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Community Shores Bank Corp.

OTC BB: CSHB - \$8.30

www.communityshores.com

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Review of 1Q02 and 4Q01 Results

Fast Growing Community Bank Continues to Grab Market Share and Posts Impressive EPS Growth

Current Data		EPS (FYE: December)		P/E	
Current Price	\$ 8.30	2001	\$ 0.37	22.7	
52-Week Range	5.3-8.9	2002E	\$ 0.53	15.7	
Shares Out (Mill)	1.17	2003E	\$ 0.62	13.4	
Ave Volume LTM		Valuation		This Qtr	LTM
Market Capitalization	\$ 9.7	P/E	14.65	35-18	
Equity/Total Assets	5.2%	P/B	1.08	1.1-0.7	
Institutional Holdings	na	Operating Data		This Qtr	LTM
Insiders Holdings	31.5%	Net Int. Inc. Growth	31.5%	31.5%	
Book Value	\$ 7.69	Net Interest Margin	3.13%	3.36%	
10Yr Bond	5.18%	Net Inc. Growth	3988.6%	591.0%	

Note: CSHB commenced operations January 1999.



Source: Big Charts

Key Investment Points

- 1Q02 EPS was \$0.14 versus \$0.00 in 1Q01.
- Annualized net interest margin increased to 3.13% compared to 3.04% in 1Q01.
- In 2001, the net interest margin increased 22 basis points as the Fed lowered interest rates 475 basis points.
- Annualized ROAA increased from 0.0% in 1Q01 to 0.04% in 1Q02; annualized ROAE grew from 0.18% to 7.24% over the same period.
- Our 12-18 month target price is \$11.40

Company Description

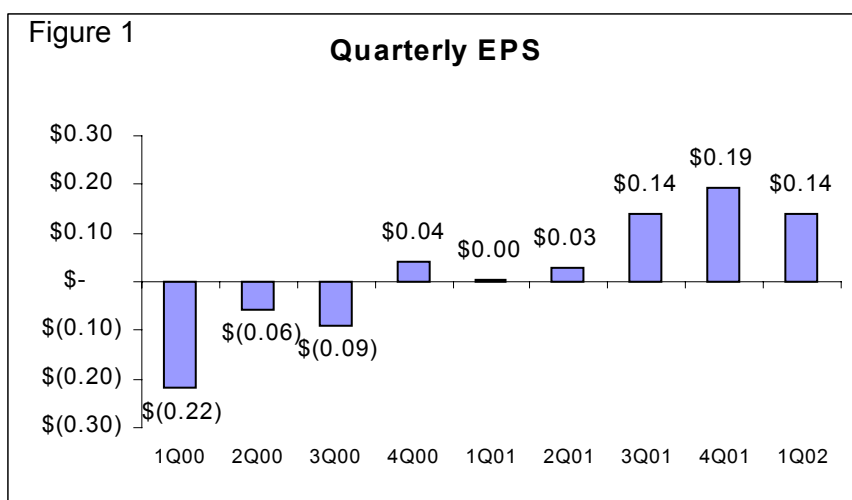
Based in Muskegon, Michigan, Community Shores Bank Corporation (“CSHB”) is the holding company for Community Shores Bank (“Bank”), a Michigan chartered bank with FDIC coverage. The Bank commenced operations on January 18, 1999 and had over \$174 million in assets at March 31, 2002. CSHB serves the greater Muskegon market from two locations in Muskegon (headquarters location), and one in Grand Haven (Northern Ottawa County), Michigan, as well as through a personal Internet banking service launched in the fall of 2001. A business Internet-banking product is expected to be rolled out in the second quarter of 2002.

The Bottom Line:

CSHB's performance has improved dramatically quarter-over-quarter and year-over-year since its inception. In just three years of operations the Bank has achieved the fifth largest deposit base in Muskegon County out of 11 institutions (ranked by the FDIC). We expect EPS to grow as CSHB gains market share and as management continues to improve operating efficiencies. Our 12-18 month target price is \$11.50 and is based upon our 2003 forecast and current valuation multiples.

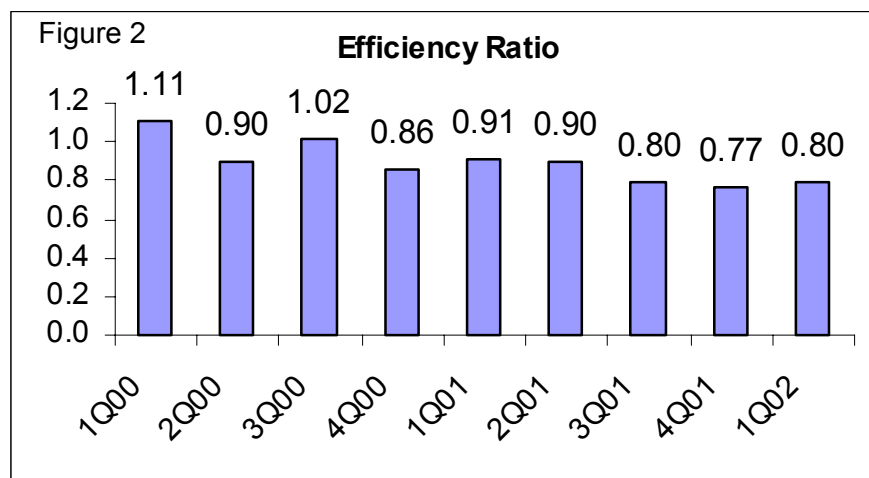
Recent Results: 1Q02

CSHB posted its sixth consecutive quarter of profitability in 1Q02, despite a declining interest rate environment. EPS was in line with projections at \$0.14 per share and continues to show significant improvements over the year-earlier quarter (see Figure 1).



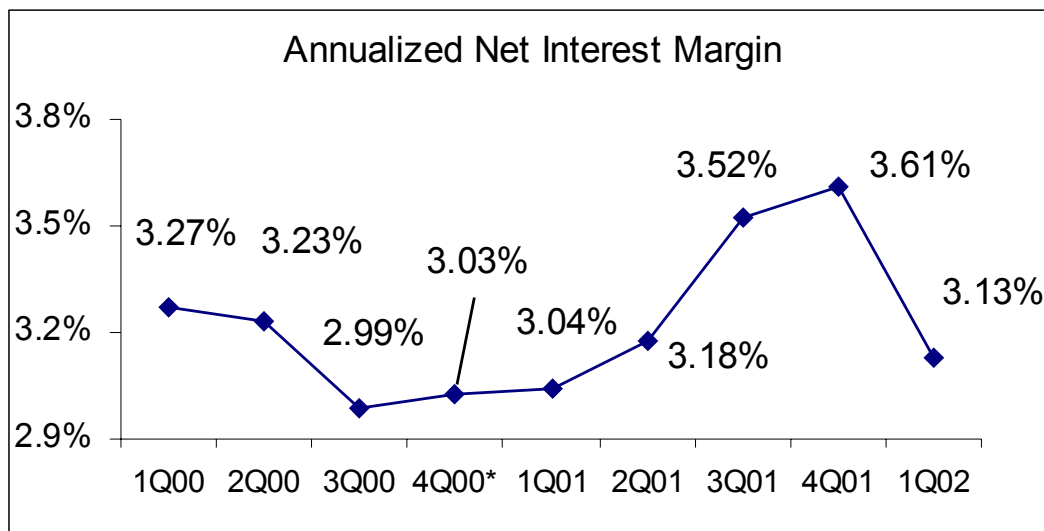
Among the quarter's highlights are the following:

- Net interest margin improved from 3.04% to 3.13% as deposits re-priced faster than loans.
- Non-interest income grew 11.8% compared to 1Q01, and 17.3% versus 4Q01, as CSHB continued to increase service charge income as a result of its fast-growing deposit base.
- Efficiency ratio continued improving to 0.80 in 1Q02, compared to 0.99 in 1Q01 (see Figure 2).



- Annualized net interest margin (“NIM”) declined from the peak levels achieved in 3Q01 and 4Q01 (which occurred as deposits re-priced faster than loans in a declining interest rate environment). However, the 1Q02 NIM still shows improvement over the 1Q01 level (see Figure 3).

Figure 3



- Non-interest expenses increased 13.0% compared to 1Q01, and increased 3.7% compared to 4Q01, primarily due to increased salary and benefits and an increase in other operating expenses (including supplies, bank fees, loan expenses, outside services, directors fees and NSF losses). The increase in non-interest expense reflects normal growth in the Bank’s operations and is in line with growth in income and assets. CSHB opened its third branch on January 16, 2001.
- Annualized return on average assets was 0.40% versus 0.01% in 1Q01.
- Annualized return on average equity was 7.24% compared to 6.45% in 1Q01.

Table 1 compares the 1Q01 result with the year-earlier period.

Table 1: Quarter Comparison			
(\$Million)	1Q01	1Q02	Change
Net Interest Inc	0.953	1.253	31.5%
Loan Loss Prov	-0.102	-0.128	25.9%
Dep. Service Chrgs	0.098	0.100	2.0%
Othr Non-Int Inc	0.069	0.087	25.8%
Tot. Non-Int Inc	0.167	0.186	11.8%
Comp & bennies	0.558	0.619	11.1%
% Tot Revs	49.8%	43.0%	-13.6%
Occ & Equip	0.173	0.182	5.3%
Other Non-Int Exp	0.283	0.344	21.4%
Tot. Non-Int Exp	1.014	1.146	13.0%
Net Before Taxes	0.004	0.166	3988.6%
Taxes	0.000	0.000	0.0%
Net After Tax	0.004	0.166	3988.6%
EPS	\$ 0.00	\$ 0.14	3988.6%
Eff Tax Rate	0.0%	0.0%	
Shares	1.170	1.170	0.0%
Net Int. Margin	3.04%	3.13%	3.0%
Ave Earning Assets	131.9	167.6	27.1%
ROAE	0.2%	7.3%	
Efficiency Ratio	0.906	0.796	
Allow./Total Loan	1.31%	1.34%	

FY2001

For its third year of operation, CSHB posted net income per share of \$0.37 versus a loss of \$0.32 in 2000. During the year:

- Assets increased 18.4% to \$148.2 million, primarily attributable to growth in commercial and consumer loans and the Bank's securities portfolio
- CSHB continues to grab market share as net loans grew 23.5% and deposits increased 12.5%
- Interest income rose 23.2%
- Net interest income grew 42.8%, as interest expense grew more slowly than interest income.
- Non-interest income grew 54.6%, due to increased income from service charges and mortgage referrals

Management expects the increase in service charges, which represented 40% of the growth in non-interest income, to continue to increase as the Bank continues to gain deposit market share. In addition to deposit growth, CSHB funded its asset growth via Federal funds

purchased (which increased from \$0 in 2000 to \$6.7 million) and increased repurchase agreements with new and existing customers (\$12.6 million versus \$9.99 million at year-end 2000).

Financial Condition

The Bank remains well capitalized with a Tier 1 capital to risk-weighted assets ratio of 10.59% (the consolidated holding company's ratio is 10.62%), versus the required 10.0% limit, as of December 31, 2001. Because of the Bank's high growth rate, management has indicated that it might require additional capital to support future growth.

Outlook

We raised our 2002 EPS forecast from \$0.52 to \$0.53 to reflect the Bank's improved net interest margin and efficiency ratio, as well as its rapidly growing asset base (see Table 2, next page). The major assumptions for our 2002 and 2003 forecast include:

- Earning assets grow 3.0% per quarter sequentially for the remainder of 2002, for 26.4% total growth in 2002, and 18.0% growth in 2003, compared to 20.9% growth in 2001.
- Loans, as a percent of earning assets, increase from 75.4% in 1Q02 to 82.0%, a level in line with historical figures, by 3Q02, staying at that level throughout 2003, as the Bank makes new loans from its growing deposit base.
- Loan loss provision declines slightly from 1.34% of loans in 1Q02 to 1.33% for the remainder of 2002 and 2003 (LLP was 1.30% of loans in 2001).
- Net interest margin stays at the 1Q02 level (0.81% percent of average earning assets per quarter) throughout 2002 and 2003.
- Non-interest income declines in the second half of 2002, as rising interest rates reduce loan refinancing, but grows a moderate 10% in 2003 (compared to 54.6% growth in 2001).
- Compensation and benefits costs increase 18.7% and 15.0% in 2002 and 2003 respectively. Occupancy and equipment costs increase 5.0% in 2002 and 2003, compared to a 36.8% increase in C&B and a 19.9% in O&E in 2001, during which a new location was acquired and 4.5 FTE employees were added.
- Other non-interest expense grows slower. This category (which consists of supplies, bank fees, outside services, loan expenses, directors' fees, and NSF losses) increases 8.6% in 2002 and 4.0% in 2003. In 2001 this category grew 36.8%.
- The Bank will begin paying taxes in 2003, at a 34.0% effective rate.

(\$Million)	1999	2000	2001	2002 e	2003 e
Net Interest Inc	1.456	3.095	4.420	5.436	6.378
Loan Loss Prov	-0.852	-0.505	-0.395	-0.567	-0.573
Dep. Service Chrgs	0.064	0.233	0.324	0.290	0.304
Othr Non-Int Inc	0.108	0.185	0.322	0.267	0.293
Tot. Non-Int Inc	0.172	0.418	0.646	0.556	0.598
Comp & bennies	1.424	1.855	2.249	2.670	3.070
% Tot Revs	87%	53%	44%	45%	44%
Occ & Equip	0.449	0.606	0.727	0.763	0.801
Other Non-Int Exp	0.705	0.926	1.267	1.376	1.431
Tot. Non-Int Exp	2.578	3.387	4.243	4.809	5.302
Net Before Taxes	-1.803	-0.378	0.428	0.617	1.101
Taxes	0.000	0.000	0.000	0.000	-0.374
Net After Tax	-1.803	-0.378	0.428	0.617	0.727
EPS	\$ (1.55)	\$ (0.32)	\$ 0.37	\$ 0.53	\$ 0.62
Eff Tax Rate	0%	0%	0%	0%	34%
Shares	1.16	1.17	1.17	1.17	1.17
Return/AEA	3.73%	3.13%	3.35%	3.14%	3.24%
Earning Assets	67.6	118.2	142.9	180.6	213.1
Growth		75%	21%	26%	18%

As Table 2 shows, we expect to see the Bank's net interest income and asset growth plateau in coming years. This, coupled with the fact that the Bank will likely use up its net loss carry-forward and start paying taxes during 2002, leads us to expect slower EPS growth in 2003.

Quarterly EPS, which continues to improve on a quarter-over-quarter basis, is expected to remain above the year-earlier period in the first half of 2002 (see Table 3). The second half of 2002 may be more challenging as EPS growth could be restrained by rising interest rates, with its pressure on the NIM and non-interest income. Nonetheless, we project strong year-over-year growth in EPS, with a projected 44.0% increase in annual EPS for 2002.

	1Q	2Q	3Q	4Q	FY
1999	\$ (0.52)	\$ (0.45)	\$ (0.26)	\$ (0.33)	\$ (1.55)
2000	\$ (0.22)	\$ (0.06)	\$ (0.09)	\$ 0.04	\$ (0.32)
2001	\$ 0.00	\$ 0.03	\$ 0.14	\$ 0.19	\$ 0.37
2002	\$ 0.14	\$ 0.12	\$ 0.13	\$ 0.14	\$ 0.53

Boldfaced data are forecasts.

Valuation Analysis

Our 12-18 month target price was increased to \$11.40 from \$8.00 as we extended our model to 2003. The 2003 assumed P/E and P/B multiples are the averages of the peer group's historical P/B and P/E multiples and CSHB's historic and current multiples. We then used these multiples on our forecasts of book value (\$10.48) and EPS (\$0.62). Our methodology is shown in Table 5.

		Multiples					
		Peer Group		ICNB		2003	Target
		LTM	LTM	Current	Assumed	Ests.	Range
Price/Book	High	1.29	1.12	1.17	1.19	\$ 10.48	\$ 12.50
	Low	0.96	0.71		0.84		\$ 8.78
P/E (LTM)	High	14.69	35.19	17.83	22.57	\$ 0.62	\$ 14.02
	Low	11.88	18.03		14.95		\$ 9.29
						High	\$ 14.02
						Low	\$ 8.78
						Average	\$ 11.40

Comparative valuation data is shown in Table 6.

BANK NAME	TKR	P/E	P/B	Price	LTM EPS	Book
COMMUNITY SHORES	CSHB	16.5	1.1	\$ 8.30	\$ 0.50	\$ 7.69
Peer Group Ave.		13.4	1.2	\$ 13.55	\$ 1.12	\$ 10.95
MSB FINANCIAL	MSBF	9.8	1.0	\$ 12.83	\$ 1.31	\$ 12.76
DEARBORN BANCORP	DEAR	19.2	1.1	\$ 13.25	\$ 0.69	\$ 12.02
COMMUNITY CENTRAL BK	CCBD	14.3	1.2	\$ 9.00	\$ 0.63	\$ 7.81
FRANKLIN BANK	FSVB	10.3	1.7	\$ 19.10	\$ 1.86	\$ 11.19

Investment Risks

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

The Bank has only existed for three 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.

This report contains "forward looking" statements within the meaning of U.S. federal securities laws. Forward-looking statements regarding the Company's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the

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