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STURGIS BANCORP INC
Form 10-K
March 29, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2003

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

STURGIS BANCORP, INC.
(Exact name of registrant as specified in its charter)

MICHIGAN
(State of incorporation or organization)

0-49613
(Commission File No.)

38-3609814
(IRS - Employer Identification Number)

113-125 E. Chicago Road, Sturgis, MI 49091
(Address of Registrant's principal executive offices)

(269) 651-9345
Registrant's telephone number, including area code

Securities Registered pursuant to Section 12(b) of the Act:

NONE

Securities Registered pursuant to Section 12(g) of the Act:

Common Stock

Indicate by check mark whether the registrant (1) 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 (2) has been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in the definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this

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Form 10-K. [X]

The aggregate market value of common stock held by non-affiliates of the registrant as of March 15, 2004 was \$24,933,083.

The number of shares outstanding of the registrant's common stock as of March 15, 2004 was 2,809,285.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act) Yes [] No [X]

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Stockholders dated March 25, 2004 to be delivered to stockholders are incorporated by reference into Part II.

Portions of the definitive Proxy Statement dated March 26, 2004 to be delivered to stockholders in connection with the Annual Meeting of Shareholders to be held on April 27, 2004 are incorporated by reference into Part III.

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PART I.

FORWARD LOOKING STATEMENTS

This report contains statements that constitute forward-looking statements. These statements appear in several places in this report and include statements regarding intent, belief, outlook, objectives, efforts, estimates or expectations of the Company, primarily with respect to future events and the future financial performance of the Company. Any such forward-looking statements are not guarantees of future events or performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statement. Factors that could cause a difference between an ultimate actual outcome and a preceding forward-looking statement include, but are not limited to, changes in interest rates and interest rate relationships; demand for products and services; the degree of competition by traditional and non-traditional competitors; changes in banking laws and regulations; changes in tax laws; changes in accounting principles; changes in prices, levies, and assessments; the impact of technological advances; government and regulatory policy changes; the outcome of any pending and future litigation and contingencies; trends in consumer behavior and ability to repay loans; and changes of the world, national and local economies. The Company undertakes no obligation to update, amend or clarify forward-looking statements as a result of new information, future events, or otherwise.

ITEM 1. BUSINESS

BACKGROUND

Sturgis Bancorp, Inc. (the "Company"), is a financial holding company under the Bank Holding Company Act of 1956, as amended. The Company originated on December 11, 2001, when the shareholders of Sturgis Bank & Trust Company (the "Bank") approved the reorganization of the Bank as a wholly owned subsidiary of the Company. This reorganization was effective January 1, 2002. As a result, historical information in this Form 10-K for periods before the January 1, 2002 effective date relate to the Bank. Throughout this Form 10-K Sturgis Bancorp, Inc. will be referred to as the Company and Sturgis Bank & Trust Company will be referred to as the Bank.

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THE BANK AND THE COMPANY

The Bank is a state-chartered savings bank located in Sturgis, Michigan. The Bank began operations in 1905 as a state chartered building and loan association and in 1988 converted to a federally chartered stock savings bank. In 1999, the Bank was approved by the State of Michigan to become a Michigan savings bank. The principal business of the Bank is to accept savings deposits from the general public and make single family mortgage loans and to a lesser extent, consumer and commercial loans. The Bank established a trust department in 1997 and has been expanding its commercial loan department since 1998. The Bank conducts business from its main office in Sturgis, Michigan and 9 full-service branch offices located in Bronson, Centreville, Climax, Coldwater, Colon, South Haven, Sturgis, Three Rivers and White Pigeon, Michigan. The Bank also operates one limited services branch in Sturgis, Michigan.

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The Bank's market area covers all of St. Joseph County and parts of Cass, Branch, Calhoun, Van Buren, Allegan, Hillsdale and Kalamazoo Counties. St. Joseph County has a population of approximately 64,422 with the two main areas of population concentrated in Sturgis and Three Rivers with approximate populations of 11,285 and 7,328, respectively. Bronson, Centreville, Climax, Coldwater, Colon, South Haven and White Pigeon have approximate populations ranging from 1,200 to 10,000. Most individuals within the Bank's market area live within 25 miles of their places of employment.

St. Joseph County has a diverse economy. It is a rural county that has a large agricultural base, but also has a diverse industrial base. Some of the larger manufacturers in the area produce truck bodies, infant formula, machine tools, plastic products, paper board, mirrored acrylic, pressure sensitive labels, orthotic devices, automotive transmissions, and other automotive parts and accessories. There are numerous tool and die as well as mold shops, both large and small.

QUARTERLY FINANCIAL DATA

Quarter Ended	Interest Income	Net Interest Income	Net Income	Earnings Per Share
March 31, 2002	4,406,049	2,271,101	671,999	0.2
June 30, 2002	4,293,422	2,254,847	606,285	0.2
Sept. 30, 2002	4,416,668	2,261,340	717,688	0.2
Dec. 31, 2002	4,294,553	2,209,304	794,415	0.2
March 31, 2003	4,089,947	2,184,214	764,976	0.2
June 30, 2003	3,922,503	2,129,750	558,059	0.2
Sept. 30, 2003	3,648,691	1,959,922	716,801	0.2
Dec. 31, 2003	3,584,457	1,954,439	565,253	0.2

EFFECT OF GOVERNMENT MONETARY POLICIES

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government, its agencies, and the Federal Reserve Board. The Federal Reserve Board's monetary policies have had, and will likely continue to have, an important impact on the operating

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results of commercial banks through its power to implement national monetary policy in order to, among other things, curb inflation or avoid a recession. The policies of the Federal Reserve Board have a major effect upon the levels of bank loans, investments and deposits through its open market operations in United States government securities, and through its regulation of, among other things, the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature and impact of future changes in monetary and fiscal policies.

RECENT DEVELOPMENTS

During January 2002, the Board of Directors of the Company, the parent company of

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the Bank, approved a program to repurchase up to 10% of the Company's issued and outstanding common stock in the open market and in privately negotiated transactions. Through December 31, 2002, the Company had redeemed 301,999 shares at a total redemption price of \$3,005,294. The repurchase program expired in January 2003 without any additional shares repurchased.

LENDING ACTIVITIES

GENERAL. The Bank primarily concentrates its lending activities in the origination of residential mortgage loans. At the present time, the lending activities include four principal areas: mortgage loans on residential properties, mortgage loans on commercial properties, commercial nonmortgage loans and consumer loans.

RESIDENTIAL LENDING. In the mortgage lending area, the current activity of the Bank is primarily mortgage lending on one-to-four family residential properties. The types of mortgage loans offered by the Bank are:

- 1) one and three-year adjustable rate mortgage loans whose rates and monthly payments are adjusted based on the movement of a predetermined index. When these loans become due, they are repaid, renewed or converted to another type of mortgage loan. If the borrower chooses to renew or convert these loans, they may do so at the then current rate and term;

- 2) fixed-rate, fixed-term loans. A majority of long term loans are written in anticipation of their resale in the secondary market; and

- 3) second mortgage equity loans, written as a line of credit, typically, up to 90% of collateral value, including the first mortgage. Interest rates are floating based on the Wall Street Journal prime lending rate.

The Bank's mortgage loans are offered at competitive rates on amortization terms of up to 30 years. The Bank generally provides escrow accounts for payment of property taxes and insurance with monthly mortgage payments including the escrow payment.

Mortgage loans are generally made on one-to-four family units, and will be considered on units of larger size. Most conventional loans made by the Bank are for single-family homes.

Conventional mortgage loans are normally offered for up to 95% of the lesser of appraised value or purchase price. Where a loan is made in excess of

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80% of appraised value, the borrower is normally required to obtain private mortgage insurance coverage or a similar guarantee. High ratio loans are usually limited to owner-occupied residences. The Bank also offers mortgages through the Farmers Home Administration Guarantee Program.

It is the general practice of the Bank to renew balloon mortgages as they come due with the use of a modification rider. The mortgage is modified to the interest rate currently offered by the Bank for new mortgages of similar terms. The Bank may deny a renewal for any reason, such as a history of delinquency and/or deterioration of the loan's collateral, or liquidity needs of the

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Bank.

LOAN ORIGINATION AND PROCESSING. The Bank originates real estate loans primarily in south central and southwestern Michigan. To a limited extent the Bank also originates real estate loans in northeastern Indiana. Mortgage, consumer loans and commercial loans come from a number of sources, including depositors, current borrowers, walk-in customers, advertisement, real estate brokers, builders and direct solicitation of retail and commercial businesses.

The Bank believes it maintains a relatively conservative posture with regard to the loan amount in relationship to the appraised value of any particular property. Generally, residential loans are originated at an amount between 80% and 90% of appraised value. Loans on multifamily and commercial properties typically have a maximum loan-to-value ratio of 75%.

The residential loans made by the Bank range from three to 30 years and the commercial real estate loans generally range from three to 15 years. Borrowers may refinance or prepay their loans without penalty. Residential loans usually remain outstanding an average of 7 years based on historical data of prepayments.

The Bank's mortgage lending is subject to loan origination procedures prescribed by the Board of Directors. Independent fee appraisers appraise real estate securing loans made by the Bank. Each approved loan application typically requires a recent appraisal. In connection with loans on new construction, the appraisal is subject to a re-certification of value at the time of completion. A detailed loan application is obtained to determine the borrower's financial ability to repay. The significant items on these applications are verified through the use of credit reports, financial statements and confirmations. Depending upon the size and type of loan, the application is reviewed and approval is determined by the loan officer, the loan committees, or the entire Board of Directors by applying the underwriting standards established in policies approved by the Board of Directors.

In most cases the Bank requires title insurance insuring the Bank's lien on the mortgaged real estate. Borrowers must also obtain hazard insurance coverage naming the Bank as lien holder prior to closing. When required by federal regulations, flood insurance must also be obtained. Borrowers may be required to advance funds on a monthly basis together with each payment of principal and interest to a mortgage loan escrow account, from which the Bank makes disbursements for items such as real estate taxes and private mortgage insurance premiums.

PURCHASE AND SALE OF LOANS. The Bank's residential loan strategy is primarily to originate loans that are eligible for sale in the secondary mortgage market. The Bank retains servicing rights to enhance its portfolio. The

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Bank may sell newly originated loans when it believes that the sale of these loans is advantageous.

The Bank originates and services all closed-end residential mortgages through Oak Mortgage, LLC, a subsidiary jointly-owned by the Bank and Oakleaf Financial Services, Inc. (also a subsidiary of the Bank).

Loans are sold on a non-recourse basis to the Federal Home Loan Mortgage Corporation

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or Federal Home Loan Bank of Indianapolis (FHLB) at a minimum yield of .25% to the Bank as servicing income, plus an applicable premium. Loan servicing fee income in 2003 was \$502,743 or 8.78% of noninterest income. Loan servicing fee income as a percentage of net interest income for the years ended December 31, 2003, 2002, and 2001 was 6.13%, 4.38%, and 2.99%, respectively.

The Bank has the authority to purchase and sell mortgage loans and mortgage participations. From time to time, the Bank purchases mortgage-backed securities guaranteed or insured by the Small Business Administration, Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Government National Mortgage Association. The Bank's mortgage-backed securities carry a variable rate feature.

At December 31, 2003, 1.3%, or \$2.7 million, of the Bank's net loan portfolio was residential mortgages serviced by others.

An asset is recorded on the balance sheet for mortgage servicing rights. At December 31, 2003 and 2002 the balance was \$1,974,988 and \$1,501,922, respectively.

When loans are sold, the Bank retains responsibility for servicing the loans. Gains or losses on such sales are recognized at the time of the sale, with servicing value assigned based on market rates for mortgage loan servicing.

LOAN COMMITMENTS. In making one-to-four-family home mortgage loans, the Bank charges the applicant a non-refundable application fee. The interest rate on such loans is normally the prevailing rate at the time the loan application is approved.

The Bank also issues individual loan commitments on existing homes including the refinancing of existing home loans. Commitments on adjustable rate loans are usually issued at current market rates and fees. On fixed-rate loans, the rate is set at the borrower's acceptance of the commitment. The commitment usually extends for 30 days. Loans to be sold in the secondary market are sold immediately and fees are collected from the borrower to cover any penalty in the event the loan is not closed and cannot be delivered to the buyer. Certain fixed rate, short-term mortgages (mostly less than 10 years) are retained in the Bank's portfolio. Commitments, fees, rates and other terms of commercial and multifamily residential loans are individually negotiated.

The proportion of the total value of commitments derived from any particular category of loans varies from time to time and depends upon market conditions. As of December 31, 2003, the Bank had commitments of \$4.4 million and \$42.4 million on fixed rate and variable rate loans, respectively. The source of funds to meet these commitments is substantially the sale of mortgage loans in the secondary market and FHLB advances.

ONE-TO-FOUR UNIT FAMILY RESIDENTIAL LENDING. One-to-four family

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owner-occupied residential lending is the major portion of the Bank's lending activity. The balances of one-to-four unit residential loans decreased to \$118.7 million, or 55.08% of net loans receivable, at December 31, 2003 from \$127.8 million, or 60.26% of net loans receivable, as of December 31, 2002. This decrease is primarily due to the sale of fixed-rate loans refinanced from the Bank's loan portfolio

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during 2003.

ONE-TO-FOUR UNIT RESIDENTIAL CONSTRUCTION LENDING. The Bank's construction loans are made to finance construction of owner-occupied, single-family residences. Most construction loans are made to the homeowner. The Bank also finances a limited number of speculation construction projects of select contractors, which are sold upon completion. Construction loans are generally on an interest-only basis with terms of 6 months or less, and are primarily concentrated within a 50-mile radius of the Bank's main office. Loan proceeds are disbursed in increments as construction progresses. The amount of each disbursement is based on the construction cost estimate of an inspector who inspects the project in connection with each disbursement request.

Residential construction loans, net of \$2.4 million of loans in process, aggregated \$7.8 million at December 31, 2003, representing 3.61% of the Bank's net loan portfolio.

CONSUMER LENDING. The Bank originates consumer loans to the general public. These loans are generally for personal, family or household purposes, such as the financing of home improvements and automobiles. The Bank also offers consumer loans to its depositors secured by their savings, passbook or certificate accounts. The underwriting standards employed by the Bank for consumer loans consider the applicant's payment history and the financial ability to pay the proposed loan. The stability of the applicant's monthly income is determined by verification of gross monthly income from private employment and verifiable secondary income. Although the applicant's credit worthiness is important, the underwriting process includes a comparison of the value of the security, if any, in relation to the proposed loan amount.

The Bank offers overdraft checking account loans with the limits set on an individual basis depending on the account holder's ability to repay and credit record.

Automobile and personal loans are usually secured by collateral. Most loan payments are due on a monthly basis. The repayment term on consumer loans made by the Bank generally ranges from one to 10 years. The Bank does not engage in any indirect lending.

As of December 31, 2003, the Bank had \$9.5 million in consumer nonmortgage loans outstanding. The Bank's consumer loans represent 4.39% of the Bank's net loan portfolio.

COMMERCIAL LENDING. Commercial loans are available to purchase commercial real estate, for working capital or to purchase equipment. The amortization schedules for real estate and equipment purchase loans are matched to the useful life of the collateral pledged to secure the loan. Pricing for conventional real estate and equipment loans are generally fixed for a maximum of three to five years, or have a variable rate that is tied to the prime rate as published in the Wall Street Journal. At December 31, 2003, the Bank's commercial real estate, net commercial construction loans and nonmortgage commercial loans represented 30.81%, 0.81% and 6.86% of the Bank's net loan

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portfolio, respectively.

As of December 31, 2003, approximately \$66.4 million, or 30.81% of the Bank's net loan portfolio consisted of real estate loans secured by income-producing properties. The Bank's

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income-producing property loans include permanent loans secured by apartments and other business properties primarily within St. Joseph County. The Bank's largest outstanding income-producing property loan totaled \$4.1 million at December 31, 2003. The Bank's regulatory limit on maximum loans to one borrower is \$5.9 million.

Independent appraisals are normally performed for loans secured by income producing property. The Bank currently invests in loans equal to 75% of the lesser of the appraised value or the purchase price of the property. The Bank's underwriting policies consider the terms of the loan, the credit worthiness and experience of the borrower, the location and quality of the collateral, the debt service coverage ratio and the past performance of the project.

Income-producing property loans present a higher level of risk than loans secured by one-to-four-family residences. This increase in risk is due to several factors, including the concentration of principal in fewer loans and borrowers, the effects of general economic conditions and the increased difficulty of evaluating, monitoring and liquidating collateral for these types of loans.

Working capital loans are normally secured by accounts receivable and inventory. Working capital loans are usually priced at a variable rate that is tied to the prime rate, with a one year maturity. The Bank offers business operating lines of credit to assist with short-term cash flow needs. These short-term loans normally have variable rates and are tied to the prime rate, and normally mature in one year. At December 31, 2003, the Bank had \$14.8 million in commercial nonmortgage loans outstanding.

ASSET QUALITY AND CREDIT RISK MANAGEMENT

The Bank's primary lending activity is mortgages on single-family, owner occupied homes. The Bank also offers commercial loans. Most commercial loans are secured by real estate. However, the borrower's ability to repay the loan is generally dependent on the success of their business. Consumer loans are also more risky because they may not be collateralized or the collateral securing these loans may decrease in value more rapidly than residential real estate. The Bank has adopted a Commercial Lending Policy and a Consumer Loan Policy that attempt to minimize risk on these loans. The Bank's policies set maximum loan authorities, identify employee positions authorized to originate loans, and establish audit and underwriting standards for each type of loan offered by the Bank.

Credit risk refers to the potential for losses on assets due to borrowers' defaults and the decline in the value of collateral. The Bank's Asset Classification and Internal Loan Review Policy requires audits of loan files to determine adherence to loan policies and procedures, early identification of problem assets, review of negative results to detect weaknesses in the Bank's policy, and reports to the Board of Directors regarding the status and quality of assets. The policy also establishes an asset classification and loan loss reserve system.

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Commercial loans are graded on an 8-point scale. Grades of 6-8 are considered classified as substandard, doubtful, or loss. Allowances for loan losses are established on substandard loans ranging from 5% on single-family residential mortgage loans to 100% on substantially delinquent unsecured loans. Any unsecured loan is considered a loss when it is delinquent 120 days.

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LOAN PORTFOLIO COMPOSITION

The following table sets forth information concerning the composition of the Bank's loan portfolio (including loans held for sale) in dollar amounts and in percentages by type of loan and type of security on the dates indicated.

	At December 31,			
	2003		2002	
	----- Amount	Percent	----- Amount	Perce
Mortgage loans:				
Loans on existing property	\$188,446,797	87.44%	\$175,248,436	82.
Insured or guaranteed real estate loans	5,986,528	2.78%	9,970,426	4.
Residential participations purchased	2,745,708	1.27%	4,826,883	2.
Nonresidential participations purchased	3,000,000	1.39%	9,002	0.
Nonmortgage loans:				
Commercial nonmortgage loans	14,784,475	6.86%	15,072,501	7.
Commercial nonmtg participations purchased	-	0.00%	-	0.
Student loans	-	0.00%	2,450	0.
Deposit account loans	1,129,623	0.52%	569,566	0.
Home improvement loans	180,495	0.08%	355,107	0.
Other consumer loans	8,144,472	3.77%	10,997,094	5.
Total loans	224,418,097	104.13%	217,051,465	102.
Less -				
Loans in process	6,895,652	3.19%	3,167,369	1.
Deferred loan fees	(317,539)	-0.15%	(96,216)	-0.
Unearned interest	18,262	0.01%	16,925	0.
Allowance for loan losses	2,294,157	1.06%	1,920,037	0.
Loans receivable, net	\$215,527,565	100.00%	\$212,043,350	100.
The conventional real estate loans are secured as follows:				
One to four family residential	\$122,811,924	56.98%	\$130,770,464	61.
Commercial and multifamily residential	68,476,577	31.77%	54,276,167	25.
Total conventional real estate loans	\$191,288,500	88.75%	\$185,016,631	87.

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	2000		At December 31, 1999	
	Amount	Percent	Amount	Percent
Mortgage loans:				
Loans on existing property	\$172,857,255	77.32%	\$155,336,051	75.0%
Insured or guaranteed real estate loans	11,631,417	5.20%	14,716,720	7.2%
Residential participations purchased	9,984,544	4.47%	12,097,185	5.9%
Nonresidential participations purchased	10,253	0.00%	10,764	0.0%
Nonmortgage loans:				
Commercial nonmtg. Loans	12,780,883	5.72%	11,673,025	5.7%
Commercial nonmtg participations purchased	-	0.00%	-	0.0%
Student loans	20,784	0.01%	27,287	0.0%
Deposit account loans	420,711	0.19%	164,713	0.0%
Home improvement loans	1,478,183	0.66%	1,859,281	0.9%
Other consumer loans	16,690,110	7.46%	14,238,471	6.9%
Total loans	225,874,140	101.03%	210,123,497	101.0%
Less -				
Loans in process	1,212,498	0.54%	2,732,760	1.3%
Deferred loan fees	248,782	0.11%	353,041	0.2%
Unearned interest	35,043	0.02%	42,674	0.0%
Allowance for loan losses	803,744	0.36%	730,000	0.3%
Loans receivable, net	\$223,574,073	100.00%	\$206,265,022	100.0%
The conventional real estate loans are secured as follows:				
One to four family residential	\$164,967,395	73.79%	\$157,716,099	76.0%
Commercial and multifamily residential	27,216,007	12.17%	20,586,146	9.9%
Total conventional real estate loans	\$192,183,402	85.96%	\$178,302,245	86.0%

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The following table presents information regarding scheduled principal repayments of commercial and construction loans as of December 31, 2003:

	Year 1	>1-5 Years
Commercial nonmortgage loans		
Fixed	\$ 1,921,141	\$ 2,685,611
Adjustable	5,923,739	2,493,224
Total commercial nonmortgage loans	\$7,844,880	\$5,178,835
Real estate - construction, net	9,541,953	-

The following table shows real estate loan origination and purchase activity amounts of the Bank for the periods indicated:

Loans originated for Year Ended Dec

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the purpose of:	2002	2001
	-----	-----
Construction	\$ 15,453,960	\$ 14,547,000
Purchase / refinance	82,599,099	88,905,000
Sale	118,716,871	110,327,000
Total real estate loans originated	216,769,930	213,780,000
Loans sold	(126,277,169)	(108,718,000)
Loan principal reductions	(100,617,047)	(110,019,000)
Increase (decrease) in real estate loans receivable (before net items)	\$ 10,124,286	(\$ 4,956,000)

INTEREST RATES AND FEE INCOME

The Bank earns interest income from its lending activities. Interest rates are affected primarily by market and general economic conditions and such other factors as monetary policies of the Federal government, including the Federal Reserve Board, the general supply of money in the economy, legislative tax policies, governmental budgetary matters and the Bank's cost of funds.

The Bank also earns income from fees in the form of origination fees, late charges, checking account fees and fees for other miscellaneous services.

Income from loan origination and commitment fees and other fees are volatile sources of income varying with the volume and type of loans and commitments made and purchased, and with competitive and economic conditions. Loan origination fees and points collected, net of direct origination costs, are deferred for financial reporting purposes in accordance with

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Statement of Financial Accounting Standards No. 91 "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases."

NONPERFORMING LOANS

GENERAL. The Competitive Equality Banking Act of 1987 ("CEBA") mandated certain requirements for the accounting and reporting of slow paying loans. CEBA requires the Bank to classify all assets, make general and specific allowances for possible loan losses, generate internal loan classifications, create a special mention category, and appraise all real estate owned.

Classifications under CEBA are consistent with classification systems of other federal banking agencies.

The Bank makes provisions for loan losses in accordance with the changes in the credit risk of the loan portfolio. The provisions are based on the historic loss experience of the Bank, adjusted for the increasing credit risk inherent in the growing commercial loans. The Bank makes general provisions by loan category; residential mortgages, nonresidential mortgages, commercial loans, home equity loans, second mortgages, consumer loans and deposit account loans. Commercial loans and nonresidential mortgages are graded on an 8-point scale, based on the credit quality. Loan grades are reviewed annually. The grade of the loan determines the allowance for losses. Loans graded 6 or higher are

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assigned a specific reserve, determined by management's assessment of risk.

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The Bank maintains general reserves against possible loan losses, calculated as a percent historic loss experience. The following table provides an analysis of the allowance for loan losses

	2003	For the year ended Dec	
	-----	2002	2001
		-----	-----
Balance at the beginning of the period	\$1,920,037	\$1,300,000	\$803,7
Charge-offs:			
Residential mortgages	122,873	448,217	226,2
Commercial mortgages	128,959	121,053	42,9
Construction loans - residential	-	-	-
Construction loans - commercial	-	-	-
Commercial nonmortgage loans	121,566	130,718	175,6
Loans secured by deposits	-	-	-
Other consumer and installment loans	142,776	250,118	162,4
	-----	-----	-----
Total charge-offs	516,174	950,106	607,2
Recoveries			
Residential mortgages	10,185	-	21,3
Commercial mortgages	5,230	2,966	-
Construction loans - residential	-	-	-
Construction loans - commercial	-	-	-
Commercial nonmortgage loans	-	16,458	3,0
Loans secured by deposits	-	-	-
Other consumer and installment loans	55,170	55,713	22,9
	-----	-----	-----
Total recoveries	70,585	75,227	47,2
Net charge-offs	445,589	874,879	559,9
Provision for loan losses	819,709	1,494,916	1,056,1
	-----	-----	-----
Balance at the end of the period	\$2,254,157	\$1,920,037	\$1,300,0
	=====	=====	=====
Ratio of net charge-offs during the period to			
Average loans outstanding during the period	0.21%	0.40%	0.2
Allowance for loan losses to total loans	1.02%	0.88%	0.5
Nonperforming assets to total assets	1.90%	1.76%	1.5
Allowance for loan losses to nonperforming assets	41.22%	36.82%	29.9

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The following table shows the allocation of the allowance for loan losses as of the dates indicated by loan type:

	December 31,		
	-----	-----	-----
	2003	2002	2001

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	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount
Residential 1-4 family	\$ 448,026	52.90%	\$ 491,171	58.87%	\$ 304,503	67.13%	\$ 358,
Commercial mortgages	1,457,075	29.59%	956,217	23.24%	470,459	15.92%	92,
Construction loans - residential	15,577	4.53%	8,651	3.70%	35,014	3.62%	-
Construction loans - commercial	3,506	2.18%	16,914	1.75%	-	0.20%	-
Commercial nonmortgage loans	267,228	6.59%	314,963	6.94%	165,188	5.89%	125,
Loans secured by deposits	-	0.50%	-	0.26%	-	0.26%	-
Other consumer and installment	102,744	3.71%	132,121	5.23%	324,836	6.98%	154,
Total allowance for loan losses	\$2,294,157	100.00%	\$1,920,037	100.00%	\$1,300,000	100.00%	\$ 730,

CLASSIFIED ASSETS. If a mortgage loan borrower fails to make a required payment on a loan, the Bank attempts to cure the deficiency by contacting the borrower. Printed delinquent notices are sent after five days past due and a second notice after 15 days past due. The borrower is charged a late fee of 4% of the delinquent mortgage payment amount. Direct contact is made after a payment is more than 30 days past due, and in many cases in less than 30 days. In most cases, deficiencies are cured promptly. If deficiencies are not cured within 90 days, or satisfactory arrangements to cure the delinquency are not made, then the Bank, at the discretion of the Board of Directors, will foreclose the mortgage. Periodic inspections are made of the property to determine the status of the collateral. If foreclosed, the property will be sold at a public sale, and usually is purchased by the Bank subject to redemption rights of the borrower.

As these redemption rights may extend for periods of one to 12 months, an effort is made to obtain the property much sooner through a deed in lieu of foreclosure. Property acquired by the Bank through foreclosure or deed in lieu of foreclosure is classified as "Real Estate Owned" until it is sold or otherwise disposed.

Consumer loan borrowers who fail to make payments are contacted to cure the delinquency and in most cases the delinquency is quickly corrected. The Bank recognizes that greater diligence is required in the collection of a consumer loan than a mortgage, because of the depreciable nature of the collateral. First payment defaults require immediate personal attention by the loan officer in order to establish good payment habits or discover early that a collection problem may exist.

When an installment loan payment is 10 days late, a late charge of 5% of the payment, up to \$15.00 is charged and a notice mailed to the borrower. Notices are mailed every 10 days thereafter until the payments are brought up to date. Direct contact with the borrower is made

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before an account reaches 30 days past due.

When a consumer loan reaches 90 days in arrears, the Board of Directors of the Bank will review the account to determine if the possibility of a loss exists and may classify the account as substandard, doubtful, or loss, according to the criteria contained in the Bank's Asset Classification Policy and federal regulations. Substandard and doubtful classification may require an allowance to be set up at the discretion of the Bank's Board of Directors. A loss will be charged off against the allowance for possible loan losses. Unsecured installment loans will automatically be classified as a loss when they are 120 days delinquent.

If an account continues to deteriorate to a point that it is 90 days past due, immediate steps are taken to collect payments due to date, secure additional collateral, or repossess existing collateral. The Bank retains collateral obtained as a result of loan default as an asset at the lower of cost or market value until sold or disposed in a different manner.

Loans in nonaccrual status as of December 31, 2002 consisted of loans for which foreclosure had begun or full collection of the loan was questionable. The Bank generally places mortgage loans (other than loans in the foreclosure process) in nonaccrual status at the earlier of 180 days or the date on which the carrying value (loan balance plus accrued interest less specific valuation allowance) exceeds an estimate of the market value of the collateral securing the loan. The Bank generally places commercial loans (other than loans in the foreclosure process) in nonaccrual status at the earlier of 90 days or the date on which the carrying value (loan balance plus accrued interest less specific valuation allowance) exceeds an estimate of the market value of the collateral securing the loan.

The following table presents the aggregate amount of troubled asset categories as of the end of the period indicated:

	As of December 31,				
	2003	2002	2001	2000	1999
	----	----	----	----	----
Past due 90 days and still accruing	\$ 473,102	\$ 899,975	\$1,073,625	\$1,314,288	\$1,140,000
Nonaccrual loans	4,245,716	2,955,666	2,821,965	911,610	480,000
Real estate owned	749,899	1,358,759	451,173	103,500	360,000
Total nonperforming assets	5,468,717	5,214,400	4,346,763	2,329,398	2,000,000
Restructured assets	426,414	626,882	1,381,920	1,030,858	510,000
Total troubled assets	\$5,895,131	\$5,841,582	\$5,728,683	\$3,360,256	\$2,510,000
Ratio of troubled assets to total loans	2.71%	2.73%	2.60%	1.50%	
Ratio of troubled assets to total assets	2.04%	1.96%	2.04%	1.24%	

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INVESTMENT ACTIVITIES

The Bank has the authority to invest in various types of liquid assets, including short-term United States Treasury obligations and securities of various federal and state agencies, certificates of deposit at insured financial institutions, banker's acceptances, and federal funds.

	December 31,			
	2003		2002	
	Book Value	% of Total	Book Value	% of Total
Investment securities:				
U.S. Treasury and agency securities	\$ -	0.00%	\$ -	0
Obligations of states and political subdivisions	2,817,060	37.48%	3,177,986	40
Other Securities	425,000	5.65%	500,000	6
FHLB stock	4,274,700	56.87%	4,115,400	52
Total investment securities and FHLB stock	\$ 7,516,760	100.00%	\$ 7,793,386	100
Mortgage-backed securities				
GNMA	\$ 267,725	4.60%	\$ 409,674	4
FNMA	4,216,941	2.91%	259,372	2
FHLMC	77,626	1.21%	107,895	1
SBA	6,577,602	83.68%	7,458,381	83
Subtotal	11,139,894	92.40%	8,235,322	92
Unamortized premium, net	583,057	7.60%	677,401	7
Total mortgage-backed securities	\$11,722,951	100.00%	\$8,912,723	100

The following table sets forth the maturity composition of the Bank's investment and mortgage-backed securities at the dates indicated:

	December 31, 2003			
	Less than 1 year	1 to 5 years	5 to 10 Years	More 10 y
Investment securities				
U.S. Treasury and agency securities	\$ -	\$ -	\$ -	\$ -
Obligations of states and political subdivisions	415,132	584,500	404,131	1,000,000
Other securities	-	-	-	-
Total investment securities	\$ 415,132	\$ 584,500	\$ 404,131	\$ 2,000,000
Weighted average rate	4.59%	4.20%	4.46%	
Mortgage-backed securities	\$ -	\$ -	\$ -	\$11,000,000
Weighted average rate	-	-	-	

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The Bank may also invest a portion of its assets in certain commercial paper and corporate debt securities. The Bank is also authorized to invest in mutual funds and stocks whose assets conform to the investments that the Bank is authorized to make directly.

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SOURCES OF FUNDS

DEPOSIT ACCOUNTS. Deposits are an important source of the Bank's funds for use in lending and for other general business purposes. The Bank currently offers several types of savings programs including passbook and statement accounts, NOW accounts, Super NOW accounts, money-market accounts, and fixed-rate and fixed-term certificates of deposit, among others. The Bank currently changes the interest rates paid on these types of accounts from time to time. The Bank is not limited to a maximum rate of interest it may pay on savings deposits under federal regulations. The Bank is also authorized to accept non-interest bearing checking deposits from businesses or organizations.

At December 31, 2003 approximately 56.7%, or \$113.4 million, of the Bank's deposits consisted of various savings and demand deposit accounts from which customers are permitted to withdraw funds at any time without penalty.

Interest is earned on savings accounts from the date of deposit to the date of withdrawal and credited quarterly. Interest is earned on NOW accounts from the date of deposit to the date of withdrawal and credited monthly. The Asset Liability Management Committee of the Bank establishes the interest rate on these accounts.

The Bank also makes available to its depositors a number of savings certificates with varying terms and interest rates so as to be competitive in its market area. These certificates have minimum balance requirements.

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The following table sets forth the change in composition of deposit account types offered by the Bank at the dates indicated:

	Balance at Dec. 31, 2003	% of Deposits	Increase (Decrease)	Balance at Dec. 31, 2002
Passbook and savings	\$43,604,746	21.82%	2,714,026	\$40,890,720
NOW accounts	54,641,468	27.33%	6,817,507	47,823,961
Noninterest-bearing deposits	12,282,992	6.14%	(464,129)	12,747,121
Money market deposit and Super NOW accounts	2,893,130	1.45%	(6,980)	2,900,110
Certificates of deposit:				
Six-month money market certificates	3,980,311	1.99%	(1,706,638)	5,686,949
IRA certificates	10,156,868	5.08%	(716,069)	10,872,937
Jumbo certificates	28,372,184	14.19%	(4,575,916)	32,948,100

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Other certificates	43,988,514	22.00%	(4,705,384)	48,693,898
Total	\$199,920,213	100.00%	(\$2,643,583)	\$202,563,796
	Balance at Dec. 31, 2001	% of Deposits	Increase (Decrease)	
Passbook and savings	\$38,075,301	21.27%	2,563,070	
NOW accounts	47,170,900	26.33%	6,949,453	
Noninterest-bearing deposits	10,862,894	6.06%	1,025,706	
Money market deposit and Super NOW accounts	2,236,021	1.25%	(402,226)	
Certificates of deposit: Six-month money market certificates	5,052,665	2.82%	2,755,822	
IRA certificates	10,949,040	6.11%	193,824	
Jumbo certificates	13,550,878	7.56%	4,472	
Other certificates	51,232,128	28.60%	(7,815,619)	
Total	\$179,129,826	100.00%	\$5,274,502	

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BORROWINGS. In addition to savings deposits, the Bank obtains funds from loan repayments, from advances from the FHLB and other borrowings. Loan repayments are a relatively stable source of funds, while savings inflows and outflows are significantly influenced by general interest rates and money market conditions. Borrowings may be used on a short-term and long-term basis to compensate for reductions in normal sources of funds, such as savings inflows at less than projected levels. They may also be used on a longer-term basis to support expanded activities. Historically, the Bank has borrowed primarily from the FHLB.

Outstanding FHLB borrowings and advances at December 31, 2003 totaled 55.8 million, compared to \$64.4 million at December 31, 2002 and \$70.1 million at December 31, 2001. The weighted average interest rate on FHLB borrowings and advances outstanding as of December 31, 2003 was 4.62%, as of December 31, 2002 was 4.83% and as of December 31, 2001 was 5.68%.

The Bank obtains advances from the FHLB upon the security of its mortgage loan portfolio. Such advances are made pursuant to several different credit programs. Each credit program has its own interest rate and range of maturities, and the FHLB prescribes acceptable uses to which the advances pursuant to each program may be put as well as limitations on the size of such advances. These limitations are based both on a fixed percentage of assets and the borrower's credit worthiness. The FHLB is required to review its credit limitations and standards at least once every 6 months. FHLB advances have from time to time been available to meet seasonal and other withdrawals of savings accounts and to expand lending.

Under current FDIC regulations, there are no limitations on the amount of borrowings that can be obtained by the Bank. For limitations based on collateral requirements of FHLB, see "Supervision and Regulation - FEDERAL HOME LOAN BANK SYSTEM."

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COMPETITION

The Bank experiences substantial competition in attracting and retaining savings deposits and in lending funds. Direct competition for savings deposits comes from other savings banks, commercial banks, and credit unions. Additional significant competition for savings deposits comes from money-market mutual funds and corporate and government debt securities.

The primary factors in competing for loans are interest rates and loan origination fees and the range of services offered by the various financial institutions. Competition for origination of real estate loans normally comes from other savings banks, savings and loan associations, commercial banks, credit unions, mortgage bankers, mortgage brokers and insurance companies. The Bank has been able to compete effectively in its primary market area. The Bank considers its primary competition to be other savings banks, savings and loan associations, and commercial banks. The Bank continues to rank as the primary mortgage lender in St. Joseph County, Michigan.

The Riegle-Neal Interstate Banking and Branching Efficiency Act affects the ability of bank holding companies to branch into states other than the bank holding company's home state, and the ability of banks in different states to merge. The Bank may be indirectly affected by increased competition from out of state banks and bank holding companies entering into the Bank's market.

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In St. Joseph County, in which the Bank has offices, the Bank's competitors include eight commercial banks, one savings bank and five credit unions, some of which have assets which are substantially larger than the Bank. Several mortgage brokers operate in St. Joseph County and the Bank also competes for loans and deposits with various online banking services.

TRUST DEPARTMENT

The Bank began to offer full trust services on January 2, 1997. The Bank is staffed with two experienced trust officers who were formerly with another local financial institution. The Trust Department offers trust, custodial, and agency accounts to its customers within the Bank's market area. It is anticipated that the operations of the Trust Department will not only fulfill trust needs of the Bank's current customers but will also attract new customers to the Bank. The Trust Department had total assets serviced under either management or custody agreements of \$109.1 million at December 31, 2003. The Trust Department's net income was \$82,766, \$96,128 and \$97,465 for the years ended December 31, 2003, 2002 and 2001, respectively.

SERVICE CORPORATION ACTIVITIES

The Bank has four wholly-owned service corporations, Oakleaf Financial Services, Inc., previously SFB Agency, Ludington Service Corporation, First Michiana Development Corporation of Sturgis, and Oak Mortgage, LLC, all incorporated under the laws of the State of Michigan. First Michiana Development Corporation holds stock in a reinsurance bank, title insurance agency and its largest asset is an equity investment in a limited partnership providing low-income housing. The total investment in this limited partnership as of December 31, 2003 was \$129,880. (See Note 1 of the Notes to Consolidated Financial Statements). This limited partnership, titled H.O.M.E. Limited Dividend Housing Association Limited Partnership, is a 70 unit apartment complex in Holland, Michigan which provides housing for low income senior citizens. The project is designed to provide investors with low income housing tax credits under Section 42 of the Internal Revenue Code. Neither Ludington nor First

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Michiana has been actively operating within the past few years; their sole function currently is to hold investments. The Bank purchased all of the outstanding stock of SFB Agency, Inc. in 1995 for \$1,000. On January 14, 2000, SFB Agency, Inc. purchased McKillen Financial, Inc. SFB Agency, Inc.'s name was changed to Oakleaf Financial Services, Inc. Oakleaf Financial Services, Inc. sells securities and insurance products provided by a third party securities firm and an insurance agency. As of December 31, 2003, Oakleaf Financial Services, Inc. had seven full time employees. The Bank also established Oak Mortgage, LLC in 2001. Oak Mortgage, LLC originates and services residential mortgages. Oak Mortgage, LLC has two full-time employees.

Net income derived from the subsidiary activities is included in the consolidated statements of income for the Company.

EMPLOYEES

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As of December 31, 2003, the Bank employed 129 employees including 26 part-time employees. Management considers its relations with its employees to be excellent.

The Bank provides its full-time employees with hospitalization and major medical insurance, paid sick leave, life insurance, 401K match and short-term disability benefits. The Bank also has a non-contributory, defined benefit retirement plan sponsored by Pentegra (formerly known as the Financial Institutions Retirement Fund). The Bank's employees are not represented by a collective bargaining group.

SUPERVISION AND REGULATION

GENERAL. State chartered savings banks, such as the Bank, are regulated by the Michigan Division of Financial Institutions of the Office of Financial and Insurance Services ("DFI") and FDIC and have their deposits insured by the Savings Association Insurance Fund ("SAIF"), administered by FDIC. The Bank is subject to periodic DFI and FDIC examinations to test compliance by an institution with various regulatory requirements. This supervision and regulation is intended primarily for the protection of depositors. Although the FDIC rating for the Bank cannot be publicly disclosed, the following areas of regulatory requirements demonstrate the scope and degrees of compliance by the Bank.

In addition to laws that affect businesses in general, financial institutions are subject to a number of federal and state laws and regulations which have a material impact on their business. These include, among others, state usury laws, state laws relating to fiduciaries, the Truth In Lending Act, the Truth In Savings Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Expedited Funds Availability Act, the Community Reinvestment Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Bank Secrecy Act, the Omnibus Financial Institutions Reform, Recovery and Enforcement Act ("FIRREA"), the FDIC Improvement Act of 1991 ("FDICIA"), electronic funds transfer laws, redlining laws, antitrust laws, environmental laws, and privacy laws. Violation of these laws could result in significant fines and penalties upon banks and their directors and officers.

The Company is a financial holding company organized under the Bank Holding Company Act of 1956, as amended, and the regulations promulgated thereunder. Under the Bank Holding Company Act, the Company is regulated by the Board of Governors of the Federal Reserve. The Company is also governed by the

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Financial Services Modernization Act discussed in the following section "New Regulatory Developments."

NEW REGULATORY DEVELOPMENTS. In 1999, the Financial Services Modernization Act (Gramm-Leach-Bliley Act of 1999) was passed by Congress and was signed into law by the President on November 12, 1999. This Act represents a broad reform of federal regulation of financial services. Enactment of this Act makes it easier for affiliations between banks, securities firms, and insurance companies to take place and provides for functional regulation of these entities.

While this new Act repeals certain pre-existing legislation preventing cross-industry affiliations and provides a framework for achieving the Act's purposes, many details of

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implementing the changes authorized by the Act will be the subject of regulations to be adopted in the future by the Federal Reserve Board, the Securities and Exchange Commission, and other relevant federal agencies.

Although the Act is designed to increase competition and could have long-range impact on the competition of the Bank, Management of the Bank believes that there will be no immediate material impact on the Bank's performance.

The Federal Reserve Board submitted a proposal to permit electronic delivery of federally mandated disclosures under Regulation B, E, M, Z and DD. The Federal Reserve Board also instituted changes and regulations requiring "more prominent" disclosures of APR's fees and other charges for credit and charge card solicitation and applications. The Securities and Exchange Commission instituted rules under the use of external auditors to perform internal audit functions. Also the FRB, FDIC, OCC and OTS instituted rules regarding disclosure of certain agreements made to fulfill Community Re-Investment Act Requirements ("CRA Sunshine"). There are also new proposals, that have yet to be enacted, which include the implementation of Fair Credit Reporting Act requirements regarding sharing of consumer information with affiliates to proposed amendments and regulations regarding predatory lending issues. The Federal Reserve Board is also considering proposed changes to Regulation E requiring posting of ATM fees. While management does not believe that any of the new regulations will have a serious impact on the operations of the Bank, these items are currently under review to determine advantages and disadvantages relative to the shareholders.

In June 2001, Statement of Financial Accounting Standards No. 142 (FAS 142), GOODWILL AND OTHER INTANGIBLE ASSETS" was issued and is effective for fiscal years beginning after December 15, 2001. Under FAS 142, identifiable intangible assets that meet certain criteria will continue to be amortized over their estimated useful lives. However, goodwill and non-identifiable intangible assets are no longer amortized. Instead, these assets are evaluated for impairment on an annual basis. If an asset is deemed to be impaired, the asset is written down through an adjustment to current earnings. As a result of adopting FAS 142, the Bank no longer amortizes goodwill.

In November, 2002, the Financial Accounting Standards Board ("FASB") issued Financial Interpretation No. ("FIN") 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 elaborates on the disclosures to be made by a guarantor about its obligations under certain guarantees issued. It also clarifies that a guarantor is required to recognize, at the inception of a

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guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of FIN 45 have been applied on a prospective basis to guarantees issued or modified after December 31, 2002. However, the value of such guarantees is immaterial and the adoption of this Standard did not have a material effect on Bancorp's financial statements.

On March 13, 2002, FASB determined that loan commitments related to the organization or acquisition of mortgage loans that will be held for sale must be accounted for as derivative instruments, effective for fiscal quarters beginning after April 10, 2002. Accordingly, Bancorp adopted such accounting on July 1, 2002. Bancorp enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments).

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Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in the net gain or loss on sale of mortgage loans. Fair value is based on fees currently charged to enter into similar agreements, and for fixed-rate commitments also considers the difference between current levels of interest rates and the committed rates. Prior to July 1, 2002, such commitments were recorded to the extent of fees received. Fees received were subsequently included in the net gain or loss on sale of mortgage loans. The cumulative effect of adopting SFAS No. 133 for rate lock commitments as of July 1, 2002 was not material.

In December 2002, FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement 123." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this Statement amends disclosure requirements to require more prominent disclosures about the method of accounting for stock-based employee compensation and the effect of the method used on reported results in both annual and interim financial statements. SFAS No. 148 was effective for financial statements for fiscal years ending after December 15, 2002. As permitted by SFAS No. 148, Bancorp will continue to apply the provisions of APB Opinion No. 25, "Accounting for Stock-Based Compensation," for all employee stock option grants and has elected to disclose pro forma net income and earnings per share amounts as if the fair-value based method had been applied in measuring compensation costs.

It is possible additional legislation and administrative actions affecting the banking industry are being considered and in the future may be considered by the United States Congress, state legislatures and various regulatory agencies, including those referred to above. It cannot be predicted with certainty whether such legislation or administrative action will be enacted or the extent to which the banking industry in general or the Bank would be affected.

REGULATORY CAPITAL REQUIREMENTS. As of December 31, 2003, the Bank was subject to the capital adequacy regulations adopted by the FDIC. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting principles.

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Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (See Note 11 - Regulatory Matters in the Notes to Consolidated Financial Statements).

The Bank's actual total capital as of December 31, 2003 was \$25.5 million, or 12.3% of risk-weighted assets, compared to \$20.8 million, or 10.0% of risk-weighted assets to be classified as well-capitalized.

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The Bank's actual Tier 1 capital as of December 31, 2003 was \$23.2 million, or 11.2% of risk-weighted assets, compared to \$12.5 million, or 6.0% of risk-weighted assets to be classified as well-capitalized.

The Bank's actual Tier 1 capital as of December 31, 2003 was \$23.2 million, or 8.3% of adjusted assets of \$280.7 million, compared to \$14.0 million, or 5.0% of adjusted assets to be classified as well-capitalized.

Risk-weighted assets are the total assets of the Bank multiplied by risk-weighting percentages assigned in the capital regulations. Risk-weighting percentages range from 0% to 100%, depending on the regulatory definition of the risk profile of the underlying assets. The Bank's risk-weighted assets totaled \$208.0 million as of December 31, 2003, which created a risk-based capital requirement of \$16.6 million for adequate capitalization.

INSURANCE OF ACCOUNTS. The Bank's savings accounts are insured up to applicable limits of SAIF. As federal supervisory agency over state chartered savings banks, the FDIC issues regulations, conducts examinations and generally supervises the operations of such SAIF insured institutions. Any institution that does not operate in accordance with or conform to applicable regulations, policies and directives may be sanctioned for noncompliance. For example, proceedings may be instituted against any insured institution or any director, officer, or employee of such institution who engages in unsafe and unsound practices, including the violation of applicable laws and regulations. As administrator of SAIF, the FDIC has the authority to terminate insurance of savings accounts pursuant to procedures established for that purpose. If the FDIC terminates insurance of accounts, the deposits in the institution subject to termination proceedings will continue to be insured by SAIF for a period of two years following the date of termination.

USURY LIMITATIONS. The Depository Institutions Deregulation and Monetary Control Act of 1980 provides that it preempts state usury laws on residential first mortgage loans unless the applicable state legislature acted to override the preemption within three years of enactment. The Michigan legislature did not act to override the federal preemption and currently does not limit the rate of interest to be charged on mortgage loans by institutions such as the Bank. On some types of consumer loans, Michigan usury laws limit the rates that may be charged by the Bank. Further, with the exception of Michigan criminal usury statutes, there are no interest rate limits on most commercial loans to business entities. The conversion of the Bank from a federally chartered stock savings bank to a Michigan savings bank did not change the effect on the Bank.

QUALIFIED THRIFT LENDER TEST. The Bank must maintain its status as a "qualified thrift lender" ("QTL") in order to exercise the powers granted to a state chartered savings bank. The Bank will remain a QTL if its qualified thrift investments continue to equal or exceed 50% of the portfolio assets. As of December 31, 2003, the Bank exceeded 50% of its portfolio assets invested in qualified investments, due to its concentration in residential mortgage lending.

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As a Michigan savings bank, failure to maintain QTL status would require the Bank to convert to a different charter, such as a commercial bank charter. Management believes that the chance of the Bank failing to maintain its QTL status is remote in the next three years. However, if a

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conversion is required due to further increases in the commercial loan portfolio, Management expects the conversion will cause minimal impact on Bank operations and financial statements.

LOANS TO ONE BORROWER. The Bank may lend up to 15% of the sum of capital (common stock) and surplus (additional paid-in capital). Upon a 2/3 vote by the Board of Directors of the Bank, the limitation may be increased to 25% of the sum of capital and surplus. The 25% limitation restricts loans to one borrower to \$5.9 million at December 31, 2003, which the Bank has not exceeded. As a Michigan savings bank, the Commissioner of the DFI has discretion to determine the Bank's percentage limit on loans to one borrower.

DEMAND ACCOUNTS. In the past, a savings institution was restricted to having a demand account with certain entities (nonpersonal accounts) only if a lending relationship existed. That restriction has been lifted; however the accounts still may not pay interest. This enables the Bank to increase its lower-cost deposit base.

TRANSACTIONS WITH AFFILIATES. FIRREA reinstates restrictions on transactions with affiliates that were formerly imposed by the CEBA. FIRREA further modifies other provisions pertaining to prohibited transactions with affiliates that were formerly contained in the National Housing Act. FIRREA adopts the restrictions of the Federal Reserve Act, specifically Sections 23A and 23B, as follows:

1. Loans and extensions of credit to an affiliate cannot exceed 10% of an association's capital stock and surplus and must be collateralized 100% to 130%, depending on the form of collateral.
2. Aggregate loans and extensions of credit to all affiliates cannot exceed 20% of the association's capital stock and surplus.
3. Low quality assets may not be purchased from an affiliate.
4. Loans and extensions of credit to affiliates must be at market rates and terms.

The Bank is not aware of any transactions that would cause a violation of any of these regulations.

TRUTH IN SAVINGS. The Truth in Savings Act became effective on June 22, 1993. The regulation requires uniform calculation and disclosure of interest-related features of accounts, as well as all service fees assessed on consumer deposit accounts.

APPRAISAL POLICIES. The Bank's management must develop, implement and maintain appraisal policies and practices. The statement of policy provides guidance to management concerning relevant and accepted appraisal standards to be considered in the development of an institution's appraisal guidelines. Management is required to develop and adopt guidelines for hiring appraisers, including consideration of education, experience and membership in

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professional organizations. In addition, management is required to periodically review the performance of approved appraisers.

FEDERAL RESERVE SYSTEM. The Federal Reserve Board has adopted regulations that require savings institutions to maintain non-earning reserves against their transaction accounts (primarily NOW and regular checking accounts) and non-personal time deposits with an original maturity of less than 18 months. As of December 31, 2003, the Bank was in compliance with these requirements. These reserves may be used to satisfy liquidity requirements imposed by the regulatory agencies. Because required reserves must be maintained in the form of vault cash or a non-interest bearing account at a Federal Reserve Bank, the effect of this reserve requirement is to reduce the amount of the institution's interest-earning assets.

FEDERAL HOME LOAN BANK SYSTEM. The Bank is a member of the FHLB System, which consists of 12 regional Federal Home Loan Banks subject to Federal Housing Finance Board supervision and regulation. As a member, the Bank is required to acquire and hold stock in the FHLB in an amount equal to at least 1% of the aggregate principal amount of its unpaid residential mortgage loans, home purchase contracts, and similar obligations at the beginning of each year, or 5% of its advances from the FHLB, whichever is greater. The Bank is in compliance with this requirement with an investment in the FHLB of \$4.3 million in stock as of December 31, 2003.

The Bank's borrowings from the FHLB must be collateralized by loans in the Bank's portfolio. Assets pledged by the Bank as collateral include permanent one-to-four family whole mortgages loans, excluding mortgages of employees and mortgages delinquent more than 60 days (see Borrowings), and other real estate loans. The limitation on additional borrowings by the Bank at December 31, 2003 was \$10.8 million, including \$8.1 million available on the Bank's \$10.0 million line of credit.

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The following table indicates the amount of advances received from the FHLB, due dates and accompanying interest rates:

Short-term advances	2003 -----
Line of credit, 1.11% at Dec. 31, 2003, 1.33% at Dec. 31, 2002	\$ 1,875,538
Fixed interest rate, matured February 23, 2002, 5.12% at Dec. 31, 2001	-
Variable interest rate, matured March 3, 2003, 1.33% at Dec. 31, 2002	-
Variable interest rate, matured June 16, 2003, 1.33% at Dec. 31, 2002	-
Variable interest rate, maturing May 17, 2004, 1.11% at Dec. 31, 2003	4,000,000

Total short-term advances	5,875,538 -----
Long-term advances	
7.18%; fixed rate, payment due at maturity on February 19, 2002	-

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7.18%; payments due per "Mortgage Advance Principal Payment Schedule" with maturity on June 17, 2002	-
6.22%; payments due per "Mortgage Advance Principal Payment Schedule" with maturity on October 15, 2002	-
6.09%; fixed rate, payment due at maturity on December 19, 2002	-
5.31%; fixed until February 22, 2000 with quarterly repricing thereafter, Rate at Dec. 31,2000, 6.76%, with maturity on February 19, 2003	-
6.09%; fixed rate, payment due at maturity on December 19, 2003	-
7.17%; payments due per "Mortgage Advance Principal Payment Schedule" with maturity on May 17, 2004 prepaid in 2003	-
7.34%; payments due per "Mortgage Advance Principal Payment Schedule" with maturity on March 15, 2005	3,537,269
5.70%; payments due per "Mortgage Advance Principal Payment Schedule" with maturity on February 14, 2006	5,391,863
5.50%; fixed until February 19, 2003 with quarterly put option thereafter maturing on February 19, 2008	10,000,000
4.20%; fixed until March 18, 2002 with quarterly put option thereafter maturing March 16, 2011	10,000,000
4.29%; fixed until November 17, 2003 with quarterly put option thereafter when 3-month LIBOR exceeds 8.00%, maturing November 15, 2011	1,000,000
4.55%; fixed until December 22, 2003 with quarterly put option thereafter when 3-month LIBOR exceeds 7.50%, maturing December 20, 2011	10,000,000
4.85%; fixed until February 25, 2005 with quarterly put option thereafter when 3-month LIBOR exceeds 8.00%, maturing February 27, 2012	10,000,000

Total long-term advances	49,929,132

 Total FHLB advances	 \$55,804,670
	=====

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Annual payments of FHLB long-term advances are as follows:

Year Ending	Payments On Long-Term Advances
12/31/04	\$ 3,025,849
12/31/05	2,557,211
12/31/06	3,346,072
12/31/07	-
12/31/08	10,000,000
Thereafter	31,000,000

	\$ 49,929,132
	=====

FIRREA provided (i) that FHLB advances must be secured by specified types of collateral; (ii) that long-term FHLB advances may be obtained only for the purpose of providing funds for residential housing finance; and (iii) that regulations shall be adopted by the Federal Housing Finance Board establishing standards of "community investment and service" that must be met by FHLB members who wish to continue receiving long-term advances. These FIRREA provisions are expected to have no effect on the Bank's ability to obtain FHLB advances up to the limits described above.

SECURITIES REGULATION. The Company is subject to the informational

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reporting requirements of the Securities Exchange Act. The Company files annual reports on Form 10-K (the Company's year end is December 31) and quarterly reports on Form 10-Q with the Securities and Exchange Commission. It is also required to file any current reports on Form 8-K concerning recent material developments. Prior to the reorganization described earlier in this Form 10-K, the Bank was subject to these same reporting requirements as the Company under the Securities and Exchange Act and filed its Form 10-K reports, Form 10-Q reports, Form 8-K reports and other applicable filings with the FDIC. See "Available Information."

An annual report to stockholders and proxy statement are provided to each stockholder of record as of the record date for the Annual Meeting of stockholders, which is usually set as a date in mid-March. The record date for the April 27, 2004 Annual Meeting of stockholders is March 15, 2004. These documents are also filed with the Securities and Exchange Commission. The Company holds its Annual Meeting of stockholders in the last week of April each year at which each stockholder of record, as of the record date, is entitled to vote either in person or by proxy.

Directors, insiders, and certain officers are required to file reports with the Securities and Exchange Commission concerning their ownership of and transactions in the Common Stock of the Company and options thereof. The Company is required to report any of these filings that are delinquent. No such filings were delinquent for the year ending December 31, 2003.

All filings are subject to review by the Securities and Exchange Commission and filers are subject to potential civil, administrative, and criminal liability, among other things, for any misrepresentations or omissions of any material fact in their securities filings. Filers are also subject to civil, administrative, and/or criminal liabilities of various types for failing to comply

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with other applicable securities laws and regulations.

FEDERAL TAXATION. The Company files a consolidated federal income tax return with its wholly-owned subsidiaries on a calendar year basis. The Company and its subsidiaries report their income and expense using the accrual method of accounting.

The Small Business Job Protection Act of 1996, signed into law on August 30, 1996, repealed the special thrift bad debt deduction provisions. This legislation eliminates the use of the percentage of taxable income method as a means of calculating deductions for bad debts, allows banks greater flexibility in diversifying their loan and investment portfolios and establishes requirements for the recapture of previously untaxed bad debt reserve accumulations.

Bad debt reserve accumulations prior to 1988 are exempt from recapture unless the Company liquidates, pays a dividend in excess of earnings and profits or redeems stock. Post 1987 bad debt reserve accumulations will be taxed in equal amounts over a period of six years beginning in 1996. The Bank's pre-1988 tax bad debt reserves which have been suspended are \$918,000 and the amount of the post-1987 reserves which will be recaptured in income are \$312,000.

Savings institutions are also entitled to limited special tax treatment with respect to the deductibility of interest expense relating to certain tax-exempt obligations. Savings institutions are entitled to deduct 100% of their interest expense, allocable to the purchase or carrying of tax-exempt

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obligations acquired before 1983. For taxable years after 1986, the Tax Reform Act of 1986 eliminates the deduction entirely for obligations purchased after August 7, 1986 (except for certain issues by small municipal issuers).

Depending on the composition of its items of income and expense, a savings institution may be subject to the alternative minimum tax. For tax years beginning after 1986, a savings institution must pay an alternative minimum tax equal to the amount (if any) by which 20% of alternative minimum taxable income ("AMTI"), as defined, exceeds regular tax due. AMTI equals regular taxable income increased or decreased by certain adjustments and increased by certain tax preferences. Adjustments and preferences include depreciation deductions in excess of those allowable for alternative minimum tax purposes, tax-exempt interest on most private activity bonds issued after August 7, 1986, the amount of the bad debt reserve deduction claimed in excess of the deduction based on the experience method and, for 1990 and succeeding years, 75% of the excess of adjusted current earnings ("ACE") over AMTI. ACE equals pre-adjustment AMTI ("PAMTI") increased or decreased by certain ACE adjustments, which included tax-exempt interest on municipal bonds for tax purposes, depreciation deductions in excess of those allowable for ACE purposes and the dividend received deduction. PAMTI equals AMTI computed with all the preferences and adjustments other than the ACE adjustment and the alternative minimum tax net operating loss (AMTNOL). AMTI may be reduced only up to 90% by AMTNOL carryovers. The payment of alternative minimum tax will give rise to minimum tax credit which will be available with an indefinite carry forward period available to reduce federal income taxes of the institution in future years, limited to the level of alternative minimum tax arising in each of the carry forward years.

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STATE TAXATION. The Company is also subject to taxes imposed by the State of Michigan. The Single Business Tax is the primary tax and is a "value added" type of tax for the privilege of doing business in the State of Michigan. The tax, at a rate of 1.9%, is on a tax base made up by adding compensation, depreciation and other expenses to federal taxable income, and subtracting interest earned on federal obligations (net of associated expense) and the acquisition costs of tangible assets during the year.

ENVIRONMENTAL

The Bank recognizes that with each real estate mortgage loan there is potential exposure to environmental liability and therefore the Bank has adopted a written environmental risk reduction procedure. The Bank's environmental risk reduction procedure does not insulate it from potential legal liability.

Typically, the procedure requires that a Phase I Environmental Analysis be performed prior to closing for most mortgage loans over \$100,000 secured by commercial or industrial real estate. The borrower is required to pay the cost of this analysis. The Bank will consider factors such as prior use of the property, the dollar amount of the loan and review an environmental hazard report from a qualified environmental firm to determine whether additional environmental assessments are necessary.

For all residential real estate mortgage loans, potential borrowers are given a "Homeowners' Guide to Environmental Hazards" at the time of their application to assist the home buyer in determining whether any environmental hazards exist on the subject property. Additionally, at the time of closing, on property whose value exceeds \$250,000 the seller of a parcel of property is required to sign a "Sellers' Disclosure Statement" in order to identify any environmental hazards. The cost to the Company in complying with these procedures is negligible. However, the Bank's environmental risk reduction

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procedures do not completely insulate it from potential legal liability.

AVAILABLE INFORMATION

The Company's Common Stock is registered pursuant to Section 12(g) of the Securities Exchange Act of 1934 and the Company files reports with the SEC. These reports include, among others, the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and securities transaction reports of directors, executive officers and certain other reporting persons on Forms 3, 4, and 5.

The public may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Filings of the Company can also be obtained from the Company by contacting President Eric L. Eishen at Sturgis Bancorp, Inc., 113-125 E. Chicago Road, Sturgis, Michigan 49091, telephone number (269)651-9345 or through the Securities and Exchange Commission Edgar System at WWW.SEC.GOV. Copies of the Bank's filings with the FDIC under the Securities Exchange Act of 1934 can be obtained from Sturgis Bank & Trust Company by contacting

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President Eric L. Eishen at Sturgis Bank & Trust Company, 113-125 E. Chicago Road, Sturgis, Michigan 49091, telephone number (269)651-9345 or, for a nominal fee from the FDIC at telephone number (202)898-8913 or fax number (202)898-3909.

The Bank maintains a website at WWW.STURGISBANK.COM. On this site, a link is provided to SEC's website that provides all filings of the Company. In this way, the Company makes available reports, including the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, securities transaction reports on Form 3, Form 4, and Form 5, and certain other reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the Securities and Exchange Commission.

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ITEM 2. PROPERTIES

The following table sets forth certain information regarding the Bank's properties as of December 31, 2003. All offices are owned by the Bank (except as noted), free and clear of encumbrances and are full service offices.

Location -----	Address City, ST Zip -----	Owned/ Leased -----	Approximate Square Footage -----	Ot --
Sturgis (Main Office)	113-125 East Chicago Road Sturgis, MI 49091	Owned	22,422	Opened in 1905, rel
Branch Offices -----				
Bronson	863 West Chicago Road	Owned	2,400	Opened by First Nat

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	Bronson, MI 49028			acquired in 1997.
Centreville	158 West Main Centreville, MI 49032	Owned	3,096	Acquired from First
Climax	125 North Main Climax, MI 49034	Owned	1,344	Acquired from First
Coldwater	290 East Chicago Road Coldwater, MI 49036	Owned	1,200	Opened in 1978 by F Battle Creek and ac 1996
Colon	110 South Blackstone Street Colon, MI 49040	Owned	1,180	Opened in 1978, rel
South Haven	1121 LaGrange Street South Haven, MI 49090	Owned	2,450	Acquired from First
Sturgis	1001 South Centerville Road Sturgis, MI 49091	Owned	1,908	Opened in 1975 by F Kalamazoo and acqui 1991.
Sturgis	1501 East Chicago Road Sturgis, MI 49091	Leased	500	Leased in 1997. Li
Three Rivers	115 North Main Street Three Rivers, MI 49093	Owned	1,856	Opened by Kalamazoo from First Federal
White Pigeon	122 West Chicago Road White Pigeon, MI 49099	Owned	1,854	Opened in 1905, rel

As of December 31, 2003, the net book value of all of the Bank's offices, including land, buildings, furniture, fixtures and equipment, including data processing equipment, was \$6.5 million. Each of the properties is in good condition.

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ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, the Company is occasionally made a party to actions seeking to recover damages from the Company or its subsidiaries.

The Company and its subsidiaries are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of Management, the ultimate disposition of these matters is not expected to have a material adverse effect on the Company's financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of 2003, no matters were submitted to a vote of security holders.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED

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STOCKHOLDER MATTERS

The information contained in the sections captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Market Information" in the 2003 Annual Report to Stockholders is incorporated herein by reference.

In addition to the information incorporated by reference, the following table shows sales of unregistered securities by the Company within the past three years through December 31, 2003.

Date of Sale	Number of Shares	Exercise Price	Name
01/03/03	9,000	\$ 4.35	Eishen, Leonard
	----- 9,000 =====		

All of the foregoing sales were made pursuant to the exercise of stock options by officers, directors, or employees of the Company, which options were granted under benefit plans approved by a majority of shareholders present, in person or proxy, at an annual meeting of the shareholders of the Company. The sales of these securities were exempt from registration under Title 12, Code of Federal Regulations Section 563g.3(g). The exercise of the stock options was timely reported in a Form 4 filed with the Securities and Exchange Commission pursuant to Section 16 of the Securities Exchange Act.

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ITEM 6. SELECTED FINANCIAL DATA

The information contained in the section captioned "Selected Financial Data" in the 2003 Annual Report to Stockholders is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2003 Annual Report to Stockholders is incorporated herein by reference.

ITEM 7.A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

The information contained in the section captioned "Asset/Liability Management" in the 2003 Annual Report to Stockholders is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements contained in the 2003 Annual Report to the Stockholders are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The stockholders at the 2003 Annual Meeting ratified the selection of

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Plante & Moran, PLLC as independent public accountants for the year ending 2003. Plante & Moran, PLLC has been the independent public accountants, pursuant to stockholder approval, since 1999. There have been no disagreements on accounting and financial disclosure matters with Plante & Moran, PLLC for the fiscal year ending December 31, 2003.

ITEM 9.A. CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer along with the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Company's Chief Executive Officer along with the Company's Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic Securities and Exchange Commission ("SEC") filings. There have been no significant changes in the Company's internal controls or in other factors which

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could significantly affect these controls subsequent to the date the Company performed its evaluation.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

For information concerning the executive officers and directors of the Company, the information contained under the sections captioned "SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN OTHERS" and "PROPOSAL I--ELECTION OF DIRECTORS" in the Company's Proxy Statement for the Company's 2003 Annual Meeting of Stockholders is incorporated herein by reference (the "Proxy Statement").

The Company has adopted a Code of Ethics that applies to the Company's principal executive officer, principal financial officer, principal accounting officer, as well as all directors, officers and employees of the Company. The Code of Ethics was adopted during calendar year 2003 and a copy is attached as an exhibit to this Form 10-K. To the extent the Company makes any amendments to or any waivers of any provision of the Code of Ethics, it will disclose such under Item 10 of Form 8-K.

Our Board of Directors has determined that all members of the Audit Committee are "independent" as that term is defined by NASDAQ. Our Board of Directors has also determined that the Audit Committee does not have an "audit committee financial expert" as that term is defined in the SEC regulations, because our Board of Directors did not believe that any of the members of the Audit Committee met the qualifications of an "audit committee financial expert." However, our Board of Directors has determined that all of the members of the Audit Committee are able to read and understand fundamental financial statements within the meaning of the NASDAQ audit committee requirements and that at least one of its members has the financial sophistication required by NASDAQ. Our Board of Directors has determined that by satisfying the requirements of the NASDAQ listing standards with a member of the Audit Committee that has the requisite "financial sophistication" qualifications, our Audit Committee has the financial expertise necessary to fulfill the duties and the obligations of the Audit Committee. Our Board of Directors has concluded that the appointment of an

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additional director to the Audit Committee is not necessary at this time.

ITEM 11. EXECUTIVE COMPENSATION

The information contained under the sections captioned "PROPOSAL I--ELECTION OF DIRECTORS" and "COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS" in the Proxy Statement are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

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The information contained under the sections captioned "SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN OTHERS" and "PROPOSAL I--ELECTION OF DIRECTORS" in the Proxy Statement are incorporated herein by reference.

The following table provides information regarding options outstanding at December 31, 2003 to purchase Bancorp's common stock, which have been granted under equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	fu
-----	(a)	(b)	-----
Equity compensation plans approved by security holders	111,576	\$ 13.62	
Equity compensation plans not approved by security holders *	N/A	N/A	
Total	111,576	\$ 13.62	

* - Bancorp has options outstanding under three expired option plans, all of which were previously approved by stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated herein by reference to the section captioned "PROPOSAL I--ELECTION OF DIRECTORS" in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information contained under the section captioned "Principal Accounting Firm Fees" in the Proxy Statement is incorporated herein by

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reference.

PART IV.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(A) FINANCIAL STATEMENTS AND SCHEDULES

The financial statements are set forth under Item 8 of this report on Form 10-K.

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Financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included.

(B) REPORTS ON FORM 8-K

The Company filed no reports on Form 8-K during the quarter ended December 31, 2003.

(C) EXHIBIT LISTING

EXHIBIT NUMBER	DESCRIPTION
-----	-----
2.1	Plan of Reorganization and Merger Agreement (1)
2.2	Consolidation Agreement (1)
3.1	Articles of Incorporation of Sturgis Bancorp, Inc. (1)
3.2	Bylaws of Sturgis Bancorp, Inc. (1)
10.1	Sturgis Federal Savings Bank Non-Employee Director Stock Option Plan (2)
10.2	Sturgis Federal Savings Bank Director Stock Option Plan (2)
10.3	Sturgis Federal Savings Bank Employee Stock Option Plan (3)
10.4	Employment Agreement with Eric L. Eishen (4)
10.5	Employment Agreement with Brian P. Hoggatt (4)
10.6	Employment Agreement with Ronald W. Scheske (4)
10.7	Employment Agreement with Steven L. Gage (4)
10.8	Employment Agreement with Tracey L. Parker (4)
10.9	Employment Agreement with David E. Watters (4)
13.1	Annual Report to Stockholders
14.1	Code of Ethics

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21 Subsidiaries of Registrant

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31.1 Certification of CEO Pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.

31.2 Certification of CFO Pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.

32.1 Certification of the CEO Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the CFO Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.1 Audit Committee Charter

(1) Incorporated by reference to the Proxy Statement dated November 21, 2001 of Sturgis Bank & Trust Company.

(2) Incorporated by reference to 1994 Form 10-KSB of Sturgis Federal Savings Bank, the predecessor of Sturgis Bank & Trust Company.

(3) Incorporated by reference to 1995 Form 10-KSB of Sturgis Federal Savings Bank, the predecessor of Sturgis Bank & Trust Company.

(4) Incorporated by reference to Form 10-Q for Sturgis Bancorp, Inc. for the quarter ended September 30, 2003.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Sturgis, State of Michigan, on March 25, 2004.

Sturgis Bancorp, Inc.

By: /s/ Eric L. Eishen

Eric L. Eishen
President and CEO

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated, in the City of

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Sturgis, State of Michigan, on March 25, 2004.

Signature	Title
<u>/s/ Raymond H. Dresser, Jr.</u> Raymond H. Dresser, Jr.	Director
<u>/s/ Leonard L. Eishen</u> Leonard L. Eishen	Director
<u>/s/ Eric L. Eishen</u> Eric L. Eishen	Director, President and Chief Executive Officer
<u>/s/ Lawrence A. Franks</u> Lawrence A. Franks	Director, Chairman of the Board
<u>/s/ Donald L. Frost</u> Donald L. Frost	Director
<u>/s/ James A. Goethals</u> James A. Goethals	Director, Vice Chairman of the Board
<u>/s/ Philip G. Ward</u> Philip G. Ward	Director
<u>/s/ Brian P. Hoggatt</u> Brian P. Hoggatt	Chief Financial Officer and Secretary/Treasurer