Birmingham Bloomfield Bancshares
Form 10-Q
August 13, 2008

Table of Contents

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 June 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 þ No o

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 o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes o No þ

The number of shares outstanding of the issuer s Common Stock as of August 13, 2008, was 1,800,000 shares.

INDEX

PART I FINANCIAL INFORMATION 3

ITEM 1. FINANCIAL STATEMENTS 3
ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS 15
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK 25
ITEM 4T. CONTROLS AND PROCEDURES 26

PART II. OTHER INFORMATION 27

ITEM 1. LEGAL PROCEEDINGS 27
ITEM 1A. RISK FACTORS 27
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS 27
ITEM 3. DEFAULTS UPON SENIOR SECURITIES 27
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS 27
ITEM 5. OTHER INFORMATION 27
ITEM 6. EXHIBITS 28
EX-31.1
EX-31.2
EX-32

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BIRMINGHAM BLOOMFIELD BANCSHARES, INC
CONSOLIDATED BALANCE SHEETS

	June 30, 2008 (unaudited)	December 31, 2007
Assets		
Cash and cash equivalents		
Cash	$ 1,219,245	$ 1,265,119
Federal funds sold	12,414,065	3,874,007
Total cash and cash equivalents	13,633,310	5,139,126
Securities, available for sale (Note 3)	1,766,686	2,595,930
Loans (Note 4)		
Total loans	49,388,881	37,106,976
Less: allowance for loan losses	(789,000)	(560,000)
Net loans	48,599,881	36,546,976
Premises & equipment (Note 6)	2,367,635	2,519,701
Interest receivable and other assets	475,313	458,157
Total assets	$ 66,842,825	$ 47,259,890
Liabilities and Shareholders Equity		
Deposits (Note 5)		
Non-interest bearing	$ 6,547,469	$ 5,385,200
Interest bearing	50,221,020	30,877,148
Total deposits	56,768,489	36,262,348
Interest payable and other liabilities	370,570	237,903
Total liabilities	57,139,059	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	483,000	462,000
Accumulated deficit	(7,822,459)	(6,799,150)
Accumulated other comprehensive income	8,895	62,459

Total shareholders equity	9,703,766	10,759,639
Total liabilities and shareholders equity	$ 66,842,825	$ 47,259,890

See accompanying notes to consolidated financial statements

Table of Contents

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
Interest income				
Loans, including fees	$ 728,511	$ 344,503	$ 1,378,652	$ 597,906
Taxable securities	26,490	8,898	55,635	8,898
Federal funds sold	41,830	211,338	90,130	373,312
Total interest income	796,831	564,739	1,524,417	980,116
Interest expense				
Deposits	339,686	274,464	653,428	444,107
Total interest expense	339,686	274,464	653,428	444,107
Net interest income	457,145	290,275	870,989	536,009
Provision for loan losses	94,665	85,000	144,665	120,000
Net interest income after provision for loan losses	362,480	205,275	726,324	416,009
Non-interest income				
Loan fees and charges	1,102	20,202	11,829	46,113
Deposit fees and charges	19,991	10,418	37,815	21,158
Other income (loss)	2,483	(2,146)	11,917	(947)
Total non-interest income	23,576	28,474	61,561	66,324
Non-interest expense				
Salaries and benefits	312,540	461,070	861,604	895,762
Occupancy & equipment expense	199,284	249,800	418,244	457,553
FAS 123R share based payments	10,500		21,000	
Data processing expense	43,368	37,122	87,095	93,150
Advertising and public relations	36,395	61,178	59,611	130,098
Professional fees	72,512	64,510	159,782	125,411
Printing and office supplies	7,590	11,320	14,126	23,204
Other expense	102,465	94,167	189,732	153,918
Total non-interest expense	784,654	979,167	1,811,194	1,879,096
Net loss before taxes	(398,598)	(745,418)	(1,023,309)	(1,396,763)

Income taxes				
Net loss	$ (398,598)	$ (745,418)	$ (1,023,309)	$ (1,396,763)
Basic loss per share	$ (0.22)	$ (0.41)	$ (0.57)	$ (0.78)
Diluted loss per share	$ (0.22)	$ (0.41)	$ (0.57)	$ (0.78)

See accompanying notes to consolidated financial statements

4

Table of Contents

BIRMINGHAM BLOOMFIELD BANCSHARES, INC
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
January 1, 2008 to June 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
Share based payments		21,000			21,000
Comprehensive loss:					
Net loss			(1,023,309)		(1,023,309)
Unrealized loss on securities				(53,564)	(53,564)
Total comprehensive loss					(1,076,873)
Balance at June 30, 2008	$ 17,034,330	$ 483,000	$ (7,822,459)	$ 8,895	$ 9,703,766

See accompanying notes to consolidated financial statements

5

Table of Contents

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

	For the Six Months Ended June 30, 2008	2007
Cash flows from operating activities		
Net loss	$ (1,023,309)	$ (1,396,763)
Share based payments expense	21,000	
Provision for loan losses	144,665	120,000
Accretion of securities	(7,305)	(1,189)
Gain on calls of securities	(6,474)	
Depreciation expense	156,000	187,200
Loss on disposal of equipment		35,479
Net increase in other assets	(17,156)	(86,004)
Net increase in other liabilities	132,667	578,502
Net cash used in operating activities	(599,912)	(562,775)
Cash flows from investing activities		
Increase in loans	(12,197,570)	(8,096,909)
Purchase of securities		(2,408,397)
Proceeds from sales, calls or maturities of securities	789,459	12,923
Purchases of premises and equipment	(3,934)	(736,626)
Proceeds from reimbursement of leasehold improvements		144,500
Net cash used in investing activities	(11,412,045)	(11,084,509)
Cash flows from financing activities Increase in deposits	20,506,141	20,251,552
Net cash provided by financing activities	20,506,141	20,251,552
Increase in cash and cash equivalents	8,494,184	8,604,268
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	$ 13,633,310	$ 17,155,269
Supplemental cash flow information:		
Cash paid for interest:	$ 542,564	$ 422,267

See accompanying notes to consolidated financial statements

Table of Contents

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 six month periods ended June 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 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

Table of Contents

BIRMINGHAM BLOOMFIELD BANCSHARES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies continued

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.

Table of Contents

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

Table of Contents

BIRMINGHAM BLOOMFIELD BANCSHARES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2 Fair Value Accounting continued

The following tables present the financial instruments carried at fair value as of June 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 June 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 June 30, 2008
Securities available for sale	$ 1,767	$	$	$ 1,767

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

	Balance at June 30, 2008	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Losses for the Three and Six Months Ended June 30, 2008
Impaired loan accounted for under FAS 114	$ 173	$	$	$ 173	$ 173

Impaired Loans

The Corporation does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with SFAS 114, Accounting by Creditors for Impairment of a Loan. The fair value of impaired loans is estimated using primarily collateral value. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. The fair value of the collateral is based on an observable market price, current appraised value and management s estimates of collateral and other market conditions. Due to the lack of market transactions, volatility in pricing and other factors, some of which may be unobservable, the Corporation recorded the impaired loan as nonrecurring Level 3.

Note 3 Securities

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

June 30, 2008 (unaudited)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Mortgage backed securities	$ 1,758	$ 9	$	$ 1,767
Total securities available for sale	$ 1,758	$ 9	$	$ 1,767

10

Table of Contents

BIRMINGHAM BLOOMFIELD BANCSHARES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 June 30, 2008 and December 31, 2007, all securities are available for sale. At June 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.

The amortized cost and estimated fair value of securities at June 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
Mortgage backed securities, due after 10 years	$ 1,758	$ 1,767

Table of Contents

BIRMINGHAM BLOOMFIELD BANCSHARES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4 Loans

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

	June 30, 2008 (unaudited)	December 31, 2007
Mortgage loans on real estate:		
Residential 1 to 4 family	$ 2,006	$ 1,816
Multifamily	5,405	1,864
Commercial	18,788	13,601
Construction	3,215	2,348
Second mortgage	751	758
Equity lines of credit	11,495	8,696
Total mortgage loans on real estate	41,660	29,083
Commercial loans	7,550	7,898
Consumer installment loans	247	177
Total loans	49,457	37,158
Less:		
Allowance for loan losses	789	560
Net deferred loan fees	68	51
Net loans	$ 48,600	$ 36,547

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

	Three months ended June 30,		Six months ended June 30,	
(unaudited)	2008	2007	2008	2007
Balance at beginning of period	$ 610	$ 230	$ 560	$ 195
Charge-offs				
Recoveries	84		84	
Provision for loan losses	95	85	145	120
Balance at end of period	$ 789	$ 315	$ 789	$ 315

At June 30, 2008, the Corporation had one impaired, nonaccrual loan with outstanding principal of approximately $173,000. There were no loans over 90 days past due and still accruing interest.

Table of Contents

BIRMINGHAM BLOOMFIELD BANCSHARES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5 Deposits

Deposits are summarized as follows (000 s omitted):

	June 30, 2008 (unaudited)	December 31, 2007
Non-interest bearing deposits	$ 6,547	$ 5,385
NOW accounts	7,872	9,727
Savings and money market accounts	13,004	11,620
Certificates of deposit <$100,000	13,112	2,008
Certificates of deposit >$100,000	16,233	7,522
Total	$ 56,768	$ 36,262

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

	<$100,000	>$100,000	Total
Within 12 months	$ 12,878	$ 16,233	$ 29,111
> 12 months	234		234
Total	$ 13,112	$ 16,233	$ 29,345

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 $69,000 and $67,000 for the three months ended June 30, 2008 and 2007, respectively. Rent expense under the lease agreements was $137,000 and $134,000 for the six months ended June 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	$ 137
2009	280
2010	286
2011	291
2012	298
Thereafter	3,670
Total	$ 4,962

Table of Contents

BIRMINGHAM BLOOMFIELD BANCSHARES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 June 30, 2008. At June 30, 2008, the Corporation qualifies for an exemption from regulatory capital requirements due to its asset size.

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

	Actual		For Capital Adequacy Purposes		To be Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2008						
Total risk-based capital (to risk weighted assets)						
Bank of Birmingham	$ 9,771	19.1%	$4,094	8.0%	$5,117	10.0%
Tier I capital (to risk weighted assets)						
Bank of Birmingham	$ 9,120	17.8%	$2,047	4.0%	$3,070	6.0%
Tier I capital (to average assets)						
Bank of Birmingham	$ 9,120	15.0%	$2,438	4.0%	$3,048	5.0%
As of December 31, 2007						
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%

Table of Contents

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.

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.

General economic conditions have worsened for banks in general and particularly in Michigan as the U.S. economic picture has moved towards recession. Michigan and the Detroit area in particular have been hit fairly hard. Michigan has one of the highest foreclosure rates and unemployment rates in the country. While Oakland county is not immune to these issues, management believes the demographics of the Birmingham Bloomfield area somewhat lessen the impact as the residents of the area tend to be more business owners and professionals.

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

BIRMINGHAM BLOOMFIELD BANCSHARES, INC.
Management s Discussion and Analysis of Financial Condition and Results of Operations

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 17 full-time equivalent employees to staff its banking offices.

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 June 30, 2008, the Corporation s total assets were $67.0 million, an increase of $19.6 million or 41.4% from December 31, 2007. Cash and cash equivalents increased by $8.5 million or 165.3%. Investment securities available-for-sale decreased $829,000 or 31.9% from December 31, 2007 to June 30, 2008. Loans, net of the allowance for loan losses, increased by $12.1 million or 33.0% from December 31, 2007 to June 30, 2008. Total deposits increased by $20.5 million or 56.5% from December 31, 2007 to June 30, 2008. Basic loss per share for the three and six months ended June 30, 2008 were $(0.22) per share and $(0.57) per share, respectively. Basic loss per share for the three and six months ended June 30, 2007 were $(0.41) per share and $(0.78) per share, respectively. Diluted loss per share for the three and six months ended June 30, 2008 were $(0.22) per share and $(0.57) per share, respectively. Diluted loss per share for the three and six months ended June 30, 2007 were $(0.41) per share and $(0.78) per share, respectively.

FINANCIAL CONDITION

Cash and Cash Equivalents

Cash and cash equivalents increased $8.5 million or 165.3% to $13.6 million at June 30, 2008, up from $5.1 million at December 31, 2007. Federal funds sold increased $8.5 million or 220.4% to $12.4 million at June 30, 2008. The increase in Federal funds sold is due to deposit growth currently outpacing growth in the loan portfolio coupled with proceeds received from certain U.S. Government securities which were called in the first quarter 2008 pending reinvestment.

Investments

Total investment securities available-for-sale decreased $829,000 or 31.9% to $1.8 million at June 30, 2008, compared to $2.6 million at December 31, 2007. The decrease in investment securities is primarily attributable to certain U.S. Government agency securities, which were called in the first quarter, resulting in approximately $685,000 of the decrease. The remaining decrease was due to repayments on mortgage backed securities. The Corporation had no held-to-maturity securities as of June 30, 2008 or December 31, 2007.

Loans

During the first six months of 2008, loans, net of the allowance for loan losses, increased $12.1 million or 33.0%, to $48.6 million at June 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 $5.2 million. These loans are for the most part owner occupied properties. Equity lines of credit increased $2.8 million or 32.2% to $11.5 million at June 30, 2008. This increase is due in part to continued business development efforts as well as increased draws on existing lines. Real estate mortgages on multifamily properties increased approximately $3.5 million or 190.0% to $5.4 million at June 30, 2008. The increase is due to new loan

Table of Contents

BIRMINGHAM BLOOMFIELD BANCSHARES, INC.

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

production. Commercial non real estate loans decreased approximately $348,000 or 4.4% to $7.6 million at June 30, 2008.

Credit Quality

The allowance for loan losses was $789,000 or 1.60% of loans at June 30, 2008. There were no loan charge offs during the three and six month periods ended June 30, 2008 or 2007. In the second quarter of 2008, the Corporation did recover approximately $84,000 on a loan charged-off in 2007. At June 30, 2008, the Corporation had one nonperforming loan with outstanding principal of approximately $173,000; this loan was placed on nonaccrual in the second quarter of 2008. There were no loans over 90 days past due and still accruing interest at June 30, 2008 or 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 $2.4 million and $2.5 million at June 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 $56.8 million as June 30, 2008, an increase of $20.5 million over December 31, 2007. In the deposit categories, noninterest bearing DDA deposits were $6.5 million, which were made up primarily of business accounts. NOW accounts were $7.9 million at June 30, 2008, while Money Market accounts were $12.4 million at the current quarter end. Certificates of deposit were $29.3 million at June 30, 2008. Of this amount $16.2 million was in certificates greater than $100,000.

	As of June 30, 2008	
(000 s omitted)	Balance	Percentage
Noninterest bearing demand	$ 6,547	11.5%
NOW accounts	7,872	13.9
Money market	12,356	21.8
Savings	648	1.1
Time deposits under $100,000	13,112	23.1
Time deposits over $100,000	16,233	28.6
Total deposits	$ 56,768	100.0%

RESULTS OF OPERATIONS
Net Interest Income

Net interest income for the three months ended June 30, 2008 and 2007 was $457,000 and $290,000, respectively. Interest income on loans was $729,000 and $345,000 for the three months ended June 30, 2008 and 2007, respectively. The growth in interest income on loans was driven by continued growth in the loan portfolio. Deposit interest expense of $340,000 and $274,000 for the three month periods ended June 30, 2008 and 2007, respectively, increased due to the growth in NOW accounts, money markets and certificates of deposit.

Net interest income for the six months ended June 30, 2008 and 2007 was $871,000 and $536,000, respectively. Interest income on loans was $1.4 million and $0.6 million for the six months ended June 30, 2008 and 2007, respectively. As indicated above, the growth in interest income on loans was 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 $653,000 and $444,000 for the six month periods ended June 30, 2008 and 2007, respectively.

Table of Contents

BIRMINGHAM BLOOMFIELD BANCSHARES, INC.
Management s Discussion and Analysis of Financial Condition and Results of Operations
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 six month periods ended June 30, 2008 and 2007, respectively.

	Three Months Ended June 30,					
	2008			2007		
	Average Balance (000 s)	Interest Earned/ Paid	Yield/ Rate	Average Balance (000 s)	Interest Earned/ Paid	Yield/ Rate
Interest-earning assets						
Loans	$ 47,393	$ 728,511	6.15%	$ 18,580	$ 344,503	7.42%
Securities	1,856	26,490	5.71%	710	8,898	5.01%
Federal funds sold	8,447	41,830	1.98%	15,691	211,338	5.39%
Total interest-earning assets	**57,696**	**796,831**	**5.52%**	**34,981**	**564,739**	**6.46%**
Cash and due from banks	1,243			1,054		
All other assets	2,019			2,762		
Total assets	**$ 60,958**			**$ 38,797**		
Interest-bearing liabilities						
NOW accounts	$ 7,809	31,733	1.63%	$ 6,420	68,711	4.28%
Money market	11,905	55,563	1.87%	8,421	104,848	4.98%
Savings	386	1,513	1.57%	159	492	1.24%
Time deposits	24,858	250,877	4.04%	7,756	100,413	5.18%
Total interest-bearing liabilities	**44,958**	**339,686**	**3.02%**	**22,756**	**274,464**	**4.82%**
Demand deposits	5,606			2,341		
All other liabilities	325			164		
Total liabilities	**50,889**			**25,261**		
Shareholders equity	10,069			13,536		
Total liabilities and shareholders equity	**$ 60,958**			**$ 38,797**		
Net interest income		**$ 457,145**			**$ 290,275**	

Interest rate spread [1]		**2.50%**	**1.64%**
Net interest margin [2]		**3.17%**	**3.32%**
Ratio of interest-earning assets to interest-bearing liabilities	**1.28**	**1.54**	

(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.

20

Table of Contents

BIRMINGHAM BLOOMFIELD BANCSHARES, INC.
Management s Discussion and Analysis of Financial Condition and Results of Operations

	Six Months Ended June 30,					
	2008			2007		
	Average Balance (000 s)	Interest Earned/ Paid	Yield/ Rate	Average Balance (000 s)	Interest Earned/ Paid	Yield/ Rate
Interest-earning assets						
Loans	$ 43,599	$ 1,378,652	6.32%	$ 16,357	$ 597,906	7.31%
Securities	1,971	55,635	5.65%	357	8,898	4.98%
Federal funds sold	7,192	90,130	2.51%	14,167	373,312	5.27%
Total interest-earning assets	**52,762**	**1,524,417**	**5.78%**	**30,881**	**980,116**	**6.35%**
Cash and due from banks	1,251			1,156		
All other assets	2,096			2,649		
Total assets	**$ 56,109**			**$ 34,686**		
Interest-bearing liabilities						
NOW accounts	$ 8,360	91,368	2.19%	$ 4,450	91,425	4.11%
Money market	11,772	141,548	2.40%	7,076	180,229	5.09%
Savings	359	2,831	1.58%	170	1,162	1.37%
Time deposits	19,394	417,681	4.31%	6,627	171,291	5.17%
Total interest-bearing liabilities	**39,885**	**653,428**	**3.28%**	**18,323**	**444,107**	**4.85%**
Demand deposits	5,644			2,924		
All other liabilities	265			119		
Total liabilities	**45,794**			**21,366**		
Shareholders equity	10,315			13,320		
Total liabilities and shareholders equity	**$ 56,109**			**$ 34,686**		
Net interest income		**$ 870,989**			**$ 536,009**	
Interest rate spread [1]			**2.50%**			**1.50%**

Net interest margin [2]		**3.30%**	**3.47%**
Ratio of interest-earning assets to interest-bearing liabilities	**1.32**	**1.69**	

(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 June 30, 2008 to 5.52% from 6.46% 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. The yield on loans receivable decreased to 6.15% for the three months ended June 30, 2008 from 7.42% for the same period in 2007. The Corporation s interest rate spread increased for the three months ended June 30, 2008 to 2.50% from 1.64% 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 3.17% for the three months ended June 30, 2008 down from 3.32% for the same period in 2007.

BIRMINGHAM BLOOMFIELD BANCSHARES, INC.

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

The yield on interest-earning assets decreased for the six month period ended June 30, 2008 to 5.78% from 6.35% as compared to the same period in the prior year. The yield on loans receivable decreased to 6.32% for the six months ended June 30, 2008, down from 7.31% for the same period in 2007. As indicated above, these decreases relate directly to decreases in the prime lending rate over the past several months. The Corporation s interest rate spread increased for the six months ended June 30, 2008 to 2.50%, up from 1.50% for the same period in 2007. Net interest margin decreased to 3.30% for the six months ended June 30, 2008, down from 3.47% for the same period in 2007. Management expects that the excess liquidity held in federal funds sold will be utilized in the third quarter through the purchase of higher yield investment products and continued loan growth, which will improve the yield on interest earning assets, which should translate to improvement in the net interest margin. Excess federal funds sold will also be depleted as nonrenewal of certain higher rate certificates of deposit mature in July 2008.

Provision for Loans Losses

The Corporation had a provision for loan losses for the three months ended June 30, 2008 of $94,665 compared to a provision for loan losses of $85,000 for the three months ended June 30, 2007. In the second quarter of 2008, the Corporation received a recovery on a loan previously charged off totaling approximately $84,000. In addition, the Corporation made a specific reserve for a nonperforming loan for approximately $173,000. The additional reserve made for the nonperforming loan, which was partially offset by the sizable recovery, resulted in the overall increase of the provision from the same period in 2007.

The provision for loan losses was $144,665 and $120,000 for the six months ended June 30, 2008 and 2007, respectively. As discussed above, the additional reserve made for the nonperforming loan, which was partially offset by the sizable recovery received on a loan that had been charged off in late 2007, resulted in the overall increase of the provision from the same period in 2007. In the third quarter of 2008, management expects that the provision for loan losses will return to levels recognized in the first quarter of 2008. See also Credit Quality discussed previously.

Non-Interest Income

Non-interest income was $24,000 and $28,000 for the three months ended June 30, 2008 and 2007, respectively. Loan fees and charges decreased to approximately $1,100 for the quarter ended June 30, 2008 compared to $20,200 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 $20,000 for the three months ended June 30, 2008, up from approximately $10,400 for the same period in 2007. This increase is due to increased levels of deposits. Other income increased to approximately $2,500 for the quarter ended June 30, 2008, up from a loss of approximately ($2,100) for the same period in 2007. This increase is due to a gain recognized for calls on certain investment securities.

Non-interest income was $61,600 and $66,300 for the six months ended June 30, 2008 and 2007, respectively. Loan fees and charges decreased to approximately $11,800 for the first half of 2008 compared to $46,100 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 $37,800 for the six months ended June 30, 2008, up from approximately $21,200 for the same period in 2007. This increase is due to increased levels of deposits. Other income increased to approximately $11,900 for the six months ended June 30, 2008, up from a loss of approximately ($947) for the same period in 2007. This increase is due primarily to a gain recognized for calls on certain investment securities in 2008 totaling approximately $6,500.

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 June 30, 2008 and 2007 was $785,000 and $979,000, respectively. Salaries and benefits continued to be the largest component of non-interest expense. Salaries and benefits decreased $148,500, or 32.2%, to $312,500 for the quarter ended June 30, 2008, down from $461,000 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 began to experience the reduced costs associated with these staff reductions, compared to the same period in 2007. Occupancy expenses decreased to $199,000 for the quarter ended June 30, 2008, down from $250,000 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. Data processing expenses were $43,000 for the three month period ended June 30, 2008 compared to $37,000 for the same period in 2007. The increases are due to increased levels of volume in the current period compared to the same period in the prior year. Advertising expenses were $36,000 for the three months ended June 30, 2008, down $25,000 as compared to the same period in 2007. Professional fees were $72,500 for the three months ended June 30, 2008 compared to $64,500 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 increased to $102,000 for the three months ended June 30, 2008 compared to $94,000 for the same period in 2007. This increase is due in large part to regulatory assessments and costs associated with the Michigan Business Tax incurred in the current quarter.

Non-interest expense for the six months ended June 30, 2008 and 2007 was $1.8 million and $1.9 million, respectively. Salaries and benefits decreased $34,000, or 3.8%, to $862,000 for the six months ended June 30, 2008, down from $896,000 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 quarter of 2008. Occupancy expenses decreased to $418,000 for the six months ended June 30, 2008, down from $458,000 the same period of 2007. This decrease is due primarily to lower levels of depreciation discussed above. Data processing expenses were $87,000 for the six month period ended June 30, 2008 compared to $93,000 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 partially 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 $60,000 for the six months ended June 30, 2008, down $70,000 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 $160,000 for the six months ended June 30, 2008 compared to $125,000 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 $190,000 for the six months ended June 30, 2008 compared to $154,000 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 six month periods ended June 30, 2008 or 2007 due to the tax loss carryforward position of the Corporation. An income tax benefit may be booked in 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.

BIRMINGHAM BLOOMFIELD BANCSHARES, INC.
Management s Discussion and Analysis of Financial Condition and Results of Operations
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 June 30, 2008, unused commitments totaled $12.5 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 $29.3 million mature within the next twelve months from June 30, 2008.

The largest uses and sources of cash and cash equivalents for the Corporation for the six months ended June 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 $12.2 million, which was offset by proceeds from the call of two investment securities and other repayments on mortgage backed securities totaling $789,000. Offsetting the uses of cash in investing activities, was the cash provided from financing activities which included net increases in deposits of $20.5 million. Total cash and cash equivalents at the end of June 30, 2008 was $13.6 million, which was an increase of $8.5 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 June 30, 2008. Note 7 to the financial statements is hereby incorporated by reference. At June 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.

Table of Contents

BIRMINGHAM BLOOMFIELD BANCSHARES, INC.
Management s Discussion and Analysis of Financial Condition and Results of Operations
Off-Balance Sheet Arrangements

As of June 30, 2008, unused commitments totaled $12.5 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.

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.

BIRMINGHAM BLOOMFIELD BANCSHARES, INC.
Management s Discussion and Analysis of Financial Condition and Results of Operations
ITEM 4T. CONTROLS AND PROCEDURES

As of June 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 June 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 June 30, 2008 that materially affected, or are reasonably likely to materially affect, the Corporation s internal controls over financial reporting.

Table of Contents

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.

The Corporation held its annual meeting of shareholders on May 19, 2008 at 9:30 a.m. at the Birmingham Community House, 151 South Bates Street in Birmingham, MI. At the meeting one item was presented for voting; the election of directors. The results were as follows:

The following directors were re-elected to the terms indicated:

Class III directors with a term expiring in 2011:	**FOR**	**WITHHELD**
John M. Erb	1,105,651	38,350
Charles T. Pryde	1,104,601	39,400
Donald Ruff	1,105,651	38,350
Walter G. Schwartz	1,104,851	39,150

Continuing Directors are as follows: William R. Aikens, Harry Cendrowski and Rich J. Miller with terms expiring in 2009; Donald E. Copus, Robert E. Farr, Charles Kaye, Scott McCallum, Daniel P. O Donnell and Harry G. Spellman with terms expiring in 2010.

ITEM 5. OTHER INFORMATION.

This item is not applicable.

Table of Contents

ITEM 6. EXHIBITS.

Exhibit Number	Description of Exhibit
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.

Table of Contents

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: August 13, 2008

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

Date: August 13, 2008

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

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
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