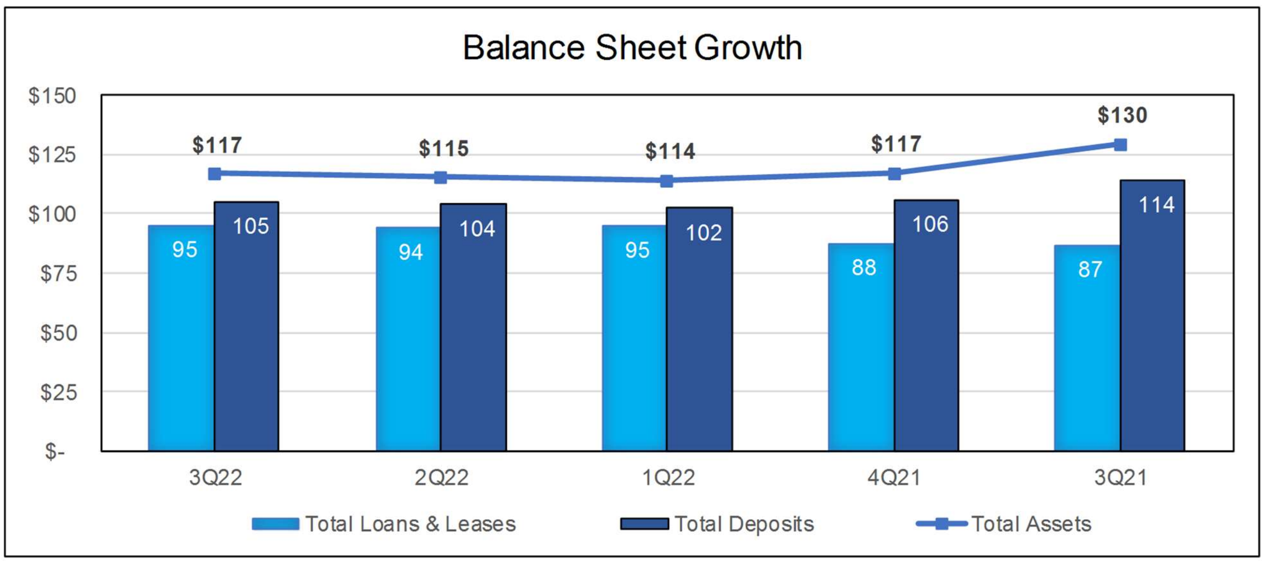
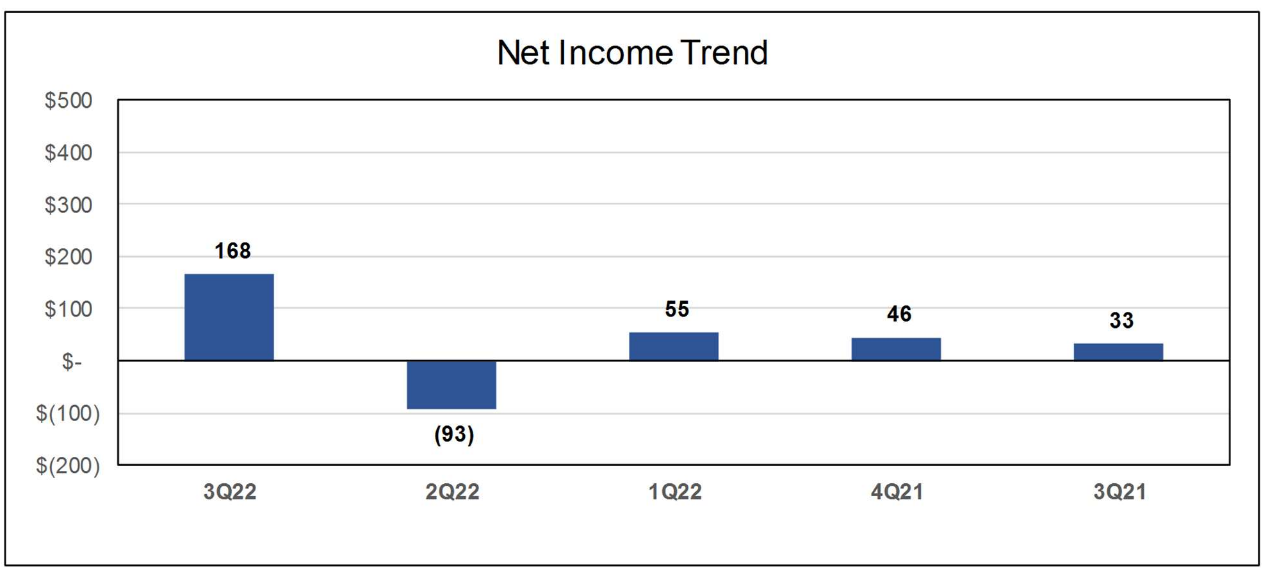
3Q22 Financial Highlights[1]

- Generated total loan growth of 10%, reflecting strong business loan demand
- Consumer deposits grew $4.6 million or 9%, growth in both noninterest and interest bearing accounts
- Business deposits declined $15.8 million or 32%, due to large events occurring for a few businesses
- Book value decreased 2%, due to the change in AOCI
- Net interest income increased 7%; reflecting net interest margin expansion of 54 basis points to 4.44%
- Noninterest income increased $231 thousand or 146%, increasing volume of loans sold $4.8 million
- Earnings per share were $0.16, an increase of $0.13 from prior year quarter
- Total risk-based captial ratio increased to 12.16%, up 48 basis point from 2Q22

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

Performance Trends





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October 31, 2022

Dear Fellow Shareholders,

Bank Michigan reported third quarter 2022 net income of $168 thousand, or $0.16 per common share, an increase of $135 thousand, or $0.13 per common share from the year-ago quarter.

Return on average assets was 0.56%, return on average common equity was 6.31%, Tier 1 leverage was 8.64%, and total risk-based capital was 12.16%.

Book value was $9.73 at September 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.

Our third quarter results reflected solid earnings from growth in loans and revenue, net interest margin increased along with noninterest income from sale of SBA loan guarantees. We successfully delivered on our business loan strategies, delivering loan growth, increasing loan margins, and expanding fee income. These results combined to produce pretax, pre-provision net revenue of $213 thousand for the quarter, reflecting growth of $209 thousand from the year-ago quarter.

Credit continues to perform well with nonperforming assets declining and low net charge-off levels, reflect our unrelenting focus on high-quality relationships and disciplined approach to client selection. This positions us well to generate long-term sustainable value for our customers, communities, employees and shareholders.

While we remain focused on delivering solid results each quarter, we continue to monitor the uncertainty that macroeconomic pressures from persistent inflation and rapidly rising interest rates, and slowly-subsiding supply chain issues which are having an impact on Bank Michigan and across most industries. Our team is focused on risk management and unwavering focus on controlling what we can control. 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

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FINANCIAL HIGHLIGHTS (Unaudited)

(in thousands, except ratio and headcount data)

				3Q22 Change		Nine Months Ended Sept 30,		YOY
Pretax, Pre-Provision Earnings (non-GAAP)	**3Q22**	**2Q22**	**3Q21**	**2Q22**	**3Q21**	**2022**	**2021**	**Change**
Net Interest Income	$ 1,318	$ 1,190	$ 1,236	$ 129	$ 82	$ 3,660	$ 3,821	$ (161)
Noninterest Income	389	197	158	192	231	950	683	266
Total Revenue	**1,708**	**1,387**	**1,394**	**321**	**314**	**4,609**	**4,505**	**105**
Noninterest Expense	1,495	1,498	1,390	(3)	105	4,377	4,135	242
Pretax, Pre-Provision Earnings	**213**	**(111)**	**4**	**324**	**209**	**232**	**370**	**(137)**
Provision for Loan Losses	-	7	(38)	(7)	38	66	(254)	321
Tax Provision (Benefit)	46	(25)	10	71	36	37	130	(93)
Net Income/(Loss)	**$ 168**	**$ (93)**	**$ 33**	**$ 261**	**$ 135**	**$ 129**	**$ 494**	**$ (365)**
Earnings & per Common Share data								
Earnings per share	$ 0.16	$ (0.09)	$ 0.03	$ 0.24	$ 0.13	$ 0.12	$ 0.46	$ (0.34)
Book Value	$ 9.73	$ 9.70	$ 9.97	$ 0.03	$ (0.24)	$ 9.73	$ 9.97	$ (0.24)
Common shares period-end	1,071	1,071	1,071	-	-	1,071	1,071	-
Financial Ratios								
Return on Equity [(a)]	6.31%	-3.56%	1.22%	9.87%	5.09%	1.63%	6.37%	-4.74%
Return on Assets [(a)]	0.56%	-0.33%	0.10%	0.89%	0.46%	0.15%	0.53%	-0.39%
Net interest margin	4.44%	4.14%	3.91%	0.30%	0.54%	4.20%	4.39%	-0.19%
Efficiency Ratio	88%	108%	100%	-20%	-12%	95%	92%	3%
Full-time equivalent employees	35.9	37.4	37.4	(1.5)	(1.5)	36.9	38.3	(1.4)
Balance Sheet Highlights (period-end)						(Average Balance)		
Total Assets	116,821	115,376	129,534	1,444	(12,713)	116,434	123,525	(7,091)
Total Loans & Leases	95,048	93,966	86,709	1,082	8,340	92,929	94,630	(1,701)
Allowance for Loan Loss Reserve (ALLL)	(986)	(986)	(945)	1	(41)	(969)	(1,091)	122
Core Deposits	85,844	86,716	96,563	(872)	(10,719)	87,667	87,469	198
Non-core Deposits	19,246	17,159	17,433	2,087	1,813	16,745	20,263	(3,518)
Total Deposits	105,090	103,875	113,995	1,214	(8,905)	104,412	107,732	(3,320)
Other Borrowings	-	-	-	-	-	-	4,945	(4,945)
Total Equity	10,425	10,397	10,687	27	(262)	10,588	10,375	214
Credit Quality								
Net Charge-Offs / Average Loans - YTD	0.03%	0.05%	0.04%	-0.02%	-0.01%	0.03%	0.04%	-0.01%
ALLL to total loans ratio	1.04%	1.05%	1.19%	-0.01%	-0.15%	1.04%	1.15%	-0.11%
NPAs / Total Loans (xPPP)	0.70%	0.93%	0.94%	-0.23%	-0.24%	0.70%	0.94%	-0.24%
Loan-to-deposits ratio	89%	89%	69%	0%	20%	89%	88%	1%
Capital Ratios								
Tier 1 leverage ratio	8.64%	8.71%	8.16%	-0.07%	0.48%	8.64%	8.16%	0.48%
Tier 1 risk-based capital ratio / (CET1)	11.08%	10.63%	12.86%	0.45%	-1.78%	11.08%	12.86%	-1.78%
Total risk-based capital ratio	12.16%	11.68%	14.06%	0.48%	-1.90%	12.16%	14.06%	-1.90%

(a) Quarterly ratios are based upon annualized amounts.

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<u>Discussion of Results:</u>

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

Net income was $168 thousand, up $261 thousand, driven by higher net interest income $129 thousand, higher noninterest income $192, and lower noninterest expense $3 thousand partially offset by higher income tax expense $70 thousand.

Net interest income was $1.3 million, up $129 thousand or 11%, driven by higher loan interest income reduced by high interest expense. Loan interest income was higher due to a 64 basis point increase in loan rate coupled with loan growth, partially offset by higher interest expense due to a 12 basis point increase in funding rates.

Compared to prior quarter, Net Interest Margin (NIM) increased 30 basis points to 4.44%, primarily reflecting higher yields on interest-earning assets and higher funding costs.

There was no provision for loan loss recorded in the quarter, compared to $7 thousand recorded in the second quarter of 2022. Net charge-offs were nil and non-performing assets decreased $208 thousand. The allowance to total loans ratio was 1.04%, down slightly from prior quarter.

Noninterest income was $389 thousand, up $192 thousand, predominantly driven by increases in the gain on sale of loans due to more sales, increases in deposit service charges, and increases in servicing fee income, partially offset by decreases in miscellaneous fee income.

Noninterest expense was $1.5 million, down $3 thousand, salaries and benefits expense increased $27 thousand primarily from one additional day in the quarter, entirely offset by a decrease $30 thousand decrease in loan expense.

Compared to prior quarter, total period-end loans and leases increased $1 million to $95 million from growth in business loans. Core deposits were $86 million, down slightly from prior quarter and non-core deposits increased $2 million to fund growth in business loans compared to prior quarter.

Capital ratios remain strong this quarter. The CET1 capital ratio was 11.08%, Total risk-based capital was 12.16% and the Tier 1 leverage ratio was 8.64%. Risk based ratios declined from prior quarter predominantly due to increased loan balances.

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

Net income was $168 thousand, up $135 thousand, driven by higher net interest income $82 thousand, higher noninterest income $231, and lower provision expense $38 thousand; partially offset by higher noninterest expense $105 thousand and higher income tax expense $36 thousand.

Net interest income was $1.3 million, up $82 thousand or 7%, driven by higher loan interest income and lower interest expense. Loan interest income was higher due to a 72 basis point increase in loan rate coupled with loan growth, coupled with lower interest expense due to lower funding costs of 4 basis point.

Compared to the year-ago quarter, Net Interest Margin (NIM) increased 54 basis points to 4.44%, primarily reflecting higher loan yields and lower deposit and other borrowing costs.

There was no provision for loan loss recorded in the quarter, compared to $38 thousand recorded in the third quarter of 2021. Net charge-offs were down $5 thousand and non-performing assets decreased $81 thousand. The allowance to total loans ratio was 1.04%, down 15 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 the pandemic.

Noninterest income was $389 thousand, up $231 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 $1.5 million, up $105 thousand from prior year quarter. Salaries and benefits expense increased $55 thousand in performance-based compensation and merit (offset partially by fewer FTE), data processing expense increase $37 thousand from enhanced wire service, partially offset by a $16 thousand decrease in loan servicing expense from bring SBA servicing inhouse.

Total period-end loans and leases increased $8 million, business loans increased $9 million and mortgage loans decreased $1 million. Core deposits decreased $10 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 $2 million.