

Community Shores Bank Corp.

OTC: BB-CSHB - \$5.88 www.communityshores.com

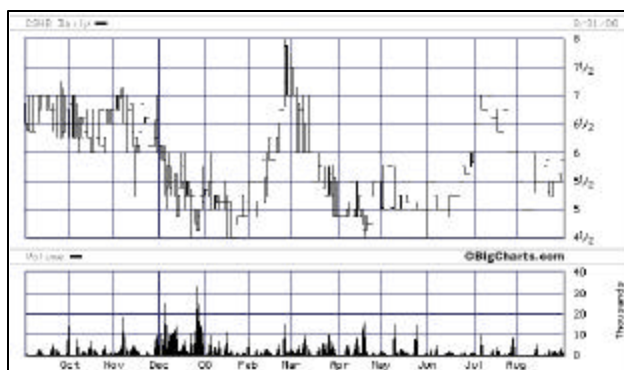
Richard J. Wayman, CFA
rwayman@researchstock.com

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Community Shores Continues to Grow its Market Share and Improve Operating Performance

Current Data		EPS (FYE: February)		P/E
Current Price	\$ 5.88	1999	\$ (1.56)	-3.8
52-Week Range	8.00-4.50	2000E	\$ (0.20)	-29.8
Shares Out (Mill)	1.17	2001E	\$ 0.73	8.0
Ave Volume LTM	2,900			
Market Capitalization	\$ 6.9	Valuation	Current	LTM
Equity/Total Assets	11.7%	P/E (Next FY)	-29.84	na
Institutional Holdings	na	P/B	0.81	1.0-0.6
Insiders Holdings	31.5%	Operating Data	This Qtr	LTM
Book Value	\$ 7.29	Net Int. Inc. Growth	na	na
10Yr Bond	5.77%	Net Interest Margin	3.8%	3.0%
		Net Inc. Growth	na	na

Note: CSHB commenced operations January 1999.



Key Investment Points

- Total Assets grew to \$109 million, up 137% versus 2Q99 and 17% over 1Q00.
- Net loss per share improved to \$0.06 versus a loss per share of \$0.45 in 2Q99.
- Operating efficiencies continue to improve.
- We anticipate CSHB to post positive EPS in both 3Q and 4Q.
- Our 12-18 month target price remains \$9.00 - \$10.00

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 \$109 million in total assets at June 30, 2000. CSHB serves the greater Muskegon market with offices in Muskegon (headquarters location), and Grand Haven (Northern Ottawa County), Michigan.

Recent Results: 2Q00

Operating performance continued to improve as CSHB significantly grew its asset base and kept cost increases under control. The loan portfolio increased 162% over 2Q00 and almost 20% from 1Q00. Figure 1 illustrates the growth in earning assets and deposits.

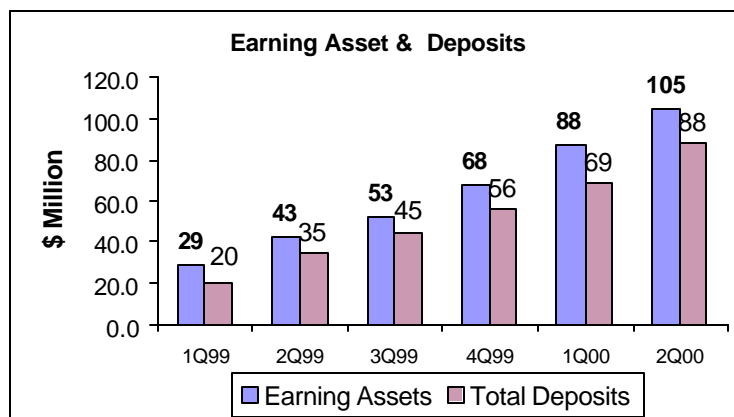


Figure 1

To put this growth in perspective, Table 1 compares loan growth rates between CSHB and Muskegon Commerce Bank up to 1Q00 (the most recent period with comparable information). While CSHB's the growth rate is much larger due to its start-up in January 1999, in dollar terms it is clear that CSHB has been very successful in gaining market share (at least relative to Muskegon Commerce).

	Total Loans			Growth From	
	1Q99	4Q99	1Q00	1Q99	4Q99
Community Shores	\$16.4	\$56.8	\$68.3	318%	20%
Muskegon Commerce	\$26.7	\$41.8	\$47.6	78%	14%

The net loss per share was \$0.06, an improvement over the \$0.45 loss in 2Q99 and the \$0.22 loss per share posted in 1Q00. However, this was \$0.02 below our forecast because we underestimated other non-interest expense and forecast a net loss of \$0.04 per share. Here is a summary of the key operating statistics:

- Net interest income (see Figure 2) grew 152% as the growth in earning assets was slightly offset by a decline in the net interest margin. The net interest margin was adversely impacted as the Fed's series of interest rate hikes that raised the cost of acquiring deposits. The impact was especially great on CSHB because the bank needed to raise deposits to fund its rapidly expanding loan portfolio. If CSHB was not growing at its current pace, we think the net interest margin would be relatively stable since the majority of the bank's loans have floating rates.

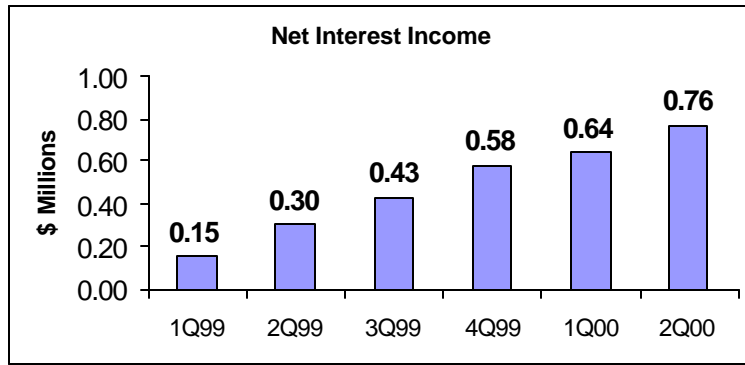


Figure 2

- The loan loss provision was 32% lower than 2Q99 as reserve levels reached targeted levels.
- Non-interest income increased 114%, mostly due to growth in deposit service charges that resulted from increased deposits.
- Operating efficiencies improved as increased revenues leveraged the operating infrastructure. Compensation grew 21% from 2Q99, but declined as a percent of revenues (net interest income plus non-interest income) from 1.01% to 0.49%. Other non-interest expenses increased 21%, driven by occupancy costs associated with being in the headquarters building versus a small temporary structure last year. Figure 3 illustrates the improving trend in CSHB's efficiency ratio.

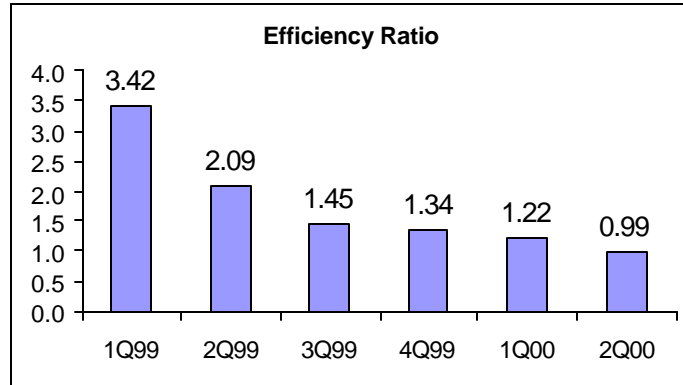


Figure 3

Financial Condition

CSHB's financial condition remains solid. As shown in Table 2, CHSB's capital ratios remain well in excess of the "well capitalized" category.

(Consolidated)	Actual	Adequately	Well Capitalized
Total Capital	11.7%	8.0%	10.0%
Tier 1 to			
Risk-weighted assets	9.2%	4.0%	6.0%
Average assets	9.1%	4.0%	5.0%

Rapid growth, however, required a capital infusion in order to maintain a comfortable margin in excess of regulatory requirements. Four of the Directors lent a total of \$1.085 million via a floating rate, subordinated note to CSHB.

We think additional infusions will be necessary over the next several quarters. CSHB remains in a rapid growth phase but the current market for community bank stocks does not allow management the option of raising funds via a secondary offering. We think this may change over the next 12-18 months if, as we expect, the Fed may start to reduce interest rates and the market “rediscovers” bank stocks.

Outlook

We fine-tuned some of our assumptions, such as increasing non-interest expense and loan reserves. The net effect is that our earnings model remains unchanged at a net loss of \$0.20 per share for 2000, but we lowered our 2001 estimate \$0.03 to \$0.73. Table 3 contains our detailed annual earnings model.

Table 3: Annual Earnings Model			
(\$Million)	1999	2000	2001
Net Interest Inc	1.458	2.940	4.015
Loan Loss Prov	0.852	0.459	0.424
Dep. Service Chrgs	0.065	0.247	0.321
Othr Non-Int Inc	0.088	0.199	0.259
Tot. Non-Int Inc	0.153	0.446	0.580
G/L Sect	0.000	0.000	0.000
Comp & bennies	1.425	1.780	1.860
<i>% Tot Revs</i>	<i>88%</i>	<i>53%</i>	<i>40%</i>
Occ & Equip	0.449	0.552	0.580
Amortz/Intang	0.000	0.000	0.000
Other Non-Int Exp	0.694	0.825	0.858
Tot. Non-Int Exp	2.568	3.157	3.298
Net Before Taxes	-1.809	-0.231	0.873
Taxes	0.000	0.000	0.017
Net After Tax	-1.809	-0.231	0.856
EPS	\$ (1.55)	\$ (0.20)	\$ 0.73
Eff Tax Rate	0%	0%	2%
Shares	1.16	1.17	1.17
Return/AEA	3.03%	2.82%	3.00%
Earning Assets	67.6	114.6	153.0
Growth		70%	33%

Our shorter-term view is that CSHB could post positive EPS starting in 3Q00. We think 3Q00 EPS could be in the \$0.00 to \$0.03 range and \$0.07 in 4Q00. Table 4 compares quarterly EPS results and our forecast.

	1Q	2Q	3Q	4Q	FY
1999	\$ (0.52)	\$ (0.45)	\$ (0.26)	\$ (0.34)	\$ (1.55)
2000	\$ (0.22)	\$ (0.06)	\$ 0.00	\$ 0.07	\$ (0.20)

Boldfaced data are forecasts.

Valuation and Comparative Analysis

We think the banking sector will gain more visibility now that the Fed appears to be satisfied with the economy. Even if economic data point to some inflation, we think the Fed will resist raising rates until after the elections. Longer-term, we think the cycle should point to lower interest rates which should further bolster the attraction of bank stocks. As shown in Figure 4, bank stock share have been on the rebound since March and are breaking through some key technical resistance.



Figure 4

CSHB shares continue to trade at a discount to its peer group due to a lack of positive earnings history and lack of market awareness. As discussed above, we think that the bank will turn the corner during 3Q00 and have positive EPS for the second half of 2000. This positive trend, coupled with continued growth of market share, should attract investor attention.

We continue to feel that CSHB shares could trade in the upper single digits over the next 12 – 18 months, despite our slightly lower 2001 EPS forecast. As shown in Table 5, we have not changed our valuation metrics since our June 29th report and the resulting target range is relatively unchanged at \$9.00 - \$10.00.

Table 4: Valuation Forecast												
	2001		Target									
	Estimate	Multiple	Range									
Book Value	\$ 7.78		1.4	\$ 10.73								
			0.6	\$ 4.67								
EPS	\$ 0.73		15.0	\$ 10.97								
			10.0	\$ 7.31								
<table border="1"> <tr> <td>Average*</td> <td>High</td> <td>\$</td> <td>9.52</td> </tr> <tr> <td></td> <td>Low</td> <td>\$</td> <td>5.93</td> </tr> </table>					Average*	High	\$	9.52		Low	\$	5.93
Average*	High	\$	9.52									
	Low	\$	5.93									
*weighted formula P/B-80%												

Investment Risks

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

The Bank has only existed for one year 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.

Start-up expenses are expected to result in losses for most of the first two years of operations.

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.

The banking sector has been out of favor due to interest rate fears and the potential for greater returns in other "hot" sectors. However, we feel that the market overly discounts the impact of interest rate hikes on bank stocks, thereby creating buying opportunities.

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