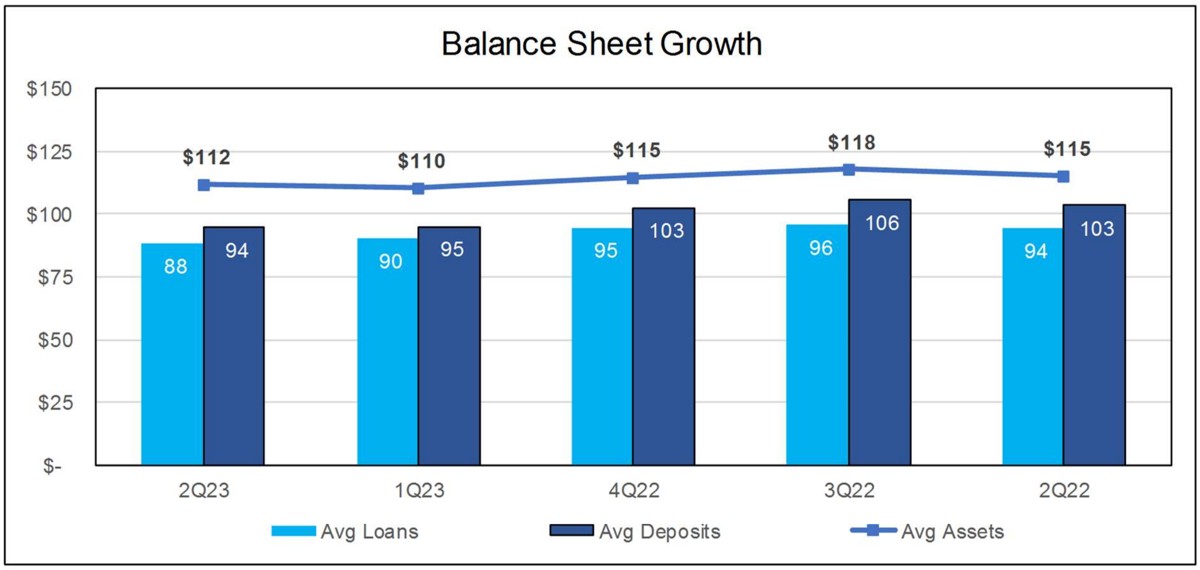
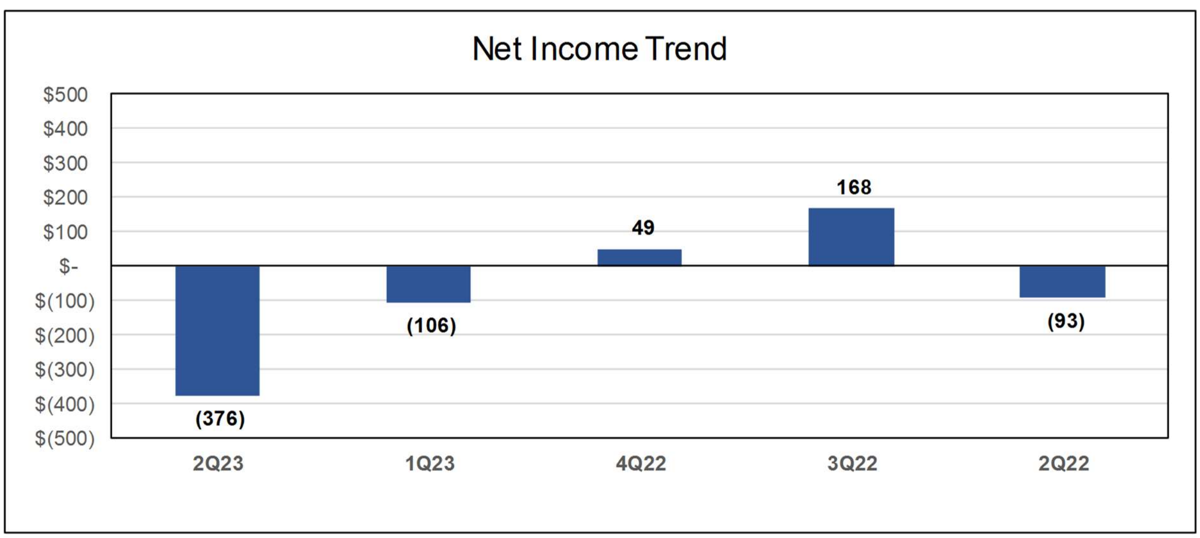
2Q23 Financial Highlights[1]

- Closed $11 million in new loans
- Average core deposits up 3% QoQ & down 3% YoY
- Loans serviced for others of $75 million, down 2%
- Sold $9 million of loans into the secondary market over past 4 quarters
- Net interest income increased 9% YoY; NIM up 0.54%
- Noninterest income increased $39 thousand or 7%
- Net reserve build of $52 thousand; loan loss reserve 1.38%
- Noninterest expense up 28% from implementation of strategic objectives to increase deposits & operational efficiencies

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

Performance Trends





July 28, 2023

Dear Fellow Shareholders,

Bank Michigan reported second quarter 2023 net loss of $376 thousand, or $(0.35) per common share, on revenues of $1.5 million. This compares to net loss of $93 thousand, or $(0.09) per common share, on revenues of $1.4 million for the second quarter 2022. Results for the second quarter 2023 produced an annualized return on average assets (ROAA) of (1.35)%, an annualized return on average common equity (ROCE) of (14.91)%, and total risk-based capital (RBC) of 11.62%.

The financial results for the quarter are disappointing. The management team and I are resolved and working to improving these metrics over the coming months. Loan yields have remained robust with originated loan yields surpassing 8.80% for the quarter on approximately $11 million in closings, and as older loans with lower yields renew we expect the total portfolio yield to continue to climb. So, while short-term our net interest margin is compressed due to the rapid increase in interest rates impacting our cost of funds, the stage is set for strong returns long-term as we continue to reprice our assets into higher yields, and as rates stabilize and possibly ease in the years ahead. Our non-interest expense base has increased year-over-year with investments in staffing, technology and enhanced product offerings. While these investments have depressed current earnings, they are all on track to generate their expected financial returns and we are positioning the Bank for stronger performance for the long run.

Amid a challenging macroeconomic backdrop, we are even more committed to delivering on the benefits of our strategic initiatives. Our focus remains on growing our lines of businesses organically by deepening existing client relationships, establishing new relationships, and driving operating efficiency. We are cognizant of the near-term pressure the current environment presents and credit risk management will be instrumental in navigating near-term uncertainty while driving long-term value for all stakeholders.

Best Regards,

Richard Northrup
President & CEO

p.s. – If you haven't already, please surrender your Bank Michigan stock certificates for your new Bank Michigan Financial Corporation stock. See Surrender Shares letter sent separately.

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

Pretax, Pre-Provision Earnings (non-GAAP)	2Q23	1Q23	2Q22	2Q23 Chg 1Q23	2Q23 Chg 2Q22	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	YOY Chg
Net Interest Income	$ 1,279	$ 1,265	$ 1,190	$ 14	$ 89	$ 2,544	$ 2,341	$ 203
Noninterest Income	215	384	197	(169)	18	599	560	39
Total Revenue	**1,494**	**1,649**	**1,387**	**(155)**	**107**	**3,143**	**2,902**	**242**
Noninterest Expense	1,910	1,782	1,498	128	412	3,692	2,882	810
Pretax, Pre-Provision Earnings	**(416)**	**(133)**	**(111)**	**(283)**	**(305)**	**(549)**	**19**	**(568)**
Provision for Loan Losses	59	-	7	59	52	59	66	(7)
Tax Provision (Benefit)	(99)	(27)	(25)	(72)	(74)	(126)	(9)	(117)
Net Income/(Loss)	**$ (376)**	**$ (106)**	**$ (93)**	**$ (270)**	**$ (283)**	**$ (482)**	**$ (38)**	**$ (444)**

Earnings & per Common Share data	2Q23	1Q23	2Q22	2Q23 Chg 1Q23	2Q23 Chg 2Q22	2023	2022	YOY Chg
Earnings per share	$ (0.35)	$ (0.10)	$ (0.09)	$ (0.25)	$ (0.26)	$ (0.45)	$ (0.04)	$ (0.42)
Book Value (excl. AOCI)	$ 9.52	$ 9.87	$ 9.95	$ (0.35)	$ (0.43)	$ 9.52	$ 9.95	$ (0.43)
Book Value	$ 9.14	$ 9.55	$ 9.70	$ (0.40)	$ (0.56)	$ 9.14	$ 9.70	$ (0.56)
Common shares period-end	1,070	1,070	1,071	-	(2)	1,070	1,071	(2)

Financial Ratios	2Q23	1Q23	2Q22	2Q23 Chg 1Q23	2Q23 Chg 2Q22	2023	2022	YOY Chg
Return on Equity [(a)]	-14.91%	-4.19%	-3.56%	-10.72%	-11.35%	-9.54%	-0.73%	-8.81%
Return on Assets [(a)]	-1.35%	-0.39%	-0.33%	-0.96%	-1.02%	-0.88%	-0.07%	-0.81%
Net interest margin	4.58%	4.65%	4.14%	-0.07%	0.44%	4.62%	4.08%	0.54%
Efficiency Ratio	128%	108%	108%	20%	20%	117%	99%	18%
Full-time equivalent employees	44.9	42.9	37.4	2.0	7.5	43.9	37.4	6.5

Balance Sheet Highlights	2Q23	1Q23	2Q22	2Q23 Chg 1Q23	2Q23 Chg 2Q22	2023 (Average Balance)	2022 (Average Balance)	YOY Chg
Avg Assets	111,918	110,293	115,225	1,625	(3,307)	111,110	115,799	(4,690)
Avg Total Loans & Leases	88,159	90,218	94,293	(2,059)	(6,134)	89,183	91,484	(2,301)
Allowance for Credit Loss Reserve (ACL)	(1,215)	(1,181)	(986)	(33)	(228)	(1,177)	(959)	(217)
Avg Core Deposits	90,384	87,960	93,268	2,424	(2,884)	89,178	94,123	(4,945)
Avg Non-core Deposits	4,102	7,156	10,078	(3,054)	(5,977)	5,620	9,671	(4,051)
Avg Deposits	94,486	95,115	103,346	(630)	(8,861)	94,799	103,794	(8,996)
Avg Other Borrowings	6,127	3,410	-	2,717	6,127	4,776	-	4,776
Avg Equity	10,119	10,263	10,531	(144)	(412)	10,191	10,621	(430)

Credit Quality	2Q23	1Q23	2Q22	2Q23 Chg 1Q23	2Q23 Chg 2Q22	2023	2022	YOY Chg
Net Charge-Offs / Average Loans - YTD	0.00%	0.01%	0.05%	0.00%	-0.05%	0.00%	0.05%	-0.05%
ACL to total loans ratio [(b)]	1.38%	1.31%	1.05%	0.07%	0.33%	1.38%	1.05%	0.33%
NPAs / Total Loans (xPPP)	1.99%	0.64%	0.93%	1.35%	1.06%	1.99%	0.93%	1.06%
Loan-to-deposits ratio [(b)]	94%	94%	89%	0%	5%	94%	88%	6%

Capital Ratios	2Q23	1Q23	2Q22	2Q23 Chg 1Q23	2Q23 Chg 2Q22	2023	2022	YOY Chg
Tier 1 leverage ratio	8.46%	9.03%	8.71%	-0.56%	-0.24%	8.46%	8.71%	-0.24%
Tier 1 risk-based capital ratio / (CET1)	10.37%	11.64%	10.63%	-1.27%	-0.26%	10.37%	10.63%	-0.26%
Total risk-based capital ratio	11.62%	12.90%	11.68%	-1.27%	-0.05%	11.62%	11.68%	-0.05%

(a) Quarterly ratios are based upon annualized amounts.

(b) Ratio excludes government guaranteed Paycheck Protection Program loans

<u>Discussion of Results:</u>

Comparisons noted in the sections below are for <u>the second quarter of 2023 versus the first quarter of 2023</u>, unless otherwise specified.

Net loss was $376 thousand, down $270 thousand, driven by higher net interest income $14 thousand, lower noninterest income $169 thousand, higher noninterest expense $128 thousand, higher provision for loan losses $59 thousand, and lower income tax expense $72 thousand.

Net interest income was $1.3 million, up $14 thousand or 1%, driven by higher interest income on earning assets and one less day, partially offset by higher costs of funds. The net interest margin was 4.58%, down seven basis points.

- Average earning assets increased from a decline in average total loans of $2.1 million, or 2%, partially due to sale of loans, offset by growth in average other earning assets of $3.2 million or 22%, primarily due to an increase in treasury investments held for sale.
- The yield on total loan portfolio was 6.37%, up 22 basis points primarily due to higher market interest rates. The yield on other earning assets for the first quarter was 3.38%, up 73 basis points primarily due to the purchase of higher yielding securities.
- Average deposits decreased $0.6 million, or 1%, while average other borrowings increased $2.7 million, or 80%, to fund loan growth in the quarter.
- The average cost of total deposits was 0.88%, up 18 basis points. The average cost of other borrowings was 4.23%, up 29 basis points. The increase in rates on deposits and other funding sources was largely attributable to the higher rate environment.

The provision for credit losses increased $59 thousand quarter-over-quarter. The increase was from an addition to the reserve of $59 thousand primarily driven by an increase in delinquent loans in the second quarter. Net charge-offs (NCOs) represented an annualized 0.00% of average total loans in the current quarter, flat to prior quarter. The allowance to total loans ratio was 1.38%, up seven basis points. The increase is primarily due to an increase in non-performing assets. Non-performing assets were $1.8 million, an increase of $1.2 million from prior quarter.

Noninterest income was $215 thousand, down $169 thousand, predominantly driven by a decrease in the gain on sale of loans, partially offset by increases in deposit service charges, increase in servicing fee income, and increases in miscellaneous fee income.

Noninterest expense was $1.9 million, up $128 thousand, primarily driven by higher salaries, including higher benefit expense, as well as higher loan expense, data processing, advertising costs, equipment and other miscellaneous expenses, partially offset by lower occupancy costs.

Capital ratios remain strong this quarter. The CET1 capital ratio was 10.37% versus 11.64% in prior quarter, due to the impact of growth in risk-weighted assets and net loss to equity. Total risk-based capital was 11.62% and the Tier 1 leverage ratio was 8.46%.

Comparisons noted in the sections below are for the <u>second quarter of 2023 versus the same period in the prior-year 2022</u>, unless otherwise specified.

Net loss was $376 thousand, down $283 thousand, driven by higher net interest income $89 thousand, higher noninterest income $18 thousand, higher provision expense $52 thousand; partially offset by higher noninterest expense $412 thousand and lower income tax expense $74 thousand.

Net interest income was $1.3 million, up $89 thousand or 8%, compared to second quarter of 2022 primarily due to higher rates on earning assets, partially offset by higher cost of funds. Net interest margin was 4.58%, up 44 basis points.

- Average earning assets decreased $3.2 million or 3%, primarily due to decline in average loan balances of $6.1 million, or 7%, from the sale of loans coupled with loan payoffs, partially offset by growth in average other earning assets of $2.9 million, or 19%, from increase in securities held for sale.
- The yield on total loan portfolio was 6.37%, up 125 basis points, primarily reflecting higher market interest rates, partially offset by higher funding costs. The yield on other earning assets for the second quarter was 3.38%, up 222 basis points primarily due to the higher rate environment.
- Average deposits decreased $9.0 million, or 9%, declining primarily due to the reduction in short-term wholesale funding and lower retail deposit balances. While average other borrowings increased $6.1 million, compared to no borrowings in prior year same quarter, depicting the shift from short-term to long-term wholesale funding.
- The average cost of total deposits was 0.88%, up 66 basis points. The average cost of other borrowings was 4.23%. The increase in rates on deposits and other funding sources was largely attributable to the higher rate environment.

The provision for credit losses increased $52 thousand from prior year same quarter. The increase was primarily due to a reserve build in the current year due to an increase in loan delinquencies. NCOs increased $3 thousand year-over-year. NCOs represented an annualized 0.00% of average total loans in the current quarter, down 0.05% from a year-ago quarter. The allowance to total loans ratio was 1.38%, up 33 basis points from prior year, reflecting increase in reserve balances associated with adopting the current expected credit loss methodology. Non-performing assets were $1.8 million compared to $873 thousand, a year-ago.

Noninterest income was $215 thousand, up $18 thousand, mainly driven by an increase in deposit service fees, more loan servicing fees, more miscellaneous income, partially offset by fewer loan sales in current quarter.

Noninterest expense was $1.9 million, up $412 thousand, due to higher personnel expense from an increase in FTE and merit, coupled with increases in professional fees, outside processing costs, FDIC assessment, and equipment expense, partially offset by lower loan expense, advertising costs, and lower other miscellaneous expenses.