

Birmingham Bloomfield Bancshares

Form 10-Q

November 13, 2008

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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 September 30, 2008  
Commission File Number 000-52584  
BIRMINGHAM BLOOMFIELD BANCSHARES, INC.  
(Exact name of registrant as specified in its charter)**

**Michigan**

**20-1132959**

(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 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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a 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 November 13, 2008, was 1,800,000 shares.

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CONSOLIDATED BALANCE SHEETS**

	September 30, 2008 (unaudited)	December 31, 2007
<b>Assets</b>		
Cash and cash equivalents		
Cash	\$ 1,418,051	\$ 1,265,119
Federal funds sold	1,000,538	3,874,007
Total cash and cash equivalents	2,418,589	5,139,126
Securities, available for sale (Note 3)	4,318,260	2,595,930
Loans (Note 4)		
Total loans	55,869,077	37,106,976
Less: allowance for loan losses	(700,000)	(560,000)
Net loans	55,169,077	36,546,976
Premises & equipment (Note 6)	2,310,977	2,519,701
Interest receivable and other assets	365,691	458,157
Total assets	\$ 64,582,594	\$ 47,259,890
<b>Liabilities and Shareholders Equity</b>		
Deposits (Note 5)		
Non-interest bearing	\$ 6,058,301	\$ 5,385,200
Interest bearing	48,741,296	30,877,148
Total deposits	54,799,597	36,262,348
Interest payable and other liabilities	291,444	237,903
Total liabilities	55,091,041	36,500,251
Shareholders equity		
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 share based payments	462,000	462,000
Accumulated deficit	(8,057,036)	(6,799,150)
Accumulated other comprehensive income	52,259	62,459

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Total shareholders' equity	9,491,553	10,759,639
Total liabilities and shareholders' equity	\$ 64,582,594	\$ 47,259,890

See accompanying notes to consolidated financial statements

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**BIRMINGHAM BLOOMFIELD BANCSHARES, INC**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Interest income				
Loans, including fees	\$ 817,556	\$ 470,794	\$ 2,196,208	\$ 1,068,700
Taxable securities	42,176	60,895	97,811	69,793
Federal funds sold	23,711	179,689	113,841	553,001
Total interest income	883,443	711,378	2,407,860	1,691,494
Interest expense				
Deposits	351,789	330,104	1,005,217	774,211
Total interest expense	351,789	330,104	1,005,217	774,211
Net interest income	531,654	381,274	1,402,643	917,283
Provision for loan losses	109,146	155,000	253,811	275,000
Net interest income after provision for loan losses	422,508	226,274	1,148,832	642,283
Non-interest income				
Loan fees and charges	3,198	8,729	15,027	54,842
Deposit fees and charges	15,492	12,771	53,307	33,929
Other income	16,224	6,634	28,141	5,687
Total non-interest income	34,914	28,134	96,475	94,458
Non-interest expense				
Salaries and benefits	301,753	450,171	1,163,357	1,345,933
Occupancy & equipment expense	198,158	205,659	616,402	663,212
FAS 123R share based payments	(21,000)	28,000		28,000
Data processing expense	47,973	40,822	135,068	133,972
Advertising and public relations	10,110	34,293	69,721	164,391
Professional fees	65,955	57,680	225,737	183,091
Printing and office supplies	5,384	9,543	19,510	32,747
Other expense	83,666	90,349	273,398	244,267
Total non-interest expense	691,999	916,517	2,503,193	2,795,613
Net loss before taxes	(234,577)	(662,109)	(1,257,886)	(2,058,872)

Income taxes

Net loss	\$ (234,577)	\$ (662,109)	\$ (1,257,886)	\$ (2,058,872)
Basic loss per share	\$ (0.13)	\$ (0.37)	\$ (0.70)	\$ (1.14)
Diluted loss per share	\$ (0.13)	\$ (0.37)	\$ (0.70)	\$ (1.14)

See accompanying notes to consolidated financial statements

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**BIRMINGHAM BLOOMFIELD BANCSHARES, INC**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY**  
**January 1, 2008 to September 30, 2008**  
**(Unaudited)**

	Common Stock	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2008	\$ 17,034,330	\$ 462,000	\$ (6,799,150)	\$ 62,459	\$ 10,759,639
Comprehensive loss:					
Net loss			(1,257,886)		(1,257,886)
Change in unrealized gain (loss) on securities				(10,200)	(10,200)
Total comprehensive loss					(1,268,086)
Balance at September 30, 2008	\$ 17,034,330	\$ 462,000	\$ (8,057,036)	\$ 52,259	\$ 9,491,553

See accompanying notes to consolidated financial statements

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**BIRMINGHAM BLOOMFIELD BANCSHARES, INC**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	For the Nine Months Ended September 30,	
	2008	2007
Cash flows from operating activities		
Net loss	\$ (1,257,886)	\$ (2,058,872)
Share based payments expense		28,000
Provision for loan losses	253,811	275,000
Accretion of securities	(20,821)	(12,067)
Gain on calls of securities	(19,270)	
Depreciation expense	234,000	284,700
Loss on disposal of equipment		36,216
Net decrease (increase) in other assets	92,466	(191,739)
Net increase in other liabilities	53,541	408,717
Net cash used in operating activities	(664,159)	(1,230,045)
Cash flows from investing activities		
Increase in loans	(18,875,912)	(18,168,408)
Purchase of securities	(2,978,241)	(6,042,501)
Proceeds from sales, calls or maturities of securities	1,285,802	165,347
Purchases of premises and equipment	(25,276)	(743,862)
Proceeds from reimbursement of leasehold improvements		144,500
Net cash used in investing activities	(20,593,627)	(24,644,924)
Cash flows from financing activities		
Increase in deposits	18,537,249	27,487,428
Net cash provided by financing activities	18,537,249	27,487,428
(Decrease) increase in cash and cash equivalents	(2,720,537)	1,612,459
Cash and cash equivalents at the beginning of the period	5,139,126	8,551,001
Cash and cash equivalents at the end of the period	\$ 2,418,589	\$ 10,163,460
Supplemental cash flow information:		
Cash paid for interest:	\$ 882,655	\$ 733,550
See accompanying notes to consolidated financial statements		

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**BIRMINGHAM BLOOMFIELD BANCSHARES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**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-KSB for the year ended December 31, 2007.

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 nine month periods ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ended December 31, 2008.

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.

**Recent Accounting Developments**

*Establishing Standards on Measuring Fair Value*

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. GAAP, and expands disclosures about fair value measurements. The Statement clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The statement emphasizes that fair value is a market-based measurement and not an entity-specific measurement. It also establishes a fair value hierarchy used in fair value measurements and expands the required disclosures of assets and liabilities measured at fair value. The Corporation adopted SFAS 157 as of January 1, 2008. See Note 2, Fair Value Accounting for further information.

*The Fair Value Option for Financial Assets and Financial Liabilities*

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 permits entities to choose to measure financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The decision to elect the fair value option may be applied instrument by instrument, is irrevocable and is applied to the entire instrument and not only specific risks, specific cash flows or portions of that instrument. Adoption of SFAS 159 was effective for the Corporation on January 1, 2008. The Corporation did not elect the fair value option on any financial assets or liabilities as of that date.

*Non-controlling Interest in Consolidated Financial Statements an amendment to ARB No. 51*

In November 2007, the FASB issued SFAS 160, Non-controlling Interest in Consolidated Financial Statements an amendment to ARB No. 51. SFAS 160 changes the way consolidated net earnings is presented. The new

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**BIRMINGHAM BLOOMFIELD BANCSHARES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

standard requires consolidated net earnings to be reported at amounts attributable to both the parent and the non-controlling interest and will require disclosure on the face of the consolidated statement of income amounts attributable to the parent and the non-controlling interest. The statement establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that does not result in deconsolidation. The statement also requires that a parent recognize a gain or loss in net earnings when a subsidiary is deconsolidated. The adoption of SFAS 160 is effective for the Corporation on January 1, 2009. Management does not expect that the adoption of this statement will have a material impact on the Corporation's financial condition, results of operation or liquidity.

*Staff Accounting Bulletin 109*

In November 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin 109 (SAB 109). SAB 109 expresses the views of the SEC regarding written loan commitments that are accounted for at fair value through earnings under generally accepted accounting principles. SAB 109 supersedes SAB 105 and expresses the current view of the staff that, consistent with the guidance in SFAS 156 *Accounting for Servicing of Financial Assets* and SFAS 159 *The Fair Value Option of Financial Assets and Financial Liabilities*, the expected net future cash flows related to the associated servicing of the loans should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The adoption of SAB 109 is effective on a prospective basis for derivative loan commitments issued or modified on January 1, 2008. Management believes the adoption of SAB 109 did not have a material impact on the Corporation's financial condition, results of operation or liquidity.

*Staff Accounting Bulletin 110*

In December 2007, the SEC issued Staff Accounting Bulletin 110 (SAB 110). SAB 110 expresses the views of the SEC regarding the use of a simplified method in developing an estimate of expected term of plain vanilla share options as discussed in SAB 107 and issued under SFAS 123 (revised 2004) *Share-Based Payment*. The SEC indicated in SAB 107 that it would accept a company's decision to use the simplified method, regardless of whether the company has sufficient information to make more refined estimates of expected term. Under SAB 107, the SEC had believed detailed information about employee exercise behavior would be readily available and therefore would not expect companies to use the simplified method for share option grants after December 31, 2007. SAB 110 states that the SEC will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007.

*Disclosures about Derivative Instruments and Hedging Activities – an amendment of SFAS 133*

In March 2008, the FASB issued SFAS 161 *Disclosures about Derivative Instruments and Hedging Activities – an amendment of SFAS 133*. SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves on the transparency of financial reporting. In adopting SFAS 161, entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial positions, financial performance and cash flows. This pronouncement is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. As the Corporation does not currently hold such derivative instruments, this pronouncement will not affect the Corporation's financial condition, results of operation, liquidity or financial disclosures.

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**BIRMINGHAM BLOOMFIELD BANCSHARES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 Summary of Significant Accounting Policies continued**

*The Hierarchy of Generally Accepted Accounting Principles*

In May 2008, the FASB issued SFAS 162 *The Hierarchy of Generally Accepted Accounting Principles*. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of non-governmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). The adoption of SFAS 162 will be effective 60 days following the Securities and Exchange Commission's (SEC) approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. Management does not expect that the adoption of this statement will have a material impact on the Corporation's financial condition, results of operation or liquidity.

**Note 2 Fair Value Accounting**

On January 1, 2008, the Corporation adopted SFAS 157. SFAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 was issued to bring conformity to the definition of fair value; prior to SFAS 157 there was no conformity in the accounting guidance regarding the definition of fair value.

**Valuation Hierarchy**

SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. 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 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.

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 following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

**Assets**

*Securities available for sale*

All of the Corporation's available for sale securities are classified within Level 1 of the valuation hierarchy as quoted prices are available in an active market.

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**BIRMINGHAM BLOOMFIELD BANCSHARES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 2 Fair Value Accounting continued**

The following table presents the financial instruments carried at fair value as of September 30, 2008, on the Consolidated Balance Sheet and by SFAS 157 valuation hierarchy (as described above):

Assets measured at fair value on a recurring basis as of September 30, 2008 (000 s omitted):

	Quoted Prices in Active Markets  for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Balance at September 30, 2008
Securities available for sale	\$ 4,318	\$	\$	\$ 4,318

**Note 3 Securities**

The amortized cost and estimated fair value of securities are as follows (000 s omitted):

September 30, 2008 (unaudited)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
U.S. Government agency securities	\$ 2,989	\$ 8	\$	\$ 2,997
Mortgage backed securities	1,277	44		1,321
Total securities available for sale	\$ 4,266	\$ 52	\$	\$ 4,318
December 31, 2007	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
U.S. Government agency securities	\$ 678	\$ 7	\$	\$ 685
Mortgage backed securities	1,855	56		1,911
Total securities available for sale	\$ 2,533	\$ 63	\$	\$ 2,596

As of September 30, 2008 and December 31, 2007, all securities are available for sale. At September 30, 2008 and December 31, 2007, there were no securities pledged to secure borrowings, public deposits or for other purposes required or permitted by law.

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**BIRMINGHAM BLOOMFIELD BANCSHARES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 3 Securities continued**

The amortized cost and estimated fair value of securities at September 30, 2008, 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 (000 s omitted):

	Amortized cost	Estimated fair value
Due in one year or less	\$ 1,991	\$ 1,991
Due in one year through five years	998	1,006
Due in five years through ten years		
Due after ten years		
 Subtotal	 2,989	 2,997
 Mortgage backed securities, due after 10 years	 1,277	 1,321
 Total	 \$ 4,266	 \$ 4,318

**Note 4 Loans**

A summary of the balances of loans are as follows (000 s omitted):

	September 30, 2008 (unaudited)	December 31, 2007
Mortgage loans on real estate:		
Residential 1 to 4 family	\$ 2,754	\$ 1,816
Multifamily	7,591	1,864
Commercial	21,616	13,601
Construction	3,939	2,348
Second mortgage	745	758
Equity lines of credit	10,607	8,696
 Total mortgage loans on real estate	 47,252	 29,083
Commercial loans	8,499	7,898
Consumer installment loans	210	177
 Total loans	 55,961	 37,158
Less:		
Allowance for loan losses	700	560
Net deferred loan fees	92	51
 Net loans	 \$ 55,169	 \$ 36,547



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**BIRMINGHAM BLOOMFIELD BANCSHARES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 4 Loans continued**

Activity in the allowance for loan losses for the three and nine months ended September 30, are as follows (000 s omitted):

(unaudited)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Balance at beginning of period	\$ 789	\$ 315	\$ 560	\$ 195
Charge-offs	(198)		(198)	
Recoveries			84	
Provision for loan losses	109	155	254	275
Balance at end of period	\$ 700	\$ 470	\$ 700	\$ 470

At September 30, 2008, the Corporation had no loans over 90 days past due and still accruing interest.

**Note 5 Deposits**

Deposits are summarized as follows (000 s omitted):

(unaudited)	September	December
	30, 2008	31, 2007
Non-interest bearing deposits	\$ 6,058	\$ 5,385
NOW accounts	6,710	9,727
Savings and money market accounts	13,319	11,620
Certificates of deposit <\$100,000	15,241	2,008
Certificates of deposit >\$100,000	13,471	7,522
Total	\$ 54,799	\$ 36,262

At September 30, 2008, the scheduled maturities of time deposits maturing are as follows (000s omitted):

	<\$100,000	>\$100,000	Total
Within 12 months	\$ 14,530	\$ 13,242	\$ 27,772
> 12 months	711	229	940
Total	\$ 15,241	\$ 13,471	\$ 28,712



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**BIRMINGHAM BLOOMFIELD BANCSHARES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 6 Leases and Commitments**

The Corporation has entered into a lease agreement for its main office. Payments began in February 2005 and extend through October 2025, under a renewal option exercised by the Corporation in October 2007. The main office lease has one additional ten year renewal option. The Corporation also entered into a lease agreement for its branch office in Bloomfield Township. Payments began in March 2006 and the lease expires February 2016. The Bloomfield branch office lease has two five year renewal options. Rent expense under the lease agreements was \$68,000 and \$67,000 for the three months ended September 30, 2008 and 2007, respectively. Rent expense under the lease agreements was \$205,000 and \$201,000 for the nine months ended September 30, 2008 and 2007, respectively.

The following is a schedule of future minimum rental payments under operating leases on a calendar year basis (000 s omitted):

2008	\$ 69
2009	280
2010	286
2011	291
2012	298
Thereafter	3,670
Total	\$ 4,894

**Note 7 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 September 30, 2008 and December 31, 2007. At September 30, 2008, the Corporation qualifies for an exemption from regulatory capital requirements due to its asset size.

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**BIRMINGHAM BLOOMFIELD BANCSHARES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 7 Minimum Regulatory Capital Requirements continued**

The Bank's actual capital amounts and ratios as of September 30, 2008 and December 31, 2007 are presented in the following table (000's omitted):

	Actual		For Capital Adequacy Purposes		To be Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of September 30, 2008</b>						
Total risk-based capital (to risk weighted assets)						
Bank of Birmingham	\$ 9,557	17.5%	\$4,359	8.0%	\$5,449	10.0%
Tier I capital (to risk weighted assets)						
Bank of Birmingham	\$ 8,866	16.3%	\$2,180	4.0%	\$3,269	6.0%
Tier I capital (to average assets)						
Bank of Birmingham	\$ 8,866	13.7%	\$2,599	4.0%	\$3,249	5.0%
<b>As of December 31, 2007</b>						
Total risk-based capital (to risk weighted assets)						
Bank of Birmingham	\$10,553	26.8%	\$3,152	8.0%	\$3,940	10.0%
Tier I capital (to risk weighted assets)						
Bank of Birmingham	\$10,050	25.5%	\$1,576	4.0%	\$2,364	6.0%
Tier I capital (to average assets)						
Bank of Birmingham	\$10,050	20.3%	\$1,984	4.0%	\$2,480	5.0%

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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 repricing 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 and 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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**BIRMINGHAM BLOOMFIELD BANCSHARES, INC.**

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

**OVERVIEW**

The Corporation is a Michigan corporation that was incorporated on February 26, 2004 to organize and serve as the holding company for a Michigan state bank, Bank of Birmingham (the "Bank") in Birmingham, Michigan. The Bank is a full service commercial bank headquartered in Birmingham, Michigan, with a full service branch banking office in Bloomfield Township, Michigan. It serves the communities of Birmingham, Bloomfield, Bingham Farms, Franklin and Beverly Hills and the neighboring communities. The Corporation completed the first phase of its stock offering on July 25, 2006 and capitalized the Bank on that date. The Bank opened for business on July 26, 2006 in a modular facility at the site of its future branch at 4145 W. Maple in Bloomfield Township. The modular facility served as the Bank's temporary main office until leasehold improvements at the permanent main office facility at 33583 Woodward Avenue in Birmingham were completed and the office opened for business at the end of August 2006. Remodeling then commenced at the Bloomfield facility. The Bloomfield branch office opened for business in its permanent facility on February 20, 2007. The Bank serves businesses and consumers across Oakland and Macomb counties with a full range of lending, deposit, and Internet banking services.

The results of operations depend largely on net interest income. Net interest income is the difference in interest income the Corporation earns on interest-earning assets, which comprise primarily commercial business, commercial real estate and residential real estate loans and the interest the Corporation pays on our interest-bearing liabilities, which are primarily deposits and borrowings. Management strives to match the repricing characteristics of the interest earning assets and interest bearing liabilities to protect net interest income from changes in market interest rates and changes in the shape of the yield curve.

The results of our operations may also be affected by local and general economic conditions. The largest geographic segment of our customer base is in Oakland County, Michigan. The economic base of the County continues to diversify from the automotive service sector. This trend should lessen the impact on the County of future economic downturns in the automotive sector of the economy. Changes in the local economy may affect the demand for commercial loans and related small to medium business related products. This could have a significant impact on how the Corporation deploys earning assets. The competitive environment among other financial institutions and financial service providers and the Bank in the Oakland and Macomb counties of Michigan may affect the pricing levels of various deposit products. The impact of competitive rates on deposit products may increase the relative cost of funds for the Corporation and thus negatively impact net interest income.

The Corporation continues to see competitive deposit rates offered from local financial institutions within the geographic proximity of the Bank as well as financial institutions and other providers offering deposits nationally and on the Internet which could have the effect of increasing the costs of funds to a level higher than management projects.

**PLAN OF OPERATION**

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 operates a branch office at 4145 West Maple Road, near the intersection of Telegraph Road in Bloomfield Township, MI, which is approximately 5 miles from the main office. The branch office occupies approximately 2,815 square feet in a one story office building. The Bank has executed lease agreements with respect to each of its banking locations. The main office lease commenced in October 2005 and the Bank has exercised its first renewal option extending the lease through October 2025. The branch office lease commenced in March 2006 and runs through February 2016. The main office lease has one ten year renewal option, while the branch office lease has two five year renewal options.

At this time, neither the Corporation nor the Bank intends to own any of the properties from which the Bank will conduct banking operations. The Bank used approximately \$2.9 million of the proceeds of the Company's initial public offering to purchase furniture, fixtures and equipment at the two locations. The Bank has 18 full-time equivalent employees to staff its banking offices.

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The Bank will continue to use the remainder of its capital for customer loans, investments and other general banking purposes. We believe that the Corporation's initial offering proceeds will enable the Bank to maintain a leverage capital ratio, which is a measure of core capital to average total assets, in excess of 8% for the first three years of operations as required by the FDIC. The Corporation does anticipate that it will require \$1.0 to \$4.0 million in additional equity during the next 36 months of operations in order to continue to grow while meeting regulatory capital requirements. Management is exploring the capital markets with the aid of consultants to determine how and when it may raise the additional equity.

**FINANCIAL OVERVIEW**

At September 30, 2008, the Corporation's total assets were \$64.6 million, an increase of \$17.3 million or 36.7% from December 31, 2007. Cash and cash equivalents decreased by \$2.7 million or 52.9%. Investment securities available-for-sale increased \$1.7 million or 66.3% from December 31, 2007 to September 30, 2008. Loans, net of the allowance for loan losses, increased by \$18.6 million or 51.0% from December 31, 2007 to September 30, 2008. Total deposits increased by \$18.5 million or 51.1% from December 31, 2007 to September 30, 2008. Basic loss per share for the three and nine months ended September 30, 2008 were \$(0.13) per share and \$(0.70) per share, respectively. Basic loss per share for the three and nine months ended September 30, 2007 were \$(0.37) per share and \$(1.14) per share, respectively. Diluted loss per share for the three and nine months ended September 30, 2008 were \$(0.13) per share and \$(0.70) per share, respectively. Diluted loss per share for the three and nine months ended September 30, 2007 were \$(0.37) per share and \$(1.14) per share, respectively.

**FINANCIAL CONDITION**

**Cash and Cash Equivalents**

Cash and cash equivalents decreased \$2.7 million or 52.9% to \$2.4 million at September 30, 2008, down from \$5.1 million at December 31, 2007. Federal funds sold decreased \$2.9 million or 74.2% to \$1.0 million at September 30, 2008. The decrease in Federal funds sold is due to investment of excess liquidity in higher yielding U.S. Government agency securities.

**Investments**

Total investment securities available-for-sale increased \$1.7 million or 66.3% to \$4.3 million at September 30, 2008, compared to \$2.6 million at December 31, 2007. The increase in investment securities is primarily attributable to a \$3.0 million investment in certain U.S. Government agency securities in the third quarter of 2008. This investment was partially offset by repayments on mortgage backed securities and the sale of a mortgage backed security during the quarter. The Corporation had no held-to-maturity securities as of September 30, 2008 or December 31, 2007.

**Loans**

During the first nine months of 2008, loans, net of the allowance for loan losses, increased \$18.6 million or 51.0%, to \$55.2 million at September 30, 2008, up from \$36.5 million at December 31, 2007. The largest single category increase within loans, as noted in Note 4 to the financial statements, was commercial real estate which increased by \$8.0 million. These loans are for the most part owner occupied properties. Equity lines of credit increased \$1.9 million or 22.0% to \$10.6 million at September 30, 2008. This increase is due to increased usage on existing lines. Real estate mortgages on multifamily properties increased approximately \$5.7 million or 307.2% to \$7.6 million at September 30, 2008. The increase is due to new loan production. Construction loans increased approximately \$1.6 million or 67.8% to \$3.9 million at September 30, 2008.

**Credit Quality**

The allowance for loan losses was \$700,000 or 1.25% of loans at September 30, 2008. In the third quarter 2008, the Corporation had two charge-offs totaling approximately \$198,000. In the second quarter of 2008, the Corporation recovered approximately \$84,000 on a loan charged-off in 2007. There were no loan charge-offs during the three and nine month periods ended September 30, 2007. The Corporation had no nonperforming loans,

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which consist of nonaccruing loans and loans past due 90 days or more and still accruing interest, at September 30, 2008 or December 31, 2007.

Loans are placed in nonaccrual 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 nonaccrual 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 stay on accrual status. However, if the loan is not brought current before becoming 120 days past due, the loan is reported as nonaccrual. A nonaccrual 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.

Management evaluates the condition of the loan portfolio on a quarterly basis to determine the adequacy of the allowance for loan losses. Management's evaluation of the allowance is further based on consideration of actual loss experience, the present and prospective financial condition of borrowers, adequacy of collateral, industry concentrations within the portfolio, and general economic conditions. Management believes that the present allowance is adequate, based on the broad range of considerations listed above.

The primary risk element considered by management regarding each consumer and residential real estate loan is lack of timely payment. 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 annual financial statements from its commercial loan customers and periodically reviews existence of collateral and its value.

Although management believes that the allowance for loan losses is adequate to absorb losses as they arise, there can be no assurance that the Corporation will not sustain losses in any given period that could be substantial in relation to the size of the allowance for credit losses. 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 significantly impacted.

**Premises and Equipment**

Premises and equipment were \$2.3 million and \$2.5 million at September 30, 2008 and December 31, 2007, respectively. The Corporation has no plans for significant additions over the next twelve months.

**Table of Contents****BIRMINGHAM BLOOMFIELD BANCSHARES, INC.****Management's Discussion and Analysis of Financial Condition and Results of Operations****Deposits**

Total deposits were \$54.8 million as September 30, 2008, an increase of \$18.5 million over December 31, 2007. In the deposit categories, noninterest bearing DDA deposits were \$6.1 million, which were made up primarily of business accounts. NOW accounts were \$6.7 million at September 30, 2008, while Money Market accounts were \$12.2 million at the current quarter end. Certificates of deposit were \$28.7 million at September 30, 2008. Of this amount \$13.5 million was in certificates greater than \$100,000.

	(000's omitted)	As of September 30, 2008	
		Balance	Percentage
Noninterest bearing demand		\$ 6,058	11.1%
NOW accounts		6,710	12.2
Money market		12,190	22.2
Savings		1,129	2.1
Time deposits under \$100,000		15,241	27.8
Time deposits over \$100,000		13,471	24.6
Total deposits		\$ 54,799	100.0%

**RESULTS OF OPERATIONS****Net Interest Income**

Net interest income for the three months ended September 30, 2008 and 2007 was \$532,000 and \$381,000, respectively. Interest income on loans was \$818,000 and \$471,000 for the three months ended September 30, 2008 and 2007, respectively. The growth in interest income on loans was driven by continued growth in the loan portfolio, which was partially offset by a decrease in yield, with decreases in the prime lending rate. Deposit interest expense of \$352,000 and \$330,000 for the three month periods ended September 30, 2008 and 2007, respectively, increased due to the growth in NOW accounts, money markets and certificates of deposit.

Net interest income for the nine months ended September 30, 2008 and 2007 was \$1.4 million and \$0.9 million, respectively. Interest income on loans was \$2.2 million and \$1.1 million for the nine months ended September 30, 2008 and 2007, respectively. As indicated above, the growth in interest income on loans was primarily driven by continued growth in the loan portfolio. Growth in interest bearing deposit balances resulted in increased levels of deposit interest expense. Interest expense was \$1.0 million and \$0.8 million for the nine month periods ended September 30, 2008 and 2007, respectively.

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The following tables show the Corporation's consolidated average balances of assets, liabilities, and equity. The tables also detail the amount of interest income or interest expense and the average yield or rate for each category of interest-earning asset or interest-bearing liability and the net interest margin for the three and nine month periods ended September 30, 2008 and 2007, respectively.

	Three Months Ended September 30,					
	Average Balance (000's)	2008 Interest Earned/ Paid	Yield/ Rate	Average Balance (000's)	2007 Interest Earned/ Paid	Yield/ Rate
<b>Interest-earning assets</b>						
Loans	\$ 53,000	\$ 817,556	6.17%	\$ 25,079	\$ 470,794	7.51%
Securities	3,893	42,176	4.33%	4,321	60,895	5.64%
Federal funds sold	4,791	23,711	1.98%	13,983	179,689	5.14%
<b>Total interest-earning assets</b>	<b>61,684</b>	<b>883,443</b>	<b>5.73%</b>	<b>43,383</b>	<b>711,378</b>	<b>6.56%</b>
Cash and due from banks	1,329			1,888		
All other assets	1,958			2,517		
<b>Total assets</b>	<b>\$ 64,971</b>			<b>\$ 47,788</b>		
<b>Interest-bearing liabilities</b>						
NOW accounts	\$ 7,615	32,950	1.73%	\$ 8,354	83,889	4.02%
Money market	11,848	60,999	2.06%	12,561	132,420	4.22%
Savings	781	3,546	1.82%	288	1,212	1.68%
Time deposits	28,372	254,294	3.59%	8,656	112,583	5.20%
<b>Total interest-bearing liabilities</b>	<b>48,616</b>	<b>351,789</b>	<b>2.89%</b>	<b>29,859</b>	<b>330,104</b>	<b>4.42%</b>
Demand deposits	6,486			5,306		
All other liabilities	291			250		
<b>Total liabilities</b>	<b>55,393</b>			<b>35,415</b>		
Shareholders' equity	9,578			12,373		
<b>Total liabilities and shareholders' equity</b>	<b>\$ 64,971</b>			<b>\$ 47,788</b>		
<b>Net interest income</b>		<b>\$ 531,654</b>			<b>\$ 381,274</b>	
<b>Interest rate spread <sup>(1)</sup></b>			<b>2.84%</b>			<b>2.14%</b>



<b>Net interest margin <sup>(2)</sup></b>		<b>3.45%</b>	<b>3.52%</b>
<b>Ratio of interest-earning assets to interest-bearing liabilities</b>	<b>1.27</b>	<b>1.45</b>	

(1) Interest rate spread is the difference between rates of interest-earning assets and rates of interest paid on interest-bearing liabilities

(2) Net interest margin is the net interest income divided by average interest-earning assets.

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Nine Months Ended September 30,

	Average Balance (000 s)	2008 Interest Earned/ Paid	Yield/ Rate	Average Balance (000 s)	2007 Interest Earned/ Paid	Yield/ Rate
<b>Interest-earning assets</b>						
Loans	\$ 46,756	\$ 2,196,208	6.26%	\$ 19,296	\$ 1,068,700	7.38%
Securities	2,616	97,811	4.99%	1,693	69,793	5.50%
Federal funds sold	6,386	113,841	2.38%	14,105	553,001	5.23%
<b>Total interest-earning assets</b>	<b>55,758</b>	<b>2,407,860</b>	<b>5.76%</b>	<b>35,094</b>	<b>1,691,494</b>	<b>6.43%</b>
Cash and due from banks	1,277			1,403		
All other assets	2,050			2,605		
<b>Total assets</b>	<b>\$ 59,085</b>			<b>\$ 39,102</b>		
<b>Interest-bearing liabilities</b>						
NOW accounts	\$ 8,109	124,318	2.04%	\$ 5,764	175,314	4.06%
Money market	11,797	202,547	2.29%	8,925	312,649	4.67%
Savings	501	6,377	1.70%	210	2,374	1.51%
Time deposits	22,409	671,975	4.00%	7,311	283,874	5.18%
<b>Total interest-bearing liabilities</b>	<b>42,816</b>	<b>1,005,217</b>	<b>3.13%</b>	<b>22,210</b>	<b>774,211</b>	<b>4.65%</b>
Demand deposits	5,927			3,731		
All other liabilities	273			163		
<b>Total liabilities</b>	<b>49,016</b>			<b>26,104</b>		
Shareholders' equity	10,069			12,998		
<b>Total liabilities and shareholders' equity</b>	<b>\$ 59,085</b>			<b>\$ 39,102</b>		
<b>Net interest income</b>		<b>\$ 1,402,643</b>			<b>\$ 917,283</b>	
<b>Interest rate spread <sup>(1)</sup></b>			<b>2.63%</b>			<b>1.78%</b>
<b>Net interest margin <sup>(2)</sup></b>			<b>3.35%</b>			<b>3.49%</b>
	<b>1.30</b>			<b>1.58</b>		

**Ratio of interest-earning  
assets to interest-bearing  
liabilities**

- (1) Interest rate spread is the difference between rates of interest-earning assets and rates of interest paid on interest-bearing liabilities
- (2) Net interest margin is the net interest income divided by average interest-earning assets.

The yield on interest-earning assets decreased for the quarter ended September 30, 2008 to 5.73% from 6.56% as compared to the same period in the prior year. Much of the decrease was due to decreases in the yield in the loan portfolio with the prime rate changes within the last several months, as well as throughout the year. The yield on loans receivable decreased to 6.17% for the three months ended September 30, 2008 from 7.51% for the same period in 2007. The Corporation's interest rate spread increased for the three months ended September 30, 2008 to 2.84% from 2.14% for the same period in 2007. The Corporation has benefited from an improvement in the spread on interest rates as reductions in the cost of deposits outpaced the reduction in loan yields. In the prior year, deposit rates were higher due to the competitive market as well as promotional rates offered to attract and build the customer base. Net interest margin decreased to 3.45% for the three months ended September 30, 2008 down from 3.52% for the same period in 2007.

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The yield on interest-earning assets decreased for the nine month period ended September 30, 2008 to 5.76% from 6.43% as compared to the same period in the prior year. The yield on loans receivable decreased to 6.26% for the nine months ended September 30, 2008, down from 7.38% for the same period in 2007. As indicated above, these decreases relate directly to decreases in the prime lending rate throughout the year. The Corporation's interest rate spread increased for the nine months ended September 30, 2008 to 2.63%, up from 1.78% for the same period in 2007. Net interest margin decreased to 3.35% for the nine months ended September 30, 2008, down from 3.49% for the same period in 2007.

**Provision for Loans Losses**

The Corporation had a provision for loan losses for the three months ended September 30, 2008 of \$109,146 compared to a provision for loan losses of \$155,000 for the three months ended September 30, 2007. In the third quarter 2008, the Corporation charged off two loans totaling approximately \$198,000, of which \$173,000 had been specifically reserved for in the second quarter of 2008.

The provision for loan losses was \$253,811 and \$275,000 for the nine months ended September 30, 2008 and 2007, respectively. As discussed above, the Corporation charged off two loans totaling approximately \$198,000 in the third quarter of 2008, which was partially offset by the sizable recovery received on a loan that had been charged off in late 2007. The Corporation had no non-performing loans as of September 30, 2008 and 2007. See also Credit Quality discussed previously.

**Non-Interest Income**

Non-interest income was \$35,000 and \$28,000 for the three months ended September 30, 2008 and 2007, respectively. Loan fees and charges decreased to approximately \$3,200 for the quarter ended September 30, 2008 compared to \$8,700 for the same period in 2007. This decrease is primarily due to a decrease in mortgage loan activity, which in turn has decreased income earned on mortgage loans originated for third parties. Deposit fees and charges increased to approximately \$15,500 for the three months ended September 30, 2008, up from approximately \$12,800 for the same period in 2007. This increase is due to increased levels of deposits. Other income increased to approximately \$16,200 for the quarter ended September 30, 2008, up from approximately \$6,600 for the same period in 2007. This increase is due to a gain recognized on the sale of a mortgage backed security.

Non-interest income was \$96,500 and \$94,500 for the nine months ended September 30, 2008 and 2007, respectively. Loan fees and charges decreased to approximately \$15,000 for the first nine months of 2008 compared to \$54,800 for the same period in 2007. As indicated above, this decrease is due to a decrease in mortgage loan activity, which in turn has decreased income earned on mortgage loans originated for third parties. Deposit fees and charges increased to approximately \$53,300 for the nine months ended September 30, 2008, up from approximately \$33,900 for the same period in 2007. This increase is due to increased levels of deposits. Other income increased to approximately \$28,100 for the nine months ended September 30, 2008, up from approximately \$5,700 for the same period in 2007. This increase is due primarily to gains recognized for calls/sales/maturities on certain investment securities in 2008 totaling approximately \$19,300.

**Table of Contents****BIRMINGHAM BLOOMFIELD BANCSHARES, INC.****Management's Discussion and Analysis of Financial Condition and Results of Operations****Non-Interest Expense**

Non-interest expense for the three months ended September 30, 2008 and 2007 was \$692,000 and \$916,500, respectively. Salaries and benefits continued to be the largest component of non-interest expense. Salaries and benefits decreased \$148,400, or 33.0%, to \$301,800 for the quarter ended September 30, 2008, down from \$450,200 for the same period of 2007. In the first quarter of 2008, management of the Corporation continued to examine the business trends to date and reduced staffing in several areas accordingly. In the current quarter, the Corporation continued to experience the reduced costs associated with these staff reductions, compared to the same period in 2007. Occupancy expenses decreased to \$198,200 for the quarter ended September 30, 2008, down from \$205,700 for the same period of 2007. In the third quarter of 2007, in recognition of its substantial investment in leasehold improvements in the main office, the Corporation exercised its option for an additional 10 year lease period on the main office. The exercise will have the benefit of reducing depreciation going forward by approximately \$5,000 per month or \$60,000 annually. In the third quarter 2008, the Corporation recognized a benefit for FAS 123R share based payments reflective of forfeitures of options for non-vested terminated employees. Data processing expenses were \$48,000 for the three month period ended September 30, 2008 compared to \$41,000 for the same period in 2007. The increase is due to increased levels of volume in the current period compared to the same period in the prior year. Advertising expenses were \$10,100 for the three months ended September 30, 2008, down approximately \$24,000 as compared to the same period in 2007. Professional fees were \$66,000 for the three months ended September 30, 2008 compared to \$57,700 for the same period in 2007. Increases in professional fees are due in large part to increases in legal and audit expenses which are a result of increased loan activity and complexity in the operations of the Corporation. Other expenses decreased to \$83,700 for the three months ended September 30, 2008 compared to \$90,300 for the same period in 2007. This decrease is related in part to the decline in mortgage loan activity with a corresponding decrease in related expenses. The Corporation also experienced a decrease in insurance related expenses, which was offset by increased regulatory assessment costs.

Non-interest expense for the nine months ended September 30, 2008 and 2007 was \$2.5 million and \$2.8 million, respectively. Salaries and benefits decreased approximately \$183,000, or 13.6%, to \$1.16 million for the nine months ended September 30, 2008, down from \$1.34 million for the same period of 2007. In the first quarter of 2008, management of the Corporation continued to examine the business trends to date and reduced staffing in several areas accordingly. Severance costs totaling approximately \$134,000 were included in the salaries and benefits costs in the first quarter of 2008. After consideration of the severance costs in the first quarter of 2008, the Corporation began to see the benefit of reduced compensation costs in the second and third quarters of 2008. Occupancy expenses decreased to \$616,000 for the nine months ended September 30, 2008, down from \$663,000 the same period of 2007. This decrease is due primarily to lower levels of depreciation discussed above. Data processing expenses were \$135,000 for the nine month period ended September 30, 2008 compared to \$134,000 for the same period in 2007. The Corporation incurred expenses relating to initial ATM deployments in the first quarter of 2007, and no such costs were incurred in the current year. These increased costs related to 2007 were offset by increases in volume in the current year which is the basis for most of the data processing costs and therefore increased costs. Advertising expenses were \$70,000 for the nine months ended September 30, 2008, down approximately \$94,700 as compared to the same period in 2007. In 2007, the Corporation incurred higher levels of advertising and promotional costs aimed at increasing name recognition in the Corporation's principal markets and growth in both loan and deposit portfolios. Professional fees were \$225,700 for the nine months ended September 30, 2008 compared to \$183,100 for the same period in 2007. As indicated above, audit and legal costs have increased with increased loan activity and complexity of the Corporation. Other expenses increased to \$273,400 for the nine months ended September 30, 2008 compared to \$244,300 for the same period in 2007. This increase is due in large part to regulatory assessments, correspondent bank costs and expenses associated with the Michigan Business Tax incurred in the current year.

**Income Taxes**

No income tax expense or benefit was recognized during the three and nine month periods ended September 30, 2008 or 2007 due to the tax loss carryforward position of the Corporation. An income tax benefit may be booked in



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future periods when the Corporation begins to turn a profit and management believes that profitability will be expected for the foreseeable future beyond that point.

**LIQUIDITY AND CAPITAL RESOURCES; ASSET/LIABILITY MANAGEMENT**

The liquidity of a bank allows it to provide funds to meet loan requests, to accommodate possible outflows of deposits, and to take advantage of other investment opportunities. Funding of loan requests, providing for liability outflows, and managing interest rate margins require continuous analysis to attempt to match the maturities and repricing of specific categories of loans and investments with specific types of deposits and borrowings. Bank liquidity depends upon the mix of the banking institution's potential sources and uses of funds. The major sources of liquidity for the Bank have been deposit growth, federal funds sold, and loans which mature within one year. 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 sufficient funds available to meet our future commitments. As of September 30, 2008, unused commitments totaled \$11.5 million. 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. Additionally, the Corporation had \$110,000 in a commercial letter of credit. Substantially all of the Bank's time deposits of \$28.7 million mature within the next twelve months from September 30, 2008.

The largest uses and sources of cash and cash equivalents for the Corporation for the nine months ended September 30, 2008, as noted in the Consolidated Statement of Cash Flows, were centered primarily on the uses of cash in investing activities and the net cash provided by financing activities. The uses of cash in investing activities were largely due to the increase in loans of \$18.9 million and purchases of investment securities totaling \$3.0 million. Offsetting the uses of cash in investing activities, was the cash provided from financing activities which included net increases in deposits of \$18.5 million. Total cash and cash equivalents at the end of September 30, 2008 was \$2.4 million, which was a decrease of \$2.7 million from \$5.1 million at December 31, 2007.

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 September 30, 2008. Note 7 to the financial statements is hereby incorporated by reference. At September 30, 2008, the Corporation qualifies for an exemption from regulatory capital requirements due to its asset size. The Corporation does anticipate that it will require \$1.0 to \$4.0 million in additional equity during the next 36 months of operations in order to continue to grow while meeting regulatory capital requirements. Management is exploring the capital markets with the aid of consultants to determine how and when it may raise the equity.

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 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.





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**Off-Balance Sheet Arrangements**

As of September 30, 2008, unused commitments totaled \$11.5 million. 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. Additionally, the Corporation had \$110,000 in a commercial letter of credit.

**Other Developments**

*Participation in the Treasury Capital Purchase Program*

On October 3, 2008, Congress passed the Emergency Economic Stabilization Act of 2008 ( EESA ), which provides the U. S. Secretary of the Treasury with broad authority to implement certain actions to help restore stability and liquidity to U. S. markets. One of the provisions resulting from the Act is the Treasury Capital Purchase Program ( CPP ), which provides direct equity investment of perpetual preferred stock by the Treasury in qualified financial institutions. The program is voluntary and requires an institution to comply with a number of restrictions and provisions, including limits on executive compensation, stock redemptions and declaration of dividends. Applications must be submitted by November 14, 2008, and are subject to approval by the Treasury. The CPP provides for a minimum investment of 1% of Risk-Weighted Assets, with a maximum investment equal to the lesser of 3% of Total Risk-Weighted Assets or \$25 billion. The perpetual preferred stock investment will have a dividend rate of 5% per year, until the fifth anniversary of the Treasury investment, and a dividend of 9%, thereafter. The CPP also requires the Treasury to receive warrants for common stock equal to 15% of the capital invested by the Treasury. The Corporation is evaluating whether to apply for participation in the CPP. Participation in the program is not automatic and subject to approval by the Treasury.

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**BIRMINGHAM BLOOMFIELD BANCSHARES, INC.**

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**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.

The Corporation has not experienced a material change in its financial instruments that are sensitive to changes in interest rates since December 31, 2007, which information can be located in the Corporation's annual report on Form 10-KSB.

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**ITEM 4T. CONTROLS AND PROCEDURES**

As of September 30, 2008, we carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's chief executive officer and acting 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 acting chief financial officer concluded that, as of September 30, 2008, 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 acting 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 September 30, 2008 that materially affected, or are reasonably likely to materially affect, the Corporation's internal controls over financial reporting.

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**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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

This item is not applicable.

**ITEM 5. OTHER INFORMATION.**

This item is not applicable.

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**ITEM 6. EXHIBITS.**

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

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**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: November 13, 2008

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

Date: November 13, 2008

By: /s/ Robert E. Farr  
Robert E. Farr  
Acting Chief Financial Officer

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**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
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	Certification pursuant to Rules 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act and 18 U.S.C. §1350