COMMUNITY SHORES BANK CORP
Form 10-Q
May 15, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015
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or

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

For the transition period from ________________________________ to ________________________________

Commission File Number: 000-51166

Community Shores Bank Corporation
(Exact name of registration as specified in its charter)

Michigan	**38-3423227**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1030 W. Norton Avenue, Muskegon, MI	**49441**
(Address of principal executive offices)	(Zip Code)

(231) 780-1800
(Registrant’s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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.

x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

¨ Yes x No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company x
(Do not check if a smaller reporting company)

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

¨ Yes x No

At May 1, 2015, 1,468,800 shares of common stock were outstanding.

Community Shores Bank Corporation Index

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

COMMUNITY SHORES BANK CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	March 31, 2015	December 31, 2014
ASSETS		
Cash and due from financial institutions	$3,654,656	$3,111,858
Interest-bearing deposits in other financial institutions	14,007,903	4,823,664
Total cash and cash equivalents	17,662,559	7,935,522
Securities available for sale (at fair value)	30,033,469	31,691,369
Loans held for sale	240,000	147,900
Loans	127,418,297	129,787,133
Less: Allowance for loan losses	1,607,742	1,978,172
Net loans	125,810,555	127,808,961
Federal Home Loan Bank stock (at cost)	388,400	388,400
Premises and equipment, net	9,008,554	9,080,781
Accrued interest receivable	434,519	418,249
Foreclosed assets	2,238,997	2,238,997
Net deferred tax asset	3,945,578	3,995,877
Other assets	1,057,591	971,391
Total assets	$190,820,222	$184,677,447
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest-bearing	$32,801,858	$34,215,744
Interest-bearing	136,990,534	127,089,696
Total deposits	169,792,392	161,305,440
Federal funds purchased and repurchase agreements	6,045,471	8,610,621
Subordinated debentures	4,500,000	4,500,000
Note payable	1,280,000	1,280,000
Accrued expenses and other liabilities	1,029,266	900,449
Total liabilities	182,647,129	176,596,510
Shareholders' equity		
Preferred Stock, no par value: 1,000,000 shares authorized and none issued	0	0
Common Stock, no par value: 9,000,000 shares authorized; 1,468,800 issued and outstanding	13,296,691	13,296,691
Retained deficit	(4,912,352)	(4,944,867)

Accumulated other comprehensive loss	(211,246)	(270,887)
Total shareholders' equity	8,173,093	8,080,937
Total liabilities and shareholders' equity	$190,820,222	$184,677,447

See accompanying notes to consolidated financial statements.

COMMUNITY SHORES BANK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Interest and dividend income		
Loans, including fees	$ 1,656,679	$ 1,714,060
Securities (including FHLB dividends)	109,919	120,378
Federal funds sold and other income	4,294	10,600
Total interest and dividend income	1,770,892	1,845,038
Interest expense		
Deposits	173,382	214,629
Repurchase agreements, federal funds purchased, and other debt	8,548	11,686
Federal Home Loan Bank advances and notes payable	55,534	54,762
Total interest expense	237,464	281,077
Net Interest Income	1,533,428	1,563,961
Provision for loan losses	0	0
Net Interest Income After Provision for Loan Losses	1,533,428	1,563,961
Non-interest income		
Service charges on deposit accounts	136,234	138,468
Gain on sale of loans	32,335	26,228
Gain on sale of securities	0	7,409
Gain on sale of foreclosed assets	50,340	46,998
Other	188,012	190,126
Total non-interest income	406,921	409,229
Non-interest expense		
Salaries and employee benefits	1,010,481	951,447
Occupancy	165,687	173,474
Furniture and equipment	84,066	73,441
Advertising	8,037	10,485
Data processing	165,125	155,467
Professional services	95,816	86,405
Foreclosed asset impairment	0	15,831
FDIC insurance	101,455	105,450
Other	260,415	290,467
Total non-interest expense	1,891,082	1,862,467
Income Before Federal Income Taxes	49,267	110,723
Federal income tax expense	16,752	0
Net Income	$ 32,515	$ 110,723
Basic average shares outstanding	1,468,800	1,468,800
Diluted average shares outstanding	1,468,800	1,468,800
Basic earnings per share	$ 0.02	$ 0.08
Diluted earnings per share	$ 0.02	$ 0.08

See accompanying notes to consolidated financial statements.

COMMUNITY SHORES BANK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Net income	$ 32,515	$ 110,723
Other comprehensive income:		
Unrealized holding gains on available for sale securities	90,366	38,085
Less reclassification adjustments for unrealized gains later recognized in income	0	(7,409)[1]
	90,366	30,676
Tax effect	(30,725)	0
Other comprehensive income, net of tax	59,641	30,676
Comprehensive income	$ 92,156	$ 141,399

[1] Appears on condensed consolidated statement of income as a gain on sale of securities.

See accompanying notes to consolidated financial statements.

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COMMUNITY SHORES BANK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)

	Shares	Common Stock	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at January 1, 2014	1,468,800	$13,296,691	$(9,276,599)	$ (357,223)	$3,662,869
Net income			110,723		110,723
Other comprehensive income				30,676	30,676
Balance at March 31, 2014	1,468,800	$13,296,691	$(9,165,876)	$ (326,547)	$3,804,268
Balance at January 1, 2015	1,468,800	$13,296,691	$(4,944,867)	$ (270,887)	$8,080,937
Net income			32,515		32,515
Other comprehensive income				59,641	59,641
Balance at March 31, 2015	1,468,800	$13,296,691	$(4,912,352)	$ (211,246)	$8,173,093

See accompanying notes to consolidated financial statements.

COMMUNITY SHORES BANK CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Cash flows from operating activities		
Net income	$ 32,515	$ 110,723
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	91,755	88,098
Net amortization of securities	74,313	71,494
Net realized gain on sale of securities	0	(7,409)
Net realized gain on sale of loans	(32,335)	(26,228)
Net realized gain on sale of foreclosed assets	(50,340)	(46,998)
Foreclosed asset impairment	0	15,831
Originations of loans for sale	(1,438,320)	(732,300)
Proceeds from loan sales	1,378,555	998,583
Deferred federal income tax expense	50,299	0
Net change in:		
Accrued interest receivable and other assets	(133,196)	(105,451)
Accrued interest payable and other liabilities	128,817	(127,379)
Net cash from operating activities	102,063	238,964
Cash flows from investing activities		
Activity in available for sale securities:		
Sales	0	661,183
Maturities, prepayments and calls	1,673,954	2,494,847
Purchases	0	(2,520,131)
Loan originations and payments, net	1,998,406	(176,800)
Additions to premises and equipment, net	(19,528)	(100,427)
Proceeds from the sale of foreclosed assets	50,340	70,298
Net cash from investing activities	3,703,172	428,970
Cash flows from financing activities		
Net change in deposits	8,486,952	6,435,209
Net change in federal funds purchased and repurchase agreements	(2,565,150)	0
Net cash from financing activities	5,921,802	6,435,209
Net change in cash and cash equivalents	9,727,037	7,103,143
Beginning cash and cash equivalents	7,935,522	17,132,741
Ending cash and cash equivalents	$ 17,662,559	$ 24,235,884
Supplemental cash flow information:		
Cash paid during the period for interest	$ 207,801	$ 251,329
Transfers from loans to foreclosed assets	0	15,768
Foreclosed asset sales financed by the Bank	0	49,500

See accompanying notes to consolidated financial statements.

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION, LOAN POLICY AND RECENT DEVELOPMENTS

BASIS OF PRESENTATION: The unaudited, consolidated financial statements as of and for the three months ended March 31, 2015 include the consolidated results of operations of Community Shores Bank Corporation (“Company”) and its wholly-owned subsidiaries, Community Shores Financial Services (“CS Financial Services”), and Community Shores Bank (the “Bank”), and the Bank’s wholly-owned subsidiary, Community Shores Mortgage Company (the “Mortgage Company”) and the Mortgage Company’s wholly-owned subsidiary, Berryfield Development, LLC (“Berryfield”). Community Shores Capital Trust I (“the Trust”) is not consolidated and exists solely to issue capital securities. These consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and Article 8 of Regulation S-X and do not include all disclosures required by generally accepted accounting principles for a complete presentation of the Company’s financial condition and results of operations. In the opinion of management, the information reflects all adjustments (consisting only of normal recurring adjustments) which are necessary in order to make the financial statements not misleading and for a fair representation of the results of operations for such periods. The results for the period ended March 31, 2015 should not be considered as indicative of results for a full year. For further information, refer to the consolidated financial statements and footnotes included in the Company’s annual report on Form 10-K for the period ended December 31, 2014. Some items in the prior year financial statements may be reclassified to conform to the current presentation.

LOAN POLICY: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs and an allowance for loan losses. The loan portfolio consists of the following segments:

Commercial- Loans to businesses that are sole proprietorships, partnerships, limited liability companies and corporations. These loans are for commercial, industrial, or professional purposes. The risk characteristics of these loans vary based on the borrowers business and industry as repayment is typically dependent on cash flows generated from the underlying business.

Commercial Real Estate- Loans to individuals or businesses that are secured by improved and unimproved vacant land, farmland, commercial real property, 1-4 family and multifamily residential properties, and all other conforming, nonresidential properties. Proceeds may be used for land acquisition, development or construction. These loans typically fall into two general categories: property that is owner occupied and, income or investment property. Owner occupied commercial real estate loans typically involve the same risks as commercial and industrial loans, however, the underlying collateral is the real estate which is subject to changes in market value after the loan’s origination. Adverse economic events and changes in real estate market valuations generally describe the risks that accompany commercial real estate loans involving income or investment property. The ability of the borrower to repay tends to depend on the success of the underlying project or the ability of the borrower to sell or lease the property at certain anticipated values.

Consumer- Term loans or lines of credit for the purchase of consumer goods, vehicles or home improvement. The risk characteristics of the loans in this segment vary depending on the type of collateral, however, repayment is expected from an individual continuing to generate a cash flow that supports the calculated payment obligation. Secondary support could involve liquidation of collateral.

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION, LOAN POLICY AND RECENT DEVELOPMENTS (Continued)

Residential- Loans to purchase or refinance single family residences. The risks associated with this segment are similar to the risks for consumer loans as far as individual payment obligations, however, the underlying collateral is the real estate. Real estate is subject to changes in market valuation and can be unstable for a variety of reasons.

For all loan segments, interest income is accrued on the unpaid principal using the interest method assigned to the loan product and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt. A loan is moved to non-accrual status when it is past due over 90 days unless the loan is well secured and in the process of collection. If a loan is not past due but deemed to be impaired it may also be moved to non-accrual status. These rules apply to loans in all segments. However, certain classes of loans in the consumer segment may simply get charged-off as opposed to moving to non-accrual status.

All interest accrued but not received for a loan placed on non-accrual is reversed against interest income at the time the loan is assigned non-accrual status. Payments received on such loans are applied to principal when there is doubt about recovering the full principal outstanding. Loans are eligible to return to accrual status after six months of timely payment and future payments are reasonably assured.

The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and from recoveries of previously charged-off loans and decreased by charge-offs.

The allowance for loan loss analysis is performed monthly. Management's methodology consists of specific and general components. The general component covers non-impaired loans and is based on historical loss experience adjusted for current economic factors.

The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Bank over the most recent 12 quarters. The historical loss experience is recalculated at the end of each quarter. This actual loss experience is supplemented with current economic factors based on the risks present for each portfolio segment. These current economic factors are also revisited at the end of each quarter and include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; quality of loan review system; degree of oversight by the Board of Directors; national and local economic trends and conditions; industry conditions; competition and legal and regulatory requirements; and effects of changes in credit concentrations. There were no significant changes to this methodology in the first quarter of 2015.

For the commercial and commercial real estate portfolio segments, the historical loss is tracked by original loan grade. The Bank utilizes a numeric grading system for commercial and commercial real estate loans. Grades are assigned to each commercial and commercial real estate loan by assessing information about the specific borrower's situation and the estimated collateral values. The description of the loan grade criteria is included in Note 4. In recent periods, with charge-off activity lessening, the calculated historical loss factor assigned to general allocations was considerably reduced. The reduction was large enough that management chose to define and implement a minimum loss percentage for these segments. The minimum loss percentage is meant to ensure adequate coverage for incurred losses in loan pools.

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION, LOAN POLICY AND RECENT DEVELOPMENTS (Continued)

Within the commercial and industrial and commercial real estate portfolios, there are classes of loans with like risk characteristics that are periodically segregated because management has determined that the historical losses or current factors are unique and ought to be considered separately from the entire segment.

For the consumer segment, historical loss experience is based on the actual loss history of the following four classes; general consumer loans, personal lines of credit, home equity lines of credit, and credit cards. The level of delinquencies and charge-off experience directly impacts the general allocations to the consumer classes.

For the residential segment, loss experience is not segregated by grades or classes. The level of delinquencies, charge-off experience, and direction of real estate values directly impacts the general allocations to the residential real estate segment.

The specific component of the allowance for loan losses relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and are classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Any loan within a segment can be considered for individual impairment if it meets the above criteria. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported net, at the fair value of the collateral less costs to sell.

Allocations of the allowance may be made for specific loans and groups, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan balances are generally charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Statutorily, the Bank must charge-off bad debt that reaches delinquency of 360 days. In the case of an impaired loan, management typically charges off any portion of the debt that is unsecured based on an internal analysis of future cash flows and or collateral.

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION, LOAN POLICY AND RECENT DEVELOPMENTS (Continued)

RECENT DEVELOPMENTS:

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This ASU establishes a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP, including those that previously followed industry-specific guidance such as the real estate, construction and software industries. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance in this ASU is effective for annual and interim periods beginning after December 15, 2016, with three transition methods available – full retrospective, retrospective and cumulative effect approach. Although the Company is in the process of evaluating the impact, the adoption of this ASU is not expected to have a material effect on the Company's financial position or results of operations.

In June 2014, FASB issued ASU 2014-11, *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. This ASU requires two accounting changes. First, repurchase-to-maturity transactions will be accounted for as secured borrowing transactions on the balance sheet, rather than sales. Second, for repurchase financing arrangements, the ASU requires separate accounting for a transfer of a financial asset executed contemporaneously with (or in contemplation of) a repurchase agreement with the same counterparty, which also will generally result in secured borrowing accounting for the repurchase agreement. The ASU also introduces new disclosures to increase transparency about the types of collateral pledged for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. The ASU also requires a transferor to disclose information about transactions accounted for as a sale in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets through an agreement with the transferee. The accounting changes and disclosure for certain transactions accounted for as a sale are effective for the first interim period beginning in 2015. The disclosure for transactions accounted for as secured borrowings is required for interim periods beginning after March 15, 2015. The adoption of this guidance did not have a material effect on the Company's financial position or results of operations.

Other issued but not yet effective accounting standards were reviewed and management has concluded that none apply or will be material to the Company's financial statements.

The Company continued its trend of profitability in the first quarter of 2015 reporting consolidated earnings of approximately $33,000 or $0.02 per common share. Additionally, total assets grew as a result of larger customer deposit account balances which increased the Company's cash on deposit at the Federal Reserve Bank.

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION, LOAN POLICY AND RECENT DEVELOPMENTS (Continued)

In spite of the improved financial outcome for the last several quarters, the Company's significant consolidated losses from 2007 through 2011, stemming primarily from deteriorating asset quality, resulted in additional regulatory scrutiny. On September 2, 2010, the Bank entered into a Consent Order with the Federal Deposit Insurance Corporation ("FDIC") and the State of Michigan's Department of Insurance and Financial Services ("DIFS"), its primary regulators. The Bank agreed to the terms of the Consent Order without admitting or denying any charge of unsafe or unsound banking practices relating to capital, asset quality, or earnings. The Consent Order imposes no fines or penalties on the Bank. The Consent Order will remain in effect and enforceable until it is modified, terminated, suspended, or set aside by the FDIC and DIFS. Under the Consent Order, the Bank was required, within 90 days of September 2, 2010, to have and maintain its level of Tier 1 capital, as a percentage of its total assets, at a minimum of 8.5%, and its level of qualifying total capital, as a percentage of risk-weighted assets, at a minimum of 11%. The Bank was not able to meet these requirements within the required 90-day period and remained out of compliance with the Consent Order as of March 31, 2015.

The lack of financial soundness of the Bank and the Company's inability to serve as a source of strength for the Bank resulted in the board of directors entering into a Written Agreement with the Federal Reserve Bank of Chicago (the "FRB"), one of the Company's primary regulators. The Written Agreement became effective on December 16, 2010, when it was executed by the FRB. The Written Agreement provides that: (i) the Company must take appropriate steps to fully utilize its financial and managerial resources to serve as a source of strength to the Bank; (ii) the Company may not declare or pay any dividends or take dividends or any other payment representing a reduction in capital from the Bank or make any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities without prior FRB approval; (iii) the Company may not incur, increase or guarantee any debt or purchase or redeem any shares of its stock without prior FRB approval; (iv) the Company must submit a written statement of its planned sources and uses of cash for debt service, operating expenses and other purposes to the FRB within 30 days of the Written Agreement; (v) the Company shall take all necessary actions to ensure that the Bank, the Company and all nonbank subsidiaries of both the Bank and the Company comply with sections 23A and 23B of the Federal Reserve Act and Regulation W of the Board of Governors (12 C.F.R. Part 223) in all transactions between affiliates; (vi) the Company may not appoint any new director or senior executive officer, or change the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, without prior regulatory approval; and finally (vii) within 30 days after the end of each calendar quarter following the date of the Written Agreement, the board of directors shall submit to the FRB written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of the Written Agreement as well as current copies of the parent company only financial statements. The Company has not yet been able to meet the obligation detailed in part (i) above; as the Company currently has limited resources with which to assist the Bank in achieving the capital level required by the Consent Order. The Company's main liquidity resource is its cash account balance which, as of March 31, 2015, was approximately $245,000.

Failure to comply with the stipulated capital levels of the Consent Order or the provisions of the Written Agreement may subject the Bank to further regulatory enforcement action.

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SECURITIES AVAILABLE FOR SALE

The following tables represent the securities held in the Company's portfolio at March 31, 2015 and at December 31, 2014:

March 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Treasury	$2,010,361	$19,092	$0	$2,029,453
US Government and federal agency	14,137,956	70,154	(2,325)	14,205,785
Municipals	1,060,096	2,565	0	1,062,661
Mortgage-backed and collateralized mortgage obligations–residential	12,658,917	131,858	(55,205)	12,735,570
	$29,867,330	$223,669	$(57,530)	$30,033,469

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Treasury	$2,012,021	$13,682	$0	$2,025,703
US Government and federal agency	15,172,847	52,755	(21,652)	15,203,950
Municipals	1,060,385	4,080	0	1,064,465
Mortgage-backed and collateralized mortgage obligations–residential	13,370,343	117,765	(90,857)	13,397,251
	$31,615,596	$188,282	$(112,509)	$31,691,369

The amortized cost and fair value of the securities portfolio are shown by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment fees. Below is the schedule of contractual maturities for securities held at March 31, 2015:

	Amortized Cost	Fair Value
Due in one year or less	$4,521,362	$4,533,332
Due from one to five years	12,687,051	12,764,567

Due from five to ten years	0	0
Due in more than ten years	0	0
Mortgage-backed and collateralized mortgage obligations – residential	12,658,917	12,735,570
	$29,867,330	$30,033,469

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SECURITIES AVAILABLE FOR SALE (Continued)

Below is the table of securities with unrealized losses, aggregated by investment category and length of time such securities were in an unrealized loss position at March 31, 2015 and December 31, 2014:

	Less than 12 Months		12 Months or Longer		Total	
March 31, 2015	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Government and federal agency	$499,330	$ (5)	$497,543	$ (2,320)	$996,873	$ (2,325)
Mortgage-backed and collateralized mortgage obligations - residential	1,449,074	(4,092)	3,866,595	(51,113)	5,315,669	(55,205)
	$1,948,404	$ (4,097)	$4,364,138	$ (53,433)	$6,312,542	$ (57,530)

	Less than 12 Months		12 Months or Longer		Total	
December 31, 2014	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Government and federal agency	$2,521,604	$ (6,844)	$1,951,087	$ (14,808)	$4,472,691	$ (21,652)
Mortgage-backed and collateralized mortgage obligations - residential	2,850,028	(9,012)	4,675,915	(81,845)	7,525,943	(90,857)
	$5,371,632	$ (15,856)	$6,627,002	$ (96,653)	$11,998,634	$ (112,509)

No securities were sold in the three months ended March 31, 2015. There was one security sold in the first three months of 2014. Proceeds from the sale were $661,183 with a gain of $7,409 realized.

Other-Than-Temporary-Impairment

Management evaluates securities for other than temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. In determining OTTI, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When OTTI occurs, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If an entity intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the OTTI will be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI will be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SECURITIES AVAILABLE FOR SALE (Continued)

At March 31, 2015 and December 31, 2014, all of the mortgage-backed securities and collateralized mortgage obligations held by the Company were issued by U.S. government-sponsored entities and agencies, primarily Fannie Mae, Freddie Mac and Ginnie Mae, institutions which the government has affirmed its commitment to support. At March 31, 2015, 10 debt securities had unrealized losses with aggregate depreciation of 0.90% from the amortized cost basis; six of the 10 had unrealized losses greater than 12 months.

Five of the 10 securities, which had an unrealized loss at March 31, 2015, are issued by government agencies and five are issued by a government-sponsored entity. It is likely that these debt securities will be retained given the fact that they are pledged to various public funds. The reported decline in value is not material and is deemed to be market driven. Because the decline in fair value is attributable to changes in interest rates and not credit quality and, because the Company does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery. The Company does not consider these securities to be other-than-temporarily impaired at March 31, 2015.

At March 31, 2015 and December 31, 2014, there were no holdings of securities of any one issuer, other than U.S. Government and federal agencies, in an amount greater than 10% of common stock and surplus.

Securities pledged at March 31, 2015 had a carrying amount of $21,537,498 and were pledged to secure public fund customers, customer repurchase agreements and, to a much lesser extent, potential borrowings at the FRB Discount Window. Pledged securities at December 31, 2014 had a carrying amount of $25,471,385.

3. LOANS

Outstanding loan balances by portfolio segment and class at March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015	December 31, 2014
Commercial	$ 51,199,210	$ 50,977,933
Commercial Real Estate:		

General	50,998,234	54,180,393
Construction	2,384,478	1,891,746
Consumer:		
Lines of credit	5,626,397	5,774,029
Other	1,290,631	1,356,714
Credit card	462,231	490,743
Residential	15,502,649	15,172,246
Net deferred loan fees	(45,533)	(56,671)
	127,418,297	129,787,133
Less: Allowance for loan losses	(1,607,742)	(1,978,172)
Loans, net	$ 125,810,555	$ 127,808,961

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COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS

The following tables present the activity in the allowance for loan losses for the three month periods ended March 31, 2015 and 2014 by portfolio segment:

Three Months Ended March 31, 2015	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
Allowance for loan losses:						
Beginning balance	$ 500,776	$ 848,589	$ 294,039	$ 204,485	$ 130,283	$ 1,978,172
Charge-offs	0	(392,397)	(477)	0	0	(392,874)
Recoveries	17,100	0	5,344	0	0	22,444
Provision for loan losses	(4,902)	(46,353)	(3,977)	2,222	53,010	0
Ending balance	$ 512,974	$ 409,839	$ 294,929	$ 206,707	$ 183,293	$ 1,607,742

Three Months Ended March 31, 2014	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
Allowance for loan losses:						
Beginning balance	$ 339,048	$ 1,713,193	$ 424,824	$ 227,767	$ 104,810	$ 2,809,642
Charge-offs	0	0	(274)	(32,201)	0	(32,475)
Recoveries	253,800	0	11,242	0	0	265,042
Provision for loan losses	(166,776)	(26,579)	(38,825)	3,117	229,063	0
Ending balance	$ 426,072	$ 1,686,614	$ 396,967	$ 198,683	$ 333,873	$ 3,042,209

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS (Continued)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment based on impairment method as of March 31, 2015 and December 31, 2014:

March 31, 2015	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$135,692	$0	$161,997	$82,185	$ 0	$379,874
Collectively evaluated for impairment	377,282	409,839	132,932	124,522	0	1,044,575
Unallocated	0	0	0	0	183,293	183,293
Total ending allowance balance	$512,974	$409,839	$294,929	$206,707	$ 183,293	$1,607,742
Loans:						
Individually evaluated for impairment	$1,794,952	$5,752,005	$374,375	$549,776	$ 0	$8,471,108
Collectively evaluated for impairment	49,504,817	47,730,190	7,029,164	14,994,198	0	119,258,369
Total ending loans balance	$51,299,769	$53,482,195	$7,403,539	$15,543,974	$ 0	$127,729,477

December 31, 2014	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
Allowance for loan losses:						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	$135,694	$411,996	$162,615	$82,753	$ 0	$793,058
Collectively evaluated for impairment	365,082	436,593	131,424	121,732	0	1,054,831
Unallocated	0	0	0	0	130,283	130,283
Total ending allowance balance	$500,776	$848,589	$294,039	$204,485	$ 130,283	$1,978,172
Loans:						
	$1,802,389	$6,474,866	$377,322	$553,880	$ 0	$9,208,457

Individually evaluated for impairment						
Collectively evaluated for impairment	49,266,280	49,697,482	7,270,248	14,654,563	0	120,888,573
Total ending loans balance	$51,068,669	$56,172,348	$7,647,570	$15,208,443	$ 0	$130,097,030

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS (Continued)

The following tables present loans individually evaluated for impairment by class of loans as of March 31, 2015 and December 31, 2014. For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs.

March 31, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial	$1,360,220	$ 1,356,936	$0
Commercial Real Estate:			
General	5,752,005	5,738,147	0
Consumer:			
Lines of credit	87,646	87,646	0
Other	0	0	0
Residential	157,992	157,833	0
Subtotal	$7,357,863	$ 7,340,562	$0
With an allowance recorded:			
Commercial	$434,732	$ 433,086	$135,692
Commercial Real Estate:			
General	0	0	0
Consumer:			
Lines of credit	275,495	274,274	150,767
Other	11,234	11,231	11,230
Residential	391,784	390,793	82,185
Subtotal	$1,113,245	$ 1,109,384	$379,874
Total	$8,471,108	$ 8,449,946	$379,874

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS (Continued)

December 31, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial	$1,436,684	$ 1,432,867	$0
Commercial Real Estate:			
General	4,734,250	4,797,634	0
Consumer:			
Lines of credit	87,646	97,188	0
Other	363	363	0
Residential	160,580	193,074	0
Subtotal	$6,419,523	$ 6,521,126	$0
With an allowance recorded:			
Commercial	$365,705	$ 379,068	$135,694
Commercial Real Estate:			
General	1,740,616	2,478,367	411,996
Consumer:			
Lines of credit	277,650	276,294	151,074
Other	11,663	11,541	11,541
Residential	393,300	401,270	82,753
Subtotal	$2,788,934	$ 3,546,540	$793,058
Total	$9,208,457	$ 10,067,666	$793,058

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS (Continued)

The following tables present the average recorded investment of loans individually evaluated for impairment by class of loans as of March 31, 2015 and December 31, 2014 and the associated interest income. For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs.

March 31, 2015	Three Months Average Recorded Investment	Three Months Interest Income Recognized	Three Months Cash Basis Interest Recognized
With no related allowance recorded:			
Commercial	$ 1,386,096	$ 12,983	$ 12,983
Commercial Real Estate:			
General	2,972,875	50,983	43,492
Consumer:			
Lines of credit	87,646	0	0
Other	0	0	0
Residential	159,049	465	465
Subtotal	$ 4,605,666	$ 64,431	$ 56,940
With an allowance recorded:			
Commercial	$ 421,864	$ 5,629	$ 4,926
Commercial Real Estate:			
General	1,055,540	0	0
Consumer:			
Lines of credit	276,595	4,534	4,447
Other	11,314	0	0
Residential	392,307	4,212	4,212
Subtotal	$ 2,157,620	$ 14,375	$ 13,585
Total	$ 6,763,286	$ 78,806	$ 70,525

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS (Continued)

March 31, 2014	Three Months Average Recorded Investment	Three Months Interest Income Recognized	Three Months Cash Basis Interest Recognized
With no related allowance recorded:			
Commercial	$ 1,030,157	$ 7,574	$ 7,574
Commercial Real Estate:			
General	2,866,528	49,967	38,992
Consumer:			
Lines of credit	107,344	523	523
Other	23,801	268	0
Residential	405,104	0	0
Subtotal	$ 4,432,934	$ 58,332	$ 47,089
With an allowance recorded:			
Commercial	$ 223,626	$ 2,793	$ 1,904
Commercial Real Estate:			
General	5,517,604	29,923	29,923
Consumer:			
Lines of credit	294,172	3,992	3,341
Other	66,637	460	221
Residential	708,899	6,025	5,462
Subtotal	$ 6,810,938	$ 43,193	$ 40,851
Total	$ 11,243,872	$ 101,525	$ 87,940

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS (Continued)

The following tables present the aging of the recorded investment in past due and non accrual loans by class of loans as of March 31, 2015:

Accruing Loans	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Accruing Past Due Loans	Current Accruing Loans	Total Recorded Investment of Accruing Loans
Commercial	$ 0	$ 0	$ 0	$ 0	$ 51,284,372	$ 51,284,372
Commercial Real Estate:						
General	0	0	0	0	49,799,697	49,799,697
Construction	0	0	0	0	2,386,903	2,386,903
Consumer:						
Lines of credit	167,973	0	0	167,973	5,392,865	5,560,838
Other	26,887	0	0	26,887	1,269,321	1,296,208
Credit card	0	0	4,031	4,031	458,200	462,231
Residential	162,373	0	0	162,373	15,248,444	15,410,817
Total	$ 357,233	$ 0	$ 4,031	$ 361,264	$ 125,839,802	$ 126,201,066

Non Accrual Loans	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Non Accrual Past Due Loans	Current Non Accrual Loans	Total Non Accrual Recorded Investment
Commercial	$ 0	$ 0	$ 0	$ 0	$ 15,397	$ 15,397
Commercial Real Estate:						
General	175,908	174,852	0	350,760	944,835	1,295,595
Construction	0	0	0	0	0	0
Consumer:						
Lines of credit	0	0	84,262	84,262	0	84,262
Other	0	0	0	0	0	0
Credit card	0	0	0	0	0	0

Residential	84,482	0	48,675	133,157	0	133,157
Total	$ 260,390	$ 174,852	$ 132,937	$ 568,179	$ 960,232	$ 1,528,411

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS (Continued)

The following tables present the aging of the recorded investment in past due and non-accrual loans by class of loans as of December 31, 2014:

Accruing Loans	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Accruing Past Due Loans	Current Accruing Loans	Total Recorded Investment of Accruing Loans
Commercial	$ 0	$ 0	$ 0	$ 0	$ 51,052,522	$ 51,052,522
Commercial Real Estate:						
General	0	0	0	0	52,439,759	52,439,759
Construction	0	0	0	0	1,897,422	1,897,422
Consumer:						
Lines of credit	133,353	0	0	133,353	5,576,570	5,709,923
Other	175	0	0	175	1,362,269	1,362,444
Credit card	4,958	0	0	4,958	485,785	490,743
Residential	144,798	0	0	144,798	14,928,488	15,073,286
Total	$ 283,284	$ 0	$ 0	$ 283,284	$ 127,742,815	$ 128,026,099

Non Accrual Loans	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Non Accrual Past Due Loans	Current Non Accrual Loans	Total Non Accrual Recorded Investment
Commercial	$ 0	$ 0	$ 0	$ 0	$ 16,147	$ 16,147
Commercial Real Estate:						
General	0	0	310,442	310,442	1,524,725	1,835,167
Construction	0	0	0	0	0	0
Consumer:						
Lines of credit	0	0	84,262	84,262	0	84,262
Other	0	0	198	198	0	198
Credit card	0	0	0	0	0	0

Residential	86,482	0	48,675	135,157	0	135,157
Total	$ 86,482	$ 0	$ 443,577	$ 530,059	$ 1,540,872	$ 2,070,931

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS (Continued)

Troubled Debt Restructurings:

A loan is considered to be a Troubled Debt Restructure (“TDR”) when the Bank grants a concession to the borrower that it would not normally consider because the borrower is experiencing financial difficulty. The concession is typically a modification of one or more of the terms such as a rate reduction below the current market rate for new debt with similar risk; interest only payments on an amortizing note; a reduced payment amount which does not cover the interest; financing concessions; or a permanent reduction of the recorded investment of the loan.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed utilizing the Company’s internal underwriting policy.

The Company has allocated $324,157 of specific reserves on $6,992,584 of unpaid principal balance of loans to customers whose loan terms have been modified in troubled debt restructurings as of March 31, 2015 and $729,552 on $7,353,365 of unpaid principal balance of loans as of December 31, 2014. At March 31, 2015, the Company had an additional $185,734 in performing loans outstanding to two of those customers. As of December 31, 2014, there was $185,821 committed to the same two customers.

There were no troubled debt restructurings that occurred during the three month period ended March 31, 2015.

In the three month period ended March 31, 2015 charge-offs of $392,000 were incurred on troubled debt restructurings.

The following table presents loans by class modified as troubled debt restructurings that occurred during the three month period ended March 31, 2014:

Three Months Ended March 31, 2014	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Current Balance
Troubled Debt Restructurings:				
Commercial	1	$ 249,249	$ 275,116	$230,000
Commercial Real Estate:				
General	1	2,413,000	2,413,000	2,344,843
Total	2	$ 2,662,249	$ 2,688,116	$2,574,843

Both modifications involved a financing concession on an amortizing note ranging from 4.5 months to 12 months.

In the three month period ended March 31, 2014, there were no charge-offs related to the troubled debt restructurings. As of March 31, 2014, an additional $48,000 of specific reserves were established on these troubled debt restructurings.

Generally, a modified loan is considered to be in payment default when the borrower is not performing according to the renegotiated terms.

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS (Continued)

For the three month periods ended March 31, 2015 and 2014, there were no troubled debt restructurings that experienced a payment default within 12 months following the modification.

Credit Quality Indicators:

The Bank utilizes a numeric grading system for commercial and commercial real estate loans to indicate the strength of the credit. At origination, grades are assigned to each commercial and commercial real estate loan by assessing information about the specific borrower’s situation including cash flow analysis and the estimated collateral values. The loan grade is reassessed at each renewal or amendment but any credit may receive a review based on lender identification of changes in the situation or behavior of the borrower. All commercial and commercial real estate loans exceeding $500,000 are formally reviewed at least annually. Once a loan is graded a 5M or greater number, and is over $100,000, the loan grade will be analyzed once a quarter to assess the borrower’s compliance with the Bank’s documented action plan. In addition to these methods for assigning loan grades, changes may occur through the external loan review or regulatory exam process. The loan grades are as follows:

1. Exceptional. Loans with an exceptional credit rating.
2. Quality. Loans with excellent sources of repayment that conform, in all respects, to Bank policy and regulatory requirements. These are loans for which little repayment risk has been identified.
3. Above Average. Loans with above average sources of repayment and minimal identified credit or collateral exceptions and minimal repayment risk.
4. Average. Loans with average sources of repayment that materially conform to Bank policy and regulatory requirements. Repayment risk is considered average.
5. Acceptable. Loans with acceptable sources of repayment and risk.

5M. Monitor. Loans considered to be below average quality. The loans are often fundamentally sound but require more frequent management review because of an adverse financial event. Risk of non payment is elevated.

6. Special Mention. Loans that have potential weaknesses and deserve close attention. If uncorrected, further deterioration is likely. Risk of non payment is above average.
7. Substandard. Loans that are inadequately protected by the borrower’s capacity to pay or the collateral pledged. Risk of non payment is high.
8. Doubtful. Loans in this grade have identified weaknesses that make full repayment highly questionable and improbable.

When a loan is downgraded to a nine, it is considered a loss and is charged-off in full.

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. ALLOWANCE FOR LOAN LOSSES AND IMPAIRED LOANS (Continued)

As of March 31, 2015 and December 31, 2014, and based on the most recent analysis performed, the recorded investment by risk category and class of loans is as follows:

	Commercial		Commercial Real Estate General		Commercial Real Estate Construction	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
1	$6,115	$ 15,816	$0	$ 0	$0	$ 0
2	0	0	0	0	0	0
3	11,834,584	10,755,378	5,610,365	5,743,647	414,227	0
4	15,105,896	15,207,227	22,710,477	23,551,631	273,985	351,678
5	20,230,282	21,175,719	14,325,436	15,460,915	183,362	186,594
5M	1,005,257	692,413	4,100,600	4,441,083	0	0
6	1,737,791	1,764,371	2,860,917	2,872,263	1,515,329	1,359,150
7	1,364,383	1,441,534	415,550	729,249	0	0
8	15,461	16,211	1,071,947	1,476,138	0	0
Total	$51,299,769	$ 51,068,669	$51,095,292	$ 54,274,926	$2,386,903	$ 1,897,422

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, the Company evaluates credit quality based on the aging status of the loan, which was previously presented and by payment activity. The following tables present the recorded investment in residential and consumer loans based on payment activity as of March 31, 2015 and December 31, 2014:

	Residential	
	March 31, 2015	December 31, 2014
Performing	$14,994,198	$ 14,654,563
Impaired	549,776	553,880
Total	$15,543,974	$ 15,208,443

	Consumer – Lines of credit		Consumer – Other		Consumer – Credit card	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014

Performing	$ 5,281,959	$ 5,428,889	$ 1,284,974	$ 1,350,616	$ 462,231	$ 490,743
Impaired	363,141	365,296	11,234	12,026	0	0
Total	$ 5,645,100	$ 5,794,185	$ 1,296,208	$ 1,362,642	$ 462,231	$ 490,743

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. FORECLOSED ASSETS

Foreclosed asset activity at March 31:

	March 31, 2015	March 31, 2014
Beginning of year	$2,238,997	$2,558,299
Additions	0	15,768
Reductions from sales	0	(72,800)
Direct write-downs	0	(15,831)
End of period	$2,238,997	$2,485,436
Expenses related to foreclosed assets include:		
Operating expenses, net of rental income	$67,194	$83,895

During the first quarter of 2015, two lots were sold for a gain of $50,340. The lots are in a development that has no book value.

6. PREMISES AND EQUIPMENT

Period end premises and equipment were as follows at March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
Land & land improvements	$4,701,611	$4,701,611
Buildings & building improvements	6,307,228	6,214,971
Furniture, fixtures and equipment	3,531,812	3,604,543
	14,540,651	14,521,125
Less: accumulated depreciation	5,532,097	5,440,344
	$9,008,554	$9,080,781

Depreciation expense was $91,755 in the three months ended March 31, 2015 and $88,098 for the three months ended March 31, 2014.

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. DEPOSITS

The components of the outstanding deposit balances at March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015	December 31, 2014
Non-interest-bearing DDA	$32,801,858	$34,215,744
Interest-bearing DDA	35,905,303	28,371,828
Money market	30,485,852	21,206,133
Savings	11,170,294	13,829,127
Time, under $100,000	50,615,280	62,563,704
Time, over $100,000	8,813,805	1,118,904
Total Deposits	$169,792,392	$161,305,440

There were no brokered deposits at either March 31, 2015 or December 31, 2014. Since the Bank was not categorized as "well capitalized" at March 31, 2015 and is under a Consent Order, a regulatory waiver is required to accept, renew or rollover brokered deposits. The Bank has not issued brokered deposits since January of 2010.

8. SHORT-TERM BORROWINGS

The Company's short-term borrowings consisted of repurchase agreements and FHLB borrowings in 2015 and 2014. Information regarding repurchase agreements at March 31, 2015 and December 31, 2014 is summarized below:

	Repurchase Agreements	Borrowings from FHLB
Outstanding at March 31, 2015	$6,045,471	$ 0
Average interest rate at period end	0.48 %	0 %
Average balance during period	7,299,398	0
Average interest rate during period	0.47 %	0 %
Maximum month end balance during period	8,829,269	0
Outstanding at December 31, 2014	$8,610,621	$ 0

Average interest rate at year-end	0.49	%	0	%
Average balance during year	9,358,758		16,438	
Average interest rate during year	0.52	%	0.40	%
Maximum month end balance during year	10,767,084		0	

The Bank had securities of $6,433,543 pledged to repurchase agreements at March 31, 2015 and $10,190,761 pledged at December 31, 2014. The Company had $2 million of residential mortgage loans pledged to support its line of credit with the FHLB at March 31, 2015. The company did not have a line of credit with FHLB at March 31, 2014.

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. SHORT-TERM BORROWINGS (Continued)

Another source of short-term borrowings is available through the Federal Reserve Discount Window (“Discount Window”). The Bank could request to borrow from the Discount Window under the secondary credit program. Any request to borrow would require approval by the FDIC and a pledge of collateral. At March 31, 2015, collateral available for Discount Window borrowings consisted of $988,310 in securities, $332,508 in home equity loans, and $3,500,817 in one USDA loan. The Bank has not borrowed from the Discount Window since January 2010.

9. FEDERAL HOME LOAN BANK BORROWINGS

The Bank is a member of the FHLB of Indianapolis. Based on its current FHLB stock holdings and collateral, the Bank has the capacity to borrow $3,150,616 at March 31, 2015. Each borrowing requires a direct pledge of securities and/or loans. To support potential borrowings with the FHLB, the Bank had residential loans with a carrying value of $7,204,280 pledged at March 31, 2015 and $7,502,650 pledged at year-end 2014. At March 31, 2015, the Bank used a portion of the residential loans pledged to the Federal Home Loan Bank to collateralize a $2,000,000 overdraft line of credit. At March 31, 2015 and December 31, 2014, there was no balance outstanding on the line of credit. The Bank had no outstanding borrowings with the FHLB at either March 31, 2015 or December 31, 2014.

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. SUBORDINATED DEBENTURES

The Trust, as defined in Note 1, sold 4,500 Cumulative Preferred Securities (“trust preferred securities”) at $1,000 per security in a December 2004 offering. The proceeds from the sale of the trust preferred securities were used by the Trust to purchase an equivalent amount of subordinated debentures from the Company. The trust preferred securities and subordinated debentures carry a floating rate of 2.05% over the 3-month LIBOR and was 2.32% at March 31, 2015 and 2.31% at December 31, 2014. The stated maturity is December 30, 2034. The trust preferred securities are redeemable at par value on any interest payment date and are, in effect, guaranteed by the Company. Interest on the subordinated debentures is payable quarterly on March 30th, June 30th, September 30th and December 30th. The Company is not considered the primary beneficiary of the Trust (under the variable interest entity rules), therefore the Trust is not consolidated in the Company’s financial statements, but rather the subordinated debentures are shown as a liability, and the interest expense is recorded on the Company’s consolidated statement of income.

The terms of the subordinated debentures, the trust preferred securities and the agreements under which they were issued, give the Company the right, from time to time, to defer payment of interest for up to 20 consecutive quarters, unless certain specified events of default have occurred and are continuing. The deferral of interest payments on the subordinated debentures results in the deferral of distributions on the trust preferred securities. In May 2010, the Company exercised its option to defer regularly scheduled quarterly interest payments beginning with the quarterly interest payment that was scheduled to be paid on June 30, 2010. The Company has exercised its option to defer each regularly scheduled interest payment since that time. The Company’s deferral of interest does not constitute an event of default.

During the deferral period, interest will continue to accrue on the subordinated debentures. Also, the deferred interest will accrue interest. At the expiration of the deferral period, all accrued and unpaid interest will become immediately due and payable. The accrued interest payable on the subordinated debentures was $592,556 at March 31, 2015, and $562,622 at December 31, 2014 and is included in accrued interest expense and other liabilities on the consolidated balance sheets.

The last allowable deferral period was March 31, 2015. All accrued and unpaid interest will be due and payable and a corresponding amount of distributions will be payable on the trust preferred securities on June 30, 2015. The Company does not currently have the liquidity to pay the projected interest owed but is working on capital raising initiatives. In the event these efforts are unsuccessful, payment of this interest has been assured by certain members of the Company’s Board of Directors. Nonetheless, the Company is prohibited from making any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities without prior FRB approval as a result of its FRB Written Agreement dated December 16, 2010.

In the event the FRB does not grant the Company approval to repay the deferred interest or obtain an extension or other leniency, the holders of our trust preferred securities could elect to commence collection efforts. Such efforts would have a material adverse effect on the Company.

Should the Company obtain the liquidity and the permission to repay the deferred interest, it may elect to again defer interest payments at some point in the future.

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. NOTES PAYABLE

On March 20, 2013, the Company, with approval from the FRB, borrowed $1,280,000 from 1030 Norton LLC, a Michigan limited liability company owned by nine individuals; three directors of the Company, Gary F. Bogner, Robert L. Chandonnet and Bruce J. Essex, one former director and five local businessmen. On the same day, $500,000 of the proceeds was used to settle, in full, a defaulted debt with a financial institution. The remaining proceeds of the senior debt are being used for interest carry, general operations and potential capital support for the Bank. The note bears interest at a fixed rate of 8.00% per annum until paid in full. Interest is payable quarterly, in arrears. The note is secured by a pledge of all of the issued and outstanding shares of the Bank as evidenced by a pledge agreement between the Company and 1030 Norton LLC. The accrued interest at March 31, 2015 was approximately $26,000. The entire interest balance due was paid on April 1, 2015. 1030 Norton LLC has agreed to extend the note for another two year period at the same terms. In a letter dated February 11, 2015, the FRB granted the company permission to extend the note at the same terms and continue paying quarterly interest. The note now matures on March 31, 2017.

12. COMMITMENTS AND OFF-BALANCE SHEET RISK

Some financial instruments are used to meet financing needs and to reduce exposure to interest rate changes. These financial instruments include commitments to extend credit and standby letters of credit. These involve, to varying degrees, credit and interest-rate risk in excess of the amount reported in the financial statements. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the commitment and generally have fixed expiration dates. Standby letters of credit are conditional commitments to guarantee a customer's performance to another party. Exposure to credit loss, if the customer does not perform, is represented by the contractual amount for commitments to extend credit and standby letters of credit. Collateral or other security is normally obtained for these financial instruments prior to their use and many of the commitments are expected to expire without being used.

A summary of the notional and contractual amounts of outstanding financing instruments with off-balance-sheet risk as of March 31, 2015 and December 31, 2014 follows:

	March 31, 2015	December 31, 2014
Unused lines of credit and letters of credit	$ 24,491,873	$ 24,855,495
Commitments to make loans	1,000	49,713

Commitments to make loans generally terminate one year or less from the date of commitment and may require a fee. Since many of the above commitments on lines of credit and letters of credit expire without being used, the above amounts related to those categories do not necessarily represent future cash disbursements.

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. FAIR VALUE MEASUREMENTS

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. An asset's or liability's placement in the hierarchy is based on the lowest level of input that is significant to the fair value estimate. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value:

Securities: The fair values of securities are obtained from a third party who utilizes quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing (Level 2 inputs), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities.

Servicing Rights: The fair value of SBA servicing rights is obtained from a third party using assumptions provided by the Company. The individual servicing rights are valued individually taking into consideration the original term to maturity, the current age of the loan and the remaining term to maturity. The valuation methodology utilized for the servicing rights begins with projecting future cash flows for each servicing asset, based on its unique characteristics and market-based assumptions for prepayment speeds. The present value of the future cash flows are then calculated utilizing a market-based discount rate assumption. These inputs are generally observable in the marketplace resulting in a Level 2 classification.

Impaired Loans: The method used to determine the valuation of impaired loans depends on the anticipated source of repayment. Collateral dependent impaired loans with specific allocations of the allowance for loan losses are measured using the fair value of the collateral which is generally based on recent real estate appraisals or internal evaluations. Management may add discounts to third party appraisals. The appraisals are generally obtained annually and are performed by qualified licensed appraisers approved by the Board of Directors. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. The comparable sales approach evaluates the sales price of similar properties in the same market area. This approach is inherently subjective due to the wide range of comparable sale dates. The income approach considers net operating income generated by the property and the investor’s required return. This approach utilizes various inputs including lease rates and cap rates which are subject to judgment. Such adjustments can be significant and result in a Level 3 classification of the inputs for determining fair value.

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. FAIR VALUE MEASUREMENTS (Continued)

Non-real estate collateral may be valued using appraisals, independent valuation tools, net book value per the borrower's financial statements, or aging reports. To determine the fair value, these values are adjusted or discounted based on several factors, including but not limited to: the Bank's historical losses within that particular asset category; knowledge of the collateral, including age and condition; and changes in market conditions from the time of the valuation, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Foreclosed Assets: Commercial and residential real estate properties classified as foreclosed assets are measured at fair value, less costs to sell. Fair values are generally based on recent real estate appraisals or internal evaluations. Management may add discounts to third party appraisals. The appraisals are generally obtained annually and are performed by qualified licensed appraisers approved by the Board of Directors. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. The comparable sales approach evaluates the sales price of similar properties in the same market area. This approach is inherently subjective due to the wide range of comparable sale dates. The income approach considers net operating income generated by the property and the investor's required return. This approach utilizes various inputs including lease rates and cap rates which are subject to judgment. Adjustments of the carrying amount utilizing this process result in a Level 3 classification.

Assets measured at fair value on a recurring basis are summarized below as of March 31, 2015 and December 31, 2014:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
March 31, 2015	Total	(Level 1)	(Level 2)	(Level 3)
Available for sale securities:				
US Treasury	$2,029,453	$2,029,453	$0	$ 0
US Government and federal agency	14,205,785	0	14,205,785	0
Municipals	1,062,661	0	1,062,661	0

Mortgage-backed and collateralized mortgage obligations–residential	12,735,570	0	12,735,570	0
Total	$30,033,469	$2,029,453	$28,004,016	$ 0
Servicing assets	$33,279	$0	$33,279	$ 0

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COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. FAIR VALUE MEASUREMENTS (Continued)

		Fair Value Measurements Using		
December 31, 2014	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities:				
US Treasury	$2,025,703	$2,025,703	$0	$ 0
US Government and federal agency	15,203,950	0	15,203,950	0
Municipals	1,064,465	0	1,064,465	0
Mortgage-backed and collateralized mortgage obligations–residential	13,397,251	0	13,397,251	0
Total	$31,691,369	$2,025,703	$29,665,666	$ 0
Servicing assets	$33,279	$0	$33,279	$ 0

There were no transfers between levels during the first quarter of 2015 or 2014.

Assets measured at fair value on a non-recurring basis are summarized below for the periods ended March 31, 2015 and December 31, 2014:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2015				
Impaired loans[1]:	$1,019,943	$ 0	$ 0	$ 1,019,943
Foreclosed assets:	1,913,093	0	0	1,913,093
Total	$2,933,036	$ 0	$ 0	$ 2,933,036

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014				
Impaired loans[1]:	$1,596,474	$ 0	$ 0	$ 1,596,474
Foreclosed assets:	1,913,093	0	0	1,913,093
Total	$3,509,567	$ 0	$ 0	$ 3,509,567

[1] Collateral dependent

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. FAIR VALUE MEASUREMENTS (Continued)

The following tables present information as of March 31, 2015 and December 31, 2014 about significant unobservable inputs related to the Bank's individually material[1] Level 3 financial assets, by class, measured on a non-recurring basis:

March 31, 2015	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range of Inputs	
Impaired loans	$ 778,500	Income approach	Adjustments for differences between comparable sales	(13)-5	%
Foreclosed assets	$ 0	No Change	No Change	N/A	%

December 31, 2014	Fair Value	Valuation Technique	Significant Unobservable Inputs	Range of Inputs	
Impaired loans	$ 1,294,790	Sales comparison approach	Adjustments for differences between comparable sales	(25)-25	%
		Income approach	Capitalization rate	10	%
Foreclosed assets	$ 1,056,514	Sales comparison approach	Adjustments for differences between comparable sales	(30)-25	%

[1] For purposes of this disclosure, only material Level 3 assets are disclosed. These assets are included in the total non-recurring Level 3 financial assets.

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. FAIR VALUE MEASUREMENTS (Continued)

The carrying amounts and estimated fair values of financial instruments not previously presented above are as follows:

	Carrying Amount	Fair Value Measurements at March 31, 2015 Using			
		Level 1	Level 2	Level 3	Total
	(in thousands)				
Financial assets					
Cash and cash equivalents	$17,663	$17,663	$0	$0	$17,663
Loans held for sale	240	0	241	0	241
Loans, net (including impaired)	125,811	0	0	123,675	123,675
FHLB stock	388	N/A	N/A	N/A	N/A
Accrued interest receivable	435	7	117	311	435
Financial liabilities					
Deposits	169,792	0	164,923	0	164,923
Federal funds purchased and repurchase agreements	6,045	0	6,045	0	6,045
Subordinated debentures	4,500	0	0	1,125	1,125
Notes payable	1,280	0	0	1,280	1,280
Accrued interest payable	644	0	26	174	200

	Carrying Amount	Fair Value Measurements at December 31, 2014 Using			
		Level 1	Level 2	Level 3	Total
	(in thousands)				
Financial assets					
Cash and cash equivalents	$7,936	$7,936	$0	$0	$7,936
Loans held for sale	148	0	152	0	152
Loans, net (including impaired)	127,809	0	0	124,712	124,712
FHLB stock	388	N/A	N/A	N/A	N/A
Accrued interest receivable	418	6	102	310	418
Financial liabilities					

Deposits	161,305	0	155,659	0	155,659
Federal funds purchased and repurchase agreements	8,611	0	8,611	0	8,611
Subordinated debentures	4,500	0	0	1,125	1,125
Notes payable	1,280	0	0	1,280	1,280
Accrued interest payable	615	0	26	167	193

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. FAIR VALUE MEASUREMENTS (Continued)

The methods and assumptions, not previously presented above, used to estimate fair values are described as follows:

(a) Cash and cash equivalents

The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

(b) Loans

Fair values of loans, excluding loans held for sale, are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a Level 2 classification.

(c) FHLB stock

It is not practical to determine the fair value of FHLB stock due to restrictions placed on its transferability.

(d) Deposits

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

(e) Federal funds purchased and repurchase agreements

The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings, generally maturing within ninety days, approximate their fair values resulting in a Level 2 classification.

(f) Subordinated debentures and Notes payable

The fair values of the Company's subordinated debentures and notes payable are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements and consideration of the Company's liquidity, resulting in a Level 3 classification.

(g) Accrued interest receivable/payable

The carrying amounts of accrued interest approximate fair value resulting in a Level 1, 2 or 3 classification, depending on the associated asset or liability.

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. FAIR VALUE MEASUREMENTS (Continued)

(h) Off-balance sheet instruments

Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

14. INCOME TAXES

The realization of the Company's deferred tax assets (net of recorded valuation allowance) is largely dependent upon future taxable income, future reversals of existing taxable temporary differences, and the ability to carry back losses to available tax years. In assessing the need for a valuation allowance, we consider positive and negative evidence, including expected trends of profitability, current and future taxable income, scheduled reversals of taxable temporary differences and other tax planning strategies.

In 2009, the Company established a $1.8 million valuation allowance on deferred tax assets based primarily on our net operating losses from 2007 through 2009. The valuation allowance grew to $5.8 million at December 31, 2011. As a result of the Company's return to profitability and its gain on debt extinguishment in 2013, the valuation was reduced to $4.1 million at December 31, 2014.

Throughout 2014, the positive evidence increased while the negative evidence decreased. The company achieved twelve consecutive quarters of profitability at December 31, 2014, which moved the Company into a cumulative income position for the most recent three year periods. The Bank's regulatory capital ratio has improved and the Bank's troubled assets have been declining removing regulatory burden from an FDIC Directive. The company's projections also show positive future taxable income. As such, at December 31, 2014, the Company determined the positive evidence supporting the realizability of our deferred tax assets outweighed the negative evidence supporting the continued maintenance of the valuation allowance. Therefore, the full $4.1 million valuation allowance was reversed to income tax expense at December 31, 2014. The Company achieved its 13th consecutive quarter of profitability in the first quarter of 2015 and again concluded that no valuation allowance on net deferred tax assets was necessary at March 31, 2015.

There were no unrecognized tax benefits at March 31, 2015 or December 31, 2014, and the Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next 12 months. The Company is no longer subject to examination by the Internal Revenue Service for years before 2011.

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. REGULATORY MATTERS

Banks are subject to regulatory capital requirements administered by the federal banking agencies. Since the Company is a one bank holding company with consolidated assets less than $500 million, regulatory minimum capital ratios are applied only to the Bank. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet various capital requirements can initiate regulatory action.

In July 2013, the Board of Governors of the FRB and the FDIC approved the Basel III interim final rule (Basel III), which is intended to strengthen the quality and increase the required level of regulatory capital for a more stable and resilient banking system. The changes include (1) a new regulatory capital measure, Common Equity Tier 1 (CET1), which is limited to capital elements of the highest quality, (2) a new definition and increase of tier 1 capital which is now comprised of CET1 and Additional Tier 1, (3) changes in calculation of some risk-weighted assets and off-balance sheet exposure, and (4) a capital conservation buffer that will limit capital distributions, stock redemptions, and certain discretionary bonus payments if the institution does not maintain capital in excess of the minimum capital requirements. These new capital rules took effect for our Bank on January 1, 2015 and reporting began with the March 31, 2015 call report.

Prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If a bank is not well capitalized, regulatory approval is required to accept brokered deposits. Subject to limited exceptions, a bank may not make a capital distribution if, after making the distribution, it would be undercapitalized. If a bank is undercapitalized, it is subject to being closely monitored by its principal federal regulator, its asset growth and expansion are restricted, acquisitions, new activities, new branches, payment of dividends or management fees are prohibited and plans for capital restoration are required. In addition, further specific types of restrictions may be imposed on the Bank at the discretion of the federal regulator.

Since September 2, 2010, The Bank has been operating under a Consent Order with the FDIC and the DIFS, its primary banking regulators. The Bank agreed to the terms of the Consent Order without admitting or denying any charge of unsafe or unsound banking practices relating to capital, asset quality, or earnings. The Consent Order imposes no fines or penalties on the Bank. The Consent Order will remain in effect and enforceable until it is modified, terminated, suspended, or set aside by the FDIC and DIFS.

Under the Consent Order, the Bank is required to maintain higher capital levels than under prompt corrective action levels for a well-capitalized bank and the Bank may not declare or pay any dividend without the prior written consent of the regulators. Under the Consent Order, the Bank is required to have and maintain its level of tier 1 capital, as a percentage of its total assets, at a minimum of 8.5%, and its level of qualifying total capital, as a percentage of risk-weighted assets, at a minimum of 11%. The Bank was not in compliance with this requirement within 90 days of the effective date of the Consent Order and has not attained those required levels at any reporting period including March 31, 2015. The Bank is in full compliance with the restrictions related to declaring and paying dividends.

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. REGULATORY MATTERS (Continued)

Actual capital amounts and ratios for the Bank and, required capital amounts and ratios for the Bank to be adequately capitalized and to be at the level mandated by the Consent Order at March 31, 2015 and December 31, 2014 were:

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required Under Consent Order	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2015						
Common Equity Tier 1 (CET1) to risk-weighted assets of the Bank	$11,484,517	8.39 %	$6,156,770	4.50 %	N/A	N/A
Total Capital (Tier 1 and Tier 2) to risk-weighted assets of the Bank	13,092,259	9.57	10,945,369	8.00	$15,049,883	11.00 %
Tier 1 (Core) Capital to risk-weighted assets of the Bank	11,484,517	8.39	8,209,027	6.00	N/A	N/A
Tier 1 (Core) Capital to average assets of the Bank	11,484,517	6.26	7,334,767	4.00	15,586,379	8.50

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required Under Consent Order	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014						
Total Capital (Tier 1 and Tier 2) to risk-weighted assets of the Bank	$12,123,131	9.07 %	$10,688,877	8.00 %	$14,697,205	11.00 %
Tier 1 (Core) Capital to risk-weighted assets of the Bank	10,449,191	7.82	5,344,438	4.00	N/A	N/A
Tier 1 (Core) Capital to average assets of the Bank	10,449,191	5.67	7,365,478	4.00	15,651,640	8.50

COMMUNITY SHORES BANK CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. REGULATORY MATTERS (Continued)

Under Basel III regulatory capital requirements, to be adequately capitalized, a financial institution would need a CET 1 ratio of 4.5%, a total risk-based capital ratio of 8.0% and a Tier 1 capital ratio of 6.0%. At March 31, 2015, the Bank’s CET1 and Tier 1 capital ratios were both 8.39%; above the required minimum to be adequately capitalized. Total risk-based capital ratio of the Bank was 9.57% at March 31, 2015. This compares favorably to a total risk based capital ratio of 9.07% at December 31, 2014, under the old regulatory calculation rules. Consequently, the Bank was in the adequately capitalized regulatory category under both Basel III and the previous regulatory capital calculation rule at March 31, 2015 and December 31, 2014, respectively. At March 31, 2015, a capital contribution of $4,102,000 would have been needed to meet the capital ratios specified in the Consent Order.

Federal Reserve guidelines limit the amount of allowance for loan losses that can be included in Tier 2 capital. In general only 1.25% of net risk-weighted assets are allowed to be included. At March 31, 2015, the full allowance for loan loss balance $1,607,742 was counted as Tier 2 capital, no portion disallowed. At December 31, 2014, $1,673,940 was counted as Tier 2 capital and $304,232 was disallowed.

Prior to the issuance of the Consent Order, the Bank's Board of Directors and management had already commenced initiatives and strategies to address a number of the requirements of the Consent Order. The Bank continues to work in cooperation with its regulators. Our ability to fully comply with all of the requirements of the Consent Order, including achieving and maintaining specified capital levels, is not entirely within our control, and is not assured. Our ability to comply with the requirements of the Consent Order may be affected by many factors, including the availability of capital and other funds, the extent of repayment of loans by borrowers, declines in the value of collateral including real estate, the Bank's ability to realize on collateral, and actions by bank regulators. Failure to comply with provisions of the Consent Order may result in further regulatory action including additional regulatory restriction or receivership that could have a material adverse effect on us and our shareholders, as well as the Bank.

COMMUNITY SHORES BANK CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion below details the financial results of the Company and its wholly owned subsidiaries, the Bank and Community Shores Financial Services, and the Bank's subsidiary, the Mortgage Company, and Berryfield, the Mortgage Company's subsidiary, through March 31, 2015 and is separated into two parts which are labeled Financial Condition and Results of Operations. The part labeled Financial Condition compares the financial condition at March 31, 2015 to that at December 31, 2014. The part labeled Results of Operations discusses the three month period ending March 31, 2015 as compared to the same period of 2014. Both parts should be read in conjunction with the interim consolidated financial statements and footnotes included in Item 1 of Part I of this Form 10-Q.

This discussion and analysis of financial condition and results of operations, and other sections of the Annual Report contain forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and about the Company, the Bank, the Mortgage Company, Berryfield and CS Financial Services. Words such as "anticipates", "believes", "estimates", "expects", "forecasts", "intends", "is likely", "plans", "projects", variations of such words and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are intended to be covered by the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("Future Factors") that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements. The Company undertakes no obligation to update, amend, or clarify forward-looking statements, whether as a result of new information, future events (whether anticipated or unanticipated), or otherwise.

Future factors include, among others, 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 regulation or actions by bank regulators; changes in tax laws; changes in prices, levies, and assessments; the impact of technological advances; governmental and regulatory policy changes; the outcomes of contingencies; trends in customer behavior as well as their ability to repay loans; changes in local real estate values; changes in the national and local economy; the Company's ability to generate future taxable income; the ability of the Company to borrow money or raise additional capital to maintain or increase its or the Bank's capital position or when desired to support future growth; failure to secure the proceeds to pay the interest due on the subordinated debt at the end of the deferral period or gain approval from the FRB to make the payment; failure to comply with provisions of the Consent Order or Written Agreement may result in further regulatory action that could have a material adverse effect on us and our shareholders, as well as the Bank; and other factors, including risk factors, referred to from time to time in filings made by the Company with the Securities and Exchange Commission. These are representative of the Future Factors that could cause a difference between an ultimate actual outcome and a preceding forward-looking statement. These risks and uncertainties should be considered when evaluating forward-looking statements. Undue reliance should not be placed on such statements.

The Company has had 13 consecutive quarters of profitability. The local economy is strengthening. Local unemployment has declined. At March 31, 2015, unemployment was 5.9% for Muskegon County which is better than the unemployment rate of 7.9% at March 31, 2014. Additionally, local property values are generally holding and in some areas increasing.

COMMUNITY SHORES BANK CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Although these signs of progress in the economic climate are encouraging, the effects of the extended downturn from 2007 through 2011 had an adverse effect on the financial health of the Bank. Poor earnings stemming primarily from deteriorating asset quality eroded the Bank's capital and corresponding regulatory capital ratios subjecting it to additional regulatory scrutiny.

On September 2, 2010, the Bank entered into a Consent Order with the FDIC and the State of Michigan's DIFS, its primary regulators. The Bank agreed to the terms of the Consent Order without admitting or denying any charge of unsafe or unsound banking practices relating to capital, asset quality, or earnings. The Consent Order imposes no fines or penalties on the Bank. The Consent Order will remain in effect and enforceable until it is modified, terminated, suspended, or set aside by the FDIC and DIFS. Under the Consent Order, the Bank was required, within 90 days of September 2, 2010, to have and maintain its level of Tier 1 capital, as a percentage of its total assets, at a minimum of 8.5%, and its level of qualifying total capital, as a percentage of risk-weighted assets, at a minimum of 11%. The Bank was not able to meet these requirements within the required 90-day period and remained out of compliance with the Consent Order as of March 31, 2015.

The lack of financial soundness of the Bank and the Company's inability to serve as a source of strength for the Bank resulted in the board of directors entering into a Written Agreement with the FRB, the Company's primary regulator. The Written Agreement became effective on December 16, 2010, when it was executed by the FRB. The Written Agreement provides that: (i) the Company must take appropriate steps to fully utilize its financial and managerial resources to serve as a source of strength to the Bank; (ii) the Company may not declare or pay any dividends or take dividends or any other payment representing a reduction in capital from the Bank or make any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities without prior FRB approval; (iii) the Company may not incur, increase or guarantee any debt or purchase or redeem any shares of its stock without prior FRB approval; (iv) the Company must submit a written statement of its planned sources and uses of cash for debt service, operating expenses and other purposes to the FRB within 30 days of the Written Agreement; (v) the Company shall take all necessary actions to ensure that the Bank, the Company and all nonbank subsidiaries of both the Bank and the Company comply with sections 23A and 23B of the Federal Reserve Act and Regulation W of the Board of Governors (12 C.F.R. Part 223) in all transactions between affiliates; (vi) the Company may not appoint any new director or senior executive officer, or change the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, without prior regulatory approval; and finally (vii) within 30 days after the end of each calendar quarter following the date of the Written Agreement, the board of directors shall submit to the FRB written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of the Written Agreement as well as current copies of the parent company only financial statements. The Company has not yet been able to meet the obligation detailed in part (i) above; as the Company currently has limited resources with which to assist the Bank in achieving the capital level required by the Consent Order. The Company's main liquidity resource is its cash account balance which, as of March 31, 2015, was approximately $245,000 and is needed for general operations and payment of quarterly interest due on the Company's note payable.

Failure to comply with the provisions of the Consent Order or the Written Agreement may subject the Bank to further regulatory enforcement action.

COMMUNITY SHORES BANK CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICIES AND ESTIMATES: The "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as disclosures found elsewhere in this Form 10-Q are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. The allowance for loan losses, income taxes and foreclosed assets are deemed critical due to the required level of management judgment and the use of estimates that are particularly susceptible to significant change in the near term.

Allowance for loan losses. The allowance for loan losses is maintained at a level believed adequate by management to absorb probable incurred losses inherent in the consolidated loan portfolio. Management's evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans and loan groupings, assessments of the impact of current and anticipated economic conditions on the portfolio and historical loss experience. See the Financial Condition section of Management's Discussion and Analysis and Notes 1 and 4 to the Company's consolidated financial statements for additional information.

Management believes the accounting estimate related to the allowance for loan losses is a "critical accounting estimate" because (1) the estimate is highly susceptible to change from period to period because of assumptions concerning the changes in the types and volumes of the portfolios and anticipated economic conditions and (2) the impact of recognizing an impairment or loan loss could have a material effect on the Company's assets reported on the balance sheet as well as its net income. Management has discussed the development of this critical accounting estimate with the Board of Directors and the Audit Committee.

Income Taxes. Income taxes are accounted for under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Net deferred tax assets are recorded to the extent it is believed that they will more likely than not be realized. In making such a determination, all available positive and negative evidence is considered, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial results. In the event it is determined that deferred income tax assets are in excess of their realizable amount, an adjustment to the valuation allowance would be made which would increase the provision for income taxes.

In determining the possible realization of deferred tax assets, future taxable income from operations exclusive of reversing temporary differences and tax planning strategies that, if necessary, would be implemented to accelerate taxable income into periods in which net operating losses might otherwise expire is considered.

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A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company had no unrecognized tax positions at either March 31, 2015 or December 31, 2014.

Interest and penalties related to unrecognized tax benefits are recognized within the federal income tax expense (benefit) line in the accompanying consolidated statements of income. Accrued interest and penalties are included within the related tax liability line in the consolidated balance sheets.

Foreclosed Assets. Foreclosed assets are acquired through or instead of loan foreclosure and are initially recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. During the time that foreclosed assets are waiting to be sold, there will be occasions that the Bank will need to re-evaluate the individual market values of each asset. If there is evidence that the fair value has declined since the last evaluation, the Bank will incur an impairment charge in order to properly reflect the estimated fair value of the asset at the end of the reporting period. On a quarterly basis, the Bank's Credit Department analyzes foreclosed asset values to determine the level at which they should be held on our books.

FINANCIAL CONDITION

Total assets were $190.8 million at March 31, 2015 compared to $184.7 million at December 31, 2014. Asset growth occurring in the first three months of 2015 stemmed primarily from increases to customer deposit accounts which in turn drove up the Company's balance on deposit at the FRB.

Cash and cash equivalents increased by $9.7 million to $17.6 million at March 31, 2015 from $7.9 million at December 31, 2014. The Bank's FRB balance increased $9.2 million since year-end 2014 and was $14.0 million on March 31, 2015. The increase in balance is driven largely by an increase in customer deposit balances but also included proceeds from investment maturities and loan repayments. Although excess liquidity is a conservative posture, it is detrimental to earnings. Typically, a balance at the FRB of between $7 and $10 million is enough to cover the liquidity needs of the Bank's operations as well as provide a comfortable cushion for unexpected events. Approximately half of the excess liquidity noted above will be utilized when the Company's public fund customers reduce their balances in the second quarter; remaining excess funds will be used to fund loan originations and to repay upcoming time deposit maturities.

The Bank's security portfolio was $30.0 million at March 31, 2015 and $31.7 million at December 31, 2014. Investment activity in the first three months of the year consisted entirely of maturities, prepayments and calls totaling $1.7 million.

The unencumbered securities within the portfolio serve as a key source of collateral or potential liquidity for the Bank. Thus, it remains critical to maintain the unencumbered portion of the Bank's security portfolio at a level equal to or perhaps above its general internal policy depending on assessed liquidity needs. The level of unpledged securities is regularly monitored and needs are formally assessed monthly. Maintaining an adequate level of pledgeable assets is one of the driving forces behind investment activity. Typically the Bank aims to leave between 10% and 20% of its investment portfolio unpledged. At March 31, 2015, 28% of the investment portfolio was unencumbered. This outcome is higher than the 20% unpledged position that existed on December 31, 2014.

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The Bank's pledging needs were reduced during the first quarter. Several customers that were in the Bank's repurchase agreement product which is fully collateralized by high quality government and agency securities were transferred to a newly created business interest checking account in the second month of 2015. The business interest checking account is FDIC insured and is not collateralized in the same way as the repurchase agreement accounts. The reduction in customer repurchase agreement balances allowed the Bank to remove the pledge of $3.0 million securities in the first quarter of 2015.

At March 31, 2015, securities with an amortized cost of $21.5 million were pledged to public fund customers, the FRB discount window and customer repurchase agreements, down from $25.5 million at year-end 2014.

Investment portfolio quality continues to receive scrutiny. The market value of the portfolio is impacted by national and global economic news. During the first three months of 2015, the investment portfolio's net unrealized loss was reduced by $60,000; $90,000 unrealized gain offset by a tax effect of $30,000. The portfolio at March 31, 2015, had a net unrealized gain position of $166,000. Included in this total are 10 securities with an amortized cost of $6.3 million having an unrealized loss of $58,000; six of the 10 had an unrealized loss longer than 12 months.

To reduce exposure to future loss, both realized and unrealized, the Bank intends to adhere to the diversification principles outlined in the investment policy and limit issuer concentrations. Besides fully guaranteed U.S. government and federal agency securities, there were no holdings of securities of any one issuer in an amount greater than 10% of the Bank's common stock and surplus at March 31, 2015.

Loans held for sale activity during the first three months of 2015 included $1.4 million of loan originations and $1.4 million of sales. The associated gain on the loan sales was $32,000. There were $240,000 of loans held for sale at March 31, 2015 and $148,000 held for sale at December 31, 2014.

Total loans (held for investment) decreased $2.4 million and were $127.4 million at March 31, 2015 down from $129.8 million at December 31, 2014. A decrease in the commercial real estate portfolio was the largest factor in the change since year-end 2014. At March 31, 2015, the concentration of commercial and commercial real estate loans was 82%; the same as the concentration at year-end 2014. The portfolio makeup is in line with the Bank's wholesale focus which has been maintained since opening in 1999. The decrease in the commercial real estate category is related to a significant repayment that was received in the last month of the quarter.

Credit quality remains a priority of the Company. The lending staff diligently monitors the loan portfolio and adheres to a well-designed credit risk assessment process. Nonetheless, the Bank is still exposed to credit risk.

Simply put, credit risk is the risk of borrower nonpayment typically on loans although it can be applicable to the investment portfolio as well. In both cases, avoiding portfolio concentrations in any one type of credit or in a specific industry helps to decrease risk; however, the risk of nonpayment for any reason exists with respect to all loans and investments. The Bank recognizes that credit losses will be experienced and will vary with, among other things, general economic conditions; the creditworthiness of the borrower over the term of the debt; and in the case of a collateralized loan, the quality of the collateral.

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The Bank has developed a detailed process to estimate credit risk. The process is discussed at length in Note 1 to the Company's annual financial statements. At each period end, the balance in the allowance for loan losses is based on management's estimation of probable incurred credit losses. The estimation is the result of loan portfolio analysis completed utilizing a detailed methodology prescribed in the Bank's credit procedures. Management reviews and analyzes the loan portfolio on a regular basis for the purpose of estimating probable incurred credit losses.

The analysis of the allowance for loan losses is comprised of three portions: general credit allocations, specific credit allocations and unallocated. General credit allocations are made to various categories of loans based on loan ratings, delinquency trends, historical loss experience as well as current economic conditions. The specific credit allocation includes a detailed review of a borrower and its entire relationship resulting in an allocation being made to the allowance for that particular borrower. A loan becomes specifically identified when, based on current information and events related to that particular borrower, it is probable that the Company will be unable to collect the scheduled payments of principal and interest according to the contractual terms of the loan agreement. Specifically identified loans are individually evaluated for impairment.

The allowance for loan losses is adjusted accordingly to maintain an adequate level based on the conclusion of the general and specific analysis. There are occasions when a specifically identified loan requires no allocated allowance for loan losses. To have no allocated allowance for loan loss, a specifically identified loan must be well secured and have either a collateral analysis or a present value of cash flow analysis that supports a loan loss reserve allocation of zero.

At March 31, 2015, the allowance for loan losses totaled $1.6 million. At year-end 2014, the allowance for loan losses was $2.0 million. The decrease in the allowance is the result of net loan charge-offs of $370,000 for the first three months of 2015. In March, the Bank charged off a specific allocation of $356,000 on an impaired loan. The charge-off reduced the ratio of allowance to gross loans outstanding to a level of 1.26% at March 31, 2015 compared to 1.52% at year-end 2014.

The allocation of the allowance at March 31, 2015 and December 31, 2014 was as follows:

	March 31, 2015		December 31, 2014	
		Percent of		Percent of

Balance at End of Period Applicable to:	Amount	Loans in Each Category to Total Loans		Amount	Loans in Each Category to Total Loans	
Commercial	$512,974	40.1	%	$500,776	39.2	%
Commercial Real Estate	409,839	41.9		848,589	43.2	
Consumer	294,929	5.8		294,039	5.9	
Residential	206,707	12.2		204,485	11.7	
Unallocated	183,293	N/A		130,283	N/A	
Total	$1,607,742	100.0	%	$1,978,172	100.0	%

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The general component of the allowance for loan losses as a percentage of non-specifically identified loans was 0.88% at March 31, 2015, an increase of 1 basis point from year-end 2014. At year-end 2014, the general component of the allowance for loan losses was 0.87% of total non-specifically identified loans. At March 31, 2015, there were $183,000 of unallocated reserves in the allowance for loan losses; stemming from decreases to the Bank's 36 month historical loss calculation. Unallocated reserves were $130,000 at December 31, 2014.

At March 31, 2015, the allowance contained $380,000 in specific allocations for impaired loans whereas at December 31, 2014 there was $793,000 specifically allocated. The decrease stemmed largely from a single charge-off of $356,000 occurring in the first quarter. The remaining balance of the impaired relationship is $922,000. Also during the quarter, a $315,000 loan that was impaired at year-end 2014 was repaid in full. In total, there was $8.5 million of recorded investment on impaired loans at March 31, 2015 compared to $9.2 million at year-end 2014.

Not all specifically identified loans require an allocation of reserves. As in the case above, once the charge-off was made on the specifically identified loan, the principal was reduced to the current value of the assigned collateral or expected repayment, therefore no further reserve was required. There were 15 impaired loans requiring no reserve at March 31, 2015. Since year-end 2014, specifically identified loans requiring no reserves rose to 87% of the recorded investment of total specifically identified loans at March 31, 2015; up from 70% at year-end 2014. At March 31, 2015, the recorded investment on impaired loans requiring no reserves was $7.4 million, an increase of $1.0 million since year-end 2014. The specific allocation on the relationship mentioned above drove a majority of the increase.

Recorded investment on specifically identified loans requiring reserves was $1.1 million at March 31, 2015 compared to $2.8 million at year-end 2014. The $1.7 million decrease in recorded investment stemmed from the charge-offs recorded in the first quarter of the year as well as the full repayment of the impaired loan noted above.

Another factor considered in the assessment of the adequacy of the allowance is the quality of the loan portfolio from a past due standpoint. From year-end 2014 to March 31, 2015, the recorded investment in accruing past due and non-accrual loans decreased by $465,000. This was evidenced by a $78,000 increase in the recorded investment in past due loans and a $543,000 decrease in the recorded investment in non-accrual loans in the first three months of 2015.

The recorded investment of accruing loans past due 30-59 days was $357,000 at March 31, 2015; a $74,000 increase since December 31, 2014. There were seven loans past due 30-59 days at March 31, 2014.

There were no loans past due 60-89 still accruing interest at either March 31, 2015 or December 31, 2014.

There was one loan still accruing interest with a recorded investment past due 90 days and greater at March 31, 2015. There were none at year-end 2014. The balance at March 31, 2015 was $4,000. Since the loan is a credit card and is unsecured, it is likely that the balance will be charged off in the second quarter of 2015.

The Bank's delinquency compares favorably to typical industry averages. The credit review process will continue to be stringent; however, it is possible that past dues could fluctuate in future periods.

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Non-accrual loans totaled $1.5 million at March 31, 2015; down from $2.1 million at year-end 2014. The reduction since year-end 2014 was the result of the charge-offs and the full repayment of the impaired relationships mentioned above. No non-accrual notes are secured by undeveloped real estate. At March 31, 2015, there were specific allocations of $380,000 in the allowance for any estimated collateral deficiency on non-accrual loans.

Net charge-offs for the first quarter of 2015 were $370,000. This outcome is much different than that of the first quarter of 2014 when the Bank had a net recovery of $233,000 stemming from a $250,000 lawsuit settlement. The ratio of annualized net charge-offs to average loans was 1.14% for the first three months of 2015 but because there was a net recovery in the first quarter of 2014, the ratio of annualized net charge-offs to average loans was (0.70)%. A majority of the charge-offs made in the first quarter of 2015 were specific allocations on previously impaired loans. The increased ratio between the periods is not indicative of deteriorating credit quality.

Another risk identified by the Company is interest rate risk. The Company attempts to mitigate interest rate risk in its loan portfolio in many ways. In addition to product diversification, two other methods used are to balance the rate sensitivity of the portfolio and avoid extension risk[1].

The loan maturities and rate sensitivity of the loan portfolio at March 31, 2015 are set forth below:

	Within Three Months	Three to Twelve Months	One to Five Years	After Five Years	Total
Commercial	$ 7,588,069	$ 16,319,556	$ 18,455,052	$ 8,791,000	$ 51,153,677
Commercial Real Estate:					
General	1,908,005	8,566,529	35,075,409	5,448,291	50,998,234
Construction	1,514,782	442,247	427,449	0	2,384,478
Consumer:					
Lines of credit	163,469	154,475	2,682,074	2,626,379	5,626,397
Other	52,144	39,687	889,636	309,164	1,290,631
Credit card	52,335	162,013	247,883	0	462,231
Residential	0	77,300	0	15,425,349	15,502,649
	$ 11,278,804	$ 25,761,807	$ 57,777,503	$ 32,600,183	$ 127,418,297
Loans at fixed rates	$ 5,792,857	$ 11,578,669	$ 46,237,872	$ 23,346,171	$ 86,955,569
Loans at variable rates	5,485,947	14,183,138	11,539,631	9,254,012	40,462,728
	$ 11,278,804	$ 25,761,807	$ 57,777,503	$ 32,600,183	$ 127,418,297

At March 31, 2015, there were 68% of the loan balances carrying a fixed rate and 32% a floating rate. Since 2008, the Bank's concentration of fixed rate loans has been increasing. Some of the shift is a factor of the types of loans that have been paid off or have been added to the portfolio and some of the change is related to customer preference at the time of renewal. It is likely that future rate movements will be rising given the extended period of low rates that has existed over the past few years. As a result of the current mix of the loan portfolio, management will be challenged to improve loan income in a rising rate environment.

[1] Extension risk, as related to loans, exists when booking fixed rate loans with long final contractual maturities. When a customer is contractually allowed longer to return its borrowed principal and rates rise, the Bank is delayed from taking advantage of the opportunity to reinvest the returning principal at the higher market rate.

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The maturity distribution of the loan portfolio has lengthened over the last several years but still remains at a level which is within the parameters determined to be acceptable by management. Contributing to the change in distribution is the increase in the mortgage loan portfolio. Typically management strives to retain only 10-15% of residential mortgages originated because of the longer contractual terms generally associated with mortgage products. At March 31, 2015, approximately 26% of the entire loan portfolio had a contractual maturity longer than five years. To control extension risk, management tries to ensure that loans with a longer contractual maturity are either floating rate or have a repricing or balloon date that is much shorter than the amortization period. Nearly half of the loans in the greater than five year contractual maturity category are residential mortgage loans. Statistically loans of this type do not normally remain on the books until maturity as a result of customer repricing opportunities or changes in circumstance. Additionally, the mortgage staff remains focused on originating loans saleable into the secondary market, thus minimizing the number that is booked into the held for investment portfolio. Another 40% of the total with a contractual maturity of five years or more are guaranteed by government sponsored agencies; Small Business Administration ("SBA") and United States Department of Agriculture ("USDA"). Of these loans, 65% are either variable rate or have a balloon of five years, minimizing the extension risk.

Foreclosed assets were $2.2 million at March 31, 2015; the same balance as December 31, 2014. These assets consist of relinquished properties through the collection process which were previously customer collateral supporting various borrowings. There were two lot sales during the first three months of 2015. The lots sold are part of a development which has zero book value. The net gains realized on these sales were $50,000. There are 12 additional lots to be sold in this development. No properties were added in the first quarter of 2015. At March 31, 2015, foreclosed assets consisted of 20 real estate holdings the same as at December 31, 2014.

Deposit balances were $169.8 million at March 31, 2015 up from $161.3 million at December 31, 2014. Typically the Bank experiences a notable seasonal fluctuation in the deposit accounts of its largest public fund customers in the first quarter of each year. Public fund deposits rose $11.3 million since year-end 2014. Partially offsetting the public fund increase was a $4.3 million decrease in the time deposit portfolio in the first three months of 2015. The time deposit portfolio was deliberately contracted in an effort to reduce excess liquidity at the FRB. Finally, there was a $7.5 million increase in interest bearing checking accounts. A majority of the balances came from savings accounts and customer repurchase agreements. During the first quarter of 2015, the Bank created a new business interest checking product. Several customers who held balances in the customer repurchase and business savings accounts were moved to the business interest checking. The product is FDIC insured. Management will now have the opportunity to reduce the number of securities needed for pledging within the security portfolio.

Repurchase agreement balances were $6.0 million at March 31, 2015 and $8.6 million at December 31, 2014, a decrease of $2.6 million. The decrease between the two period ends was primarily the result of several existing customers being transferred to the FDIC insured business interest checking product.

The Company's note payable to 1030 Norton LLC, a Michigan limited liability company owned by nine individuals; three directors of the Company, Gary F. Bogner, Robert L. Chandonnet and Bruce J. Essex, one former director and five local businessmen was scheduled to mature on March 31, 2015. In the first quarter of 2015, 1030 Norton LLC agreed to extend the note for another two year period at the same terms. In a letter dated February 11, 2015, the FRB granted the Company permission to extend the note at the same terms and continue paying quarterly interest. The note now matures on March 31, 2017.

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In management's view the most pressing issue confronting the Company is the need for additional capital to pay the deferred interest on the subordinated debentures when it comes due on June 30, 2015. As of March 31, 2015, the Company had a cash balance of approximately $245,000, which at present is the Company's primary source of liquidity due to the regulatory constraints on the Bank's ability to declare dividends. Management and the Board of Directors are actively seeking ways to raise capital. In the event these efforts are unsuccessful, payment of this interest has been assured by certain members of the Company's Board of Directors. Nonetheless, the Company is prohibited from making any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities without prior FRB approval as a result of its FRB Written Agreement dated December 16, 2010.

In the event the FRB does not grant the Company approval to repay the deferred interest or obtain an extension or other leniency, the holders of our trust preferred securities could elect to commence collection efforts. Such efforts would have a material adverse effect on the Company.

Should the Company obtain the liquidity and the permission to repay the deferred interest, it may elect to again defer interest payments at some point in the future.

Shareholders' equity was approximately $8.2 million on March 31, 2015. On December 31, 2014, the balance was $8.1 million. The net increase of $92,000 was made up of net income recorded in the first three months of 2015 and a reduction in accumulated other comprehensive loss (security market value adjustments). The book value per share was $5.56 at March 31, 2015.

The Bank's regulatory capital ratio rose since year-end 2014 mostly as a result of the differences in the methods of calculation between the former risk-based capital and the new BASEL III capital calculation rules. At March 31, 2015, the Bank's total risk-based capital ratio was 9.57%. The biggest change between the two methods which positively affected the outcomes at March 31, 2015 was more favorable treatment of deferred tax assets. Offsetting this benefit was higher risk weighting for troubled assets and off-balance sheet commitments. The Bank's total risk-based capital ratio at December 31, 2014 was 9.07%. Its Tier 1 to average assets ratio was 6.26% at the same period end. Regardless of changes to the regulatory capital rules and calculation in the first quarter of 2015 under BASEL III, the Bank remained adequately capitalized according to prompt corrective action regulation. The Bank was also considered adequately capitalized at December 31, 2014 under the former set of regulatory capital rules.

In spite of the improvement in both total risk-based capital and tier 1 ratios, the Bank's ratios do not meet those required under the Consent Order. Under the Consent Order, the Bank is required to have and maintain its level of Tier 1 capital, as a percentage of its total assets, at a minimum of 8.5%, and its level of qualifying total capital, as a percentage of risk-weighted assets, at a minimum of 11%. The Consent Order capital requirements were effective beginning with the December 31, 2010 capital reporting period. The Bank was not in compliance with required capital ratios at the December 2010 capital reporting period and remains out of compliance at March 31, 2015. In order to attain the level of capital required by the Consent Order, the Bank would have needed additional capital of $4,102,000 on March 31, 2015 based on its asset mix and size.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The net income for the first three months of 2015 was $33,000 which was $78,000 less than net income of $111,000 recorded for the first three months of 2014. Net income in the first quarter of 2015 was less than the same quarter of the previous year as a result of lower net interest income, higher non-interest expenses and accrued federal taxes. The corresponding basic and diluted earnings per share for the first three months of 2015 were $0.02. The basic and diluted earnings per share for the first quarter of 2014 were $0.08.

For the first three months of 2015, the annualized return on the Company's average total assets was 0.07% compared to 0.23% for the first three months of 2014. The annualized return on average equity was 1.59% for the first quarter of 2015; much less than 11.51% annualized return on average equity for the same period in 2014. The annualized return on average equity decreased substantially because of the significant increase in equity late in 2014 when the Company reversed its valuation allowance against deferred tax assets resulting in a federal tax benefit of $4.0 million.

COMMUNITY SHORES BANK CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

A primary component of the Company's revenue is its net interest income. The Company's net interest income was less for the first three months of 2015 compared to the similar period in 2014 but the net interest margin was higher. The mix of earning assets was more favorable and the Company's cost of funds was lower. The following table sets forth certain information relating to the Company's consolidated average interest earning assets and interest bearing liabilities and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing annualized income or expenses by the average daily balance of assets or liabilities, respectively, for the periods presented.

	Three Months ended March 31,					
	2015			2014		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets						
Federal funds sold and interest-bearing deposits with banks	$7,302,670	$4,294	0.24 %	$17,509,085	$10,600	0.24 %
Securities	31,453,161	115,492	1.47	31,176,362	128,688	1.65
Loans (including held for sale and non accrual)	130,111,449	1,656,679	5.09	132,018,484	1,714,060	5.19
Total interest earning assets	168,867,280	1,776,465	4.21	180,703,931	1,853,348	4.10
Other assets	17,497,938			12,608,504		
	$186,365,218			$193,312,435		
Liabilities and Shareholders' Equity						
Interest-bearing deposits	$129,984,817	$173,382	0.53 %	$140,497,563	$214,629	0.61 %
Repurchase agreements	7,299,398	8,548	0.47	8,492,565	11,686	0.55
Subordinated debentures and notes payable	5,780,000	55,534	3.84	5,780,000	54,762	3.79
Total interest bearing liabilities	143,064,215	237,464	0.66	154,770,128	281,077	0.73
Non-interest-bearing deposits	34,602,559			34,065,937		
Other liabilities	540,216			627,324		
Shareholders' Equity	8,158,228			3,849,046		
	$186,365,218			$193,312,435		
Net interest income		1,539,001			1,572,271	
Net interest spread on earning assets			3.55 %			3.37 %
Net interest margin on earning assets			3.65 %			3.48 %
Average interest-earning assets to average interest-bearing liabilities			118.04 %			116.76 %
Tax equivalent adjustment		5,573			8,310	
Net interest income		1,533,428			1,563,961	

The net interest spread on average earning assets increased 18 basis points to 3.55% in the past 12 months. The net interest margin on a fully tax equivalent basis increased by 17 basis points from 3.48% for the first three months of 2014 to 3.65% for the first three months of 2015. The net interest income for the first three months of 2015 was $1.5 million compared to a figure of $1.6 million for the same three months in 2014. Additionally, there was a decrease in average earning assets of $11.8 million when comparing the first quarter of 2015 to the first quarter of 2014. Although net interest income and earning assets were less, the mix of earning assets and the cost of funds were more favorable when comparing the first quarter of 2015 and the same quarter of 2014.

COMMUNITY SHORES BANK CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The average rate earned on interest earning assets was 4.21% for the three month period ending March 31, 2015 compared to 4.10% for the same period in 2014. Although the average rate earned on loans decreased by 10 basis points in 12 months, the loan portfolio made up an even greater portion of the earning assets in the first quarter of 2015 compared to the first quarter of 2014. The same holds true for securities. The portfolio average rate declined by 18 basis points but investments made up two percent more of the earning assets. Management has worked diligently to manage the liquidity at the FRB to levels that are appropriate for the funding needs of the Bank due to the low average rate earned on deposits at other financial institutions. As a result, these earning assets represented six percent less of the total. Management will be challenged in the second quarter to control FRB liquidity in a similar manner since there are typically seasonal increases in the deposits of several of its public fund customers.

The benefit derived from an increase to the overall yield on interest earning assets was enhanced by rate reductions on the funding side. Compared to the first quarter of 2014, the cost of funds improved seven basis points. The progress was driven by two factors; both related to the time deposit portfolio. The average rate on the time deposit portfolio was reduced by eight basis points when comparing the first three months of 2015 to that of the similar period in 2014. Secondly, the concentration of time deposits was lowered by 11% over the same time period. Traditionally, time deposits are the most expensive deposits in the interest bearing portfolio. Both reductions in rate and concentration are key to lowering the Company's funding costs.

Additionally, there were improvements in the average rate paid on repurchase agreements between the first quarter of 2015 and the first quarter of 2014. The average rate paid on repurchase agreements was eight basis points less. Conversely, there was a five basis point increase to the average rate on subordinated debentures and notes payable.

Throughout the next three quarters of 2015, management will remain focused on limiting its FRB balances and reducing the concentration of time deposits within interest-bearing deposits. Successes in these areas will likely maintain the net interest margin at a similar level to that shown in the table above for the first quarter of 2015.

To accomplish margin improvement when rates are at historically low levels and to understand potential outcomes when rates increase in the future, asset liability management continues to be an important tool for assessing opportunities for improvement and interest rate sensitivity; it also provides a tool for monitoring liquidity. Liquidity management involves the ability to meet the cash flow requirements of the Company's customers. These customers may be either borrowers with credit needs or depositors wanting to withdraw funds. Management of interest rate sensitivity attempts to avoid widely varying net interest margins and achieve consistent net interest income through periods of changing interest rates.

The Company uses a sophisticated computer program to perform analysis of interest rate risk, assist with asset liability management, and model and measure interest rate sensitivity. Interest rate sensitivity varies with different types of earning assets and interest-bearing liabilities. Overnight investments, of which rates change daily, and loans tied to the prime rate, differ considerably from long term investment securities and fixed rate loans. Interest bearing checking and money market accounts are more interest sensitive than long term time deposits and fixed rate FHLB advances. Comparison of the repricing intervals of interest earning assets to interest bearing liabilities is a measure of interest sensitivity gap. Balancing this gap is a continual challenge in a highly competitive and changing rate environment.

COMMUNITY SHORES BANK CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Details of the repricing gap at March 31, 2015 were:

	Interest Rate Sensitivity Period				
	Within Three Months	Three to Twelve Months	One to Five Years	After Five Years	Total
Earning assets					
Interest-bearing deposits in other financial institutions	$14,007,903	$0	$0	$0	$14,007,903
Securities (including FHLB stock)	2,521,174	5,942,861	20,842,261	1,115,573	30,421,869
Loans held for sale	0	0	0	240,000	240,000
Loans	47,424,540	13,958,255	48,689,406	17,346,096	127,418,297
	63,953,617	19,901,116	69,531,667	18,701,669	172,088,069
Interest-bearing liabilities					
Savings and checking	77,561,449	0	0	0	77,561,449
Time deposits <$100,000	7,820,562	24,412,550	18,382,168	0	50,615,280
Time deposits >$100,000	2,123,409	4,738,468	1,951,928	0	8,813,805
Repurchase agreements and Federal funds purchased	6,045,471	0	0	0	6,045,471
Notes payable and other borrowings	4,500,000	0	1,280,000	0	5,780,000
	98,050,891	29,151,018	21,614,096	0	148,816,005
Net asset (liability) repricing gap	$(34,097,274)	$(9,249,902)	$47,917,571	$18,701,669	$23,272,064
Cumulative net asset (liability) repricing gap	$(34,097,274)	$(43,347,176)	$4,570,395	$23,272,064	

Currently, the Company has a negative 12 month repricing gap which indicates that the Company is liability sensitive in the next 12 month period. This position implies that more rate bearing products have an opportunity to reprice during this period. If the rate environment begins to increase like the Federal Open Market Committee of the Federal Reserve System has forecasted, a negative repricing gap will be harmful for further reduction to the Company's overall interest expense, however it is unknown whether the reduction will be successfully offset by the repricing opportunities for loans scheduled to renew. Nonetheless, if the Company's gap position remains negative when interest rates begin to rise, there will likely be a negative effect on net interest income. The interest rate sensitivity table above simply illustrates what the Company is contractually able to change in certain time frames. The local market rates often play a large part in the movement of rates on liabilities.

There was no provision for loan losses for the first three months of 2015 or 2014. The provision expense is associated with changes in historical loss calculations, economic conditions (local and national) as well as delinquency, net charge offs or recoveries and changes to credit quality grades; up and down. A methodical assessment of these factors generates the reserves required for the risk in the Bank's loan portfolio and the required provision expense. Management will continue to review the allowance with the intent of maintaining it at an appropriate level for the portfolio's credit quality and perceived risk factors. The provision for loan losses is an estimate and may be increased or decreased in the future.

COMMUNITY SHORES BANK CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Non-interest income recorded in the first three months of 2015 was $407,000 compared to $409,000 recorded for the similar period in 2014. A majority of the components of this revenue remained the same however; in 2014's first quarter there was $7,000 of income derived from the sale of a security. There were no gains on security sales in 2015's first quarter.

Non-interest expenses for the first three month period of 2015 were $1.9 million; $29,000 more than the first three months of 2014. The three largest categories contributing to the net difference were salary and benefit expenses, foreclosed asset impairments and two items within other non-interest expenses.

Salary and benefit expenses, the largest category of non-interest expenses, were $1.0 million for the first quarter of 2015. For the similar period in 2014, the total was $951,000. The 6% increase between the two periods stemmed from an increase in full-time staff, general salary increases and increases in health insurance costs.

There were no foreclosed asset impairments in the first three months of 2015 compared to $16,000 in the first three months of 2014. During the time that foreclosed real properties are waiting to be sold, there will be occasions that the Bank will need to reevaluate the individual market values of each property. If there is evidence that the fair value has declined since the last evaluation, the Bank will incur an impairment charge in order to properly reflect the fair value of the asset at the end of the reporting period. A reduction in this category reflects the referenced stability in local real estate over the last 12 months. Although impairment charges continue to occur, they are lower for two reasons; the Bank's portfolio of foreclosed real property is declining and the values of the properties within the portfolio appear to be stabilizing.

Other non-interest expenses were $260,000 in the first quarter of 2015 and $290,000 for the like period in 2014; a reduction of $30,000. Two categories are driving a majority of the decrease. The first is an $11,000 reduction in expenses to administer impaired assets. In the first three months of 2015, these expenses totaled $72,000. Similarly, these expenses totaled $83,000 in the first quarter of 2014. Fewer expenses related to administering impaired assets supports management's assessment of improved credit quality over the past several quarters.

Another category that experienced a decrease is the Company's liability insurance. As a result of the lower risk profile of the Bank, insurance cost's decreased $9,000 in the first quarter of 2015 and the annual savings is estimated to be around $50,000.

For the first three quarters of 2014, there was a full valuation allowance against deferred tax assets and no federal income tax expenses were recorded. At December 31, 2014, the $4.1 million valuation allowance was reversed and the Company began recording federal income tax expense. The Company recorded federal income tax expense of $17,000 in the first quarter of 2015.

COMMUNITY SHORES BANK CORPORATION

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable for smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES

We are required to maintain disclosure controls and procedures designed to ensure that material information related to us, including our consolidated subsidiaries, is recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms. Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

An evaluation was carried out under the supervision and with the participation of the Company’s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of March 31, 2015. Based on the evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures were effective as of March 31, 2015.

There have been no changes in the internal control over financial reporting during the quarter ended March 31, 2015, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

COMMUNITY SHORES BANK CORPORATION

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the opinion of management, the Company and its subsidiaries are not a party to any current legal proceedings that are expected to have a material adverse effect on their financial condition, either individually or in the aggregate.

ITEM 1A. RISK FACTORS

Not applicable for smaller reporting companies.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Company made no unregistered sale of equity securities, and did not purchase any of its equity securities, during the quarter ended March 31, 2015.

Holders of Company common stock are entitled to receive cash dividends to the extent that they are declared from time to time by the Company's Board of Directors. To date, the Company's Board of Directors has never declared a cash dividend. The Company may only pay cash dividends out of funds that are legally available for that purpose. The Company is a holding company and substantially all of its assets are held by its subsidiaries. The Company's ability to pay cash dividends to its shareholders depends primarily on the Bank's ability to pay cash dividends to the Company. Cash dividend payments and extensions of credit to the Company from the Bank are subject to legal and regulatory limitations, generally based on capital levels and current and retained earnings, imposed by law and regulatory agencies with authority over the Bank. The ability of the Bank to pay cash dividends is also subject to its profitability, financial condition, capital expenditures and other cash flow requirements. Under the Consent and Written Agreement, the Bank is precluded from paying dividends to the Company and the Company may not receive dividends from the Bank.

Under the terms of the subordinated debentures that the Company issued to the Trust, the Company is precluded from paying cash dividends on the Company's common stock if an event of default has occurred and is continuing under the subordinated debentures, or if the Company has exercised its right to defer payments of interest on the subordinated debentures, until the deferral ends. In May of 2010, the Company gave notice that it was deferring the regularly scheduled quarterly interest payments on the subordinated debentures beginning with the quarterly interest payment that was scheduled to be paid on June 30, 2010. So until the deferral ends, the terms of the subordinated debentures preclude the Company from paying any dividends on the common stock. If the Company had any preferred stock outstanding, it would similarly be precluded from paying any dividend on the preferred stock.

COMMUNITY SHORES BANK CORPORATION

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	EXHIBIT DESCRIPTION
3.1	Articles of Incorporation are incorporated by reference to exhibit 3.1 of the Company's June 30, 2004 Form 10-QSB (SEC file number 333-63769).
3.2	Bylaws of the Company are incorporated by reference to exhibit 3(ii) of the Company's Form 8-K filed July 5, 2006 (SEC file number 000-51166).
10.1	Amendment to Convertible Secured Note Purchase Agreement dated March 18, 2015, incorporated by reference to exhibit 10.1 of the Company's Form 8-K filed March 20, 2015.
31.1	Rule 13a-14(a) Certification of the principal executive officer.
31.2	Rule 13a-14(a) Certification of the principal financial officer.
32.1	Section 1350 Chief Executive Officer Certification.
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101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	COMMUNITY SHORES BANK CORPORATION
May 15, 2015 Date	By: /s/ Heather D. Brolick Heather D. Brolick President and Chief Executive Officer (principal executive officer)
May 15, 2015 Date	By: /s/ Tracey A. Welsh Tracey A. Welsh Senior Vice President, Chief Financial Officer and Treasurer (principal financial and accounting officer)

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