

Community Shores Bank Corp.

OTC BB: CSHB - \$7.75

www.communityshores.com

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2Q02 Results

Undervalued Bank Posts Record EPS Growth, Gains Market Share

Current Data		EPS (FYE: December)		P/E
Current Price	\$ 7.75	2001	\$ 0.37	21.2
52-Week Range	9.49-5.9	2002E	\$ 0.54	14.3
Shares Out (Mill)	1.20	2003E	\$ 0.64	12.2
Ave Vol. LTM (Actl.)	800	Valuation		LTM
Market Cap.	\$ 9.3	P/E	13.70	35-18
Equity/Totl Assets	6.1%	P/B	0.97	1.1-0.7
Institutional Hldgs	na	Operating Data		This Qtr
Insiders Hldgs	31.5%	Net Int. Inc. Growth	32.7%	32.7%
Book Value	\$ 7.96	Net Interest Margin	3.40%	3.42%
10Yr Bond	3.77%	Net Inc. Growth	435.9%	3366.9%

Note: CSHB commenced operations January 1999.

Source: Big Charts

Key Investment Points

- EPS was \$0.14 versus \$0.03 in 2Q01, seventh consecutive quarter of profitability.
- Annualized Net Interest Margin increased to 3.4% compared to 3.13% in 1Q02 and 3.18% of 2Q01.
- Efficiency ratio improved to 0.78 compared to 0.90 in 2Q01.
- Reiterating our 12-18 month target price of \$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 \$166 million in assets at June 30, 2002. CSHB serves the greater Muskegon market from two locations in Muskegon (including the headquarters location), and one in Grand Haven (Northern Ottawa County), Michigan, as well as personal Internet banking services and business Internet services (to be released in the fall).

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The Bottom Line:

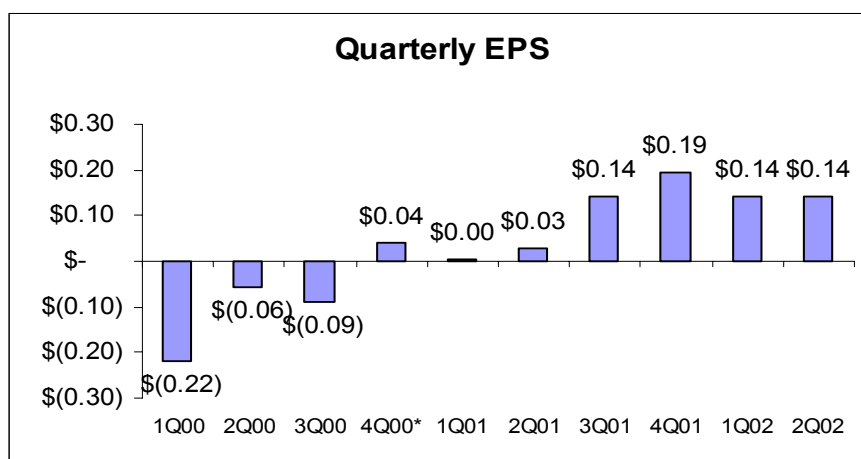
CSHB posted its seventh consecutive quarter of positive EPS and continued growing at a 20%+ rate. A respectable feat considering the competitive marketplace and a declining interest rate environment. Management continues to successfully grow the commercial business and increase its deposit base, largely as the result of the addition of experienced loan officers and the fact that a larger out-of-state bank acquired a local competitor. The bank retained its "well capitalized" classification as the result of a placement of common stock that raised \$738,548. Management has acknowledged that it is evaluating several strategies to increase the Bank's capital base.

We reiterate our 12-18 month target price of \$11.40

2Q02 Results

CSHB posted its seventh consecutive quarter of profitability in 2Q02, despite a declining interest rate environment, as the bank benefited from a growing net interest margin and continued to control expenses. CSHB's net income rose 436% to \$170,700, or \$0.14 per share, from \$31,858, or \$0.03 per share, for 2001's second quarter. Figure 1 illustrates the trend in quarterly EPS.

Figure 1

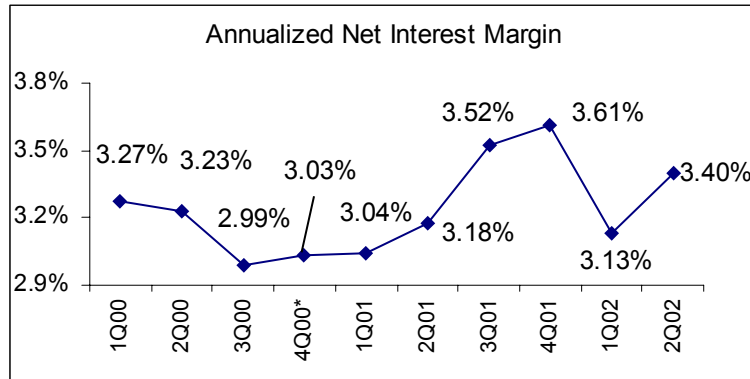


Among the quarter's highlights are the following:

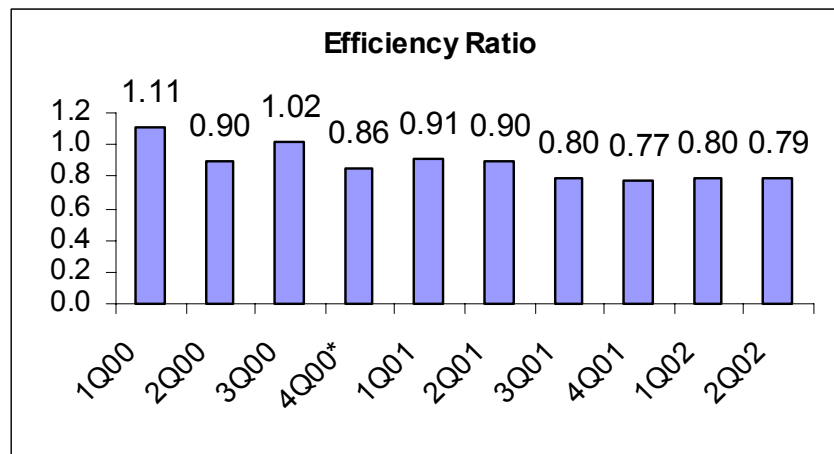
- From June 2001, total loans grew 26.9% while deposits increased 23.4% as the bank continued to grab market share. Loan portfolio growth was lead by consumer loans (up 48%) and commercial loans (up 25%). CSHB's strategy remains focused on growing the commercial banking business.

- Net interest margin improved to 3.40% from 3.18% in 2Q01. CSHB continued to benefit from the declining interest rate environment as deposits re-priced faster than loans (see Figure 2).

Figure 2



- Non-interest income grew 15% compared to 2Q01 as service charges increased. (Note: Service charge income generally rises in a declining interest rate environment and falls as interest rates rise.)
- Efficiency ratio improved to 0.78 compared to 0.90 in 2Q01 as business growth exceeded increased operating expenses.



- Operating expenses increased 14% versus 2Q01 and grew 8% compared to 1Q02. The growth in non-interest expense is the result of increased staff to service customer growth and introducing Internet banking services.
- Annualized return on Assets was 0.41% versus 0.09% in 2Q01.
- Return on Average Equity was 7.12% compared to 1.47% in 2Q01.

Table 1 compares second quarter results of 2002 with the same period in 2001.

Table 1: Quarter Comparison			
(\$Million)	2Q01	2Q02	Change
Net Interest Inc	1.022	1.357	32.7%
Loan Loss Prov	-0.091	-0.160	75.3%
Dep.Service Chrgs	0.111	0.128	14.5%
Othr Non-Int Inc	0.075	0.087	16.2%
Tot. Non-Int Inc	0.186	0.215	15.2%
Comp & bennies	0.548	0.657	20.0%
% Tot Revs	45.3%	41.8%	-7.7%
Occ & Equip	0.177	0.182	2.7%
Other Non-Int Exp	0.361	0.401	11.3%
Tot. Non-Int Exp	1.086	1.241	14.3%
Net Before Taxes	0.032	0.171	435.9%
Taxes	0.000	0.000	0.0%
Net After Tax	0.032	0.171	435.9%
EPS	\$ 0.03	\$ 0.14	419.4%
Eff Tax Rate	0.0%	0.0%	
Shares	1.170	1.207	3.2%
Net Int. Margin	3.18%	3.40%	6.9%
Ave Earning Assets	127.5	159.8	25.3%
ROAE	1.5%	7.2%	
Efficiency Ratio	0.898	0.790	
Allow./Total Loan	1.33%	1.34%	

YTD 2002

EPS grew 833% to \$0.28 versus \$0.03 in 06/01 due to the growth in the client base and the ability to maintain a wide net interest margin. Net interest income, despite a significant growth in the provision for loan losses, rose 30% to \$2.3 million. Here is a summary of the key operating results:

- Total assets increased 12.1% to \$166.1 million from \$148.2 million at FYE01. The primary growth drivers were residential real estate mortgages (+32.9%) and commercial lending (+13.6%).
- Deposits increased 18.2% in from FYE01 to \$130.2 million, primarily attributable to growth in deposits greater than \$100,000 (+318%) and savings accounts (+21.8%).
- Net income rose 843% to \$336,371 from \$35,654, as CSHB was able to leverage new business off a relatively stable cost structure.
- Service charge income grew 7.75%, as non-interest income grew 13.5%.
- The allowance for loan increased 15.3% to \$1.7 million from \$1.5 million at Dec 31, 2001 as CSHB increased its allowance/loan ratio to 1.34 from 1.30, which is more in line with peer group averages. Net charge offs for the 1Q02 declined to \$51,458 from \$128,527 in the first half of 2001 ("1H01").

Financial Condition

CSHB as a holding company remains well capitalized with a Tier 1 capital to risk-weighted assets ratio of 10.67%, versus the required 10.0% limit. In order to maintain the "well capitalized" status and fund future growth, CSHB raised \$738,548 through the sale of common stock.

Outlook

Our forecast is relatively unchanged. CSHB beat our 2Q02 by \$0.01, which we added to our 2003 EPS forecast (now \$0.54, see Table 2, next page). The major assumptions for our 2002 and 2003 forecast include:

- Earning assets expected to grow 6% per quarter sequentially for the remainder of 2002, for 25% total growth in 2002, and 19.0% growth in 2003, Earning assets grow compared to 20.9% growth in 2001.
- Loans, as a percent of earning assets remain at 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 is expected to decline slightly from 1.34% of loans in 2Q02 to 1.33% for the remainder of 2002 and 2003 (LLP was 1.30% of loans in 2001).
- Net interest margin stays at the 2Q02 level throughout 2002 and 2003. Asset liability management will assist the bank in evaluating favorable net interest margins to avoid any inconsistency in net interest income through periods of changing interest rates. However, we expect stable interest rate environment for the coming months.
- Non-interest income grows in the second half of 2002, as service charge will continue to increase because of the growth in the number of deposit accounts.
- Compensation and benefits ("C&B") costs increase 19.7% and 15.0% in 2002 and 2003, respectively. Occupancy and equipment ("O&E") costs rise 2.5% and 5.0% in 2002 and 2003. (In 2001, these expense categories grew 21.2% 19.9%, respectively, as a new branch was opened and 8.5 FTE employees were added.)
- Non-interest expense growth is expected to slow down as no additional branches are expected to open until late 2003. This category (which consists of advertising, supplies, bank fees, outside services, loan expenses, directors' fees, and non-sufficient fund losses) should increase 17.5% in 2002 and 10.0% in 2003. In 2001 this category grew 25.3%.
- The Bank will begin paying taxes in 2003, at a 34.0% effective rate.

As Table 2 shows, the growth in earning assets is expected to remain high throughout 2003, but earnings per share growth will dip in 2003 as the result of having to start paying income taxes (the bank will likely use up its net loss carry-forwards in mid-2003).

(\$Million)	1999	2000	2001	2002 e	2003 e
Net Interest Inc	1.456	3.095	4.420	5.397	6.353
Loan Loss Prov	-0.852	-0.505	-0.395	-0.579	-0.585
Dep. Service Chrgs	0.064	0.233	0.324	0.474	0.498
Othr Non-Int Inc	0.108	0.185	0.322	0.344	0.378
Tot. Non-Int Inc	0.172	0.418	0.646	0.818	0.876
Comp & bennies	1.424	1.855	2.249	2.692	3.096
% Tot Revs	87%	53%	44%	43%	43%
Occ & Equip	0.449	0.606	0.727	0.745	0.782
Other Non-Int Exp	0.705	0.926	1.267	1.548	1.610
Tot. Non-Int Exp	2.578	3.387	4.243	4.985	5.488
Net Before Taxes	-1.803	-0.378	0.428	0.651	1.156
Taxes	0.000	0.000	0.000	0.000	-0.393
Net After Tax	-1.803	-0.378	0.428	0.651	0.763
EPS	\$ (1.55)	\$ (0.32)	\$ 0.37	\$ 0.54	\$ 0.64
Eff Tax Rate	0%	0%	0%	0%	34%
Shares	1.16	1.17	1.17	1.20	1.20
Return/AEA	3.73%	3.13%	3.35%	3.20%	3.24%
Earning Assets	67.6	118.2	142.9	178.7	213.5
Growth		75%	21%	25%	20%

Quarterly EPS, which continues to improve sequentially, is expected to be below the year-earlier period in the second half of 2002 (see Table 4). The second half of 2002 will face a difficult comparison with 2H01 when CSHB really benefited from the decline in interest rates and has fewer shares outstanding. Increased loan loss provisions and pressure on the net interest margin (more from competition than Fed action) will also impact EPS growth. Nonetheless, we project strong (48%) year-over-year growth in annual EPS in 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	\$ 0.14	\$ 0.13	\$ 0.13	\$ 0.54

Boldfaced data are forecasts.

Valuation Analysis

We reiterate our 12-18 month target price of \$11.40. 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 (\$10.55) and EPS (\$0.64). Our methodology is shown in Table 5.

		Multiples				2003 Ests.	Price Range
		Peers LTM	CSHB LTM	2003 Current	2003 Assumed		
Price/Book	High	1.11	1.23	1.01	1.20	\$ 10.55	\$ 12.66
	Low	0.85	0.77		0.85		\$ 8.97
P/E (LTM)	High	14.37	35.19	12.94	22.00	\$ 0.64	\$ 13.99
	Low	11.80	11.80		15.00		\$ 9.54
Range						High	\$ 13.99
						Low	\$ 8.97
						Average	\$ 11.48

We think these are reasonable assumptions based upon peer group averages and CSHB's expected growth rate. Bank valuations center more on price/book ("P/B") than price/earnings ("P/E") ratios. Our assumed P/B multiple is below the peer average. We assumed a high P/E multiple (although it is within CSHB's historic range) because we expect earnings to continue growing at an above average rate. Table 6 compares CSHB and peer group valuations.

BANK NAME	TKR	P/E	P/B	Price	LTM EPS	Book
COMMUNITY SHORES	CSHB	12.5	1.0	\$ 7.75	\$ 0.62	\$ 7.96
Peer Group Ave.		12.8	1.2	\$ 12.98	\$ 1.10	\$ 10.83
MSB FINANCIAL	MSBF	9.9	1.0	\$ 12.23	\$ 1.23	\$ 12.76
DEARBORN BANCORP	DEAR	19.2	1.2	\$ 14.00	\$ 0.73	\$ 11.73
COMMUNITY CENTRAL BK	CCBD	12.4	1.0	\$ 7.95	\$ 0.64	\$ 8.00
FRANKLIN BANK	FSVB	9.8		\$ 17.75	\$ 1.81	-

Source: Baseline, researchstock.com

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.

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