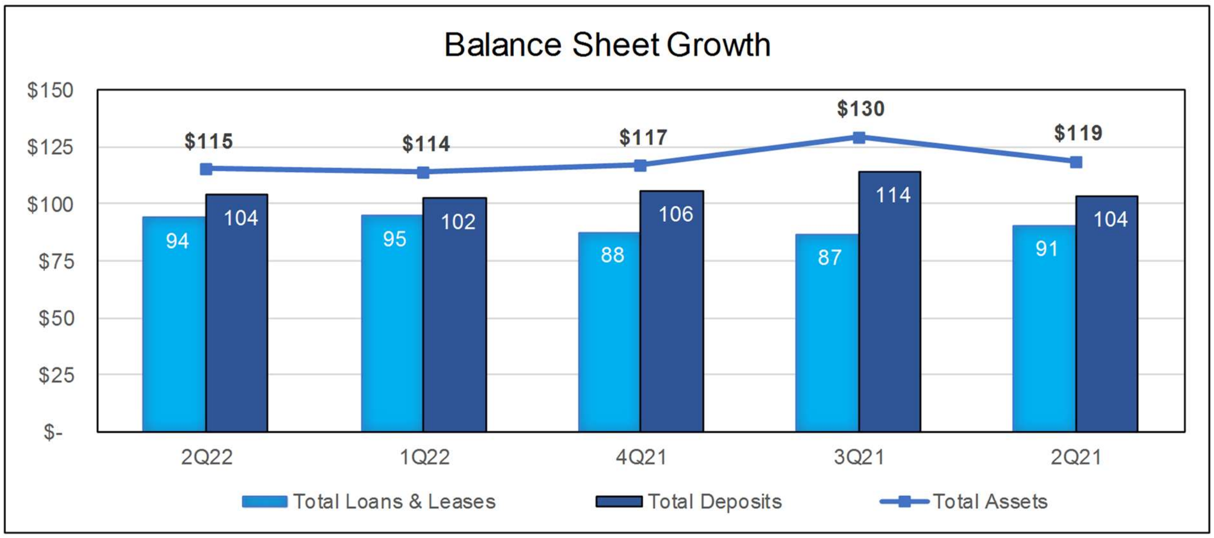
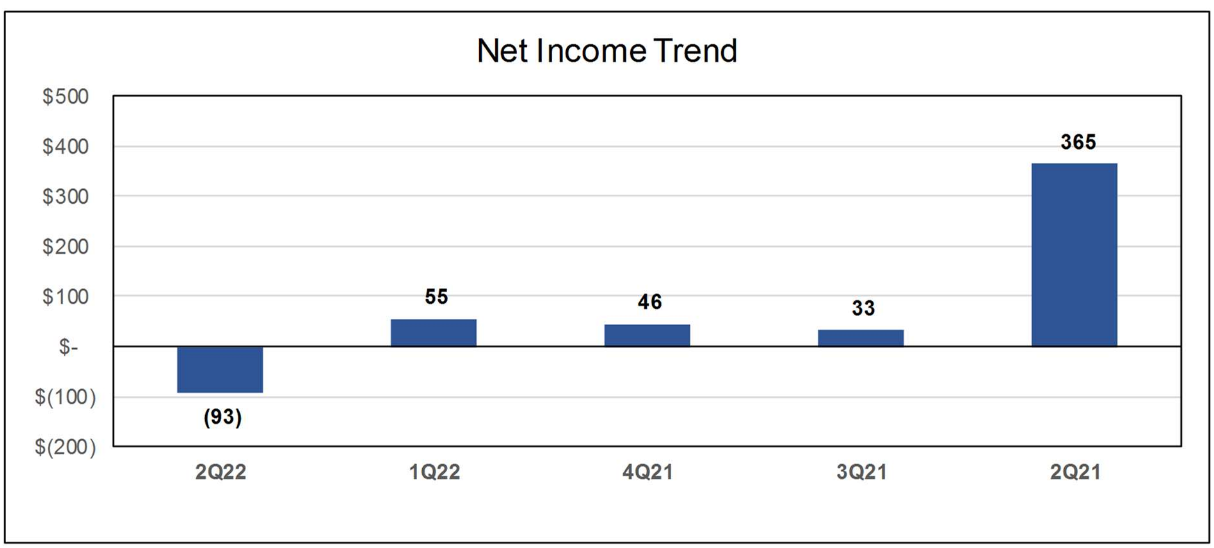
2Q22 Financial Highlights[1]

- Total loans (xPPP) up $15 million or 18%, driven by commercial loan growth $12 million
- Decline in PPP loans as result of successfully obtaining full forgiveness on $11 million in loans
- Core deposits up 6% YoY, increase due to accounts & balance growth
- Shareholder approval of Holding Company
- Total revenue $1.4 million down $0.5 million or 25%, from a decrease in PPP loan fees recognized
- Net interest margin YTD was 4.08%, down 40 basis points YoY, driven by fewer PPP loan fees
- Cost of funds declined to 23 basis points from 42
- Capital ratios remain strong with leverage ratio at 8.71%

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

Performance Trends





July 29, 2022

Dear Fellow Shareholders,

Bank Michigan reported second quarter 2022 net loss of $(93) thousand compared to net income of $55 thousand in the prior quarter and net income of $365 thousand in the year-ago quarter. We added to the provision for loan losses in the second quarter due to strong new loan bookings. This builds upon the increased provision in the prior quarter for the same reason. The Bank released provision in prior year quarter. Pretax Pre-Provision (PTPP) was $(111) thousand in second quarter 2022 compared to net income of $130 thousand in the prior quarter and $438 thousand in the year-ago quarter. Earnings per share was $(0.09) on revenue of $1.4 million, compared to $0.05 per share on revenue of $1.5 million in the prior quarter and $0.34 per share on revenue of $1.9 million in the year-ago quarter. Our book value was $9.70 at June 30, 2022, down $0.24 from prior year quarter, primarily due to a decrease in common equity related to higher interest rates causing a decrease in accumulated other comprehensive income.

For the six months ended June 30, 2022, earnings per share totaled $(0.04), compared to $0.43 for the first six months of 2021. PTPP amounted to $19 thousand for the six months ended June 30, 2022, compared to $365 thousand in the comparable period last year. The provision for loan losses was a build of $66 thousand compared to a release of $(216) thousand in prior year.

While our net income declined in the second quarter, our underlying results were impacted by near-term pressure to replace PPP loan origination income and longer cycle times to fully fund SBA loans in order to sell them into the secondary market. The secondary loan market sales of SBA loans is an important component of income for the Bank. It is disappointing, but not uncommon in that line of business to have short-term timing effects on results. Loan balances excluding PPP loans increased with growth in both consumer and business loans. Credit condition is good with-problem credit metrics continuing to be at low levels, reflecting our disciplined approach to client selection and loan structuring.

Despite the increasing uncertainty presented by economic risks, we have continued to prudently invest in our core business, which will serve as ongoing sources of growth. I am confident in our ability to guide both our company and clients through the present environment while building an even stronger back for the future. On behalf of the Board and staff, I thank you for your support.

Best Regards,

Richard Northrup
President & CEO

BANK MICHIGAN

FINANCIAL HIGHLIGHTS (Unaudited)

(in thousands, except ratio and headcount data)

				2Q22 Change		Six Months Ended Jun 30,		
Pretax, Pre-Provision Earnings (non-GAAP)	**2Q22**	**1Q22**	**2Q21**	**1Q22**	**2Q21**	**2022**	**2021**	**YOY Change**
Summary Income Statement								
Interest Income	$ 1,247	$ 1,215	$ 1,616	$ 32	$ (370)	$ 2,462	$ 2,815	$ (353)
Interest Expense	57	64	103	(6)	(46)	121	230	(109)
Net Interest Income	1,190	1,152	1,513	38	(323)	2,341	2,585	(244)
Provision for Loan Losses	7	59	(23)	(51)	30	66	(216)	283
Noninterest Income	197	363	337	(166)	(140)	560	525	35
Noninterest Expense	1,498	1,385	1,413	113	85	2,882	2,745	138
Net Income/(Loss) before taxes	(118)	71	461	(190)	(579)	(47)	582	(629)
Tax Provision (Benefit)	(25)	16	96	(41)	(121)	(9)	121	(129)
Net Income/(Loss)	**$ (93)**	**$ 55**	**$ 365**	**$ (149)**	**$ (458)**	**$ (38)**	**$ 461**	**$ (500)**
Pretax, Pre-Provision Earnings (non-GAAP)								
Net Interest Income	$ 1,190	$ 1,152	$ 1,513	$ 38	$ (323)	$ 2,341	$ 2,585	$ (244)
Noninterest Income	197	363	337	(166)	(140)	560	525	35
Total Revenue	**1,387**	**1,515**	**1,850**	**(128)**	**(464)**	**2,902**	**3,110**	**(209)**
Noninterest Expense	1,498	1,385	1,413	113	85	2,882	2,745	138
Pretax, Pre-Provision Earnings	**(111)**	**130**	**438**	**(241)**	**(549)**	**19**	**365**	**(346)**
Provision for Loan Losses	7	59	(23)	(51)	30	66	(216)	283
Tax Provision (Benefit)	(25)	16	96	(41)	(121)	(9)	121	(129)
Net Income/(Loss)	**$ (93)**	**$ 55**	**$ 365**	**$ (149)**	**$ (458)**	**$ (38)**	**$ 461**	**$ (500)**
Earnings & per Common Share data								
Earnings per share	$ (0.09)	$ 0.05	$ 0.34	$ (0.14)	$ (0.43)	$ (0.04)	$ 0.43	$ (0.47)
Book Value	$ 9.70	$ 9.84	$ 9.95	$ (0.13)	$ (0.24)	$ 9.70	$ 9.95	$ (0.24)
Common shares period-end	1,071	1,071	1,071	-	-	1,071	1,071	-
Financial Ratios								
Return on Equity [(a)]	-1.79%	2.20%	14.19%	-3.99%	-15.97%	-0.76%	9.15%	-9.91%
Return on Assets [(a)]	-0.16%	0.19%	1.18%	-0.36%	-1.34%	-0.07%	0.77%	-0.84%
Net interest margin	4.14%	4.01%	4.88%	0.13%	-0.74%	4.08%	4.48%	-0.40%
Efficiency Ratio	108%	91%	76%	17%	32%	99%	88%	11%
Full-time equivalent employees	37.4	37.4	39.2	-	(1.8)	37.4	38.7	(1.3)
Balance Sheet Highlights (period-end)						(Average Balance)		
Total Assets	115,376	114,169	118,996	1,207	(3,620)	115,799	122,530	(6,730)
Total Loans & Leases	93,966	94,884	90,544	(918)	3,421	91,484	97,689	(6,205)
Allowance for Loan Loss Reserve (ALLL)	(986)	(977)	(1,024)	(9)	37	(959)	(1,132)	173
Core Deposits	86,716	88,791	82,037	(2,075)	4,679	88,352	83,163	5,190
Non-core Deposits	17,159	13,515	21,546	3,644	(4,387)	15,442	21,746	(6,304)
Total Deposits	103,875	102,306	103,583	1,569	292	103,794	104,909	(1,115)
Other Borrowings	-	-	4,311	-	(4,311)	-	6,942	(6,942)
Total Equity	10,397	10,540	10,657	(143)	(259)	10,621	10,239	382
Credit Quality								
Net Charge-Offs / Average Loans - YTD	0.05%	0.11%	-0.03%	-0.06%	0.08%	0.05%	-0.03%	0.08%
ALLL to total loans ratio [(b)]	1.05%	1.04%	1.29%	0.01%	-0.24%	1.05%	1.16%	-0.11%
NPAs / Total Loans (xPPP)	0.93%	0.74%	1.06%	0.19%	-0.13%	0.93%	1.06%	-0.13%
Loan-to-deposits ratio [(b)]	89%	90%	76%	-1%	13%	88%	93%	-5%
Capital Ratios								
Tier 1 leverage ratio	8.71%	8.79%	8.68%	-0.08%	0.03%	8.71%	8.68%	0.03%
Tier 1 risk-based capital ratio / (CET1)	10.63%	11.10%	12.87%	-0.47%	-2.25%	10.63%	12.87%	-2.25%
Total risk-based capital ratio	11.68%	12.16%	14.13%	-0.48%	-2.45%	11.68%	14.13%	-2.45%

(a) Quarterly ratios are based upon annualized amounts.

(b) Ratio excludes government guaranteed Paycheck Protection Program loans

Discussion of Results:

Comparisons noted in the sections below are for the second quarter of 2022 versus the first quarter of 2022, unless otherwise specified.

Net income was $(93) thousand, down $149 thousand, driven by lower noninterest income $166 thousand and higher noninterest expense $113 partially offset by higher net interest income $38 thousand, lower provision expense $51 thousand and lower tax provision $41 thousand.

Net interest income was $1.2 million, up $38 thousand or 3%, driven by higher loan interest income and lower interest expense. Loan interest income was higher due to a 44 basis point increase in loan rate. Interest expense was lower from the migration of maturing time deposits into lower yield non-maturing products.

Compared to prior quarter, Net Interest Margin (NIM) increased 13 basis points to 4.14%, primarily reflecting higher loan yields, lower deposit and other borrowing costs, partially offset by lower PPP loan income.

The provision for loan loss recorded in the quarter was $7 thousand, down $51 thousand. Net increase in provision for the quarter was $7 thousand compared to the $59 thousand build in reserve due to increased loan balances in prior quarter. The allowance to total loans ratio was 1.05%, up slightly from prior quarter.

Noninterest income was $197 thousand, down $166 thousand, predominantly driven by decreases in the gain on sale of loans due to fewer sales and less other noninterest income, partially offset by increases in loan service fees and deposit service charges.

Noninterest expense was $1.5 million, up $113 thousand, salaries and benefits expense increased $61 thousand from performance-based compensation, merit and one additional day; loan expense increased $33 thousand in loan expense; as well as increases of $40 thousand in other operating expenses; partially offset by a decrease of $12 thousand in professional services driven by lower recruiting expense and $9 thousand in lower insurance and FDIC expense.

Compared to prior quarter, total period-end loans and leases decreased $918 thousand mainly due to loan payoffs partially offset by growth in business loans. Core deposits decreased $2 million from customers utilizing balances and non-core deposits increased $4 million to fund growth in business loans compared to prior quarter.

Capital ratios remain strong this quarter. The CET1 capital ratio was 10.63%, Total risk-based capital was 11.68% and the Tier 1 leverage ratio was 8.71%. Risk based ratios declined from prior quarter predominantly due to increased loan balances.

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

Net loss for the quarter was $93 thousand, down $458 thousand, driven by a $323 thousand decrease in net interest income, $140 thousand decrease in noninterest income, and an increase in noninterest expense, partially offset by a increase in provision for loan losses and tax provision benefit versus expense compared to the prior year.

Net interest income was $1.2 million, down $323 thousand, predominantly driven by a decrease in loan interest income from net impact of PPP loans, lower interest expense from the migration of maturing time deposits into lower yield non-maturing products and reductions in long-term debt.

Compared to the year-ago quarter, Net Interest Margin (NIM) decreased 74 basis points to 4.14%, primarily reflecting lower loan yields and PPP loan income, partially offset with lower deposit and other borrowing costs.

The provision for loan losses in the second quarter reflected a $7 thousand build in reserve, compared to the $23 thousand release in provision in prior year quarter. The allowance to total loans ratio was 1.05%, down 24 basis points. Credit trends continue to perform better than expected, although select business loans continue to be monitored for negative changes associated with the pandemic.

Noninterest income was $197 thousand, down $140 thousand, mainly driven by fewer sales of loans, partially offset by increases in loan service fee income and other noninterest income compared to prior year quarter.

Noninterest expense was $1.5 million, up $85 thousand from prior year quarter. Salaries and benefits expense increased $18 thousand in performance-based compensation and merit (offset partially by fewer FTE), data processing expense increase $23 thousand from enhanced wire service, loan expense increased $21 thousand and the net impact of other operating expenses $23 thousand.

Total period-end loans and leases increased $3 million, business loans increased $5 million and mortgage loans decreased $2 million. Core deposits increased $5 million mostly driven by growth in balances from new account relationships. Non-core deposits, which are managed based on funding needs, relative pricing and liquidity characteristics declined $4 million. Other borrowings declined $4 million, from the repayment of PPPLF debt as result of the PPP loan forgiveness.