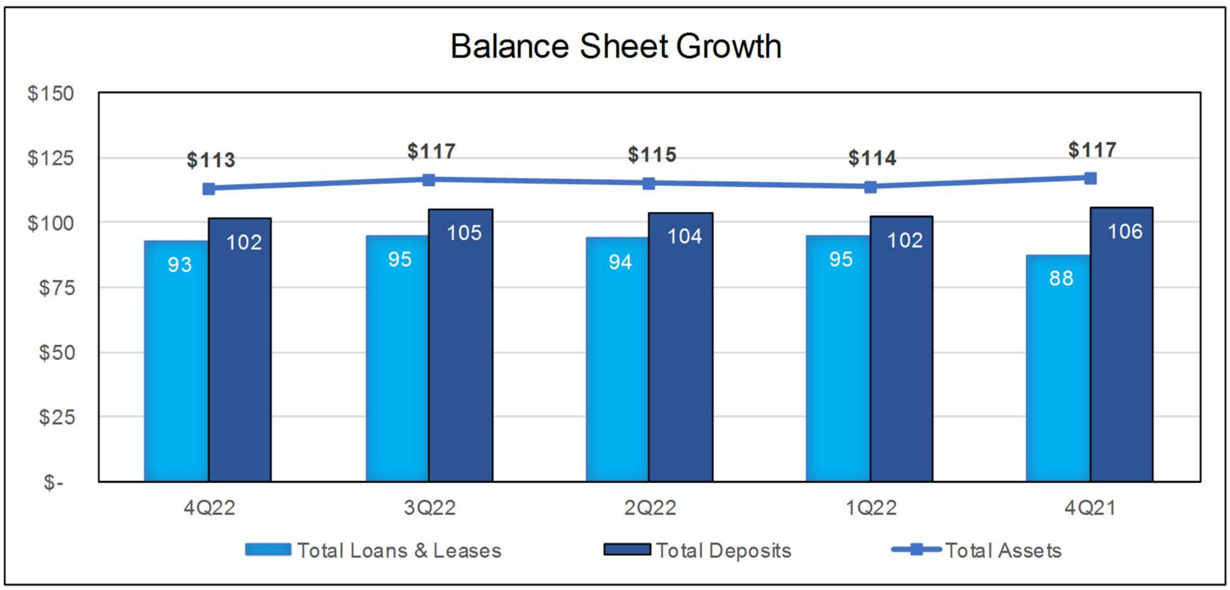
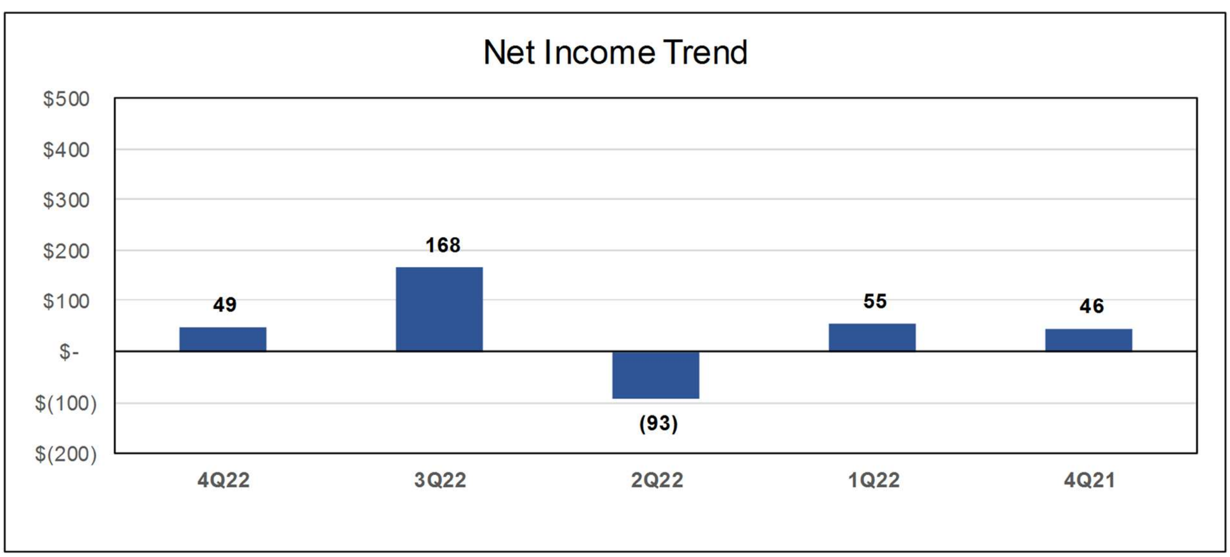
4Q22 Financial Highlights[1]

- Successful implementation of Bank Michigan Financial Corporation holding company structure
- Generated total loan growth of 6%, sparked by $33 million in new business fundings reflecting strong loan demand
- Total deposits down $4.1 million or 4%, primarily driven by impacts of monetary tightening & inflation
- Book value of $10.15 excl. AOCI, increased $0.17 or 2% YoY
- Net interest income increased 2% YoY; reflecting net interest margin expansion of 33 basis points to 4.33%
- Noninterest income increased $223 thousand or 25%, an increase of $3.2 million over prior year & ranked as top SBA lender in Washtenaw County
- Experienced cannabis banking team hired to expand our business deposit balances & noninterest income growth
- Tier 1 leverage captial ratio increased to 8.96%, indicative of effectively deploying capital

[1]Percentage and dollar comparisons noted above are for the fourth quarter of 2022 versus the same period prior-year 2021, unless noted

Performance Trends





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January 31, 2023

Dear Fellow Shareholders,

Bank Michigan reported fourth quarter 2022 net income of $49 thousand, or $0.05 per common share, an increase of $3 thousand, or $0.01 per common share from the year-ago quarter. Results for the fourth quarter produced an annualized return on average assets (ROAA) of 0.17%, an annualized return on average common equity (ROCE) of 1.84%, and total risk-based capital (RBC) of 12.43%.

For the full year 2022, net income was $178 thousand compared to $540 thousand for 2021. Earnings per share were $0.17 compared to $0.50 for 2021. Results for 2022 produced an ROAA of 0.15% and ROCE of 1.69%. Book value was $10.15, excluding AOCI, at December 31, 2022, up $0.17 from prior year quarter, reflecting positive net income growth for the year.

Fourth quarter results reflected the progress we are making to improve returns. Rising interest rates drove strong net interest income growth, our key credit quality metrics in both the business and consumer portfolios remain resilient and credit losses continue to be at historical low levels. Business banking loans were up 8% on new loan originations and higher revolver utilization.

Our accomplishments in 2022 go beyond the financial metrics. For our shareholders we restructured to be organized under a Bank Holding Company structure that provides more flexibility to engage in activities that are closely related to banking but not permitted for banks themselves. For our teammates we increased our minimum wage and adopted a hybrid working environment. This past year we rebuilt our website platform to better serve our customers and are excited to launch it in second quarter of 2023.

Our customers have remained resilient with deposit balances, consumer spending, and credit quality still stronger than pre-pandemic levels. While we recognize the uncertain economic outlook on the horizon, we enter 2023 with the guiding principles of stability, profitability, and growth (in that order).

Best Regards,

Richard Northrup
President & CEO

p.s. – If you haven't already, please take the time to surrender your obsolete Bank Michigan stock certificates in order to receive your new Bank Michigan Financial Corporation stock. See Surrender Shares letter sent as separate document.

BANK MICHIGAN
FINANCIAL HIGHLIGHTS (Unaudited)
(in thousands, except ratio and headcount data)

				4Q22 Change		Twelve Months Ended Dec 31,		YOY
Pretax, Pre-Provision Earnings (non-GAAP)	**4Q22**	**3Q22**	**4Q21**	**3Q22**	**4Q21**	**2022**	**2021**	**Change**
Net Interest Income	$ 1,361	$ 1,318	$ 1,123	$ 43	$ 238	$ 5,021	$ 4,944	$ 77
Noninterest Income	156	389	200	(233)	(43)	1,106	883	223
Total Revenue	**1,517**	**1,708**	**1,323**	**(191)**	**195**	**6,127**	**5,827**	**300**
Noninterest Expense	1,473	1,495	1,264	(22)	208	5,850	5,399	451
Pretax, Pre-Provision Earnings	**45**	**213**	**58**	**(169)**	**(14)**	**277**	**428**	**(151)**
Provision for Loan Losses	(18)	-	-	(18)	(18)	48	(254)	302
Tax Provision (Benefit)	14	46	13	(32)	1	51	143	(92)
Net Income/(Loss)	**$ 49**	**$ 168**	**$ 46**	**$ (119)**	**$ 3**	**$ 178**	**$ 540**	**$ (362)**
Earnings & per Common Share data								
Earnings per share	$ 0.05	$ 0.16	$ 0.04	$ (0.11)	$ 0.00	$ 0.17	$ 0.50	$ (0.34)
Book Value (excl. AOCI)	$ 10.15	$ 10.11	$ 9.99	$ 0.05	$ 0.17	$ 10.15	$ 9.99	$ 0.17
Book Value	$ 9.86	$ 9.75	$ 10.00	$ 0.11	$ (0.14)	$ 9.86	$ 10.00	$ (0.14)
Common shares period-end	1,070	1,070	1,071	-	(2)	1,070	1,071	(1)
Financial Ratios								
Return on Equity [(a)]	1.84%	6.31%	1.69%	-4.47%	0.16%	1.69%	5.17%	-3.48%
Return on Assets [(a)]	0.17%	0.56%	0.15%	-0.40%	0.02%	0.15%	0.44%	-0.29%
Net interest margin	4.71%	4.44%	3.61%	0.27%	1.10%	4.33%	4.00%	0.33%
Efficiency Ratio	97%	88%	96%	10%	1%	95%	93%	2%
Full-time equivalent employees	42.4	35.9	33.9	6.5	8.5	38.3	37.2	1.1
Balance Sheet Highlights (period-end)						(Average Balance)		
Total Assets	113,465	116,821	117,164	(3,356)	(3,699)	115,976	123,465	(7,489)
Total Loans & Leases	92,925	95,048	87,643	(2,123)	5,282	93,328	92,691	637
Allowance for Loan Loss Reserve (ALLL)	(952)	(986)	(943)	34	(9)	(972)	(1,054)	82
Core Deposits	84,558	85,844	89,182	(1,286)	(4,624)	92,821	96,654	(3,833)
Non-core Deposits	17,066	19,246	16,590	(2,180)	476	11,127	12,192	(1,065)
Total Deposits	101,624	105,090	105,772	(3,466)	(4,148)	103,948	108,847	(4,899)
Other Borrowings	-	-	-	-	-	-	3,698	(3,698)
Total Equity	10,542	10,425	10,711	117	(169)	10,573	10,440	133
Credit Quality								
Net Charge-Offs / Average Loans - YTD	0.03%	0.03%	0.03%	0.00%	0.00%	0.03%	0.03%	0.00%
ALLL to total loans ratio [(b)]	1.02%	1.04%	1.13%	-0.02%	-0.11%	1.02%	1.13%	-0.11%
NPAs / Total Loans (xPPP)	0.70%	0.70%	0.85%	0.00%	-0.15%	0.70%	0.85%	-0.15%
Loan-to-deposits ratio [(b)]	91%	90%	78%	1%	13%	90%	85%	5%
Capital Ratios								
Tier 1 leverage ratio	8.96%	8.64%	8.27%	0.32%	0.69%	8.96%	8.27%	0.69%
Tier 1 risk-based capital ratio / (CET1)	11.37%	11.08%	12.33%	0.28%	-0.96%	11.37%	12.33%	-0.96%
Total risk-based capital ratio	12.43%	12.16%	13.47%	0.26%	-1.04%	12.43%	13.47%	-1.04%

(a) Quarterly ratios are based upon annualized amounts.

(b) Ratio excludes government guaranteed Paycheck Protection Program loans

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<u>Discussion of Results:</u>

Comparisons noted in the sections below are for <u>the fourth quarter of 2022 versus the third quarter of 2022</u>, unless otherwise specified.

Net income was $49 thousand, down $119 thousand, driven by higher net interest income $43 thousand, lower noninterest income $233 thousand, lower noninterest expense $22 thousand, lower provision for loan losses $18 thousand, and lower income tax expense $32 thousand.

Net interest income was $1.4 million, up $43 thousand or 3%, driven by higher loan interest income reduced by high interest expense. Loan interest income was higher due to a 37 basis point increase in loan rate coupled with loan growth, partially offset by higher interest expense due to a 14 basis point increase in funding rates.

Compared to prior quarter, Net Interest Margin (NIM) increased 27 basis points to 4.71%, primarily reflecting higher yields on interest-earning assets and higher funding costs.

The provision for loan losses decreased $18 thousand from quarter-over-quarter. The decrease was from a net reserve release of $18 thousand primarily driven by a decline in loan balances in the fourth quarter. Net charge-offs were nil and non-performing assets decreased $18 thousand. The allowance to total loans ratio was 1.02%, down slightly from prior quarter.

Noninterest income was $156 thousand, down $233 thousand, predominantly driven by decreases in the gain on sale of loans due to less sales, decreases in deposit service charges, decreases in servicing fee income, and decreases in miscellaneous fee income.

Noninterest expense was $1.5 million, down $22 thousand, salaries and benefits expense decreased $27 thousand primarily due to lower incentives in the quarter, lower miscellaneous expense due to one-time valuation expense for holding company in prior quarter, offset by higher professional services, higher communication expense, and higher outside services.

Compared to prior quarter, total period-end loans and leases decreased $2 million to $93 million from a large business loan payoff. Core deposits were $85 million, down $1 million from prior quarter and non-core deposits decreased $2 million to $17 million from lower wholesale funding required.

Capital ratios remain strong this quarter. The CET1 capital ratio was 11.37%, Total risk-based capital was 12.43% and the Tier 1 leverage ratio was 8.96%. Risk based ratios increased from prior quarter predominantly due to decreased loan balances.

Comparisons noted in the sections below are for the <u>fourth quarter of 2022 versus the same period in the prior-year 2021</u>, unless otherwise specified.

Net income was $49 thousand, up $3 thousand, driven by higher net interest income $238 thousand, lower noninterest income $43, lower provision expense $18 thousand; partially offset by higher noninterest expense $208 thousand and higher income tax expense $1 thousand.

Net interest income was $1.4 million, up $238 thousand or 21%, driven by higher loan interest income partially and higher interest expense. Loan interest income was higher due to a 62 basis point increase in loan rate coupled with loan growth, partially offset by higher interest expense due to higher funding costs of 21 basis point.

Compared to the year-ago quarter, Net Interest Margin (NIM) increased 110 basis points to 4.71%, primarily reflecting higher loan yields and higher deposit costs.

The provision for loan losses decreased $18 thousand from prior year same quarter. The decrease was from a net reserve release of $18 thousand primarily driven by a decline in loan balances in the fourth quarter of 2022. Net charge-offs were up $14 thousand and non-performing assets decreased $57 thousand. The allowance to total loans ratio was 1.02%, down 11 basis points from prior year, reflecting better credit quality metrics. Credit trends continue to perform better than expected, although select business loans continue to be monitored for negative changes associated with current economic conditions.

Noninterest income was $156 thousand, down $43 thousand, mainly driven by fewer sales of loans, fewer loan servicing fees, and decreases in other noninterest income, partially offset by an increase in deposit service charges from cannabis related accounts.

Noninterest expense was $1.5 million, up $208 thousand from prior year quarter. Salaries and benefits expense increased $207 thousand from an increase in FTE and merit, data processing expense increase $24 thousand from price increases and enhanced wire service, partially offset by a $13 thousand decrease in loan servicing expense from bring SBA servicing inhouse and net decreases in other noninterest expense items.

Total period-end loans and leases increased $5 million, business loans increased $6 million and mortgage loans decreased $1 million. Core deposits decreased $5 million mostly driven by large transaction events occurring for a few business accounts. Non-core deposits, which are managed based on funding needs, relative pricing and liquidity characteristics increased $0.5 million.

Comparisons noted in the sections below are for twelve months ended December 31st of 2022 versus the same period prior-year, unless otherwise specified.

For the twelve months ended December 31st, net income was $178 thousand, down $362 thousand, driven by higher net interest income $77 thousand, higher noninterest income $223 thousand and lower income tax expense $92 thousand; partially offset by higher noninterest expense $451 thousand and higher provision expense $302 thousand.

Net interest income was $5.0 million, up $77 thousand or 2%. The increase was driven by higher interest income on investment portfolio and lower interest expense, partially offset by lower loan interest income. Loan interest income is lower due to prior year recognition of PPP loan fees and interest expense was lower primarily due to decreases in average outstanding funding balances.

Compared to the year-ago quarter, Net Interest Margin (NIM) increased 33 basis points to 4.33%. The expansion in NIM was driven by the higher rate environment driving an increase in loan and investment security yields, partially offset by higher cost of funds.

The provision for loan losses increased $302 thousand. The increase was from a net reserve release of $254 thousand in prior year compared to provision expense of $48 thousand in current year. Net charge-offs (NCOs) for the current year were $39 thousand. NCOs represented an 0.04% of average loans for the year, up from 0.01% from prior year. The allowance to total loans ratio was 1.02%, down 11 basis points from prior year, reflecting better credit quality metrics. Credit trends continue to perform better than expected, but recognizing the increased near-term recessionary risks at the end of 2022.

Noninterest income was $1.1 million, up $223 thousand, mainly driven by more sales of loans, increases in deposit service charges, increases in loan servicing fees and other noninterest income compared to prior year quarter.

Noninterest expense was $5.9 million, up $451 thousand from prior year. Salaries and benefits expense increased $332 thousand from increase in personnel and merit, data processing expense increase $108 thousand from price increases and enhanced wire service, and premises expense increased $29 thousand from implementation of new lease accounting standard, partially offset by a $27 thousand decrease in loan servicing expense from bring SBA servicing inhouse.

Average loan balances were $93 million, up $1 million; business loans increased $13 million partially offset by decreases in SBA PPP loans $11 million and mortgage loans $1 million. Average core deposits were $93 million, down $4 million mostly driven by large transaction events occurring for a few business accounts. Non-core deposits, which are managed based on funding needs, relative pricing and liquidity characteristics decreased $1 million.