Bank Michigan Financial Corporation and Subsidiary

Years Ended December 31, 2023 and 2022

Financial Statements

Rehmann

BANK MICHIGAN FINANCIAL CORPORATION AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

April 9, 2024

Audit Committee and Board of Directors of
Bank Michigan Financial Corporation and Subsidiary
Brooklyn, Michigan

Opinion

We have audited the accompanying consolidated financial statements of ***Bank Michigan Financial Corporation and Subsidiary*** (the "Corporation"), which comprise the consolidated balance sheet as of December 31, 2023, and the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements (the "financial statements").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ***Bank Michigan Financial Corporation and Subsidiary*** as of December 31, 2023, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The consolidated financial statements of Bank Michigan Financial Corporation and Subsidiary for the year ended December 31, 2022, were audited by another auditor who expressed an unmodified opinion on those statements on February 25, 2023.

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5800 Gratiot, Suite 201, Saginaw, MI 48638 989.799.9580

Change in Accounting Principle

As described in Note 1 to the consolidated financial statements, in 2023 the Corporation adopted Accounting Standards Codification 326, *Financial Instruments - Credit Losses.* Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Emphasis of Matter

As disclosed in Note 16 to the consolidated financial statements, the Corporation sustained significant losses in 2023 from operations. Management's evaluation of the events and conditions and management's plans to mitigate these matters are described in Note 16 . Our opinion is not modified with respect to this matter.

Rehmann Robson LLC

BANK MICHIGAN FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Balance Sheets

ASSETS	December 31 2023	December 31 2022
Cash and due from banks	$ 10,924,367	$ 7,491,570
Federal funds sold	446,000	-
Cash and cash equivalents	**11,370,367**	**7,491,570**
Certificates of deposit held in other financial institutions	3,326,000	4,071,000
Available-for-sale debt securities	9,682,404	5,008,963
Restricted investments	771,761	817,311
Investment in Grow Michigan, LLC	35,464	61,673
Loans receivable, net of allowance for credit losses of $1,501,085 and $951,563 at December 31, 2023 and 2022, respectively	88,879,464	91,973,469
Accrued interest receivable	362,310	232,397
Premises and equipment, net	1,975,240	1,999,792
Other assets	2,010,762	1,746,221
Total assets	**$ 118,413,772**	**$ 113,402,396**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest bearing	$ 31,533,322	$ 31,616,846
Interest-bearing	67,219,043	70,007,277
Total deposits	**98,752,365**	**101,624,123**
Borrowed funds	6,000,000	-
Accrued interest payable and other liabilities	1,374,720	1,298,474
Total liabilities	**106,127,085**	**102,922,597**
Commitments and contingencies (Notes 10 and 13)		
Shareholders' equity		
Common stock, no par value ($10 in 2022); 2,500,000 (1,571,363 in 2022) shares authorized, 1,569,695 and 1,069,695 shares issued and outstanding in 2023 and 2022, respectively	18,678,595	10,696,950
Additional paid-in capital	-	4,029,884
Accumulated deficit	(6,093,428)	(3,868,352)
Accumulated other comprehensive loss	(298,480)	(378,683)
Total shareholders' equity	**12,286,687**	**10,479,799**
Total liabilities and shareholders' equity	**$ 118,413,772**	**$ 113,402,396**

The accompanying notes are an integral part of these consolidated financial statements.

BANK MICHIGAN FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Operations

	Year Ended December 31	
	2023	**2022**
Interest and dividend income		
Loans, including fees	$ 5,668,040	$ 5,093,923
Investment securities	233,873	72,408
Interest bearing deposits	237,601	80,741
Certificates of deposits held in other financial institutions	50,704	60,889
Restricted stock dividends	37,157	26,108
Federal funds sold	37,389	9,094
Total interest and dividend income	**6,264,764**	**5,343,163**
Interest expense		
Deposits	950,359	336,870
Borrowed funds	227,804	-
Total interest expense	**1,178,163**	**336,870**
Net interest income	**5,086,601**	**5,006,293**
Credit loss expense	1,319,059	47,787
Net interest income after credit loss expense	**3,767,542**	**4,958,506**
Noninterest income		
Service charges on deposit accounts	497,152	364,479
Net gain on sale of loans	234,715	481,980
Other	344,940	273,908
Total noninterest income	**1,076,807**	**1,120,367**
Noninterest expenses		
Compensation and benefits	4,385,384	3,183,804
Occupancy	745,366	728,201
FDIC insurance premium	102,901	69,054
Other	2,172,148	1,868,486
Total noninterest expenses	**7,405,799**	**5,849,545**
(Loss) income before federal income tax benefit (expense)	**(2,561,450)**	**229,328**
Federal income tax benefit (expense)	534,000	(51,200)
Net (loss) income	**$ (2,027,450)**	**$ 178,128**
Net (loss) income per basic share of common stock	**$ (1.87)**	**$ 0.17**

The accompanying notes are an integral part of these consolidated financial statements.

BANK MICHIGAN FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Comprehensive Loss

	Year Ended December 31	
	2023	**2022**
Net (loss) income	**$ (2,027,450)**	**$ 178,128**
Other comprehensive income (loss)		
Unrealized holding gains (losses) on available-for-sale debt securities arising during the year	101,523	(495,306)
Tax effect	(21,320)	104,014
Other comprehensive income (loss)	**80,203**	**(391,292)**
Comprehensive loss	**$ (1,947,247)**	**$ (213,164)**

The accompanying notes are an integral part of these consolidated financial statements.

BANK MICHIGAN FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Shareholders' Equity

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount				
Balances, January 1, 2022	**1,071,363**	**$ 10,713,630**	**$ 4,031,385**	**$ (4,046,480)**	**$ 12,609**	**$ 10,711,144**
Repurchase of common stock	(1,668)	(16,680)	(1,501)	-	-	(18,181)
Comprehensive loss	-	-	-	178,128	(391,292)	(213,164)
Balances, December 31, 2022	**1,069,695**	**10,696,950**	**4,029,884**	**(3,868,352)**	**(378,683)**	**10,479,799**
Change in accounting principal (Note1)	-	-	-	(197,626)	-	(197,626)
Change in par value (Note 11)	-	4,029,884	(4,029,884)	-	-	-
Sale of common stock, less stock issuance costs	500,000	3,951,761	-	-	-	3,951,761
Comprehensive loss	-	-	-	(2,027,450)	80,203	(1,947,247)
Balances, December 31, 2023	**1,569,695**	**$ 18,678,595**	**$ -**	**$ (6,093,428)**	**$ (298,480)**	**$ 12,286,687**

The accompanying notes are an integral part of these consolidated financial statements.

BANK MICHIGAN FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2023	**2022**
Cash flows from operating activities		
Net (loss) income	$ (2,027,450)	$ 178,128
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities		
Depreciation	320,047	262,629
Credit loss expense	1,319,059	47,787
Net amortization of premiums and discounts on debt securities	34,934	31,730
Gain on sale of loans	(234,715)	(481,980)
Deferred income tax (benefit) expense	(534,000)	158,346
Changes in operating assets and liabilities which (used) provided cash		
Accrued interest receivable	(129,913)	30,697
Other assets	279,222	(827,315)
Other liabilities	86,972	617,922
Net cash (used in) provided by operating activities	**(885,844)**	**17,944**
Cash flows from investing activities		
Net activity in certificates of deposit held in other financial institutions	745,000	741,000
Activity in available-for-sale debt securities		
Purchases	(6,969,105)	-
Calls and maturities	2,362,253	502,583
Activity in held-to-maturity securities		
Calls and maturities	-	21,632
Distribution from investment in Grow Michigan, LLC	26,209	26,210
Redemption of restricted investment securities	45,550	57,200
Loan principal originations, net	(3,369,707)	(11,446,703)
Proceeds from sales of SBA loans	5,139,933	6,607,825
Purchases of property and equipment	(295,495)	(32,305)
Net cash used in investing activities	**(2,315,362)**	**(3,522,558)**
Cash flows from financing activities		
Acceptances and withdrawals of deposits, net	(2,871,758)	(4,147,758)
Federal Funds purchased	2,000,000	-
Proceeds from Federal Home Loan Bank advances	4,000,000	-
Proceeds from issuance of common stock, net	3,951,761	-
Redemption of common stock	-	(18,181)
Net cash provided by (used in) financing activities	**7,080,003**	**(4,165,939)**
Net increase (decrease) in cash and cash equivalents	**3,878,797**	**(7,670,553)**
Cash and cash equivalents, beginning of year	7,491,570	15,162,123
Cash and cash equivalents, end of year	**$ 11,370,367**	**$ 7,491,570**
Supplementary information		
Interest paid	$ 1,178,163	$ 336,870

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The accompanying consolidated financial statements include the accounts of ***Bank Michigan Financial Corporation*** , a registered bank holding company (the "Corporation"), and its wholly-owned subsidiary Bank Michigan (the "Bank"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The Corporation is independently owned and operates a community bank engaged in the business of retail and commercial banking services through its three full service branches located in Ann Arbor, Brooklyn and Onsted, Michigan. The Bank's primary market includes small business and residential communities existing primarily in Jackson, Lenawee, and Washtenaw counties. The Bank's Small Business Administration ("SBA") lending and cannabis banking operation serves customers throughout the State of Michigan. Active competition, principally from other commercial banks, and credit unions, exists in all of the Bank's primary markets. The Bank's results of operations can be significantly affected by changes in interest rates or changes in the local economic environment.

Concentration Risk

The Bank's primary deposit products are interest and noninterest bearing checking accounts, savings accounts and certificates of deposits, and its primary lending products are commercial, real estate mortgages and consumer loans. The Bank does not have significant concentrations with respect to any one industry, customer or depositor.

The Bank is a state chartered bank and a member of the Federal Deposit Insurance Corporation ("FDIC") Bank Insurance Fund. The Bank is subject to the regulations and supervision of the FDIC and the Michigan Department of Insurance and Financial Services ("DIFS") and undergoes periodic examination by these regulatory agencies. The Corporation is also subject to regulations of the Federal Reserve Board governing bank holding companies.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates. Significant estimates include but are not limited to the determination of the allowance for credit losses and the valuation of deferred taxes.

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

Accounting policies used in preparation of the accompanying consolidated financial statements are in conformity with accounting principles generally accepted in the United States. The principles which materially affect the determination of the consolidated financial position and results of operations of the Corporation and the Bank are summarized below.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold. Generally, federal funds are sold for a one-day period. The Corporation maintains deposit accounts in various financial institutions which generally exceed the FDIC insured limits or are not insured. Management does not believe the Corporation is exposed to any significant interest, credit or other financial risk as a result of these deposits.

Certificates of Deposit Held in Other Financial Institutions

Certificates of deposit held in other financial institutions mature within one to two years and are carried at cost.

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data, such as the reporting entity's own data (Level 3).

A description of each category in the fair value hierarchy is as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of Fair Value Measurements, refer to Note 2.

Investment Securities

Debt securities not classified as held-to-maturity or trading are classified as available-for-sale and are recorded at fair value, with unrealized gains and losses, net of the effect of deferred income taxes, recorded in other comprehensive income (loss). Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. Interest income includes amortization of purchase premium or discount. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the investment securities. Premiums on callable debt securities are amortized to their earliest call date. Gains or losses on the sale of debt securities are recorded in investment income on the trade date and are determined using the specific identification method.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income.

Allowance for Credit Losses - Available-for-Sale Securities

In estimating the allowance for credit losses of available-for-sale debt securities in an unrealized loss position, management first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet this criteria, management evaluates whether the decline in fair value has resulted from credit losses or other factors. Management also considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive loss.

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale debt securities totaled $63,910 at December 31, 2023, and is excluded from the estimate of credit losses.

Equity Investments Without Readily Determinable Fair Values

In 2013, the Bank entered into an operating agreement with Grow Michigan, LLC to participate with other community banks in funding loans receivable originated by Grow Michigan, LLC. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. Dividends received are included in other income.

Restricted Investment Securities

The Bank is a member of the Federal Home Loan Bank of Indianapolis ("FHLB"), Federal Reserve Bank of Chicago (FRB) and the United Banker's Bank (UBB) and is required to invest in capital stock of the FHLB, FRB and UBB. The amount of the required investment in the FHLB is based upon the available balance of the Bank's outstanding home mortgage loans or advances from the FHLB and is carried at cost plus the value assigned to stock dividends. The amount of the required investment in the FRB is determined by the FRB based on the Bank's capital and surplus and is carried at cost. The amount of the required investment in UBB is determined by UBB and is carried at cost. Restricted investment securities are comprised of the following at December 31:

	2023	**2022**
FHLB	$ 355,100	$ 355,100
FRB	267,750	313,300
UBB	148,911	148,911
Total	**$ 771,761**	**$ 817,311**

Loans

Loans that management has the positive intent and ability to hold for the foreseeable future or until maturity or pay-off are generally reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for credit losses, and any deferred fees or costs on originated loans. Accrued interest receivable totaled $294,959 at December 31, 2023, and was reported in accrued interest receivable on the consolidated balance sheet and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Management estimates that direct costs incurred in originating loans approximate the origination fees generated on these loans. Therefore, net deferred loan origination fees on loans classified as held in the portfolio are not included on the accompanying consolidated balance sheets.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Other personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal and interest is considered doubtful.

All interest accrued in the current year but not collected for loans that are placed on nonaccrual or are charged off, is reversed against interest income while interest accrued but not collected in prior years is reversed against the allowance for credit losses. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Nonperforming loans of the loan portfolio are comprised of those loans accounted for on a nonaccrual basis and accruing loans contractually past due 90 days or more as to interest or principal payments.

Allowance for Credit Losses - Loans

The allowance for credit losses ("allowance") is a valuation account that is deducted from, or added to, the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loan losses are charged off against the allowance when management determines the loan balance to be uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Cash received on previously charged off amounts is recorded as a recovery to the allowance.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. In situations where the Bank's actual loss history is not statistically relevant, the loss history of peers, defined as financial institutions with similar asset size and geography, are utilized to create a minimum loss rate. Qualitative adjustments are made to historical loss information that may increase or reduce reserve levels and include adjustments for the nature and volume of the Bank's financial assets, the existence, growth, and effect of any concentrations of credit, the volume and severity of past due financial assets, the volume of nonaccrual assets, and the volume and severity of adversely classified or graded assets, the value of the underlying collateral for loans that are not collateral-dependent, the Bank's lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries and the quality of the Bank's credit review function.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Bank has identified the following portfolio segments:

Commercial Real Estate: Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

Commercial and Industrial: Commercial and industrial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Residential Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

Consumer: The consumer loan portfolio is usually comprised of a large number of small loans, including auto, and home equity lines. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

The weighted average remaining maturity ("WARM") methodology is used to calculate the allowance for credit losses for all loan pools. Under this methodology, the Bank calculates by each segment described above an estimated lifetime loss rate and the remaining life of the loan by considering the Bank's historical loss data as well as peer group data based on peer groups that are of similar size and geography. Additionally, the allowance for credit losses calculation includes subjective adjustments to the historical loss factors for qualitative risk considerations that are likely to cause estimated credit losses to differ from historical experience as described above.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs, as appropriate.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a loan restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Bank.

For borrowers that are in financial distress, the Bank may provide relief to the borrower by modifying the loan through principal forgiveness, term extension, interest rate reduction or an other-than-significant payment delay. When principal forgiveness is provided, the amount of the forgiveness is charged off against the allowance for credit losses.

The Bank assigns a risk rating to all loans except pools of homogeneous loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Bank's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, and subcategories, where appropriate, defined as follows:

Satisfactory Risk

Loans considered to be Satisfactory Risk are divided into additional categories based primarily on the borrower's financial strength and ability to service the debt and the amount of supervision required by the loan officer. All new extensions of credit should qualify for one of these grades as described below:

Highest Quality (1)
Essentially risk free credit. Secured by readily marketable liquid collateral with comfortable margins. Unsecured credit is to be of unquestionable strength. Municipalities and publicly traded corporations should have a public debt rating of AA or better.

Superior Quality (2)
Multiple strong sources of repayment. Debt of the borrower is modest relative to the borrower's financial strength and ability to pay. Very strong cash flow and relatively low leverage.

Good Quality (3)
Good primary and secondary sources of repayment. Debt of the borrower is reasonable relative to the borrower's financial strength and ability to pay. The borrower exhibits sufficient cash flow and reasonable leverage.

Average Quality (4)
Acceptable primary source of repayment but less than preferable secondary source of repayment. Cash flow is adequate to service debt but minimal excess cash flow (i.e., moderately or highly leveraged). A satisfactory credit exhibits manageable credit risk with two measurable sources of repayment.

Watch (4b)
Loans in this category possess some credit deficiency or potential weakness which deserve close attention but which do not yet appear to jeopardize repayment. The key distinctions from a "Special Mention" classification are that the credit characteristics are those of a '4' (Average Quality) rated credit that is performing normally, but there is an uncertain level of risk due to such factors as (1) a lack of information about the current condition of the borrower, and/or (2) a documentation or other defect that could ultimately jeopardize repayment of the loan in full.

Special Mention
Special mention loans usually require more than normal management attention. Loans which qualify for the special mention category may involve borrowers with adverse financial trends, higher debt/equity ratios, or weaker liquidity positions but not to the degree of being considered a problem loan when risk of loss may be apparent.

Substandard Asset

A loan with well-defined credit weaknesses which has continued for some time, and which constitutes undue and unwarranted credit risk and has obvious potential exposure and weaknesses which, if not checked or corrected, could reflect negatively upon the position of the Corporation. Such loans may be well secured for foreclosure actions or repayment problems could be such that liquidation of the collateral may be required to afford the Corporation probable protection from loss.

Doubtful

A loan with all the weaknesses as a Substandard credit with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable and improbable. The possibility for loss is high but because of certain pending factors which may work to the advantage of the classification of a loss is deferred until a more exact status is determined. Pending factors include proposed sale of a business, acquisition or merger, liquidation procedures, capital injection, perfecting liens on additional collateral, refinancing plans, and guarantor's negotiations.

Loss

Loans classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted and are charged off immediately.

The majority of the consumer and residential loan portfolio is comprised of secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the consumer and residential loan portfolios is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the collection department for resolution, which generally occurs fairly rapidly and often through repossession and foreclosure. Credit quality for the entire consumer and residential loan portfolio is measured by the periodic delinquency rate, nonaccrual amounts and actual losses incurred.

Although management believes the allowance to be appropriate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the appropriateness of the allowance, including consideration of the relevant risks in the portfolio, current economic conditions, reasonable and supportable forecasts, and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Bank's primary regulators reviews the appropriateness of the allowance. The regulatory agencies may require changes to the allowance based on their judgment about information available at the time of their examination.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

The allowance for credit losses on off-balance-sheet credit exposures is a liability account, calculated in accordance with ASC 326, representing expected credit losses over the contractual period for which the Bank is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the Bank has the unconditional right to cancel the obligation. Adjustments to the allowance are reported in the consolidated statement of operations as a component of credit loss expense. For the period of exposure, the estimate of expected credit losses considers both the likelihood that funding will occur and the amount expected to be funded over the estimated remaining life of the commitment or other off-balance-sheet exposure. The likelihood and expected amount of funding are based on historical utilization rates. The amount of the allowance represents management's best estimate of expected credit losses on commitments expected to be funded over the contractual life of the commitment. Estimating credit losses on amounts expected to be funded uses the same methodology as described for loans as if such commitments were funded.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the transferor does not maintain effective control over the transferred assets through an agreement to purchase them before their maturity.

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when 1) the assets have been legally isolated from the Bank, 2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and 3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. The Bank sold SBA loans to an unrelated third party with proceeds of $5,139,933 and $6,607,825 as of December 31, 2023 and 2022, respectively, which resulted in a net gain of $231,863 and $462,226 for 2023 and 2022, respectively. Sales of other loans during 2023 and 2022, and the resulting gain on sale were not significant. Servicing assets and related servicing fee income was not material in 2023 or 2022

Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation which is computed principally by the straight-line method based upon the estimated useful lives of the related assets, which range from 3 to 40 years. Major improvements are capitalized and appropriately amortized based upon the useful lives of the related assets or the expected terms of the leases, if shorter, using the straight-line method. Maintenance, repairs and minor alterations are charged to current operations as expenditures occur. Management annually reviews these assets for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable.

Lessee Arrangements

The Corporation enters into leases in the normal course of business primarily for branch locations and at times operating equipment. The Corporation has two leases outstanding as of the year ended December 31, 2023, that have a remaining term of approximately 8 years.

The Corporation includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Corporation will exercise the option. In addition, the Corporation has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Corporation has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Corporation's consolidated balance sheet.

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Corporation uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Corporation's incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors. As of December 31, 2023 and 2022, the right-of-use asset and liability was not considered significant.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred income tax asset or liability is determined based on the federal income tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in federal income tax rates and laws. Valuation allowances are established, where necessary, to reduce deferred tax assets to the amount expected more likely than not to be realized. Income tax expense is the tax payable or refundable for the year plus or minus the change during the year in deferred tax assets and liabilities.

Net Income Per Share

Net income per basic share of common stock represents income available to common stockholders divided by the number of weighted average common shares outstanding, which was 1,083,244 and 1,069,545 shares at December 31, 2023 and 2022, respectively.

Reclassification and Presentation

Certain amounts as reported in the 2022 consolidated financial statements have been reclassified to conform to the 2023 presentation.

Subsequent Events

In preparing these consolidated financial statements, management has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2023, the most recent balance sheet presented herein, through April 9, 2024, the date these consolidated financial statements were available to be issued. No significant such events or transactions were identified.

Adoption of New Accounting Standards

Accounting Standards Update ("ASU") 2016-13, Financial Instruments - Credit Losses (Accounting Standards Codification ("ASC") Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to certain off-balance sheet credit exposures not accounted for as insurance (including loan commitments, standby letters of credit, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. Prior to ASU No. 2016-13, GAAP required an "incurred loss" methodology for recognizing credit losses that delayed recognition until it was probable a loss had been incurred. Under the incurred loss approach, entities were limited to a probable initial recognition threshold when credit losses were measured; an entity generally only considered past events and current conditions when measuring the incurred loss. ASC 326 also updated the accounting for available-for-sale debt securities to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell as well as other changes.

The Corporation adopted ASC 326 on January 1, 2023, using the modified retrospective method for all financial assets measured at amortized cost, and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

The transition adjustment of the CECL adoption included an increase in the allowance for credit losses of $221,287, which included a $174,816 decrease to the retained earnings account to reflect the cumulative effect of adopting CECL on the consolidated balance sheet, with the $46,471 tax impact portion being recorded as part of the deferred tax asset in other assets on the consolidated balance sheet. The transition adjustment of the CECL adoption included an additional allowance for credit losses on unfunded commitments of $28,874, which included a $22,810 decrease to the retained earnings account to reflect the cumulative effect of adopting CECL on the consolidated balance sheet, with the $6,063 tax impact portion being recorded as part of the deferred tax asset in other assets on the consolidated balance sheet.

The following table details the impact of the adoption of ASC 326 on January 1, 2023:

	Pre-Adoption Allowance	Impact of Adoption	Post-Adoption Allowance	Cumulative Effect on Retained Earnings
Assets:				
Allowance for credit losses on loans				
Commercial real estate	$ 519,325	$ 4,375	$ 523,700	$ 3,456
Commercial and industrial	345,951	240,044	585,995	189,635
Residential real estate	75,733	(31,288)	44,445	(24,718)
Consumer	10,555	8,156	18,711	6,443
Total	**$ 951,564**	**$ 221,287**	**$ 1,172,851**	**$ 174,816**
Liabilities:				
Allowance for credit losses on off-balance-sheet credit exposures	$ -	$ 28,874	$ 28,874	$ 22,810

2. FAIR VALUE MEASUREMENTS

The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Debt securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, foreclosed assets, and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write downs of individual assets.

Following is a description of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, which includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

Investment Securities

The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Impaired Loans

The fair value of impaired loans with specific allocations of the allowance for credit losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted in accordance with the allowance policy.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets Measured at Fair Value on a Recurring Basis

The following table sets forth by level, within the fair value hierarchy, the recorded amount of assets (and liabilities) measured at fair value on a recurring basis as of December 31:

	Fair Value			
2023	**Level 1**	**Level 2**	**Level 3**	**Total Carrying Value**
State and municipal bonds	$ -	$ 1,987,000	$ -	$ 1,987,000
U.S. Treasury securities	-	5,412,815	-	5,412,815
Mortgage-backed securities	-	2,282,589	-	2,282,589
Total assets at fair value	**$ -**	**$ 9,682,404**	**$ -**	**$ 9,682,404**

	Fair Value			
2022	**Level 1**	**Level 2**	**Level 3**	**Total Carrying Value**
State and municipal bonds	$ -	$ 1,930,133	$ -	$ 1,930,133
Mortgage-backed securities	-	2,581,430	-	2,581,430
Corporate bond	-	497,400	-	497,400
Total assets at fair value	**$ -**	**$ 5,008,963**	**$ -**	**$ 5,008,963**

Notes to Consolidated Financial Statements

Assets Measured at Fair Value on a Non-Recurring Basis

The following table sets forth by level, within the fair value hierarchy, the recorded amount of assets (and liabilities) measured at fair value on a nonrecurring basis as of December 31:

2023	Assets at Carrying Value Level 1	Level 2	Level 3	Total Carrying Value
Impaired loans	$ -	$ -	$ 2,636,493	$ 2,636,493

2022	Assets at Carrying Value Level 1	Level 2	Level 3	Total Carrying Value
Impaired loans	$ -	$ -	$ 629,994	$ 629,994

(1) Certain impaired loans were remeasured and reported at fair value through a specific valuation allowance based upon the estimated fair value of the underlying collateral. Impaired loans of $3,097,448 and $646,621 at December 31, 2023 and 2022, respectively, were reduced by a specific valuation allowance totaling $460,955 and $16,627 during 2023 and 2022, respectively.

2023	Level 3 Instruments			
Instrument	Fair Value	Valuation Technique	Undeliverable Input	Range (Weighted Average)
Impaired loans	$ 2,636,493	Discounted Appraisal Value	Discount Applied to Collateral Appraisal	5% - 50%

2022	Level 3 Instruments			
Instrument	Fair Value	Valuation Technique	Undeliverable Input	Range (Weighted Average)
Impaired loans	$ 629,994	Discounted Appraisal Value	Discount Applied to Collateral Appraisal	5% - 50%

3. INVESTMENT SECURITIES

The amortized cost and fair value of available-for-sale securities, including gross unrealized gains and losses, are summarized as follows as of December 31:

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
State and municipal bonds	$ 2,066,992	$ -	$ 79,992	$ 1,987,000
U.S. Treasury securities	5,434,330	3,041	24,556	5,412,815
Mortgage-backed securities	2,558,904	-	276,315	2,282,589
Total	**$ 10,060,226**	**$ 3,041**	**$ 380,863**	**$ 9,682,404**

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
State and municipal bonds	$ 2,070,159	$ -	$ 140,026	$ 1,930,133
Mortgage-backed securities	2,917,263	-	335,833	2,581,430
Corporate bond	500,886	-	3,486	497,400
Total	**$ 5,488,308**	**$ -**	**$ 479,345**	**$ 5,008,963**

Investment securities with carrying values of approximately $6,200,000 and $4,600,000 at December 31, 2023 and 2022, respectively, were pledged to secure public deposits or for other purposes as permitted or required by law.

Notes to Consolidated Financial Statements

The amortized cost and fair value of available-for-sale securities grouped by contractual maturity at December 31, 2023, are summarized as follows:

	Maturing				
	Due in One Year or Less	Due after One Year Through Five Years	Due after Five Years	Securities with Variable Monthly Payments or No Contractual Maturity	Total
Available-for-sale					
State and municipal bonds	$ 750,000	$ 1,316,992	$ -	$ -	$ 2,066,992
U.S. Treasury securities	2,233,685	3,200,645	-	-	5,434,330
Mortgage-backed securities	-	-	-	2,558,904	2,558,904
Total	**$ 2,983,685**	**$ 4,517,637**	**$ -**	**$ 2,558,904**	**$ 10,060,226**
Fair value	**$ 2,964,799**	**$ 4,435,016**	**$ -**	**$ 2,282,589**	**$ 9,682,404**

Because of their variable monthly payments, mortgage-backed securities are not reported by a specific maturity group.

There were no sales of available-for-sale securities in 2023 and 2022.

As of the year ended December 31, 2023 and 2022, there were no holdings of securities of any one issuer, other than the U.S. Treasury Securities and mortgage-back securities, in an amount greater than 10% of shareholders' equity.

Information pertaining to securities with unrealized losses aggregated by investment category for which an allowance for credit losses has not been recorded and the length of time that individual securities have been in a continuous loss position at December 31, 2023 is as follows:

	Less Than 12 Months		Over 12 Months			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Total Unrealized Losses
Available-for-sale						
State and municipal bonds	$ -	$ -	$ 1,987,000	$ 79,992	$ 1,987,000	$ 79,992
U.S. Treasury securities	4,921,707	24,556	-	-	4,921,707	24,556
Mortgage-backed securities	-	-	2,282,589	276,315	2,282,589	276,315
Total	**$ 4,921,707**	**$ 24,556**	**$ 4,269,589**	**$ 356,307**	**$ 9,191,296**	**$ 380,863**

As of December 31, 2023, the Corporation's security portfolio consisted of 23 securities of which 21 were in an unrealized loss position.

Information pertaining to securities with unrealized losses aggregated by investment category and the length of time that individual securities have been in a continuous loss position at December 31, 2022 is as follows:

	Less Than 12 Months		Over 12 Months			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale						
State and municipal bonds	$ 762,658	$ 57,501	$ 1,167,475	$ 82,525	$ 1,930,133	$ 140,026
Mortgage-backed securities	386,038	32,458	2,195,392	303,375	2,581,430	335,833
Corporate bond	-	-	497,400	3,486	497,400	3,486
Total	**$ 1,148,696**	**$ 89,959**	**$ 3,860,267**	**$ 389,386**	**$ 5,008,963**	**$ 479,345**

As of December 31, 2022, the Corporation's security portfolio consisted of 12 securities all of which were in an unrealized loss position.

Allowance for Credit Losses - Available-for-Sale Securities

As of December 31, 2023, no allowance for credit losses has been recognized on available-for-sale securities in an unrealized loss position as management does not believe any of the securities are impaired due to reasons of credit quality. This is based upon management's analysis of the underlying risk characteristics, including credit ratings, and other qualitative factors related to our available-for-sale securities and in consideration of historical credit loss experience and internal forecasts. The issuers of the securities continue to make timely principal and interest payments under the contractual terms of the securities. Furthermore, management does not have the intent to see any of the securities classified as available-for-sale in the table above and believes that it is more likely than not that we will not have to sell any such securities before a recovery of cost. The unrealized losses are due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline.

4. LOAN RECEIVABLES

The Bank grants commercial, consumer and residential mortgage loans to customers situated primarily in Jackson, Lenawee, and Washtenaw counties in Michigan. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area. Substantially all of the consumer and residential loans are collateralized by various items of property, while commercial loans are collateralized primarily by business assets and personal guarantees; a portion of loans are unsecured.

Loans are summarized as follows at December 31:

	2023	2022
Commercial real estate	$ 56,476,715	$ 58,135,947
Commercial and industrial	28,179,126	28,261,972
Residential real estate	4,071,363	4,662,466
Consumer	1,653,345	1,864,647
Total loans	90,380,549	92,925,032
Allowance for credit losses	(1,501,085)	(951,563)
Loans receivables, net	**$ 88,879,464**	**$ 91,973,469**

The following table summarizes the activity related to the allowance for credit losses under the ASC 326 methodology for the year ended December 31, 2023:

	Year Ended December 31, 2023				
	Commercial Real Estate	**Commercial and Industrial**	**Residential Real Estate**	**Consumer**	**Total**
Allowance for loan losses					
Balance at beginning of year prior to the adoption of ASC 326 *	$ 519,325	$ 345,950	$ 75,733	$ 10,555	$ 951,563
Impact of adopting ASC 326	4,375	240,044	(31,288)	8,156	221,287
Charge-offs	-	(1,035,277)	(9,310)	(4,877)	(1,049,464)
Recoveries	31,671	-	-	8,821	40,492
Credit loss expense	47,181	1,275,018	20,797	(5,789)	1,337,207
Balance at end of year	**$ 602,552**	**$ 825,735**	**$ 55,932**	**$ 16,866**	**$ 1,501,085**

* Prior to the adoption of ASC 326 in 2023, commercial loans were reported as one segment. With the adoption of ASC 326, the commercial loan segment was reallocated based on the new methodology.

Notes to Consolidated Financial Statements

Prior to the adoption of ASC 326 on January 1, 2023, the Bank calculated the allowance for loan losses under the incurred loss methodology. The following tables are disclosures related to the allowance for loan losses as of and for the year ended December 31, 2022.

	Year Ended December 31, 2022			
	Commercial	Residential Real Estate	Consumer	Total
Allowance for loan losses				
Balance at beginning of year	$ 843,931	$ 70,712	$ 27,909	$ 942,552
Charge-offs	-	(8,145)	(37,174)	(45,319)
Recoveries	-	444	6,099	6,543
Provision for loan losses	21,344	12,722	13,721	47,787
Balance at end of year	**$ 865,275**	**$ 75,733**	**$ 10,555**	**$ 951,563**
Allowance for loan losses attributed to loans				
Collectively evaluated for impairment	$ 865,275	$ 59,106	$ 10,555	$ 934,936
Individually evaluated for impairment	-	16,627	-	16,627
Total allowance for loan losses	**$ 865,275**	**$ 75,733**	**$ 10,555**	**$ 951,563**
Loans				
Collectively evaluated for impairment	$ 85,948,978	$ 4,464,786	$ 1,864,647	$ 92,278,411
Individually evaluated for impairment	448,941	197,680	-	646,621
Total loans ending balance	86,397,919	4,662,466	1,864,647	92,925,032
Accrued interest receivable	187,573	12,184	8,899	208,656
Total recorded investment loans	**$ 86,585,492**	**$ 4,674,650**	**$ 1,873,546**	**$ 93,133,688**

Prior to the adoption of AS 2016-13, loans were considered impaired when, based on current information and events, it was probable the Bank would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans include loans on nonaccrual status and accruing troubled debt restructurings. When determining if the Bank would be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Bank considered the borrower's capacity to pay, which included such factors as the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations and an evaluation of secondary sources of repayment, such as guarantor support and collateral value. The tables below include all loans deemed impaired, whether or not individually assessed for impairment. If a loan was deemed impaired, a specific valuation allowance was allocated, if necessary, so that the loan was reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment was expected solely from the collateral. Interest payments on impaired loans were typically applied to principal unless collectability of the principal amount was reasonably assured, in which case interest was recognized on a cash basis.

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2022:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Loans with no related allowance recorded				
Commercial real estate	$ 442,446	$ 442,446	$ -	$ 464,372
Commercial and industrial	6,495	6,495	-	6,868
Loans with an allowance recorded				
Residential real estate	**$ 197,680**	**$ 197,680**	**$ 16,627**	**$ 202,824**
Total impaired loans:				
Commercial real estate	$ 442,446	$ 442,446	$ -	$ 464,372
Commercial and industrial	6,495	6,495	-	6,868
Residential real estate	197,680	197,680	16,627	202,824
Total	**$ 646,621**	**$ 646,621**	**$ 16,627**	**$ 674,064**

Notes to Financial Statements

Nonaccrual loans and loans past due 90 days or more still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Impaired loans include commercial loans that are individually evaluated for impairment and deemed impaired (i.e., individually classified impaired loans). The sum of nonaccrual loans and loans past due 90 days or more still on accrual will differ from the total impaired loan amount.

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due 90 days or more and still accruing as of December 31, 2023:

	Nonaccrual Loans with no Allowance for Credit Losses	Nonaccrual Loans with an Allowance for Credit Losses	Loans Past Due 90 days or More Still Accruing
Commercial real estate	$ -	$ 94,396	$ -
Commercial and industrial	-	1,847,873	-
Residential real estate	-	185,029	-
Total	**$ -**	**$ 2,127,298**	**$ -**

As of December 31, 2022, the Corporation had $116,063 of mortgage loans and $440,415 of commercial real estate loans on nonaccrual status.

The Bank recognized $0 of interest income on nonaccrual loans during the year ended December 31, 2023.

The amortized cost basis of collateral dependent loans as of December 31, 2023 was not significant.

Notes to Consolidated Financial Statements

The following table shows an aging analysis of the loan portfolio by class of loans as of December 31:

2023	30-89 Days Past Due	90 Days or More	Total Past Due	Current	Total Loans
Commercial real estate	$ -	$ -	$ -	$ 56,476,715	$ 56,476,715
Commercial and industrial	310,903	-	310,903	27,868,223	28,179,126
Residential real estate	86,051	117,546	203,597	3,867,766	4,071,363
Consumer	24,011	-	24,011	1,605,323	1,629,334
Total	**$ 420,965**	**$ 117,546**	**$ 538,511**	**$ 89,818,027**	**$ 90,356,538**

2022	30-89 Days Past Due	90 Days or More	Total Past Due	Current	Total Loans
Commercial real estate	$ 450,071	$ 328,000	$ 778,071	$ 57,357,876	$ 58,135,947
Commercial and industrial	6,495	-	6,495	28,255,477	28,261,972
Residential real estate	153,896	-	153,896	4,508,570	4,662,466
Consumer	25,442	-	25,442	1,839,205	1,864,647
Total	**$ 635,904**	**$ 328,000**	**$ 963,904**	**$ 91,961,128**	**$ 92,925,032**

For borrowers that are in financial distress, the Bank may provide relief to the borrower by modifying the loan through principal forgiveness, term extension, interest rate reduction or an other-than-significant payment delay. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses. In some cases, the Bank provides multiple types of concessions on one specific loan. If after the initial concession is granted, the borrower continues to experience financial distress an additional modification may be granted. Loan modifications were not significant in 2023 or 2022. Additionally, there were no such modifications that had payment defaults during 2023 or 2022.

The following table shows the loans allocated by management's internal risk ratings as of December 31, 2023:

	Commercial Real Estate	Commercial and Industrial	Total
Risk Rating			
Pass	$ 55,580,701	$ 25,159,917	$ 80,740,618
Special mention (watch)	448,175	85,581	533,756
Substandard	447,839	2,933,628	3,381,467
Total	**$ 56,476,715**	**$ 28,179,126**	**$ 84,655,841**

The following table shows the homogeneous loans by payment activity as of December 31, 2023:

	Consumer Credit Risk Profile by Payment Activity		
	Residential Real Estate	Consumer	Total
Payment activity			
Performing	$ 3,886,334	$ 1,653,345	$ 5,539,679
Nonperforming	185,029	-	185,029
Total	**$ 4,071,363**	**$ 1,653,345**	**$ 5,724,708**

The following table shows the commercial loans allocated by management's internal risk ratings as of December 31, 2022:

Risk Rating	
Pass	$ 84,982,804
Special mention (watch)	271,803
Substandard	1,143,312
Total	**$ 86,397,919**

The following table shows the homogeneous loans by payment activity as of December 31, 2022:

	Consumer Credit Risk Profile by Payment Activity		
	Residential Real Estate	**Consumer**	**Total**
Payment activity			
Performing	$ 4,546,403	$ 1,864,647	$ 6,411,050
Nonperforming	116,063	-	116,063
Total	**$ 4,662,466**	**$ 1,864,647**	**$ 6,527,113**

5. PREMISES AND EQUIPMENT

Net premises and equipment consists of the following amounts:

	2023	**2022**
Land	$ 650,672	$ 650,672
Office building and improvements	3,006,623	2,983,173
Furniture and equipment	1,724,568	1,512,927
Total	5,381,863	5,146,772
Less accumulated depreciation and amortization	3,406,623	3,146,980
Premises and equipment, net	**$ 1,975,240**	**$ 1,999,792**

Depreciation expense was $320,047 and $262,629 for 2023 and 2022, respectively.

6. DEPOSITS

The following is a summary of the distribution of deposits at December 31:

	2023	2022
Interest-bearing		
NOW accounts	$ 10,303,170	$ 10,107,729
Savings and money market	35,910,816	42,320,693
Time deposits less than $250,000	10,324,057	9,840,855
Time deposits greater than or equal to $250,000	10,681,000	7,738,000
Total interest-bearing	67,219,043	70,007,277
Non-interest bearing	31,533,322	31,616,846
Total deposits	**$ 98,752,365**	**$ 101,624,123**

Included in time deposits are institutional certificates totaling approximately $1,000,000 and $4,500,000 as of December 31, 2023 and 2022, respectively.

Scheduled annual maturities of time deposits for each of the five years succeeding December 31, 2023, are summarized as follows:

Year	Amount
2024	$ 16,997,614
2025	3,914,836
2026	24,091
2027	65,406
2028	3,110
Total	**$ 21,005,057**

7. BORROWED FUNDS

Borrowed funds at December 31, 2023, consist of advances in the amount of $2,000,000 under the Bank Term Funding Program from the FRB and Federal Home Loan Bank advances in the amount of $4,000,000. There were no outstanding borrowings at December 31, 2022.

The Bank had pledged investment securities in the amount of approximately $2,500,000 as collateral for the Bank Term Funding advances; such advances mature in April 2024 and interest is payable at 4.83% per annum.

The Bank had pledged mortgage loans totaling approximately $6,200,000 as collateral for FHLB advances; such puttable fixed rate advances mature on January 24, 2028, and interest is payable at 3.70% per annum.

The Bank has the ability to borrow from the FRB Discount Window. The Bank may borrow funds up to amounts collateralized by the Bank's assets. The Bank had pledged investments and certificates of deposit held in other financial institutions totaling approximately $2,000,000 and $2,550,000 as collateral for FRB related outstanding borrowings at December 31, 2023 and 2022, respectively. The Bank had no outstanding borrowings at December 31, 2023 and 2022.

The Bank maintains a $5,000,000 unsecured line-of-credit with United Banker's Bank with a variable rate of interest to be determined by the lender when funds are borrowed. There were no assets pledged as collateral nor loan advances outstanding as of December 31, 2023 and 2022.

8. FEDERAL INCOME TAXES

The federal income tax benefit (expense) consists entirely of deferred benefit (expense) for the years ended December 31, 2023 and 2022.

A reconciliation between federal income taxes reported and the amount computed by applying the statutory federal income tax rate of 21% to (losses) earnings before federal income taxes is as follows:

	2023	2022
Income tax benefit (expense) at statutory rate	$ 538,000	$ (54,800)
Effect of tax-exempt interest income	2,000	4,500
Other, net	(6,000)	(900)
Federal income tax benefit (expense)	**$ 534,000**	**$ (51,200)**

Significant components of the Corporation's net deferred income tax asset included within other assets in the accompanying consolidated balance sheets are comprised of the following amounts as of December 31:

	2023	2022
Deferred tax assets		
Allowance for loan losses	$ 222,000	$ 116,000
Non-accrual loan interest	25,000	6,000
Net operating loss carryover	920,000	529,000
Unrealized losses on investment securities	79,000	101,000
Other	20,000	14,000
Total deferred tax assets	1,266,000	766,000
Deferred tax liabilities		
Depreciation	151,000	151,000
Other	9,200	21,200
Total deferred tax liabilities	160,200	172,200
Net deferred income taxes	**$ 1,105,800**	**$ 593,800**

At December 31, 2023, the Bank had net operating loss carryforwards of approximately $2,600,000, which are available to offset future federal taxable income through their expiration in 2037. At December 31, 2023, the Bank also had net operating loss carryforwards of approximately $2,100,000, which are available to offset future federal taxable income which do not expire.

The Corporation concluded that there are no significant uncertain tax positions requiring recognition on the Corporation's consolidated financial statements based on the evaluation performed for the years 2020 through 2023, the years which remain subject to examination by major tax jurisdictions as of December 31, 2023. The Corporation does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next 12 months. The Corporation does not have any amounts accrued for interest and penalties related to UTBs at December 31, 2023 or 2022, and it is not aware of any claims for such amounts by federal or state income tax authorities.

9. RELATED PARTY TRANSACTIONS

Loans

In the ordinary course of business, the Bank grants loans to certain directors, executive officers and their affiliates. Such loans aggregate approximately $3,136,000 and $1,450,000 at December 31, 2023 and 2022, respectively.

Deposits

Certain directors and officers of the Bank had deposits outstanding aggregating approximately $4,526,000 and $4,030,000 at December 31, 2023 and 2022, respectively.

10. OFF-BALANCE SHEET ACTIVITIES

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include loan commitments to extend credit and letters-of-credit. Such commitments involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the consolidated balance sheets. The Bank's exposure to credit loss is represented by the contractual amounts of these commitments. The Bank follows the same credit policies in making commitments, including requirements for capital, as it does for on-balance sheet loans; no significant losses are anticipated as a result of these commitments.

The following financial instruments were outstanding whose contract amount represents credit risk at December 31:

	Contract Amount	
	2023	**2022**
Unfunded commitments under lines of credit	$ 6,637,000	$ 9,195,000
Commitments to grant loans	4,795,000	1,904,000

Unfunded commitments under commercial lines-of-credit and revolving credit lines are commitments for possible future extensions of credit to existing customers. The commitments for equity lines-of-credit may expire without being drawn upon. These lines-of-credit are collateralized and usually do not contain a specific maturity date and may not be drawn upon to the total extent to which the Bank is committed. A majority of such commitments are at fixed rates of interest; a portion is unsecured.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed interest rates, fixed expiration dates or other termination clauses and may require payment of a fee. The commitments may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Commercial and standby letters-of-credit are conditional commitments issued by the Bank to guarantee a customer's performance to a third-party. Those letters-of-credit are primarily issued to support public and private borrowing agreements. Essentially all letters-of-credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments if deemed necessary. The Bank considers standby letters-of-credit to be guarantees; however, as the amount of the liability related to such guarantees on the commitment date is not significant, a liability related to such guarantees is not recorded at December 31, 2023 or 2022.

The following table presents the balance and activity for the allowance for credit losses for unfunded loan commitments as included in the 2023 consolidated balance sheet in accrued interest payable and other liabilities:

Balance, December 31, 2022	$	-
Adjustment for allowance for credit losses on off-balance sheet credit exposures - adoption of ASC 326		28,874
Credit loss reversal		(18,148)
Balance, December 31, 2023	**$**	**10,726**

11. COMMON STOCK ACTIVITY

At the 2023 Annual Meeting of Shareholders, the shareholders elected to increase the number of shares authorized to 2,500,000 and eliminate the par value of the Corporation's common stock. As a result, $4,029,884 previously recorded as additional paid-in capital was transferred to common stock in 2023.

During 2023, the Corporation issued 500,000 shares of common stock, at a price of $8.15 per share through a common stock offering. Stock issuance costs associated with this offering amounted to approximately $123,000, and were charged against the proceeds in common stock.

During 2022, the Corporation repurchased 1,668 shares of common stock for $10.90; no repurchases occurred in 2023.

12. REGULATORY CAPITAL

The Bank is subject to various regulatory capital requirements, including restrictions on dividends, administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, capital and certain off-balance-sheet items as defined in the regulations and calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Failure to meet capital requirements can initiate regulatory action. The final rules related to the implementation of the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015, with full compliance of all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The capital conservation buffer for 2023 and 2022 is 2.50%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

Quantitative measurements established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table). Management believes, as of December 31, 2023 and 2022, that the Bank met all capital adequacy requirements to which they are subject.

Notes to Financial Statements

As of December 31, 2023 and 2022, the most recent notifications from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of December 31, 2023 and 2022 are also presented in the table.

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
2023	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
(Dollars in thousands)						
Total Capital to Risk Weighted Assets						
Bank Michigan	$ 12,525	14.39%	$ 6,961	8.00%	$ 8,701	10.00%
Tier 1 (Core) Capital to Risk Weighted Assets						
Bank Michigan	11,433	13.14%	5,221	6.00%	6,961	8.00%
Common Tier 1 (CET1)						
Bank Michigan	11,433	13.14%	3,915	4.50%	5,656	6.50%
Tier 1 (Core) Capital to Average Assets						
Bank Michigan	11,433	9.88%	4,626	4.00%	5,783	5.00%

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
2022	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
(Dollars in thousands)						
Total Capital to Risk Weighted Assets						
Bank Michigan	$ 11,160	12.42%	$ 7,186	8.00%	$ 8,982	10.00%
Tier 1 (Core) Capital to Risk Weighted Assets						
Bank Michigan	10,208	11.36%	5,389	6.00%	7,186	8.00%
Common Tier 1 (CET1)						
Bank Michigan	10,208	11.36%	4,042	4.50%	5,838	6.50%
Tier 1 (Core) Capital to Average Assets						
Bank Michigan	10,208	8.96%	4,559	4.00%	5,698	5.00%

Restrictions on Dividends, Loans and Advances

Federal and state banking regulations place certain restrictions on the amount of loans or advances that can be extended to the Corporation by the Bank and dividends that can be paid to the Corporation by the Bank. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of the Bank, and loans or advances are limited to 10% of the Bank's capital stock and surplus on a secured basis. In addition, dividends paid by the Bank to the Corporation would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

In 2009 the Bank's Board of Directors suspended the Bank's dividend, committing the Bank to certain actions intended to improve and increase, among other things, the Bank's capital levels, asset quality and earnings. Among other actions, the Bank changed their Capital and Dividend policy to state that the Bank does not intend to pay a dividend in the future.

Notes to Consolidated Financial Statements

13. CONTINGENCIES

Litigation

The Corporation is party to litigation arising during the normal course of business. In the opinion of management, based on consultation with legal counsel, the resolution of such litigation is not expected to have a material effect on the consolidated financial statements.

Environmental Issues

As a result of acquiring real estate from foreclosure proceedings, the Corporation is subject to potential claims and possible legal proceedings involving environmental matters. No such claims have been asserted as of December 31, 2023.

14. EMPLOYEE BENEFIT PLAN

The Bank sponsors a defined contribution savings plan qualified under Section 401(k) of the Internal Revenue Code. Substantially all full-time employees of the Bank are eligible upon meeting certain eligibility requirements. Under the plan, eligible employees were permitted to defer and contribute into the retirement plan annually as specified by federal law. Beginning in plan year 2019, the Bank match changed to a Safe Harbor match at 100% of the first 3% plus 50% between 3 - 5% for a maximum total of 4%. Expenses associated with this plan amounted to $64,662 and $80,069 in 2023 and 2022, respectively.

15. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Corporation's primary revenue stream accounted for under ASC 606 relates to service charges on deposit accounts.

The Bank earns fees from its deposit customers for transaction-based fees, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Bank fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Bank satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

The Bank earns interchange fees from cardholder transactions conducted through the payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

16. MANAGEMENT'S PLANS

The Bank reported a net operating loss before taxes of approximately $2.6 million in 2023. The net operating loss was primarily due to an increase in provision for credit losses of $1.3 million and an increase in salaries and benefits of $1.2 million. Management believes, that as a result of management's plans detailed below, it currently has sufficient capital and other resources to meet its funding requirements over the next year from the date of issuance of these consolidated financial statements.

The impact of net charge-offs and the provision for credit losses, concentrated in one type of loan product, which the Bank no longer offers. Management believes the allowance for credit losses is adequate to address the risks in this segment and the remaining portfolio, which is performing to expectations. The Bank is maintaining our disciplined approach to managing credit quality, and Management believes the Bank is well-positioned to operate through this credit event.

Salary and benefit expense increased as the Bank executed on its strategic priority to expand our cannabis and treasury management lines of business. The near-term effect on earnings from the increase in expense is expected to become accretive as revenue from cash management services are collected and deposits from these businesses grow.

To address the events negatively impacting net operating loss, the Corporation successfully completed a capital raise of approximately $4.0 million through the private placement of 500,000 shares of common stock in fourth quarter of 2023. Management believes that the actions taken to strengthen the balance sheet provides resources necessary for the Bank to meet its obligations over the next year from the date of issuance of these consolidated financial statements.

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