

Community Shores Bank Corp.

OTC: BB-CSHB - \$6.55

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Review of 2Q01 Results

CSHB Posts Third Consecutive Quarter of Profitability

Current Data		EPS (FYE: Dec.)		EPS	P/E
Current Price	\$ 6.55	2000	\$ (0.58)	-11.3	
52-Week Range	7.0-4.88	2001E	\$ 0.25	26.6	
Shares Out (Mill)	1.17	2002E	\$ 0.52	12.6	
Ave Volume LTM	1,500	Valuation		Current	LTM
Market Capitalization	\$ 7.7	P/E (Next FY)	26.60	na	
Equity/Total Assets	6.3%	P/B	0.88	1.0-0.6	
Institutional Holdings	na	Operating Data		This Qtr	LTM
Insiders Holdings	32.0%	Net Int. Inc. Growth	33.8%	52.1%	
Book Value	\$ 7.43	Net Interest Margin	3.1%	3.1%	
10Yr Bond	4.83%	Net Inc. Growth	0.0%	97.8%	

Note: CSHB commenced operations January 1999.



Source: Big Charts.com

Key Investment Points

- EPS improved to \$0.03 versus a loss of \$0.06 in 2Q00 and \$0.00 in 1Q01.
- Net interest income increased almost 34% from 2Q00.
- Average earnings assets increased 34% from 2Q00 and 37% from 4Q00.
- Higher mortgage activity boosted non-interest income 36%.
- We revised our forecast and our new 12-18 month target price is \$8.00.

Company Description

Based in Muskegon, Michigan, Community Shores Bank Corporation ("CSHB") is the holding company for Community Shores Bank ("Bank"), a Michigan chartered bank with FDIC coverage. The Bank commenced operations on January 18, 1999 and had over \$138 million in total assets at June 30, 2001. CSHB serves the greater Muskegon market with offices in Muskegon (headquarters location), and Grand Haven (Northern Ottawa County), Michigan. A third location was open in the 1st quarter of 2001 in North Muskegon.

The Bottom Line:

CSHB maintained its rapid growth as it continues to grab market share. 2Q01 results were better than we expected largely due to our underestimation of how quickly CSHB's deposits would reprice. We raised our earnings forecast to reflect the benefits of having only 39% of the loan portfolio with floating rates and having the majority of the deposits reprice, both in a declining rate environment. We also raised our target price to \$8.00 from \$7.00.

Longer Term Outlook

Before reviewing the recent results, we thought it would be interesting to see how CSHB is valued relative to the major bank indexes over a longer time period. Please note that this data should not be considered our earnings forecast for these indexes or CSHB. This is only an exercise to get a longer-term perspective of CSHB current relative valuation.

To derive this longer term perspective, we took the current earnings forecast for the S&P and NASDAQ bank indexes and assumed an 8.0% annual growth rate, which is the consensus estimate. For CSHB, we assumed a 10% growth in earning assets, 3.04% net interest margin, and a deceleration operating expense growth. These projections are summarized in Table 1.

Based upon these assumptions, CSHB is undervalued, even if you assume a significant discount for size, liquidity and short operating history. For example, if you take the 2004 EPS projection of \$0.89 for CSHB and assume a PEG ratio of 0.50 (or a P/E of 50% of the 2004 EPS growth rate, in this case 13.95x) you get an estimated stock price of \$12.42 (\$0.89 x 13.95) in 2004. A rise from \$6.00 to \$12.00 is not inconceivable. The typical community bank stock will languish in relative obscurity as its profitability improves. After five-ten years, the market "discovers" the stock and the shares rise. This pattern emphasizes the benefit of patience for investors in community banks.

Index	TKR		2000	2001	2002	2003	2004
NASDAQ Bank Index	BANK	EPS	111.76	120.05	129.66	140.03	151.23
		Growth		7.4%	8.0%	8.0%	8.0%
	Price	2227.3	P/E	19.9	18.6	17.2	15.9
S&P Bank Comp.	BIX	EPS	35.7	41.9	45.28	48.91	52.82
		Growth		17.6%	8.0%	8.0%	8.0%
	Price	675.0	P/E	18.9	16.1	14.9	13.8
Community Shores	CSHB	EPS	\$ (0.58)	\$ 0.25	\$ 0.52	\$ 0.70	\$ 0.89
		Growth		-142.4%	110.6%	34.7%	27.9%
	Price	\$ 6.26	P/E		25.4	12.1	9.0
PEG Ratio							
Community Shores				(0.18)	0.11	0.26	0.25
NASDAQ Bank Index				2.50	2.15	1.99	1.84
S&P Bank Comp.				0.91	1.86	1.73	1.60

The PEG ratio is the P/E multiple divided by the EPS growth rate.

Recent Results: 2Q01

In 2Q01, net income improved to \$32,000 versus a loss of \$66,000 in 2Q00. EPS for the quarter was \$0.03 versus a loss per share of \$0.06 in 2Q00 and a breakeven 1Q01.

Some key highlights are:

- A net interest margin of 3.11% versus 3.04% in 1Q01 and 2Q00's 3.25%. These trends were due to costs associated with garnering brokered CDs (in 1H01) as well as the Fed rate reductions.
- Average earning assets increased 34% from 2Q00 as CSHB continued to gain market share, and
- Return on average earning assets improved to 3.17% from 3.06% in 1Q01 and was relatively flat with the 3.18% recorded in 2Q00

Branch openings (two within the last year) retarded the improvement in operating efficiencies. CSHB's efficiency ratio was flat with 2Q00 at 90%, and was slightly better than the 91% recorded in 1Q01. Non-interest income rose 74% due to a spurt in mortgage activity and increased service charges from a growing deposit base. Non-interest expenses grew in 2Q01 as CSHB opened a new branch in 1Q01. Also adversely impacting non-interest income was the loss of \$15,000 (about \$0.01 per share) that resulted from fraud during the quarter. Table 2 summarizes the results for the quarter and first half 2001.

Table 2: Quarter and YTD Comparison						
(\$Million)	2Q00	2Q01	Change	YTD 00	YTD 01	Change
Net Interest Inc	0.764	1.022	33.8%	1.405	1.975	41%
Loan Loss Prov	-0.151	-0.091	-39.7%	-0.323	-0.193	-40%
Dep. Service Chrgs	0.052	0.111	113.5%	0.097	0.209	115%
Othr Non-Int Inc	0.055	0.075	36.4%	0.089	0.143	60%
Tot. Non-Int Inc	0.079	0.186	135.4%	0.186	0.353	90%
Comp & bennies	0.431	0.548	27.1%	0.898	1.106	23%
<i>% Tot Revs</i>	<i>51.1%</i>	<i>45.4%</i>	<i>-11.3%</i>	<i>56.4%</i>	<i>47.5%</i>	<i>-16%</i>
Occ & Equip	0.149	0.177	18.8%	0.292	0.350	20%
Other Non-Int Exp	0.206	0.360	74.8%	0.398	0.643	62%
Tot. Non-Int Exp	0.786	1.085	38.0%	1.588	2.099	32%
Net Before Taxes	-0.066	0.032	148.5%	-0.320	0.036	111%
Taxes	0.00	0.00		0.00	0.00	
Net After Tax	-0.066	0.032	148.5%	-0.320	0.036	111%
EPS	\$ (0.06)	\$ 0.03	148.5%	\$ (0.27)	\$ 0.03	111%
Eff Tax Rate	0%	0%		0%	0%	
Shares	1.17	1.170	0.00%	1.17	1.17	0%
Return/AEA	3.18%	3.17%	-0.4%	0%	0%	
Ave Earning Assets	96.138	129.1	34.3%	96.1	129.1	34%
ROAE	-3.2%	1.5%		167.3%	34.3%	
Efficiency Ratio	90%	90%		101%	90%	
Allowance/Total Loan	1.43%	1.33%				

The following charts illustrate the positive long-term trends in CSHB's asset growth and profitability.

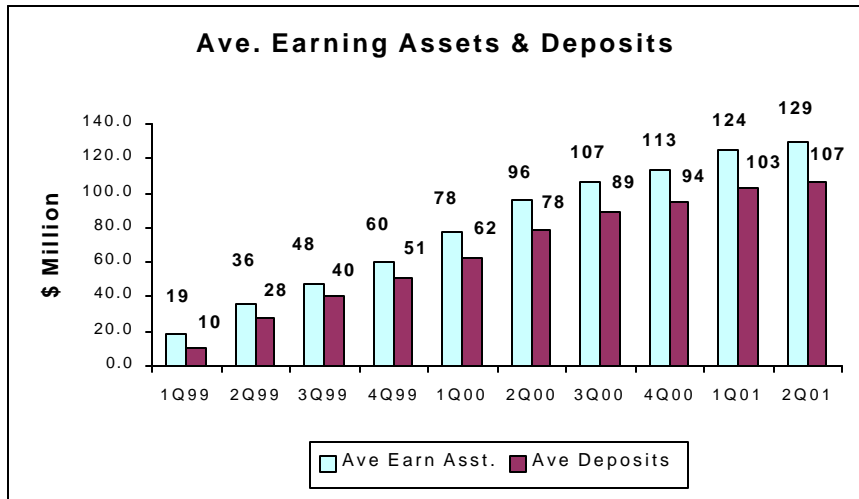


Figure 1

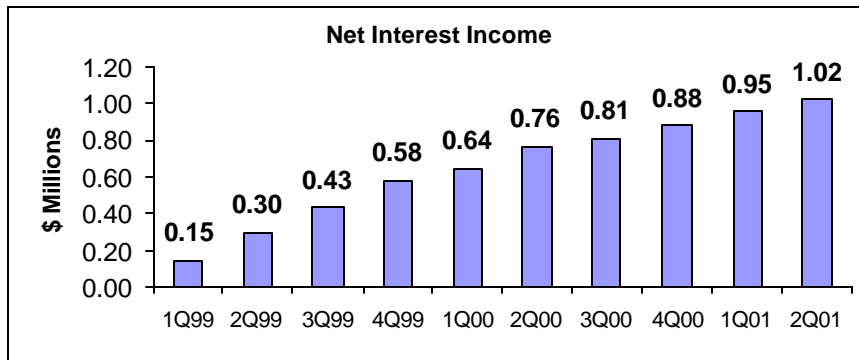


Figure 2

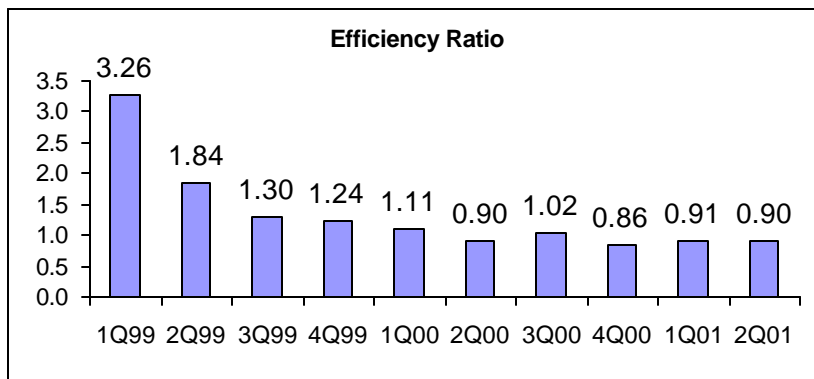


Figure 3

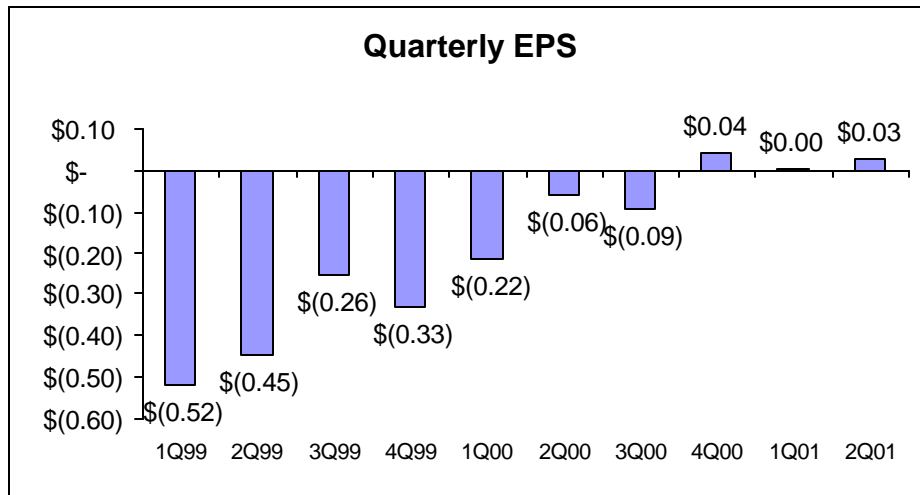


Figure 4

The quarterly provision for loan losses declined to \$91,000 from \$151,000 as the Bank maintained a reasonable reserve ratio of 1.3%. While this ratio is slightly below the peer group, it is well within the range of Michigan banks (see Table 3) and other institutions we follow.

Company Name	Ticker	Assets (\$000)	NPLs/Loans	Resrvs/Loans	NCOs/Avg Lns
Community Shores	CSHB	138,563	0.00	1.33	0.12
Peer Group Ave. (\$50-200mm)		139,510	0.48	1.40	0.32
Peer Group					
Michigan Heritage Bncrp, Inc	MHBC	127,725	0.79	1.44	1.41
Capital Directions, Inc.	CTDN	110,574	0.00	1.23	0.09
University Bancorp, Inc.	UNIB	47,692	0.94	1.69	0.12
Asset Category Averages					
All Michigan		3,507,187	0.53	1.38	0.17
\$5 billion+		28,606,168	1.20	1.45	0.36
\$1bn-\$5bn		2,818,849	0.47	1.16	0.13
\$501MM-\$1bn		614,291	0.13	1.49	0.10
\$201MM-\$500MM		302,505	0.46	1.39	0.03
\$10MM-\$200MM		139,510	0.48	1.40	0.32
Notes: NPL=Non-Performing Loans NCO=Net Charge Offs					

Peer Group Operating Comparison

The recent investment in new branches (increased SG&A) and the Bank's deposit structure adversely impacted CSHB's relative performance (see Table 4). Because CSHB is a relatively young bank, it is relatively more vulnerable to swings in NIM because it is still gathering deposits and implementing a laddered maturity schedule. CSHB's ratios should improve as deposits grow and reprice at lower rates and as business growth leverages capital investments.

Company Name	Ticker	Assets (\$000)	ROAA	ROACE	NIM (%)	Effic Ratio	Deps/Branch
Community Shores	CSHB	138,563	0.09	1.47	3.18	89.82	35,150
Peer Group Ave. (\$50-200mm)		139,510	0.92	9.79	3.84	69.89	41,140
Peer Group							
Michigan Heritage Bncrp. In	MHBC	127,725	0.34	3.28	3.56	85.91	NA
Capital Directions, Inc.	CTDN	110,574	1.59	13.37	4.22	50.45	NA
University Bancorp, Inc.	UNIB	47,692	0.47	11.88	3.27	95.27	39,483
Asset Category Averages							
All Michigan		3,507,187	1.12	13.13	4.18	63.03	58,005
\$5 billion+		28,606,168	1.53	16.87	4.45	52.59	67,885
\$1bn-\$5bn		2,818,849	1.34	19.03	4.26	60.74	22,476
\$501MM-\$1bn		614,291	1.02	12.84	4.28	59.30	146,464
\$201MM-\$500MM		302,505	1.10	10.75	4.21	63.33	34,150
\$10MM-\$200MM		139,510	0.92	9.79	3.84	69.89	41,140

Financial Condition

The Bank's financial condition remains strong and within the required limits for a "well capitalized" bank. At the end of the quarter, CSHB's Tier 1 ratio was 10.9% versus the required 10.0% limit. As shown in Figure 5, the ratio of capital (equity, FHLB borrowings and the Subordinated loan from the Board of Directors) to assets has generally improved since 3Q00. Most of this improvement was due to the subordinated loan from the Board of Directors that financed CSHB's growth during the last year. However, now that it appears that CSHB has turned the corner, increased retained earnings should finance future growth.

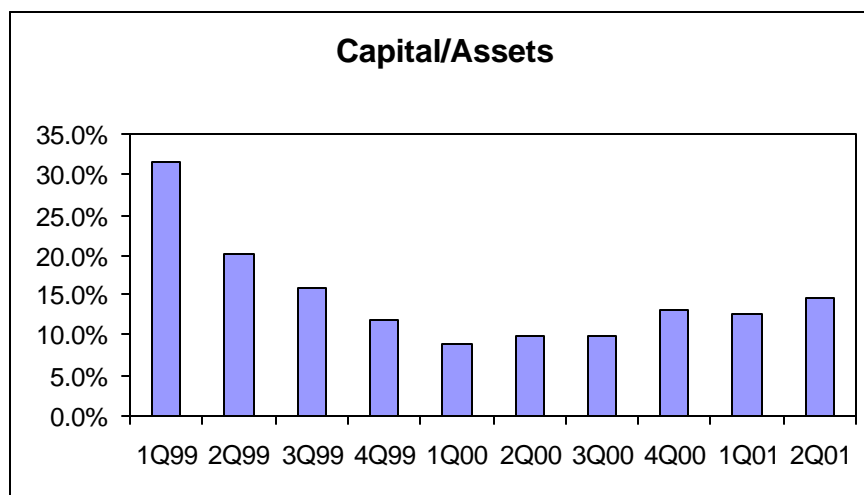


Figure 5

Outlook

We raised our 2001 EPS forecast to \$0.25 from \$0.23 and our 2002 estimate to \$0.52 from \$0.50 (see Table 3, next page). We think the decline in earning assets that occurred from 1Q01 to 2Q01 was due to timing issues (cash waiting to be disbursed as loans or invested) and that the portfolio should continue to grow rapidly, albeit at a slower rate than in the past.

During the next 12-18 months, CSHB will face difficult comparisons as its growth rate slows to a more sustainable (although still rapid) level and as EPS growth is reduced as CSHB starts paying taxes. As shown in Table 5, we estimate that the net loss carryforward will be completely used by 1Q02, and taxes in 2002 will be about \$202,000 (equivalent to \$0.17 per share).

(\$Million)	1999	2000	2001 e	2002 e
Net Interest Inc	1.458	3.095	4.118	4.914
Loan Loss Prov	-0.852	-0.505	-0.353	-0.203
Dep. Service Chrgs	0.065	0.233	0.429	0.600
Othr Non-Int Inc	0.088	0.185	0.289	0.416
Tot. Non-Int Inc	0.153	0.418	0.718	1.016
Comp & bennies	1.425	1.855	2.237	2.662
% Tot Revs	88%	53%	46%	45%
Occ & Equip	0.449	0.606	0.715	0.745
Other Non-Int Exp	0.687	0.926	1.243	1.281
Tot. Non-Int Exp	2.561	3.688	4.195	4.877
Net Before Taxes	-1.802	-0.680	0.288	0.850
Taxes	0.000	0.000	0.000	-0.243
Net After Tax	-1.802	-0.680	0.288	0.607
EPS	\$ (1.55)	\$ (0.58)	\$ 0.25	\$ 0.52
Eff Tax Rate	0%	0%	0%	29%
Shares	1.16	1.17	1.17	1.17
Return/AEA	3.03%	2.95%	3.16%	3.18%
Earning Assets	67.6	118.2	142.5	166.5
Growth		75%	21%	17%
Efficiency Ratio		105%	87%	82%

Industry Analysis

On a macro-basis there is a persistent concern that earnings in the banking sector could still be depressed as the weak economy results in increased loan defaults. Bank stock volatility could increase if a large bank announces loan problems. However, on a fundamental basis, we think that Community Banks should be able to avoid any big problems due to the closer relationships they have with their customers.

Valuation Analysis

We raised our 12-18 month target price to \$8.00 from \$7.00 based upon our revised estimates and the assumptions noted in Table 6. We based our assumed valuation multiples for CSHB on the trailing 12-month range with a slight increase to reflect the expectation that the multiples will increase as CSHB continues to build a track record of positive EPS.

		Multiples			2002 Ests.	Target Range
		LTM	Current	Assumed		
Price/Book	High	1.00	0.84	1.30	\$ 8.17	\$ 10.62
	Low	0.70		0.64		\$ 5.23
P/E (LTM)	High	-8.14	25.4	25.0	\$ 0.52	\$ 13.00
	Low	-51.12		10.0		\$ 5.20
Weighted Ave. High					\$	11.09
Low					\$	5.22
Average					\$	8.16

As shown in Table 7, CSHB shares have lower price/book multiple than its peer group, which is understandable since it is still a young de novo institution, relatively unknown outside of its market, and low relative performance ratios. We expect the multiple to rise if CSHB performs in line with our expectations. A price/earnings comparison is not possible because there are no EPS estimates for banks in the peer group.

Company Name	Ticker	Assets (\$000)	P/E 2001	P/B (%)
Community Shores	CSHB	138,563	25.42	87.5
Peer Group Ave. (\$50-200mm)		139,510	NA	160.1
Peer Group				
Michigan Heritage Bncrp,	MHBC	127,725	NA	67.2
Capital Directions, Inc.	CTDN	110,574	NA	175.5
University Bancorp, Inc.	UNIB	47,692	NA	307.7
Asset Categories				
All Michigan		3,507,187	13.89	172.5
\$5 billion+		28,606,168	13.91	231.0
\$1bn-\$5bn		2,818,849	13.67	209.3
\$501MM-\$1bn		614,291	14.73	149.7
\$201MM-\$500MM		302,505	NA	153.5
\$10MM-\$200MM		139,510	NA	160.1

Investment Risks

Investors need to consider the following risks when investing in these shares:

The Bank has only existed for two years and faces the challenges of building a brand name and reputation in a very competitive market. However, we have found that in banking, the community banks often succeed in the face of larger competitors.

The shares are not very liquid due to the high percentage of insider ownership and the lack of information on CSHB available to investors.

Operating results are dependent upon the economic health of the western Michigan market.

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