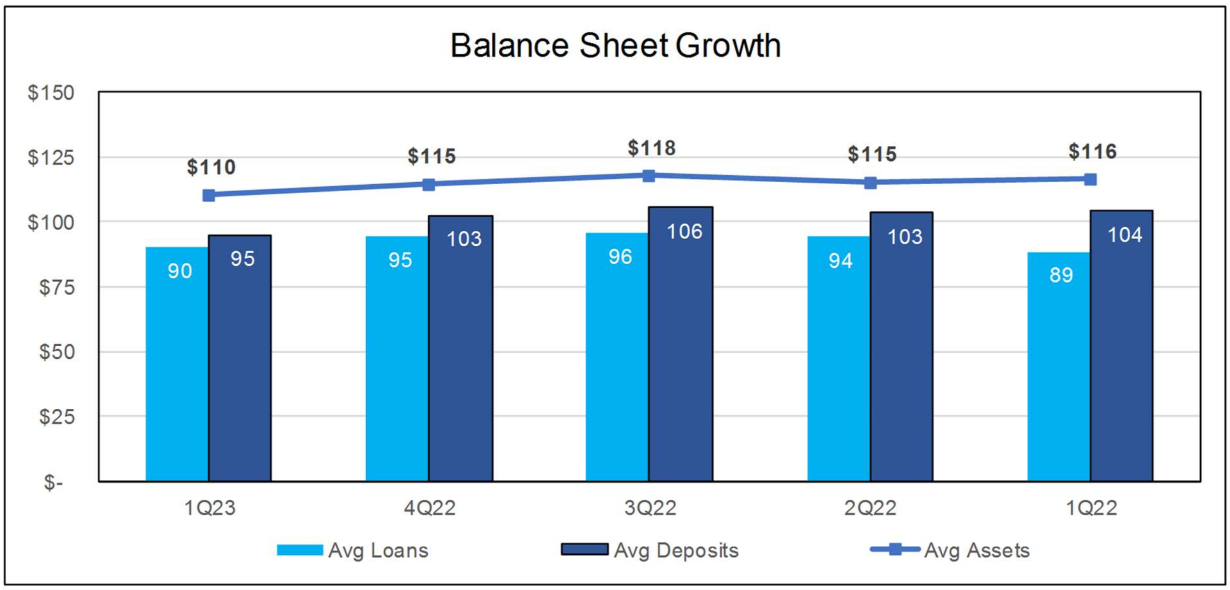
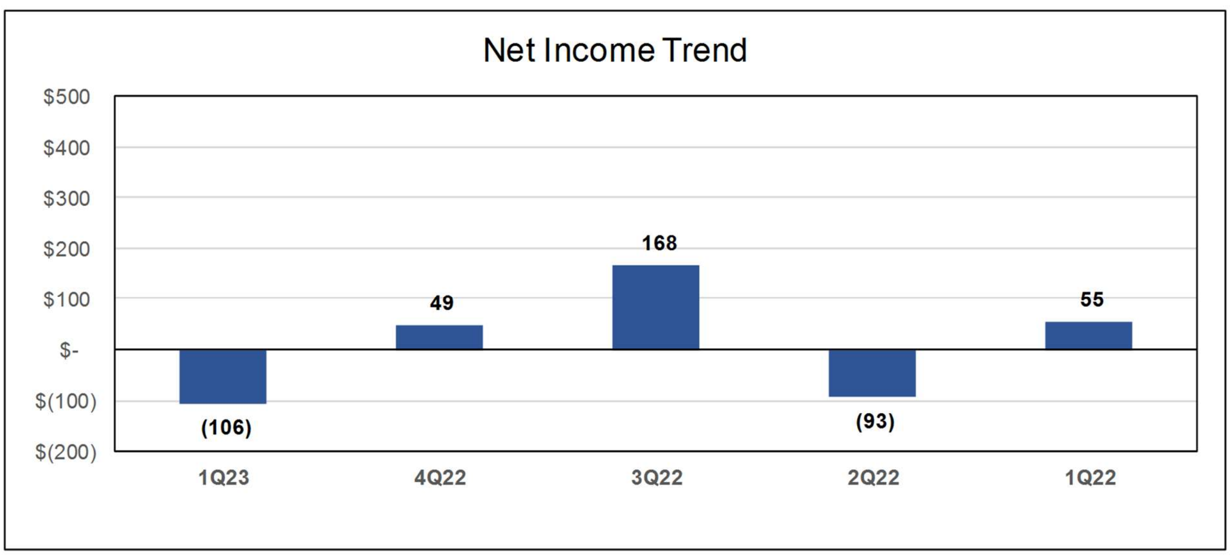
1Q23 Financial Highlights[1]

- Rolled out a revamped website that enhances user experience & visual appearance
- Purchased loan participations declined $4 million, freeing up capital for core bank lending products
- Sold $3 million in SBA loans resulting in an increase in noninterest income & facilitated lending to more borrowers from sales proceeds
- Dependency on wholesale deposits reduced to 4% from 9% of Total Deposits, declining $4 million YoY
- Net interest income increased 10% YoY; reflecting net interest margin expansion of 64 basis points to 4.65%
- Noninterest income increased $21 thousand or 6%, reflecting YoY growth in loan & deposit servicing revenue
- Launched the Commercial Banking Services division providing Treasury Management & Cannabis Banking services to our business customers
- Tier 1 leverage captial ratio increased to 9.03%, indicative of effectively deploying capital

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

Performance Trends





bank MICHIGAN
Better. Thinking. Banking.™

Member FDIC

April 28, 2023

Dear Fellow Shareholders,

Bank Michigan has built a high-quality deposit base that focuses on relationships starting with primary checking and operating accounts for both consumer customers and commercial clients. Consistent with the company's expectations, total core deposits declined approximately 3 percent, but importantly, deposits remained stable from earlier in the month of March through the end of the quarter. In a challenging and unique quarter for the banking industry, we maintained healthy levels of liquidity, capital and reserves. Our strong capital position, granular mix of deposits, access to funding sources, and continued focus on financial and credit risk management will continue to allow us to support our customers throughout these economic cycles.

Bank Michigan financial results in the first quarter of 2023 reflects our accelerated investment in Treasury Management and Cannabis Banking services. Our commitment to growing our fee income businesses is coming together as planned. Bank Michigan reported first quarter 2023 net loss of $106 thousand, or $(0.10) per common share, a decrease of $155 thousand, or $(0.15) per common share from prior quarter. Results for the first quarter produced an annualized return on average assets (ROAA) of (0.39)%, an annualized return on average common equity (ROCE) of (4.19)%, and total risk-based capital (RBC) of 12.90%.

First quarter 2023, net loss was $106 thousand compared to net income of $55 thousand, from the year-ago quarter. Earnings per share were $(0.10) compared to $0.05 from a year-ago. Book value was $9.87 excluding AOCI, at March 31, 2023, down $0.17 from same prior year quarter, reflecting the near term costs associated with the expansion of our fee income businesses.

First quarter results reflected the investments we are making to enhance our business product offerings which will accelerate our fee based services and core deposit growth. Our key credit quality metrics in both the business and consumer portfolios remain resilient and credit losses continue to be at historical low levels. As we progress through 2023, we continue to see opportunities in our lending lines of business, but are mindful of the current environment and are making necessary adjustments to manage risks. Our focus remains on risk-adjusted returns, which may lead to slightly lower origination levels as we look to tighten underwriting in lending opportunities that don't meet our required return thresholds.

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 • 305 E. Eisenhower • Ann Arbor, MI 48108 • 517.592.3205 • **BankMichigan.bank**

BANK MICHIGAN

FINANCIAL HIGHLIGHTS (Unaudited)

(in thousands, except ratio and headcount data)

				1Q23 Chg		Three Months Ended Mar 31,		
Pretax, Pre-Provision Earnings (non-GAAP)	**1Q23**	**4Q22**	**1Q22**	**4Q22**	**1Q22**	**2023**	**2022**	**YOY Chg**
Net Interest Income	$ 1,265	$ 1,361	$ 1,152	$ (96)	$ 113	$ 1,265	$ 1,152	$ 113
Noninterest Income	384	156	363	228	21	384	363	21
Total Revenue	**1,649**	**1,517**	**1,515**	**132**	**135**	**1,649**	**1,515**	**135**
Noninterest Expense	1,782	1,473	1,385	310	398	1,782	1,385	398
Pretax, Pre-Provision Earnings	**(133)**	**45**	**130**	**(178)**	**(263)**	**(133)**	**130**	**(263)**
Provision for Loan Losses	-	(18)	59	18	(59)	-	59	(59)
Tax Provision (Benefit)	(27)	14	16	(41)	(43)	(27)	16	(43)
Net Income/(Loss)	**$ (106)**	**$ 49**	**$ 55**	**$ (155)**	**$ (161)**	**$ (106)**	**$ 55**	**$ (161)**
Earnings & per Common Share data								
Earnings per share	$ (0.10)	$ 0.05	$ 0.05	$ (0.15)	$ (0.15)	$ (0.10)	$ 0.05	$ (0.15)
Book Value (excl. AOCI)	$ 9.87	$ 10.15	$ 10.04	$ (0.28)	$ (0.17)	$ 10.15	$ 9.99	$ 0.17
Book Value	$ 9.55	$ 9.86	$ 9.84	$ (0.31)	$ (0.29)	$ 9.86	$ 10.00	$ (0.14)
Common shares period-end	1,070	1,070	1,071	-	(2)	1,070	1,071	(1)
Financial Ratios								
Return on Equity [(a)]	-4.19%	1.84%	2.20%	-6.04%	-6.39%	-1.00%	0.53%	-1.53%
Return on Assets [(a)]	-0.39%	0.17%	0.19%	-0.56%	-0.58%	-0.09%	0.04%	-0.13%
Net interest margin	4.65%	4.71%	4.01%	-0.06%	0.64%	1.09%	0.93%	0.16%
Efficiency Ratio	108%	97%	91%	11%	17%	108%	91%	17%
Full-time equivalent employees	42.9	42.4	37.4	0.5	5.5	38.3	37.2	1.1
Balance Sheet Highlights						(Average Balance)		
Avg Assets	110,293	114,615	116,380	(4,323)	(6,088)	115,976	123,465	(7,489)
Avg Total Loans & Leases	90,218	94,513	88,669	(4,295)	1,549	93,328	92,691	637
Allowance for Credit Loss Reserve (ACL)	(1,181)	(952)	(977)	(230)	(204)	(972)	(1,054)	82
Avg Core Deposits	82,591	84,766	82,831	(2,175)	(241)	87,960	94,988	(7,029)
Avg Non-core Deposits	12,525	17,806	21,416	(5,281)	(8,891)	7,156	9,259	(2,103)
Avg Deposits	95,115	102,571	104,247	(7,456)	(9,132)	103,948	108,847	(4,899)
Avg Other Borrowings	3,410	-	-	3,410	3,410	-	3,698	(3,698)
Avg Equity	10,263	10,526	10,168	(263)	96	10,573	10,440	133
Credit Quality								
Net Charge-Offs / Average Loans - YTD	0.04%	0.04%	0.11%	0.00%	-0.07%	0.04%	0.03%	0.01%
ACL to total loans ratio [(b)]	1.31%	1.01%	1.12%	0.30%	0.19%	1.01%	1.14%	-0.13%
NPAs / Total Loans (xPPP)	0.64%	0.70%	0.74%	-0.06%	-0.10%	0.70%	0.85%	-0.15%
Loan-to-deposits ratio [(b)]	94%	91%	90%	3%	4%	90%	85%	5%
Capital Ratios								
Tier 1 leverage ratio	9.03%	8.96%	8.79%	0.07%	0.24%	8.96%	8.27%	0.69%
Tier 1 risk-based capital ratio / (CET1)	11.64%	11.37%	11.10%	0.28%	0.55%	11.37%	12.33%	-0.96%
Total risk-based capital ratio	12.90%	12.43%	12.16%	0.47%	0.74%	12.43%	13.47%	-1.04%

(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 first quarter of 2023 versus the fourth quarter of 2022</u>, unless otherwise specified.

Net loss was $106 thousand, down $155 thousand, driven by lower net interest income $96 thousand, higher noninterest income $228 thousand, higher noninterest expense $310 thousand, higher provision for loan losses $18 thousand, and lower income tax expense $41 thousand.

Net interest income was $1.3 million, down $96 thousand or 7%, driven by higher funding costs and two less days, partially offset by higher rates on earning assets. The net interest margin was 4.65%, down six basis points.

- Average earning assets decreased from a decline in average total loans of $4.3 million, or 4.5%, partially due to exiting participation loans, offset by growth in average other earning assets of $1.0, or 4.5%, primarily due to an increase in balances held at the Federal Reserve to support liquidity.
- The yield on total loan portfolio was 6.14%, up 24 basis points primarily due to higher market interest rates. The yield on other earning assets for the first quarter was 2.65%, up 41 basis points primarily due to the higher rate environment.
- Average deposits decreased $7.5 million, or 7.3%, while average other borrowings increased $3.4 million, compared to no borrowings in prior quarter.
- The average cost of total deposits was 0.70%, up 22 basis points. The average cost of other borrowings was 3.95%. The increase in rates on deposits and other funding sources was largely attributable to the higher rate environment.

The provision for credit losses increased $18 thousand quarter-over-quarter. The increase was from a net reserve release of $18 thousand primarily driven by a decline in loan balances in the fourth quarter. Net charge-offs (NCOs) represented an annualized 0.04% of average total loans in the current quarter, flat to prior quarter. The allowance to total loans ratio was 1.31%, up 30 basis points. The increase is primarily due to adopting the current expected credit loss methodology resulting in a day one adjustment to the reserve of $221 thousand. Non-performing assets were $550 thousand, a decrease of $18 thousand from prior quarter.

Noninterest income was $384 thousand, up $228 thousand, predominantly driven by increases in the gain on sale of loans, increases in servicing fee income, increases in miscellaneous fee income, partially offset by decrease in deposit service charges due to fewer days.

Noninterest expense was $1.8 million, up $310 thousand, primarily driven by increased salaries & benefits expense as a result of the addition of new positions and higher average wages.

Capital ratios remain strong this quarter. The CET1 capital ratio was 11.64%, Total risk-based capital was 12.90% and the Tier 1 leverage ratio was 9.03%.

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

Net loss was $106 thousand, down $161 thousand, driven by higher net interest income $113 thousand, higher noninterest income $21 thousand, lower provision expense $59 thousand; partially offset by higher noninterest expense $398 thousand and lower income tax expense $43 thousand.

Net interest income was $1.3 million, up $113 thousand or 10%, compared to first quarter of 2022 primarily due to higher rates on earning assets and growth in loans, alongside well controlled core deposit costs. These increases were partially offset by higher wholesale funding costs and lower PPP revenue. Net interest margin was 4.65%, up 64 basis points.

- Average earning assets decreased primarily due to decline in average Federal Reserve bank balances of $7.0 million, or 32%, partially offset by growth in average loans of $1.5, or 1.7%, decline in FRB balances was due to the maturity of wholesale term deposits.
- The yield on total loan portfolio was 6.14%, up 80 basis points, primarily reflecting higher market interest rates, partially offset by higher funding costs and lower PPP revenue. The yield on other earning assets for the first quarter was 2.65%, up 177 basis points primarily due to the higher rate environment.
- Average deposits decreased $9.1 million, or 8.8%, while average other borrowings increased $3.4 million, compared to no borrowings in prior year same quarter.
- The average cost of total deposits was 0.70%, up 45 basis points. The average cost of other borrowings was 3.95%. The increase in rates on deposits and other funding sources was largely attributable to the higher rate environment.

The provision for credit losses decreased $59 thousand from prior year same quarter. The decrease was primarily due to a reserve build in the prior year due to loan growth. NCOs decreased $23 thousand year-over-year. NCOs represented an annualized 0.04% of average total loans in the current quarter, down 0.07% from a year-ago quarter. The allowance to total loans ratio was 1.31%, up 19 basis points from prior year, reflecting increase in reserve balances associated with adopting the current expected credit loss methodology. Non-performing assets were $550 thousand compared to $692 thousand, a year-ago.

Noninterest income was $384 thousand, up $21 thousand, mainly driven by an increase in the sale of loans, more loan servicing fees, more deposit service fees partially offset by lower miscellaneous income.

Noninterest expense was $1.7 million, up $398 thousand, due to higher personnel expense from an increase in FTE and merit, coupled with increases in professional fees and outside processing expense, partially offset by lower facilities maintenance and fewer loan servicing expenses.