 9,026	8.0%	$ 11,283	10.0%
Tier I capital						
(to risk weighted assets)						
Bank of Birmingham	$ 12,091	10.7%	$ 4,513	4.0%	$ 6,770	6.0%
Tier I capital						
(to average assets)						
Bank of Birmingham	$ 12,091	9.9%	$ 4,866	4.0%	$ 6,083	5.0%

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Note 10 Shareholders Equity

On July 28, 2011, the Corporation fully redeemed from the United States Treasury all of the Preferred Shares associated with the Capital Purchase Program for $3,461,000. The redemption was funded by proceeds from the issuance of Preferred Shares to the U.S. Treasury under the Small Business Lending Fund totaling $4,621,000. As a result of the transaction, the Corporation recorded $46,000 in accelerated accretion on the remaining discount of the Capital Purchase Program Preferred stock during the third quarter of 2011, reducing the amount available to common shareholders. See Management s Discussion and Analysis of Financial Condition and Results of Operation for additional preferred stock discussion.

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

Disclosure Regarding Forward Looking Statements

This report contains forward-looking statements throughout that are based on management s beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and about the Corporation and the Bank. Words such as anticipates, believes, estimates, expects, forecasts, intends, is likely, plans, projects, variations of such words and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are intended to be covered by the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Actual results and outcomes may materially differ from what may be expressed or forecasted in the forward-looking statements. The Corporation undertakes no obligation to update, amend, or clarify forward looking statements, whether as a result of new information, future events (whether anticipated or unanticipated), or otherwise.

Future factors that could cause actual results to differ materially from the results anticipated or projected include, but are not limited to, the following: the credit risks of lending activities, including changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses; competitive pressures among depository institutions; interest rate movements and their impact on customer behavior and net interest margin; the impact of re-pricing and competitor s pricing initiatives on loan and deposit products; the ability to adapt successfully to technological changes to meet customers needs and development in the market place; our ability to access cost-effective funding; changes in financial markets; changes in economic conditions in general and particularly as related to the automotive and related industries in the Detroit metropolitan area; new legislation or regulatory changes, including but not limited to changes in federal and/or state tax laws or interpretations thereof by taxing authorities; changes in accounting principles, policies or guidelines; and our future acquisitions of other depository institutions or lines of business. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information concerning the Corporation and its business, including additional factors that could materially affect the Corporation s financial results, is included in its filings with the Securities and Exchange Commission.

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Management s Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

The Corporation is a Michigan corporation that was incorporated in 2004 to serve as the holding company for a Michigan state bank, Bank of Birmingham (the Bank). The Bank is a full service commercial bank headquartered in Birmingham, Michigan. The Bank serves businesses and consumers across Oakland and Macomb counties with a full range of lending, deposit and internet banking services. The net income of the Corporation is derived primarily from net interest income. Net interest income is the difference between interest earned on the Bank s loan and investment portfolios and the interest paid on deposits and borrowings. The volume, mix and rate of interest-bearing assets and liabilities determine net interest income.

OPERATIONS

The Corporation s (and the Bank s) main office is located at 33583 Woodward Avenue, Birmingham, MI 48009. The building is a free-standing one story office building of approximately 8,300 square feet. The main office lease commenced in October 2005 and the Bank exercised its first renewal option resulting in the lease being extended until October 2025. The main office lease has an additional ten year renewal option. See Note 6 of the Notes to Consolidated Financial Statements regarding additional lease information.

The Bank will continue to focus on the lending, deposit and general banking needs in the community it serves. The profile of products available to customers continues to expand as the Bank offers more options for residential mortgage and commercial customers, including SBA products. The Bank will investigate additional product and service offerings and will consider providing those that will be of benefit to our customers and the Bank.

FINANCIAL CONDITION

The Corporation reported net income applicable to common shareholders of $208,000 or $0.11 per common share for the three month period ended June 30, 2012 compared to net income of $261,000 or $0.15 per common share for the second quarter of 2011. For the six months ended June 30, 2012 and 2011, net income applicable to common stock was $544,000 or $0.30 per share and $676,000 or $0.38 per share, respectively. The results for 2012 include the impact of recognizing tax expense not previously required. Excluding the effect of income tax expense of $111,000 for the three month period ended June 30, 2012, pre-tax net income before preferred dividends was $341,000, an increase of 10.0% from the second quarter of 2011. Pre-tax, pre-provision net income for the six months ended June 30, 2012 was $860,000, an increase of $88,000 or 11.4%. The improved performance for the three and six month period was the result of higher margins and earning asset growth. This generated a pre-tax, pre-provision return on average assets of 1.17% and 1.43%, respectively, for the three and six month periods.

Total assets as of June 30, 2012 were $139,851,000, an increase $15,454,000 from December 31, 2011 and 17.9% from the second quarter of 2011. The growth was primarily the result of an increase in loan and deposit balances. The Company continues to focus on providing a broad range of product and services to generate core, organic growth.

Cash and Cash Equivalents

Cash and cash equivalents increased $12,421,000 to $17,115,000 at June 30, 2012. The increase was primarily the result of deposit growth and a strategic objective to maintain additional liquidity.

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Investments

Total investments decreased $663,000 to $3,932,000 during the six month period ended June 30, 2012. The net reduction was the result of principal payments received on mortgage backed securities and the retirement of two U.S. Government agency securities totaling $1.5 million. The Corporation used the proceeds from the called securities to purchase additional investments totaling $1.0 million and fund new loan activity. The Corporation did not hold any held-to-maturity securities as of June 30, 2012 or December 31, 2011. The makeup of the Corporation s investment portfolio evolves with the changing price and risk structure, and liquidity needs of the Corporation.

Management believes that the unrealized gains and losses within the investment portfolio are temporary, since they are a result of market changes, rather than a reflection of credit quality. Management has no specific intent to sell any securities, although the entire investment portfolio is classified as available for sale. The following chart summaries the portfolio by type at June 30, 2012 and December 31, 2011 (000s omitted):

	June 30, 2012		December 31, 2011		Change
U.S. Government agency securities	$ 1,858	47.3%	$ 2,354	51.2%	$ (496)
Municipal securities	724	18.4%	721	15.7%	3
Mortgage backed securities	1,087	27.6%	1,258	27.4%	(171)
Corporate bonds	263	6.7%	262	5.7%	1
Total securities	$ 3,932	100.0%	$ 4,595	100.0%	$ (663)

Loans, Credit Quality and Allowance for Loan Losses

The following table summarizes the mix of the Corporation s portfolio loans at June 30, 2012 and December 31, 2011 (000s omitted):

	June 30, 2012	December 31, 2011	Change
Real estate mortgage	$ 86,909	$ 80,170	$ 6,739
Construction	671	2,541	(1,870)
Commercial and industrial	24,576	22,512	2,064
Consumer installment	1,000	1,141	(141)
Deferred loan fees and costs	(82)	(66)	(16)
Total loans	$ 113,074	$ 106,298	$ 6,776

Total portfolio loans increased during the first six months of 2012 to $113,074,000. The growth during the quarter was concentrated in Real Estate Mortgage and Commercial and Industrial loans. The increase was due to focused business development efforts in generating new loan activity and expanding existing relationships. The other loan categories experienced declines as result of scheduled amortization of the portfolio, maturities and principal reduction payments.

The allowance for loan losses increased $70,000 to $1,644,000, representing 1.45% of total loans at June 30, 2012. The increase was a combined result of a net increase in specific reserves on impaired loans and portfolio growth. There were no charge-offs or recoveries recorded for the six months ended June 30, 2012 and 2011 and the Corporation did not have any nonperforming loans outstanding during the periods presented.

Management evaluates the condition of the loan portfolio on a quarterly basis or more frequently when warranted, to determine the adequacy of the allowance for loans losses. The allowance for loan losses is maintained at a level believed to be adequate to cover losses on individually evaluated loans that are determined to be impaired and on groups of loans with similar risk characteristics that are collectively evaluated for impairment. Estimated credits losses represent the current amount of the loan portfolio that is probable the institution will be unable to collect given the facts and circumstances as of the evaluation date. Management s evaluation of the allowance is based on consideration of actual loss experience, the present and prospective financial condition of borrowers, adequacy of collateral, industry concentrations within the portfolio,

various environmental factors and general economic conditions. Loans individually evaluated for impairment are measured using one of the three standard methods and provided a specific allowance. Management believes that the present allowance is adequate given the size, complexity and risk profile of the current portfolio.

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Although management believes that the allowance for credit losses is adequate to absorb losses as they arise, there can be no assurance that the Bank will not sustain losses in any given period that could be substantial in relation to the size of the allowance for credit losses. It must be understood that inherent risks and uncertainties related to the operation of a financial institution require management to depend on estimates, appraisals and evaluations of loans to prepare the Corporation s financial statements. Changes in economic conditions and the financial prospects of borrowers may result in changes to the estimates, appraisals and evaluations used. In addition, if circumstances and losses differ substantially from management s assumptions and estimates, the allowance for loan losses may not be sufficient to absorb all future losses and net income could be adversely impacted.

Premises and Equipment

Premises and equipment was $1,327,000 as of June 30, 2012 down from $1,395,000 as of December 31, 2011. The Corporation expects to support further growth of business lines with investments in operating facilities and technology.

Deposits and Short-term Financing

Total deposits increased 13.9% during the first half of 2012 totaling $122,650,000 as the Corporation continues to grow the organization and fund new loan activity. The categories experiencing the largest increase were Brokered deposits, Money Market and NOW accounts. Brokered deposits are a new source of funding for the Corporation and are generated using a third party service provider. The Corporation added $11,230,000 in this category and use the funding to manage interest rate risk and replace maturing time deposits. Money Market and NOW accounts increased $3,713,000 and $1,711,000, respectively during the six months ended June 30, 2012 as the Corporation expands existing relationships and attracts new customers. The category experiencing the largest decline during the period was Time deposits as the Corporation reduced participation in an on-line marketing service to acquire wholesale CD s. This was an intentional strategy by management to extend the maturity duration of the portfolio in a more cost effective manner utilizing the brokered market.

Deposits are summarized as follows (000s omitted):

	As of June 30, 2012		As of December 31, 2011	
	Balance	Percentage	Balance	Percentage
Non-interest bearing demand	$ 20,715	16.89%	$ 19,662	18.26%
NOW accounts	9,751	7.95%	8,040	7.47%
Money market	10,335	8.43%	6,622	6.15%
Savings	17,317	14.12%	18,188	16.89%
Time deposits < $100,000	9,757	7.96%	11,469	10.65%
Time deposits >$100,000	43,545	35.49%	43,697	40.58%
Brokered deposits	11,230	9.16%		0.00%
Total deposits	$ 122,650	100.00%	$ 107,678	100.00%

At June 30, 2012 and December 31, 2011, the Bank had no secured borrowings outstanding. The Bank did not utilize discount window during the first half of 2012. The Bank did utilize its line of credit from the FHBLI during the first half of 2012 for short term financing. However, there were no FHLBI borrowings outstanding at June 30, 2012.

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RESULTS OF OPERATIONS

The Corporation reported net income applicable to common shareholders of $208,000 for the second quarter of 2012 compared to $261,000 for the same period of 2011. The reduction in earnings is directly related to the recognition of income tax expense totaling $111,000 during the period. This is the first year the Corporation was required to realize an income tax liability. Refer to the Incomes Taxes section for further discussion. Excluding the impact of income taxes, net income before preferred dividends was $341,000 for the period ended June 30, 2012, a 10.4% increase from the second quarter of 2011. The increase in pre-tax earnings was the result of improved margins and an increase in total earning assets. Net interest margin for the current period was 4.91% compared to 4.51% for the second quarter of 2011 and 4.80% for the most recent linked quarter. This was achieved by improving the asset mix of the balance sheet and reducing total funding costs. Total non-interest income for the three month period ended June 30, 2012 was $112,000, a decrease of $168,000 from the same period of 2011. The decrease was the result of a reduction in SBA loan income and mortgage banking activities. Provision expense totaled $50,000 during the period, an increase of $35,000 from the second quarter of 2011. The increase is related to the increase in total specific reserves and loan growth. Total non-interest expense for the second quarter of 2012 was $1,216,000, an increase of $9,000 from the same period in 2011.

The following table present trends in selected financial data for the five most recent quarters (000s omitted except per share data):