

Birmingham Bloomfield Bancshares

Form 10-Q

May 13, 2011

Table of Contents

**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 March 31, 2011

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 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 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 filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated
filer

Accelerated
filer

Non-accelerated filer
(Do not check if a smaller reporting
company)

Smaller reporting
company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes No

The number of shares outstanding of the issuer's Common Stock as of May 13, 2011, was 1,800,000 shares.

INDEX

| | |
|--|----|
| <u>PART I. FINANCIAL INFORMATION</u> | 3 |
| <u>ITEM 1. FINANCIAL STATEMENTS (Unaudited)</u> | 3 |
| <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | 20 |
| <u>ITEM 2. RESULTS OF OPERATIONS</u> | 20 |
| <u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | 28 |
| <u>ITEM 4. CONTROLS AND PROCEDURES</u> | 28 |
| | |
| <u>PART II. OTHER INFORMATION</u> | 29 |
| <u>ITEM 1. LEGAL PROCEEDINGS</u> | 29 |
| <u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u> | 29 |
| <u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u> | 29 |
| <u>ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u> | 29 |
| <u>ITEM 5. OTHER INFORMATION</u> | 29 |
| <u>ITEM 6. EXHIBITS</u> | 30 |
| <u>EX-31.1</u> | |
| <u>EX-31.2</u> | |
| <u>EX-32.1</u> | |

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CONSOLIDATED STATEMENTS OF CONDITION**

| | (Unaudited) March 31, 2011 | December 31, 2010 |
|--|----------------------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | | |
| Cash | \$ 14,036,879 | \$ 5,300,368 |
| Federal funds sold | | 65,936 |
| Total cash and cash equivalents | 14,036,879 | 5,366,304 |
| Securities, available for sale (Note 2) | 3,150,652 | 3,200,002 |
| Federal Home Loan Bank stock | 160,200 | 160,200 |
| Loans held for Sale | | 322,500 |
| Loans (Note 3) | | |
| Total portfolio loans | 98,205,105 | 100,378,678 |
| Less: allowance for loan losses | (1,487,099) | (1,448,096) |
| Net portfolio loans | 96,718,006 | 98,930,582 |
| Premises & equipment, net | 1,435,426 | 1,359,510 |
| Interest receivable and other assets | 1,019,575 | 995,438 |
| Totals assets | \$ 116,520,738 | \$ 110,334,536 |
| Liabilities and Shareholders Equity | | |
| Deposits (Note 4) | | |
| Non-interest bearing | \$ 12,477,840 | \$ 14,190,295 |
| Interest bearing | 92,110,155 | 83,060,199 |
| Total deposits | 104,587,995 | 97,250,494 |
| Secured borrowings | | 1,469,095 |
| Interest payable and other liabilities | 529,558 | 629,422 |
| Total liabilities | 105,117,553 | 99,349,011 |
| Shareholders equity | | |
| Senior cumulative perpetual preferred stock series A \$1,000 liquidation value per share, 5% Authorized, issued and outstanding 1,635 shares | 1,635,000 | 1,635,000 |
| Discount on senior preferred stock series A | (56,427) | (61,027) |
| | 82,000 | 82,000 |

Edgar Filing: Birmingham Bloomfield Bancshares - Form 10-Q

| | | |
|--|----------------|----------------|
| Senior cumulative perpetual preferred stock series B \$1,000 liquidation value per share, 9% Authorized, issued and outstanding 82 shares | | |
| Premium on preferred stock series B | 6,134 | 6,634 |
| Senior cumulative perpetual preferred stock series C \$1,000 liquidation value per share, 5% Authorized, issued and outstanding 1,744 shares | 1,744,000 | 1,744,000 |
| Common stock, no par value Authorized 4,500,000 shares Issued and outstanding 1,800,000 shares | 17,034,330 | 17,034,330 |
| Additional paid in capital | 493,154 | 493,154 |
| Accumulated deficit | (9,647,177) | (10,061,474) |
| Accumulated other comprehensive income | 112,171 | 112,908 |
| Total shareholders equity | 11,403,185 | 10,985,525 |
| Total liabilities and shareholders equity | \$ 116,520,738 | \$ 110,334,536 |

See accompanying notes to consolidated financial statements

3

Table of Contents**CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

| | For the three months ended March | |
|---|----------------------------------|--------------|
| | 2011 | 2010 |
| Interest Income | | |
| Interest and fees on loans | \$ 1,555,809 | \$ 1,232,140 |
| Interest on securities | 27,911 | 34,698 |
| Interest on federal funds and bank balances | 4,631 | 6,334 |
| Total interest income | 1,588,351 | 1,273,172 |
| Interest Expense | | |
| Interest on deposits | 314,055 | 324,246 |
| Interest on federal funds and short-term borrowings | 14,509 | |
| Total interest expense | 328,564 | 324,246 |
| Net Interest Income | 1,259,787 | 948,926 |
| Provision for loan losses | 39,000 | 112,405 |
| Net Interest Income After Provision for Loan Losses | 1,220,787 | 836,521 |
| Non-interest Income | | |
| Service charges on deposit accounts | 11,572 | 9,635 |
| Other income | 302,098 | 17,387 |
| Mortgage banking activities | 11,439 | |
| Total non-interest income | 325,109 | 27,023 |
| Non-interest Expense | | |
| Salaries and employee benefits | 582,017 | 400,624 |
| Share based payments | | 3,695 |
| Occupancy expense | 118,102 | 118,634 |
| Equipment expense | 35,400 | 35,577 |
| Advertising and public relations | 36,046 | 5,280 |
| Data processing expense | 49,013 | 55,550 |
| Professional fees | 111,524 | 68,211 |
| Other expenses | 151,314 | 146,633 |
| Total non-interest expense | 1,083,416 | 834,204 |
| Net Income Before Federal Income Tax | 462,480 | 29,339 |
| Federal income tax | | |
| Net Income | 462,480 | 29,339 |

Edgar Filing: Birmingham Bloomfield Bancshares - Form 10-Q

| | | |
|---|------------|-------------|
| Dividend on senior preferred stock | 44,083 | 43,351 |
| Accretion of discount on preferred stock | 4,100 | 4,100 |
| Net Income (Loss) Applicable to Common Shareholders | \$ 414,297 | \$ (18,112) |
| Basic and Diluted Income (Loss) per Share | \$ 0.23 | \$ (0.01) |

See notes to consolidated financial statements.

4

Table of Contents**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (Unaudited)**

| | Three Months Ended March | |
|---|--------------------------|---------------|
| | 31, | |
| Total Shareholders Equity | 2011 | 2010 |
| Balance at beginning of period | \$ 10,985,525 | \$ 10,727,933 |
| Net income | 462,480 | 29,339 |
| Other comprehensive income: | | |
| Net change in unrealized gains on securities available for sale | (737) | 81 |
| Total comprehensive income | 461,743 | 29,420 |
| Share based payments expense | | 3,695 |
| Preferred dividends | (44,083) | (43,351) |
| Balance at end of period | \$ 11,403,185 | \$ 10,717,697 |

See accompanying notes to consolidated financial statements.

5

Table of Contents**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**

| | For the Three Months Ended March | |
|---|----------------------------------|--------------|
| | 2011 | 2010 |
| Cash flows from operating activities | | |
| Net income | \$ 462,480 | \$ 29,339 |
| Share based payment expense | | 3,695 |
| Provision for loan losses | 39,000 | 112,405 |
| Gain on sale of loans | (8,697) | |
| Proceeds for sales of loans originated for sale | 436,197 | |
| Loans originated for sale | (105,000) | |
| Accretion of securities | (1,576) | (2,018) |
| Depreciation expense | 43,669 | 44,618 |
| Net decrease (increase) in other assets | (24,137) | (76,171) |
| Net increase (decrease) in other liabilities | (99,863) | (83,580) |
| Net cash provided by (used) in operating activities | 742,073 | 28,288 |
| Cash flows from investing activities | | |
| Net change in portfolio loans | 2,173,575 | (6,528,521) |
| Purchase of securities | | (352,546) |
| Proceeds from calls or maturities of securities | | 393,699 |
| Principal payments on securities | 50,189 | |
| Purchases of premises and equipment | (119,585) | |
| Net cash provided by (used) in investing activities | 2,104,179 | (6,487,368) |
| Cash flows from financing activities | | |
| Increase in deposits | 7,337,501 | 6,267,016 |
| Net change in short term borrowings | (1,469,095) | |
| Dividend on senior preferred stock | (44,083) | (43,351) |
| Net cash provided by financing activities | 5,824,323 | 6,223,665 |
| (Decrease) increase in cash and cash equivalents | 8,670,575 | (235,415) |
| Cash and cash equivalents beginning of period | 5,366,304 | 7,758,201 |
| Cash and cash equivalents end of period | \$ 14,036,879 | \$ 7,522,786 |
| Supplemental Information: | | |
| Interest paid | \$ 642,745 | \$ 316,907 |
| Income tax paid | | |
| Loans transferred to other real estate | | |

See accompanying notes to consolidated financial statements

Table of Contents

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, 2010.

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 months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ended December 31, 2011.

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

Income Recognition on Small Business Administration Loan Sales On January 28, 2011, the Small Business Administration (SBA) released a notice removing the 90-day warranty, or recourse provision, on the guaranteed portion of SBA 7(a) loans sold at a premium in the secondary market. This change allowed the Corporation to recognize income from SBA loan sales immediately upon settlement rather than waiting for the expiration of the recourse period. The Corporation had been selling the guaranteed portion of SBA loans to outside investors with a provision whereby the Corporation must rebate the premium received on the sale if a loan prepays or defaults within 90 days of the loan origination (the recourse provision.) After the recourse provision expired, the Corporation recognized the outstanding transaction as a sale by decreasing the Corporations loan balance, removing the secured borrowing and recognizing the gain associated with the sale.

Recent Accounting Developments

Accounting Standards Update (ASU) No. 2010-20, Receivables (Topic 310): Disclosure about Credit Quality of Financing Receivables and the Allowance For Credit Losses The objective of this guidance is for an entity to provide disclosures that facilitate the evaluation of the nature of credit risk inherent in the entity s portfolio of financing receivables; how that risk is analyzed and assessed in arriving at the allowance for doubtful accounts and; the changes and reasons for those changes in the allowance for credit losses. To achieve those objectives, disclosures on a disaggregated basis shall be provided on two defined levels: (1) portfolio segment; and (2) class of financing receivable. This guidance makes changes to existing disclosure requirements and includes additional disclosure requirements relating to financing receivables. Short-term accounts receivable, receivables measured at fair value or lower of cost or fair value and debt securities are exempt from this guidance. The guidance pertaining to disclosures as of the end of a reporting period is effective for the Corporation for interim and annual reporting periods on or after December 15, 2010. The guidance pertaining to disclosures about activity that occurs during a reporting period is effective for the Corporation for interim and annual reporting periods beginning on or after December 15, 2010.

Table of Contents**Note 1 Summary of Significant Accounting Policies Continued**

ASU No. 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring* (*TDR*) In April, 2011, FASB issued ASU No. 2011-02, intended to provide additional guidance to assist creditors in determining whether a restructuring of a receivable meets the criteria to be considered a troubled debt restructuring. The amendments in this ASU are effective for the first interim or annual period beginning on or after June 15, 2011, and are to be applied retrospectively to the beginning of the annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired. Early adoption is permitted. The Corporation intends to adopt the methodologies prescribed by this ASU by the date required. Given the recent issuance of this pronouncement, the Corporation is continuing to evaluate the impact of adoption of this ASU.

Note 2 Securities

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

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|------------------------------------|-------------------|------------------------------|-------------------------------|----------------------------|
| March 31, 2011 | | | | |
| U. S. Government agency securities | \$ 1,349 | \$ 10 | \$ | \$ 1,359 |
| Municipal securities | 650 | 5 | | 655 |
| Mortgage backed securities | 790 | 89 | | 879 |
| Corporate bonds | 250 | 8 | | 258 |
| Sub-total available for sale | \$ 3,039 | \$ 112 | \$ | \$ 3,151 |
| FHLB Stock | 160 | | | 160 |
| Total securities | \$ 3,199 | \$ 112 | \$ | \$ 3,311 |
| December 31, 2010 | | | | |
| U. S. Government agency securities | \$ 1,350 | \$ 11 | \$ | \$ 1,361 |
| Municipal securities | 650 | 7 | | 657 |
| Mortgage backed securities | 837 | 91 | | 928 |
| Corporate bonds | 250 | 4 | | 254 |
| Sub-total available for sale | \$ 3,087 | \$ 113 | \$ | \$ 3,200 |
| FHLB Stock | 160 | | | 160 |
| Total Securities | \$ 3,247 | \$ 113 | \$ | \$ 3,360 |

As of March 31, 2011 and December 31, 2010, all securities are classified as available for sale. Unrealized gains and losses within the investment portfolio are determined to be temporary. The Corporation 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 Corporation 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 individual securities with gross unrealized losses at March 31, 2011 and December 31, 2010.

Total securities representing \$1,737,000 and \$1,788,000 as of March 31, 2011 and December 31, 2010 were pledged to secure public deposits from the State of Michigan.

Edgar Filing: Birmingham Bloomfield Bancshares - Form 10-Q

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.

Table of Contents**Note 2 Securities Continued**

The amortized cost and estimated fair value of all securities at March 31, 2011, 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 | \$ 1,200 | \$ 1,202 |
| Due in one year through five years | 1,839 | 1,949 |
| Due in five years through ten years | | |
| Due after ten years | | |
| Total | \$ 3,039 | \$ 3,151 |

Note 3 Loans

A summary of the balances of loans as of March 31, 2011 and December 31, 2010 is as follows (000s omitted):

| | March 31, 2011 | December 31, 2010 |
|---|-------------------|-------------------------|
| Mortgage loans on real estate: | | |
| Residential 1 to 4 family | \$ 3,368 | \$ 3,380 |
| Multifamily | 12,439 | 12,355 |
| Commercial | 47,507 | 49,029 |
| Construction | 3,058 | 2,024 |
| Second mortgage | 117 | 118 |
| Equity lines of credit | 11,730 | 11,794 |
| Total mortgage loans on real estate | 78,219 | 78,700 |
| Commercial loans | 19,258 | 20,776 |
| Consumer installment loans | 811 | 964 |
| Total loans | 98,288 | 100,440 |
| Less: Allowance for loan losses | (1,487) | (1,448) |
| Net deferred loan fees | (83) | (61) |
| Net loans | \$ 96,718 | \$ 98,931 |

Table of Contents**Note 3 Loans Continued**

An analysis of the allowance for loan losses for the year to date period ended March 31, 2011 and December 31, 2010 (000s omitted):

Three months ended March 31, 2011

| Allowance for Loan Losses | Commercial | Home Equity | Residential | Consumer | Total | 2010 Total |
|---|------------|----------------|-------------|----------|-----------|-----------------------|
| Beginning balance | \$ 1,070 | \$ 352 | \$ 14 | \$ 12 | \$ 1,448 | \$ 1,174 |
| Charge-offs | | | | | | (31) |
| Recoveries | | | | | | |
| Provision | 43 | (2) | | (2) | 39 | 112 |
| Ending balance | \$ 1,113 | \$ 350 | \$ 14 | \$ 10 | \$ 1,487 | \$ 1,255 |
| Percent of principal balance | 1.29% | 3.47% | 1.22% | 1.23% | 1.51% | |
| Ending balance: individually evaluated for impairment | \$ 56 | \$ 212 | \$ | \$ | \$ 268 | |
| Ending balance: collectively evaluated for impairment | \$ 1,057 | \$ 138 | \$ 14 | \$ 10 | \$ 1,219 | |
| Portfolio Loans | | | | | | |
| Ending unpaid principal balance | \$ 86,233 | \$ 10,099 | \$ 1,145 | \$ 811 | \$ 98,288 | |
| Ending unpaid principal balance: individually evaluated for impairment | \$ 699 | \$ 888 | \$ | \$ | \$ 1,587 | |
| Ending unpaid principal balance: collectively evaluated for impairment | \$ 85,534 | \$ 9,211 | \$ 1,145 | \$ 811 | \$ 96,701 | |

Year ended December 31, 2010

| Allowance for Loan Losses | Commercial | Home Equity | Residential | Consumer | Total | |
|--|------------|----------------|-------------|----------|------------|--|
| Beginning balance | \$ 991 | \$ 166 | \$ 10 | \$ 7 | \$ 1,174 | |
| Charge-offs | (141) | (225) | | | (366) | |
| Recoveries | 46 | | | | 46 | |
| Provision | 174 | 410 | 4 | 6 | 594 | |
| Ending balance | \$ 1,070 | \$ 351 | \$ 14 | \$ 13 | \$ 1,448 | |
| Percent of principal balance | 1.21% | 3.45% | 1.21% | 1.25% | 1.44% | |
| Ending balance: individually evaluated for impairment | \$ 25 | \$ 212 | \$ | \$ | \$ 237 | |
| Ending balance: collectively evaluated for impairment | \$ 1,045 | \$ 139 | \$ 14 | \$ 13 | \$ 1,211 | |
| Portfolio Loans | | | | | | |
| Ending unpaid principal balance | \$ 88,080 | \$ 10,166 | \$ 1,153 | \$ 1,041 | \$ 100,440 | |

Edgar Filing: Birmingham Bloomfield Bancshares - Form 10-Q

| | | | | | |
|---|-----------|----------|----------|----------|-----------|
| Ending unpaid principal balance: individually evaluated for impairment | \$ 2,107 | \$ 887 | \$ | \$ | \$ 2,994 |
| Ending unpaid principal balance: collectively evaluated for impairment | \$ 85,973 | \$ 9,279 | \$ 1,153 | \$ 1,041 | \$ 97,446 |

10

Table of Contents**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 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 \$1,337,000 to \$12,227,000 at March 31, 2011 from \$10,890,000 at December 31, 2010. The change was the result of an increase totaling \$2,748,000 in special mention loans and a \$1,412,000 decrease in substandard accounts. The majority of the increase is isolated to commercial loans and represents the weakness of the economic environment of our market area. The Bank only has one loan in non-accrual status. This is a home equity credit totaling \$298,000 and is in the process of foreclosure. The loan has been individually evaluated for impairment and a corresponding charge-off has been recorded. There were no loans that were risk rated doubtful or loss at March 31, 2011 or December 31, 2010. 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 March 31, 2011 and December 31, 2010 follows (000s omitted):

March 31, 2011

| Commercial Loans | Commercial Real Estate | Commercial Term | Commercial LOC | Commercial Construction | |
|-------------------------|------------------------------|-------------------------|------------------------|----------------------------|-----------------|
| Credit Quality | | | | | |
| 1 pass | \$ | \$ | \$ | \$ | |
| 2 pass | 388 | | | | |
| 3 pass | 16,814 | 3,753 | 4,775 | | |
| 4 pass | 38,890 | 5,484 | 4,039 | 1,250 | |
| 5 special mention | 3,064 | 3,561 | 910 | 1,808 | |
| 6 substandard | 1,437 | 60 | | | |
| 7 doubtful | | | | | |
| 8 loss | | | | | |
| | \$ 60,593 | \$ 12,858 | \$ 9,724 | \$ 3,058 | |
| Consumer Loans | Home Equity LOC | Residential Mortgage | Home Equity Term | Consumer Installment | Consumer LOC |
| Credit Quality | | | | | |
| Pass | \$ 8,742 | \$ 1,029 | \$ 116 | \$ 387 | \$ 394 |

Edgar Filing: Birmingham Bloomfield Bancshares - Form 10-Q

| | | | | | |
|-----------------|-----------|----------|--------|--------|--------|
| Special mention | 343 | | | | 30 |
| Substandard | 1,014 | | | | |
| Doubtful | | | | | |
| Loss | | | | | |
| | \$ 10,099 | \$ 1,029 | \$ 116 | \$ 417 | \$ 394 |
| | 11 | | | | |

Table of Contents**Note 3 Loans continued**
December 31, 2010

| Commercial Loans | Commercial Real Estate | Commercial Term | Commercial LOC | Commercial Construction | |
|-------------------------|------------------------------|-------------------------|------------------------|----------------------------|-----------------|
| Credit Quality | | | | | |
| 1 pass | \$ | \$ | \$ | \$ | |
| 2 pass | 392 | | | | |
| 3 pass | 16,845 | 3,994 | 4,416 | | |
| 4 pass | 40,348 | 6,265 | 5,071 | 1,250 | |
| 5 special mention | 2,994 | 1,249 | 1,574 | 774 | |
| 6 substandard | 1,441 | 857 | 610 | | |
| 7 doubtful | | | | | |
| 8 - loss | | | | | |
| | \$ 62,020 | \$ 12,365 | \$ 11,671 | \$ 2,024 | |
| Consumer Loans | Home Equity LOC | Residential Mortgage | Home Equity Term | Consumer Installment | Consumer LOC |
| Credit Quality | | | | | |
| Pass | \$ 8,808 | \$ 1,035 | \$ 118 | \$ 335 | \$ 673 |
| Special mention | 344 | | | 33 | |
| Substandard | 1,014 | | | | |
| Doubtful | | | | | |
| Loss | | | | | |
| | \$ 10,166 | \$ 1,035 | \$ 118 | \$ 368 | \$ 673 |

A loan is considered a troubled debt restructure (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 Bank had one loan classified as a TDR at March 31, 2011 and December 31, 2010, which continues to perform.

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

March 31, 2011

| Trouble Debt Restructuring | Number of Contracts | Pre- Modification Investment | Post- Modification Investment |
|-----------------------------------|---------------------------|------------------------------------|-------------------------------------|
| Commercial Real Estate | 1 | \$ 699 | \$ 699 |
| Commercial Term | | | |
| Commercial LOC | | | |
| Construction | | | |
| Home Equity | | | |
| Residential Mortgage | | | |
| Consumer | | | |

December 31, 2010**Trouble Debt Restructuring**

| | | | |
|------------------------|---|-------|-------|
| Commercial Real Estate | 1 | \$699 | \$699 |
| Commercial Term | | | |
| Commercial LOC | | | |
| Construction | | | |
| Home Equity | | | |
| Residential Mortgage | | | |
| Consumer | | | |

Table of Contents**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. Factors 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 March 31, 2011 and December 31, 2010 (000s omitted):

| | Recorded Investment | Unpaid Principal | Allowance | Average Investment | Year to Date Interest Recognized |
|--------------------------------|------------------------|---------------------|-----------|-----------------------|---|
| March 31, 2011 | | | | | |
| <u>Impaired loans</u> | | | | | |
| No related allowance recorded: | | | | | |
| Home Equity Line of Credit | \$ 298 | \$ 298 | \$ | \$ 298 | \$ |
| Allowance recorded: | | | | | |
| Commercial Line of Credit | | | | | |
| Commercial Real Estate | 699 | 699 | 56 | 675 | 4 |
| Home Equity Line of Credit | 590 | 590 | 212 | 378 | 7 |
| Total: | | | | | |
| Commercial | \$ 699 | \$ 699 | \$ 56 | \$ 675 | \$ 4 |
| Home Equity | \$ 888 | \$ 888 | \$212 | \$ 676 | \$ 7 |
| December 31, 2010 | | | | | |
| <u>Impaired loans</u> | | | | | |
| No related allowance recorded: | | | | | |
| Home Equity Line of Credit | \$ 298 | \$ 298 | \$ | \$ 256 | \$ |
| Allowance recorded: | | | | | |
| Commercial Line of Credit | 1,407 | 1,407 | 17 | 1,418 | 99 |
| Commercial Real Estate | 699 | 699 | 8 | 117 | 7 |
| Home Equity Line of Credit | 590 | 590 | 212 | 197 | 10 |
| Total: | | | | | |
| Commercial | \$2,107 | \$2,107 | \$ 25 | \$1,535 | \$ 106 |
| Home Equity | \$ 887 | \$ 887 | \$212 | \$ 453 | \$ 10 |

Table of Contents**Note 3 Loans continued**

As of March 31, 2011 and December 31, 2010, loans totaling approximately \$298,000 were more than 30 days past due. Nonperforming loans, which represents non-accruing loans and loans past due 90 days or more and still accruing interest, were \$298,000 at March 31, 2011 and December 31, 2010. The nonperforming loan at the end of both periods represents one home equity loan currently recorded as non-accrual and in the process of foreclosure. 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 March 31, 2011 and December 31, 2010 follows (000s omitted):

March 31, 2011

| | Loans past due | | | Total Past Due | Current | Total Loans | Non- Accrual | >90 |
|------------------------|----------------|------------|------------|----------------------|-----------|----------------|-----------------|------------------|
| | 30 - 59 | 60 - 90 | Over 90 | | | | | days Accruing |
| Commercial real estate | \$ | \$ | \$ | \$ | \$ 60,593 | \$ 60,593 | \$ | \$ |
| Commercial term | | | | | 12,858 | 12,858 | | |
| Commercial LOC | | | | | 9,724 | 9,724 | | |
| Construction | | | | | 3,058 | 3,058 | | |
| Home equity LOC | | | 298 | 298 | 9,801 | 10,099 | 298 | |
| Residential mortgage | | | | | 1,029 | 1,029 | | |
| Home equity term | | | | | 116 | 116 | | |
| Consumer installment | | | | | 417 | 417 | | |
| Consumer LOC | | | | | 394 | 394 | | |
| | \$ | \$ | \$ 298 | \$ 298 | \$ 97,990 | \$ 98,288 | \$ 298 | \$ |

December 31, 2010

| | Loans past due | | | Total Past Due | Current | Total Loans | Non- Accrual | >90 |
|------------------------|----------------|------------|------------|----------------------|-----------|----------------|-----------------|------------------|
| | 30 - 59 | 60 - 90 | Over 90 | | | | | days Accruing |
| Commercial real estate | \$ | \$ | \$ | \$ | \$ 62,020 | \$ 62,020 | \$ | \$ |
| Commercial term | | | | | 12,365 | 12,365 | | |
| Commercial LOC | | | | | 11,671 | 11,671 | | |
| Construction | | | | | 2,024 | 2,024 | | |
| Home equity LOC | | | 298 | 298 | 9,868 | 10,166 | 298 | |
| Residential mortgage | | | | | 1,035 | 1,035 | | |
| Home equity term | | | | | 118 | 118 | | |
| | | | | | 368 | 368 | | |

Consumer
installment
Consumer LOC

| | | | | | | | |
|----|----|--------|--------|------------|------------|--------|----|
| | | | | 673 | 673 | | |
| \$ | \$ | \$ 298 | \$ 298 | \$ 100,142 | \$ 100,440 | \$ 298 | \$ |

Table of Contents**Note 4 Deposits**

Deposits are summarized as follows (000s omitted):

| | March 31, 2011 | | December 31, 2010 | |
|-------------------------------|----------------|------------|-------------------|------------|
| | Balance | Percentage | Balance | Percentage |
| Noninterest bearing demand | \$ 12,478 | 11.93% | \$ 14,190 | 14.59% |
| NOW accounts | 8,860 | 8.47% | 7,897 | 8.12% |
| Money market | 8,778 | 8.40% | 8,179 | 8.41% |
| Savings | 18,932 | 18.10% | 16,521 | 16.99% |
| Time deposits under \$100,000 | 11,957 | 11.43% | 12,153 | 12.50% |
| Time deposits over \$100,000 | 43,583 | 41.67% | 38,310 | 39.39% |
| Total deposits | \$ 104,588 | 100.0% | \$ 97,250 | 100.0% |

At March 31, 2011, the scheduled maturities of time deposits are as follows (000s omitted):

| | <\$100,000 | >\$100,000 | Total |
|------------|------------|------------|-----------|
| 2011 | \$ 4,277 | \$ 23,260 | \$ 27,537 |
| 2012 | 5,968 | 15,094 | 21,062 |
| 2013 | 976 | 3,242 | 4,218 |
| 2014 | 450 | 1,361 | 1,811 |
| 2015 | 12 | 12 | 12 |
| Thereafter | 274 | 626 | 900 |
| Total | \$ 11,957 | \$ 43,583 | \$ 55,540 |

Note 5 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. The Corporation also entered into a lease agreement for its former branch office in Bloomfield Township which provided for lease payments to begin in March 2006 and expire February 2016. The Bloomfield Township branch office lease was terminated effective January 18, 2010 pursuant to an agreement with the leaseholder. The termination agreement called for a one-time payment of \$110,000 to the leaseholder to end the lease. In October 2010, the Corporation entered into a one year lease agreement for a lending production office (LPO) in Bay City, Michigan. The lease has two, one year renewal options. In March 2011, a new one year lease was signed for additional office space in the building adjacent to the main office at a rate of \$2,800 per month. The lease has two, five year renewal options. Rent expense under these agreements was \$64,100 and \$67,900 for the three month period ended March 31, 2011 and 2010, respectively.

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

| | |
|------------|----------|
| 2011 | \$ 208 |
| 2012 | 243 |
| 2013 | 239 |
| 2014 | 244 |
| 2015 | 249 |
| Thereafter | 2,473 |
| Total | \$ 3,656 |

Table of Contents**Note 6 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.

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.

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 March 31, 2011 and December 31, 2010, are as follows (in thousands):

| | March 31, 2011 | | December 31, 2010 | |
|-------------------------------|----------------|----------------------|-------------------|----------------------|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Financial assets: | | | | |
| Cash and cash equivalents | \$ 14,037 | \$ 14,037 | \$ 5,366 | \$ 5,366 |
| Securities available for sale | 3,311 | 3,311 | 3,360 | 3,360 |
| Loans | 96,718 | 97,407 | 98,931 | 99,786 |
| Loans held for sale | | | 323 | 323 |
| Accrued interest receivable | 432 | 432 | 440 | 440 |
| Financial liabilities: | | | | |
| Deposits | 104,588 | 104,913 | 97,250 | 97,688 |
| Secured borrowings | | | 1,469 | 1,469 |
| Accrued interest payable | 125 | 125 | 115 | 115 |
| | 16 | | | |

Table of Contents**Note 7 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 March 31, 2011 and December 31, 2010 (000s omitted):

| | Level 1 | Level 2 | Level 3 | Fair Value |
|-------------------------------|---------|----------|---------|------------|
| March 31, 2011 | | | | |
| U.S. government agency | \$ | \$ 1,359 | \$ | \$ 1,359 |
| Municipal securities | | 655 | | 655 |
| Mortgage backed securities | | 879 | | 879 |
| Corporate bonds | | 258 | | 258 |
| Securities available for sale | \$ | \$ 3,151 | \$ | \$ 3,151 |
| December 31, 2010 | | | | |
| U.S. government agency | \$ | \$ 1,361 | \$ | \$ 1,361 |
| Municipal securities | | 657 | | 657 |

Edgar Filing: Birmingham Bloomfield Bancshares - Form 10-Q

| | | | | |
|-------------------------------|----|----------|----|----------|
| Mortgage backed securities | | 928 | | 928 |
| Corporate bonds | | 254 | | 254 |
| Securities available for sale | \$ | \$ 3,200 | \$ | \$ 3,200 |

Table of Contents**Note 7 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.

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 March 31, 2010 (000s omitted):

| | Balance | Level 1 | Level 2 | Level 3 | Losses |
|-----------------------|----------|------------|------------|----------|--------|
| March 31, 2011 | | | | | |
| Impaired Loans | \$ 1,587 | \$ | \$ | \$ 1,587 | \$ 200 |

Table of Contents**Note 8 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 well-capitalized as of March 31, 2011. At March 31, 2011, 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 March 31, 2011 and December 31, 2010 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 March 31, 2011 | | | | | | |
| Total risk-based capital (to risk weighted assets) Bank of Birmingham | \$10,818 | 11.3% | \$7,638 | 8.0% | \$9,548 | 10.0% |
| Tier I capital (to risk weighted assets) Bank of Birmingham | \$ 9,621 | 10.1% | \$3,819 | 4.0% | \$5,729 | 6.0% |
| Tier I capital (to average assets) Bank of Birmingham | \$ 9,621 | 8.3% | \$4,618 | 4.0% | \$5,772 | 5.0% |
| As of December 31, 2010 | | | | | | |
| Total risk-based capital (to risk weighted assets) Bank of Birmingham | \$10,344 | 10.6% | \$7,834 | 8.0% | \$9,792 | 10.0% |
| Tier I capital (to risk weighted assets) Bank of Birmingham | \$ 9,117 | 9.3% | \$3,917 | 4.0% | \$5,875 | 6.0% |
| Tier I capital (to average assets) Bank of Birmingham | \$ 9,117 | 8.1% | \$4,477 | 4.0% | \$5,597 | 5.0% |

Table of Contents

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.

Table of Contents

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 Bank also operated a branch office at 4145 West Maple Road in Bloomfield Township, MI, which was unprofitable and closed on January 18, 2010. 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. The office lease related to the closed Bloomfield Township branch commenced in March 2006 and was terminated effective January 18, 2010 by an agreement with the leaseholder executed in October of 2009. See Note 5 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 offering those that will be of benefit to our customers and the Bank.

FINANCIAL CONDITION

The Corporation reported net income of \$414,000 or \$0.23 per share of common stock for the first quarter of 2011, compared to a net loss of \$18,000 or \$0.01 per share for the first quarter of 2010. The results were positively impacted by improved net interest margin, lower provision for loan loss expense and significant non-interest income production. Basic and diluted earnings (loss) per share for the three months ended March 31, 2011 and 2010 were \$0.23 and (\$0.01) per share, respectively.

The Corporation continues to experience quality growth as total assets reached \$116,521,000 as of March 31, 2011 an increase of \$6,186,000 from December 31, 2010. The increase from December 31, 2010 is the direct result of growth in deposit balances.

Cash and Cash Equivalents

Cash and cash equivalents increased \$8,737,000, or 164.8%, to \$14,037,000 at March 31, 2011. The increase was primarily the result of deposit growth combined with proceeds from SBA loan sales.

Table of Contents**Investments**

Total investments were relatively unchanged during the three month period ended March 31, 2011. There were no purchases, calls or sales during the current period. The Corporation held no held-to-maturity securities as of March 31, 2011 or December 31, 2010. 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 summarizes the portfolio by type at March 31, 2011 and December 31, 2010 (000s omitted):

| | March 31, 2011 | | December 31, 2010 | | Change |
|-----------------------------------|-------------------|--------|----------------------|--------|---------|
| U.S. Government agency securities | \$ 1,359 | 41.1% | \$ 1,361 | 40.4% | \$ (2) |
| Municipal securities | 655 | 19.8% | 657 | 19.6% | (2) |
| Mortgage backed securities | 879 | 26.5% | 928 | 27.6% | (49) |
| Corporate bonds | 258 | 7.8% | 254 | 7.6% | 4 |
| Sub-total available for sale | 3,151 | 95.2% | 3,200 | 95.2% | (49) |
| FHLBI Stock | 160 | 4.8% | 160 | 4.8% | |
| Total securities | \$ 3,311 | 100.0% | \$ 3,360 | 100.0% | \$ (49) |

Loans, Credit Quality and Allowance for Loan Losses

The following table summarizes the mix of the Corporation's loan portfolio at March 31, 2011 and December 31, 2010 (000s omitted):

| | March 31, 2011 | December 31, 2010 | Change |
|------------------------------|-------------------|-------------------------|------------|
| Real estate mortgage | \$ 75,161 | \$ 76,676 | \$ (1,515) |
| Construction | 3,058 | 2,024 | 1,034 |
| Commercial and industrial | 19,258 | 20,776 | (1,518) |
| Consumer installment | 811 | 964 | (153) |
| Deferred loan fees and costs | (83) | (61) | (22) |
| Total loans | \$ 98,205 | \$ 100,379 | \$ (2,174) |

Total portfolio loans decreased \$2,174,000 or 2.2%, to \$98,205,000 at March 31, 2011. The categories with the largest dollar decrease were commercial and industrial and real estate mortgage which decreased \$1,518,000, or 7.3%, and \$1,515,000, or 2.0%, respectively. The reductions were the direct result of sales of SBA 504 and 7(a) products, loan maturities and principal reductions. Construction loans increased by \$1,034,000, or 51.1%, to \$3,058,000.

Management expects loan growth in 2011, with an emphasis on diversifying the portfolio to reduce concentrations. The allowance for loan losses increased by \$39,000 to \$1,487,000, or 1.51% of portfolio loans, at March 31, 2011. The increase was driven by additional specific reserve on one commercial loan. There were no charge-offs during the three months ended March 31, 2011 while charge-offs totaled \$341,000 for the three month period ended March 31, 2010. There were no recoveries in the current quarter, while recoveries for the three months ended March 31, 2010 totaled \$46,000. Nonperforming loans, which consist of non-accruing loans and loans past due 90 days or more and still accruing interest, were \$298,000 at March 31, 2011 and December 31, 2010.

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

Table of Contents

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.

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 \$1,435,000 as of March 31, 2011 up from \$1,360,000 as of December 31, 2010. The Corporation continues to support further growth of business lines, such as mortgage lending with investments in operating facilities and technology.

Deposits and Short-term Financing

Total deposits increased \$7,338,000, or 7.5%, to \$104,588,000 at March 31, 2011. The categories experiencing the largest increase were NOW accounts, savings accounts and time deposit accounts greater than \$100,000. Now account balances increased \$963,000 during the period. The increase was a result of focused business development efforts and improving the acquisition of deposit relationships associated with current loan customers. Savings account balances increased \$2,411,000 during the quarter as customers were willing to sacrifice yield to maintain balances in more liquid accounts. Time deposits greater than \$100,000 increased \$5,273,000 during the year and represents the largest single source of funding for the Bank. The increase is attributable to special rate promotions and selective participation in an on-line marketing service which facilitates deposit acquisition in the wholesale CD market. The Bank does not hold any brokered deposits.

| | As of March 31, 2011 | | As of December 31, 2010 | |
|-----------------------------|----------------------|------------|-------------------------|------------|
| | Balance | Percentage | Balance | Percentage |
| Non-interest bearing demand | \$ 12,478 | 11.93% | \$ 14,190 | 14.59% |
| NOW accounts | 8,860 | 8.47% | 7,897 | 8.12% |
| Money market | 8,778 | 8.40% | 8,179 | 8.41% |
| Savings | 18,932 | 18.10% | 16,521 | 16.99% |
| Time deposits < \$100,000 | 11,957 | 11.43% | 12,153 | 12.50% |
| Time deposits >\$100,000 | 43,583 | 41.67% | 38,310 | 39.39% |
| Total deposits | \$ 104,588 | 100.00% | \$ 97,250 | 100.00% |

At March 31, 2011, the Bank had no secured borrowings outstanding while the balance was \$1,469,000 at December 31, 2010. The balance in this category at December 31, 2010 represents the secured liability associated with the sale of two SBA loans in fourth quarter of 2010. Based on existing accounting guidelines and sale structure of the transaction, the Bank was required to recognize a secured liability on the sale of the guaranteed portion of SBA loans until the redemption period expired. The redemption period term was 90 days. The Bank did not utilize discount window or FHLB advances during the first quarter of 2011.

Table of Contents**RESULTS OF OPERATIONS**

The Corporation reported net income of \$414,000 or \$0.23 per share of common stock for the first quarter of 2011, an increase of \$432,000 compared to the same period of 2010. This represents an annualized Return on Average Assets

ROA before preferred dividends of 1.62% compared to a 0.12% ROA for the same period last year. The improved operating results are attributable to an increase in operating revenue and lower loan loss provision expense. Operating revenue consists of net interest margin and non-interest income. Net interest margin for the current period increased to 4.49% relative to the 4.06% reported for the quarter ended March 31, 2010. The increase is the result of improved loan yields and lower deposit rates. During the first quarter of 2011, the Corporation generated \$325,000 in non-interest income, an increase of \$308,000 over the prior year. Non-interest income increased as the Corporation was successful in selling SBA loans at a gain and received broker fees for originating residential mortgages. Provision expense declined \$73,000 during the current quarter relative to the same period of 2010, however total non-interest expenses increased \$249,000 as the Corporation added personnel and made investments in new business opportunities.

The following table present trends in selected financial data for the five most recent quarters:

| | March 31, 2011 | December 31, 2010 | Quarter Ended September 30, 2010 | June 30, 2010 | March 31, 2010 |
|---|-------------------|-------------------------|---|------------------|-------------------|
| Income Statement | | | | | |
| Interest Income | \$ 1,588 | \$ 1,554 | \$ 1,506 | \$ 1,418 | \$ 1,273 |
| Interest Expense | 329 | 327 | 337 | 352 | 324 |
| Net Interest Income | 1,259 | 1,226 | 1,170 | 1,067 | 949 |
| Provision for loan loss | 39 | 49 | 256 | 177 | 112 |
| Non-interest income | 325 | 37 | 24 | 37 | 27 |
| Non-interest expense | 1,083 | 1,046 | 840 | 792 | 834 |
| Income (loss) before Income Taxes | 462 | 169 | 98 | 135 | 29 |
| Income tax expense | | | | | |
| Net Income (Loss) | 462 | 169 | 98 | 135 | 29 |
| Dividend and accretion on preferred stock | 48 | 48 | 48 | 49 | 47 |
| Net Income (Loss) applicable to common | \$ 414 | \$ 121 | \$ 50 | \$ 85 | \$ (18) |
| Income (loss) per share basic & diluted | \$ 0.23 | \$ 0.07 | \$ 0.03 | \$ 0.05 | \$ (0.01) |
| Performance Measurements | | | | | |
| Net interest margin (tax equivalent) | 4.49% | 4.69% | 4.41% | 4.13% | 4.06% |
| Return on average assets (annualized) (1) | 1.62% | 0.60% | 0.35% | 0.50% | 0.12% |
| | 24.26% | 8.89% | 5.21% | 7.32% | 1.62% |

Edgar Filing: Birmingham Bloomfield Bancshares - Form 10-Q

| | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|
| Return on average common equity (annualized) (1) | | | | | |
| Efficiency ratio | 68.36% | 82.78% | 70.39% | 71.78% | 85.48% |
| Tier 1 Leverage Ratio (Bank only) | 8.33% | 8.15% | 8.20% | 8.50% | 8.80% |
| Equity / Assets | 9.79% | 9.96% | 9.80% | 10.80% | 10.85% |
| Total loans / Total deposits | 93.9% | 103.2% | 94.3% | 90.7% | 98.2% |
| Book value per share | \$ 4.44 | \$ 4.21 | \$ 4.16 | \$ 4.12 | \$ 4.07 |
| Income (loss) per share basic & diluted | \$ 0.23 | \$ 0.07 | \$ 0.03 | \$ 0.05 | \$ (0.01) |
| Shares outstanding | 1,800,000 | 1,800,000 | 1,800,000 | 1,800,000 | 1,800,000 |

(1) Amount is computed on net income before preferred dividends.

Table of Contents**Net Interest Income**

Net interest income for the period ended March 31, 2011 totaled \$1,260,000, an increase of 32.8% compared to the same period in the prior year. The increase was a result of earning assets growth, loan yield improvement and a reduction in total funding costs. The earning asset growth was concentrated in loan volume, providing the largest benefit to interest income. The loan growth was due to market opportunities resulting from less competition and focused business development efforts. Total average interest bearing deposit accounts increased \$12,965,000 in the first quarter of 2011 over the first quarter of 2010 but total deposit related interest expenses only increased \$4,000. The lower cost of funds was achieved by a change in pricing strategy to be more competitive in the local market and the decision by the Federal Reserve to maintain rates at historic lows.

The Corporation's net interest margin increased 43 basis points to 4.49% for the period ended March 31, 2011 compared to 4.06% for the same period in 2010, while spread increased 41 basis points over the same period. The increase in both spread and net interest margin was attributable to a decrease in the cost of funds and improvement in loan yields. The yield on loans increased to 6.17% for the period ended March 31, 2011 and total funding costs decreased to 1.48% for the same period. The cost of funds decreased due to a reduction in the rate on Time Deposits. This was achieved by participating in an online marketplace to generate deposits at attractive rates.

The following table presents the Corporation's consolidated average balances of interest-earning assets, interest-bearing liabilities, and the amount of interest income or interest expense attributable to each category, the average yield or rate for each category, and the net interest margin for the period ended March 31, 2011, and 2010 (000s omitted). Average loans are presented net of unearned income and the allowance for loan and lease losses. Interest on loans includes loan fees.

| | Three Months Ended March 31, | | | | | |
|---|------------------------------|------------------|--------------|--------------------|------------------|--------------|
| | 2011 | | | 2010 | | |
| | Average Balance | Interest | Yield/Rate | Average Balance | Interest | Yield/Rate |
| Interest-earning assets: | | | | | | |
| Loans receivable | \$ 100,976 | \$ 1,555,809 | 6.17% | \$ 80,923 | \$ 1,232,139 | 6.09% |
| Securities available for sale | 3,389 | 27,911 | 3.41% | 3,837 | 34,699 | 3.62% |
| Federal funds sold | 40 | 13 | 0.13% | 2,825 | 729 | 0.10% |
| Interest-bearing balances with other financial institutions | 9,529 | 4,618 | 0.20% | 7,004 | 5,605 | 0.32% |
| Total interest-earning assets | 113,934 | 1,588,351 | 5.59% | 94,589 | 1,273,172 | 5.38% |
| Noninterest-earning assets: | | | | | | |
| Cash and due from banks | 642 | | | 1,598 | | |
| All other assets | 858 | | | 1,333 | | |
| Total Assets | \$ 115,435 | | | \$ 97,520 | | |
| Interest-bearing liabilities: | | | | | | |
| NOW accounts | \$ 8,274 | \$ 6,411 | 0.31% | \$ 7,912 | \$ 10,572 | 0.53% |
| Money market | 8,231 | 11,262 | 0.55% | 8,137 | 13,343 | 0.66% |
| Savings | 17,670 | 31,425 | 0.72% | 13,498 | 40,606 | 1.20% |

Edgar Filing: Birmingham Bloomfield Bancshares - Form 10-Q

| | | | | | | |
|--|-------------------|---------------------|--------------|------------------|-------------------|--------------|
| Time deposits | 54,191 | 264,957 | 1.96% | 47,248 | 259,725 | 2.20% |
| Short-term borrowing | 1,394 | 14,509 | 4.22% | | | % |
| Total interest-bearing liabilities: | \$ 89,760 | \$ 328,564 | 1.48% | \$ 76,795 | 324,246 | 1.69% |
| Non-interest bearing demand deposits | 13,844 | | | 9,554 | | |
| All other liabilities | 691 | | | 448 | | |
| Total liabilities | 104,295 | | | 86,734 | | |
| Shareholders Equity | 11,140 | | | 10,723 | | |
| Total liabilities and shareholders equity | \$ 115,435 | | | \$ 97,520 | | |
| | | | | | | |
| Net Interest Income | | \$ 1,259,787 | | | \$ 948,926 | |
| Net spread | | | 4.11% | | | 3.70% |
| Net Interest Margin(1) | | | 4.49% | | | 4.06% |

(1) Net interest earnings divided by average interest-earning assets.

Table of Contents**Provision for Loans Losses**

The provision for loan losses was \$39,000 and \$112,400 for the three months ended March 31, 2011 and 2010, respectively. The decrease from the previous comparable period in provision for loan losses was due to reduced portfolio loan growth. The Corporation did not experience any charge offs or recoveries during the current period and charged-off one loan totaling \$31,000 during the three months ended March 31, 2010.

Non-Interest Income

Non-interest income was \$325,000 and \$27,000 for the three months ended March 31, 2011 and 2010, respectively. The growth in non-interest income was the result of an increase in service charges on deposit accounts, gain on sale of mortgage loans and other income activity. Service charges increased \$2,000 in 2011 relative to 2010 as the volume of deposit accounts increased generating additional revenue. Other non-interest income increased by \$285,000 during 2011 as the Corporation sold SBA loans at a premium. The Corporation also established a residential mortgage operation in fall of 2010 and recognized fee income on the sale of residential mortgage loans during the current quarter. The following table presents the Corporation's non-interest income for the three month period ending March 31, 2011 and 2010:

| | March 31, 2011 | March 31, 2010 | Change |
|-----------------------------|-------------------|----------------------|------------|
| Non-interest income | | | |
| Service charge income | \$ 11,572 | \$ 9,635 | \$ 1,937 |
| Mortgage banking activities | 11,439 | | 11,439 |
| Other income | 302,098 | 17,388 | 284,710 |
| Total non-interest income | \$ 325,109 | \$ 27,023 | \$ 298,086 |

Non-Interest Expense

Non-interest expense for the three months ended March 31, 2011 and 2010 was \$1,083,000 and \$834,000 respectively. Salaries and benefits continued to be the largest component of non-interest expense. Salaries and benefits increased \$181,400, or 45.3%, to \$582,000 for the quarter ended March 31, 2011 up from \$401,000 for the same period of 2010. The increase is due to adding staff in the current quarter to accommodate growth. Occupancy and equipment expenses remained flat. Data processing expenses were \$49,000 for the three month period ended March 31, 2011, down \$7,000 from \$56,000 in same period in 2010. Reductions in data processing are related to additional costs incurred in 2010 when the Corporation changed service providers. Advertising expenses increased \$29,000 to \$36,000 for the three months ended March 31, 2011 compared to \$7,000 in 2010. The increase was the result of implementing new advertising programs in 2011 to support new business initiatives and deposit growth. Professional fees were up \$43,000, or 63.5%, to \$112,000 for the three months ended March 31, 2011 compared to \$68,000 for the same period in 2010. For the current quarter end, the Corporation recognized \$41,000 for external and internal audit expenses, \$13,000 for legal fees and \$57,000 for other consulting costs including director fees and compliance related consulting. Other expenses increased to \$151,000 for the three months ended March 31, 2011 compared to \$145,000 for the same period in 2010. The following table presents the Corporation's non-interest expense for the three month period ending March 31, 2011 and 2010:

| | March 31, 2011 | March 31, 2010 | Change |
|--------------------------------|-------------------|-------------------|------------|
| Non-interest expense | | | |
| Salaries and employee benefits | \$ 582,017 | \$ 400,624 | \$ 181,393 |
| Occupancy expense | 118,102 | 118,634 | (532) |
| Equipment expense | 35,400 | 35,577 | (177) |
| Advertising | 36,046 | 5,280 | 30,766 |
| Data processing | 49,013 | 55,550 | (6,537) |
| Professional fees | 111,524 | 68,211 | 43,313 |
| Other expense | 151,314 | 150,328 | 986 |

| | | | |
|----------------------------|--------------|------------|------------|
| Total non-interest expense | \$ 1,083,416 | \$ 834,204 | \$ 249,212 |
|----------------------------|--------------|------------|------------|

Income Taxes

No income tax expense or benefit was recognized during the three month period ended March 31, 2011 or 2010 due to the tax loss carry-forward position of the Corporation. An income tax benefit may be booked in future periods when management believes that profitability will be expected for the foreseeable future.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES; ASSET/LIABILITY MANAGEMENT**

The management team has responsibility for developing and recommending liquidity and risk management policies including but not limited to the determination of internal operating guidelines, contingency plans, change management and pricing to the Asset/Liability Committee (ALCO) of the Board of Directors. Management ensures that the liquidity of a bank allows it to provide funds to meet its cash flow needs, such as loan requests, outflows of deposits, other investment opportunities and general operating requirements, under multiple operating scenarios. While the current structure of the Corporation and the Bank are not complex, the objective in the management of liquidity and capital resources is to be able to take advantage of business opportunities that may arise. The major sources of liquidity for the Bank have been deposit growth, federal funds sold, and loans which mature within one year. The Bank is also a member of the Federal Home Loan Bank of Indianapolis and has access to funding from the discount window at the Federal Reserve Bank of Chicago. The ALCO committee has also approved alternate funding sources to add flexibility. Large deposit balances which might fluctuate in response to interest rate changes are closely monitored. These deposits consist mainly of certificates of deposit over \$100,000. We anticipate that we will have more than sufficient funds available to meet our future commitments. As of March 31, 2011, off balance sheet loan commitments totaled \$23,179,000. As a majority of the unused commitments represent commercial and equity lines of credit, the Bank expects, and experience has shown that only a small portion of the unused commitments will normally be drawn upon.

The following table presents loan commitments by time period as of March 31, 2011 (000s omitted):

| | Total | Amount of commitment expiration by period | | | |
|--|------------------|--|------------------|------------------|--------------------------|
| | | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| Commitments to grant loans | \$ 7,789 | \$ 7,789 | \$ | \$ | \$ |
| Unfunded commitments under lines of credit | 14,587 | 10,191 | 846 | 1,107 | 2,443 |
| Commercial and standby letters of credit | 803 | 803 | | | |
| Total commitments | \$ 23,179 | \$ 18,783 | \$ 846 | \$ 1,107 | \$ 2,443 |

Commitments to grant loans are governed by the Corporation's credit underwriting standards, as established in the Corporation's Loan Policy. As the above schedule illustrates, in general, it is the Corporation's practice to grant loan commitments for a finite period of time, usually lasting one year or less. The most significant departure from this practice involves home equity lines of credit (HELOCs). The Corporation's equity lines have a contractual draw period exceeding 5 years. The Corporation has the ability to suspend the draw privileges on a HELOC where a default situation or other impairment issue is identified.

The largest sources of cash and cash equivalents for the Corporation for the three months ended March 31, 2011, as noted in the Consolidated Statement of Cash Flows, were primarily loan sales and deposit origination. The uses of cash in investing activities were largely due to the replacement of matured securities.

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 five classifications, well capitalized, adequately capitalized, undercapitalized, significantly 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 well-capitalized as of

March 31, 2011. Note 8 to the financial statements is hereby incorporated by reference. At March 31, 2011, the Corporation qualifies for an exemption from regulatory capital requirements due to its asset size.

Managing rates on earning assets and interest bearing liabilities focuses on maintaining stability in the net interest margin, an important factor in earnings growth and stability. Emphasis is placed on maintaining a controlled rate sensitivity position to avoid wide swings in margins and to manage risk due to changes in interest rates. Some of the major areas of focus of the Corporation's Asset Liability Committee (ALCO) incorporate the following overview functions: review the interest rate risk sensitivity of the Bank to measure the impact of changing interest rates on the Bank's net interest income, review the liquidity

Table of Contents

position through various measurements, review current and projected economic conditions and the corresponding impact on the Bank, ensure that capital and adequacy of the allowance for loan losses are maintained at proper levels to sustain growth, monitor the investment portfolio, recommend policies and strategies to the Board that incorporate a better balance of our interest rate risk, liquidity, balance sheet mix and yield management, and review the current balance sheet mix and proactively determine the future product mix.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Corporation's primary market risk exposure is interest rate risk and liquidity risk. All of the Corporation's transactions are denominated in U.S. dollars with no specific foreign exchange exposure. Any impacts that changes in foreign exchange rates would have on interest rates are assumed to be insignificant.

Interest rate risk (IRR) is the exposure of a banking organization's financial condition to adverse movements in interest rates. Accepting this risk can be an important source of profitability and shareholder value; however, excessive levels of IRR could pose a significant threat to our earnings and capital base. Accordingly, effective risk management that maintains IRR at prudent levels is essential to the Corporation's safety and soundness. The Board of Directors has instituted a policy setting limits on the amount of interest rate risk that may be assumed. Management provides information to the Board of Directors on a quarterly basis detailing interest rate risk estimates and activities to control such risk.

Evaluating a financial institution's exposure to changes in interest rates includes assessing both the adequacy of the management process used to control IRR and the organization's quantitative level of exposure. When assessing the IRR management process, the Corporation seeks to ensure that appropriate policies, procedures, management information systems and internal controls are in place to maintain IRR at prudent levels with consistency and continuity. Evaluating the quantitative level of IRR exposure requires the Corporation to assess the existing and potential future effects of changes in interest rates on its consolidated financial condition, including capital adequacy, earnings, liquidity, and, where appropriate, asset quality. This detailed analysis is performed on a quarterly basis, but is managed daily. The Bank continues to be in a liability sensitive position and management continues to work toward creating a more closely matched portfolio to minimize any potential impact that changing rates could have on earnings in the short term. The institution is well positioned to minimize the impact of rate changes, with the rate shock analysis showing that over the long term, rate changes pose only a minimal risk to our economic value of equity (EVE ratio).

The Corporation has not experienced a material change in its financial instruments that are sensitive to changes in interest rates since December 31, 2010, which information can be located in the Corporation's annual report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

As of March 31, 2011, we conducted an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures, as such term is defined under Exchange Act Rules 13a-15(e) and 15d-15(e).

Based on this evaluation, the Corporation's chief executive officer and chief financial officer concluded that, as of March 31, 2011, such disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and accumulated and communicated to the Corporation's management, including the Corporation's chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, the Corporation's management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and in reaching a reasonable level of assurance. The Corporation's management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

There were no changes in the Corporation's internal controls over financial reporting during the period ended March 31, 2011 that materially affected, or are reasonably likely to materially affect, the Corporation's internal

controls over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

There are no known pending legal proceedings to which the Corporation or the Bank is a party or to which any of its properties are subject; nor are there material proceedings known to the Corporation, in which any director, officer or affiliate or any principal shareholder is a party or has an interest adverse to the Corporation or the Bank.

ITEM 1A. RISK FACTORS.

This item is not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

This item is not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

This item is not applicable.

ITEM 4. [RESERVED].

ITEM 5. OTHER INFORMATION.

This item is not applicable.

Table of Contents

ITEM 6. EXHIBITS.

| Exhibit Number | Description of Exhibit |
|-----------------------|---|
| 31.1 | Rule 13a-14(a) Certification of Chief Executive Officer. |
| 31.2 | Rule 13a-14(a) Certification of Chief Financial Officer. |
| 32.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BIRMINGHAM BLOOMFIELD
BANCSHARES, INC.

Date: May 13, 2011

By: /s/ Robert E. Farr
Robert E. Farr
Chief Executive Officer

Date: May 13, 2011

By: /s/ Thomas H. Dorr
Thomas H. Dorr
Chief Financial Officer

31

Table of Contents

EXHIBIT INDEX

| Exhibit Number | Description of Exhibit |
|-----------------------|---|
| 31.1 | Certification pursuant to Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act |
| 31.2 | Certification pursuant to Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act |
| 32.1 | Certification pursuant to Rules 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act and 18 U.S.C. §1350 |