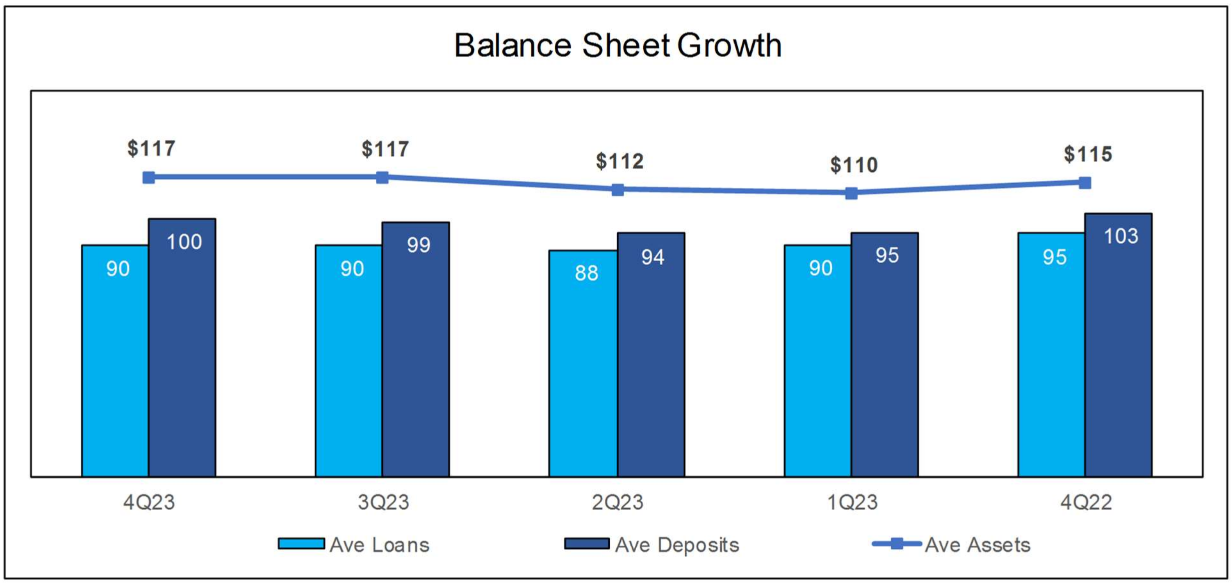
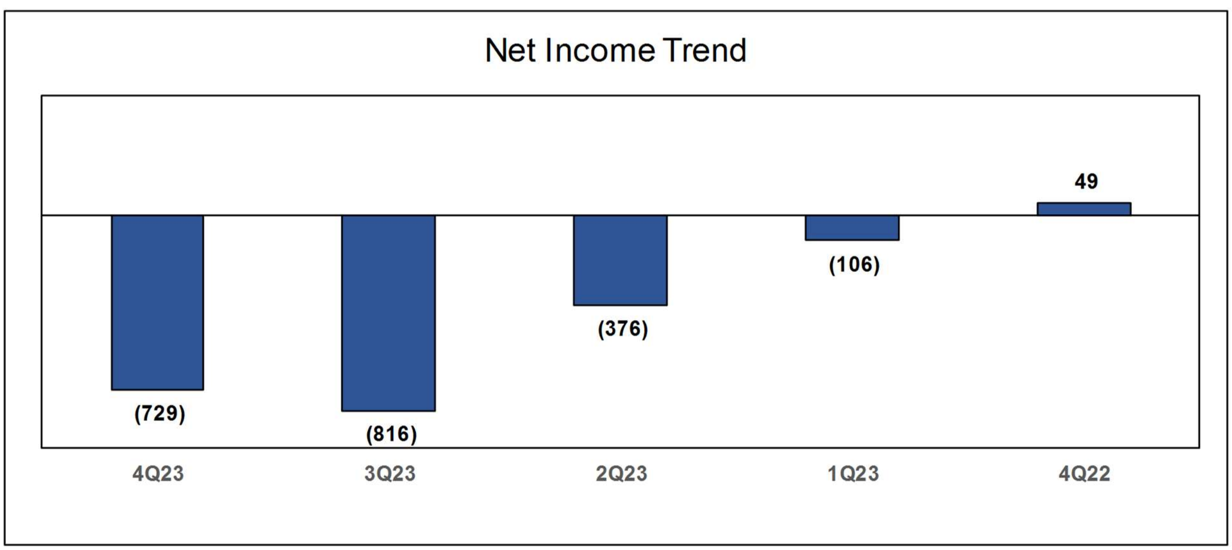
4Q23 Financial Highlights[1]

- Successfully sold 500 thousand shares of common stock for gross proceeds of ~$4.0 million
- Loans serviced for others of up to $72 million
- Reduced reliance on wholesale deposits by 91%, down $11 million from prior year
- Net interest income declined 6% YoY; NIM down 0.36%, driven by higher funding costs
- Noninterest income increased $106 thousand, up 68%
- Reserve for credit losses increased $650 thousand; net charge-offs of $1.0 million

1Percentage and dollar comparisons noted above are for the fourth quarter of 2023 versus the same period prior-year 2022, unless noted

Performance Trends





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January 31, 2024

Dear Fellow Shareholders,

Bank Michigan reported fourth quarter 2023 net loss of $729 thousand, compared to net loss of $816 thousand in prior quarter. Results for the fourth quarter 2023 produced an annualized return on average assets (ROAA) of (2.48)% and average common equity (ROCE) of (32.58)%, compared to ROAA of (2.78)% and ROCE of (33.60)% in prior quarter.

Full year net loss of $2.0 million, or $(1.29) per common share, on revenues of $6.2 million. This compares to net income of $178 thousand, or $0.17 per common share, on revenues of $6.1 million in 2022. Results for the full year produced a ROAA of (1.78)% and ROCE of (20.86)%, compared to ROAA of 0.15% and ROCE of 1.68% in prior full year.

Our reported result included an increase in provision for credit losses of $1.3 million ($1.0 million after-tax), or $(0.66) per common share for the full year 2023, reflecting the impact of net charge-offs and a reserve build on commercial and industrial loans. We are closely monitoring credit and while we see modest deterioration, it is concentrated in one type of loan product. The bank no longer offers this loan type and the segment carries strong reserves, the remainder of the portfolio is performing to expectations. We are maintaining our disciplined approach to managing credit quality, and believe the bank is well-positioned to operate through this dynamic environment.

We continue to execute on our strategic priorities, including the successful capital raise of approximately $4.0 million through the private placement of 500,000 shares of common stock priced at $8.15 per share completed in fourth quarter. While it is early and we have much more to do, the funds from the transaction have strengthened our capital levels.

Additionally, continued execution of our focused small business banking and deposit strategies should produce improving returns and earnings over the next several quarters. For example, our business deposit account analysis product has driven a 68% increase in noninterest income from a year-ago. We are also beginning to see improved growth in our core customer base with fourth quarter average deposits up 9% and business loans up 8% from a year-ago.

We are entering the new year with strength in our capital base and momentum in growing the balance sheet, which allows us to remain focused on executing our strategies and serving our customers. Our focus remains on growing our lines of businesses organically by deepening existing client relationships, establishing new relationships, and driving operating efficiency. In closing, I want to thank the amazing Bank Michigan team for their dedication and efforts made to address the significant challenges faced throughout the past year.

Best Regards,

Richard Northrup, President & CEO

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

				4Q23 Chg		Twelve Months Ended December 31,		YOY
Pretax, Pre-Provision Earnings (non-GAAP)	**4Q23**	**3Q23**	**4Q22**	**3Q23**	**4Q22**	**2023**	**2022**	**Chg**
Net Interest Income	$ 1,282	$ 1,270	$ 1,361	$ 12	$ (79)	$ 5,097	$ 5,021	$ 76
Noninterest Income	262	205	156	57	106	1,066	1,106	(39)
Total Revenue	**1,544**	**1,476**	**1,517**	**68**	**27**	**6,163**	**6,127**	**37**
Noninterest Expense	1,827	1,887	1,473	(60)	354	7,406	5,850	1,556
Pretax, Pre-Provision Earnings	**(282)**	**(411)**	**45**	**129**	**(327)**	**(1,242)**	**277**	**(1,520)**
Provision for Loan Losses	631	628	(18)	3	650	1,319	48	1,271
Tax Provision (Benefit)	(184)	(224)	14	39	(199)	(534)	51	(585)
Net Income/(Loss)	**$ (729)**	**$ (816)**	**$ 49**	**$ 86**	**$ (778)**	**$ (2,027)**	**$ 178**	**$ (2,206)**
Earnings & per Common Share data								
Earnings per share	$ (0.46)	$ (0.76)	$ 0.05	$ 0.30	$ (0.51)	$ (1.29)	$ 0.17	$ (1.46)
Book Value (excl. AOCI)	$ 8.02	$ 8.75	$ 10.15	$ (0.74)	$ (2.13)	$ 8.02	$ 10.15	$ (2.13)
Book Value	$ 7.83	$ 8.33	$ 9.86	$ (0.50)	$ (2.03)	$ 7.83	$ 9.86	$ (2.03)
Common shares period-end	1,570	1,070	1,070	500	500	1,570	1,070	500
Financial Ratios								
Return on Equity [a]	-32.58%	-33.60%	1.84%	1.03%	-34.42%	-20.86%	1.68%	-22.54%
Return on Assets [a]	-2.48%	-2.78%	0.17%	0.30%	-2.65%	-1.78%	0.15%	-1.93%
Net interest margin	4.36%	4.32%	4.71%	0.03%	-0.36%	4.47%	4.33%	0.14%
Efficiency Ratio	118%	128%	97%	-10%	21%	120%	95%	25%
Full-time equivalent employees	45.9	44.4	42.4	1.5	3.5	44.5	36.9	7.6
Balance Sheet Highlights						(Average Balance)		
Avg Assets	116,806	116,557	114,615	249	2,191	113,918	115,976	(2,058)
Avg Loans & Leases	89,984	89,991	94,513	(7)	(4,529)	89,589	93,328	(3,739)
Allowance for Credit Loss Reserve (ACL)	(1,501)	(1,872)	(952)	371	(550)	(1,414)	(972)	(442)
Avg Core Deposits	98,689	95,256	90,404	3,433	8,285	93,114	92,821	293
Avg Non-core Deposits	1,657	3,983	12,168	(2,326)	(10,511)	4,209	11,127	(6,918)
Avg Deposits	100,371	99,239	102,571	1,132	(2,200)	97,323	103,948	(6,626)
Avg Other Borrowings	6,211	6,204	-	6	6,211	5,498	-	5,498
Avg Equity	8,883	9,631	10,526	(748)	(1,643)	9,720	10,573	(852)
Credit Quality								
Net Charge-Offs / Average Loans - YTD	1.13%	0.01%	0.04%	1.12%	1.08%	1.13%	0.04%	1.08%
ACL to total loans ratio [b]	1.67%	2.08%	1.01%	-0.41%	0.66%	1.67%	1.01%	0.66%
NPAs / Total Loans (xPPP)	2.48%	3.66%	0.70%	-1.18%	1.78%	2.48%	0.70%	1.78%
Loan-to-deposits ratio [b]	90%	86%	91%	4%	-1%	92%	91%	1%
Capital Ratios								
Tier 1 leverage ratio	9.88%	7.23%	8.96%	2.65%	0.92%	9.88%	8.96%	0.92%
Tier 1 risk-based capital ratio / (CET1)	13.14%	9.49%	11.36%	3.65%	1.78%	13.14%	11.36%	1.78%
Total risk-based capital ratio	14.39%	10.75%	12.42%	3.64%	1.97%	14.39%	12.42%	1.97%

(a) Quarterly ratios are based upon annualized amounts.
(b) Ratio excludes government guaranteed Paycheck Protection Program loans

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Discussion of Results:

Comparisons noted in the sections below are for the Fourth Quarter of 2023 versus the Third Quarter of 2023, unless otherwise specified.

Net loss was $729 thousand, up $86 thousand, driven by higher net interest income $12 thousand, higher noninterest income $57 thousand, lower noninterest expense $60 thousand, higher provision for loan losses $3 thousand, and higher income tax expense $39 thousand.

Net interest income was $1.3 million, up $12 thousand or 1%, driven by higher interest income on earning assets, partially offset by higher costs of funds. The net interest margin was 4.36%, down three basis points.

- Average earning assets decreased primarily from a decline in average interest-bearing balances due from depository institutions of $1.2 million, or 1%, primarily due to increasing cash levels held at vault service sites to service cash intensive businesses.
- The yield on total loan portfolio was 6.51%, up 17 basis points primarily due to higher market interest rates on floating rate notes, and lender successes in loan renewals and new loan origination at improved interest rates. The yield on other earning assets for the fourth quarter was 3.8%, up 53 basis points primarily due to the purchase of higher yielding securities.
- Average deposits increased $1.0 million, or 1%, while average other borrowings was primarily unchanged.
- The average cost of total deposits was 1.23%, up 15 basis points. The average cost of other borrowings was 4.15%, flat to prior quarter. The increase in rates on deposits was largely attributable to the higher rate environment.

The provision for credit losses increased $3 thousand to $631 thousand. The increase in the current quarter provision expense primarily reflects higher net charge-offs and an allowance build. Net charge-offs (NCOs) increased to an annualized 1.13% the current quarter compared to 0.01% in prior quarter. As a percentage of average loans, the allowance for credit losses was 1.67%, down 41 basis points. The decrease is primarily due to an increase in net charge-offs in the quarter. Non-performing assets were $2.2 million, an decrease of $1.0 million from prior quarter.

Noninterest income was $262 thousand, up $57 thousand, predominantly driven by increases in service charges on deposits from continued growth of treasury management services, lending related referral fees, partially offset by fewer loan sales and lower servicing fees on loans. The secondary market for SBA loan sales remains difficult with lower thank acceptable yields. This situation is viewed as temporary, but until that market returns, the bank does not anticipate any meaningful level of loan sales.

Noninterest expense was $1.8 million, down $60 thousand, primarily driven by lower personnel expense, reclass of legal expenses related to capital raise, as well as lower professional service expense, advertising costs, and occupancy expenses, partially offset by higher depreciation from write-off of obsolete assets, higher loan expense, increased FDIC assessment, training and other miscellaneous expenses.

Capital ratios are strong compared to the regulatory requirements for well capitalized banks. The CET1 capital ratio was 13.14% versus 9.49% in prior quarter, driven primarily by the increase from capital raise and decline in risk-weighted assets, partially offset by net loss to equity. Total risk-based capital was 14.39% and the Tier 1 leverage ratio was 9.88%.

Comparisons noted in the sections below are for the <u>Full-Year 2023 versus Full-Year 2022</u>, unless otherwise specified.

Net loss was $2.0 million, down $2.2 million, driven by higher noninterest expense $1.6 million, higher provision for loan losses $1.3 million, lower noninterest income $39 thousand; partially offset by higher net interest income $76 thousand and lower income tax expense $585 thousand.

Net interest income was $5.1 million, up $76 thousand or 2%, net benefit from higher rates on earning assets, partially offset by higher cost of funds. Net interest margin was 4.47%, up 14 basis points.

- Average earning assets decreased $3.1 million or 3%, primarily due to decline in average loan balances of $3.7 million, from the sale of loans coupled with loan payoffs; partially offset by growth in average other earning assets of $0.6 million, from increase in securities held for sale.
- The yield on total loan portfolio was 6.34%, up 86 basis points, primarily reflecting higher market interest rates. The yield on other earning assets was 3.38%, up 122 basis points on increased securities with higher yielding rates.
- Average deposits decreased $6.6 million, or 6%, declining primarily due to the reduction in short-term wholesale funding of $6.9 million; partially offset by higher core deposit of $0.3 million. While average other borrowings increased $5.5 million, compared to no borrowings in prior year, depicting the shift from short-term to long-term wholesale funding.
- The average cost of total deposits was 0.98%, up 65 basis points. The average cost of other borrowings was 4.14%. The increase in rates on deposits and other funding sources was largely attributable to the higher rate environment.

The provision for credit losses increased $442 to $1.4 million or 45%. The increase was primarily due to a reserve build in the current year due to an increase in loan delinquencies. NCOs full year were $1.0 million and represented 1.13% of average total loans, up 1.08%. The allowance to total loans ratio was 1.67%, up 66 basis points from prior year, reflecting increases in net charge-offs and reserve balances associated with adopting the current expected credit loss methodology. Non-performing assets were $2.2 million compared to $0.6 million, a year-ago.

Noninterest income was $1.1 million, down $39 thousand, mainly driven by an fewer loan sales, partially offset by increases in service charges on deposits from continued growth of treasury management services, lending related referral fees, and other miscellaneous income.

Noninterest expense was $7.4 million, up $1.6 million, due to higher personnel expense from an increase in FTE and merit, coupled with increases in professional fees, outside processing costs, advertising costs, travel expense, FDIC assessment, and equipment expense, partially offset by lower loan expense, training costs, occupancy costs and lower other miscellaneous expenses.