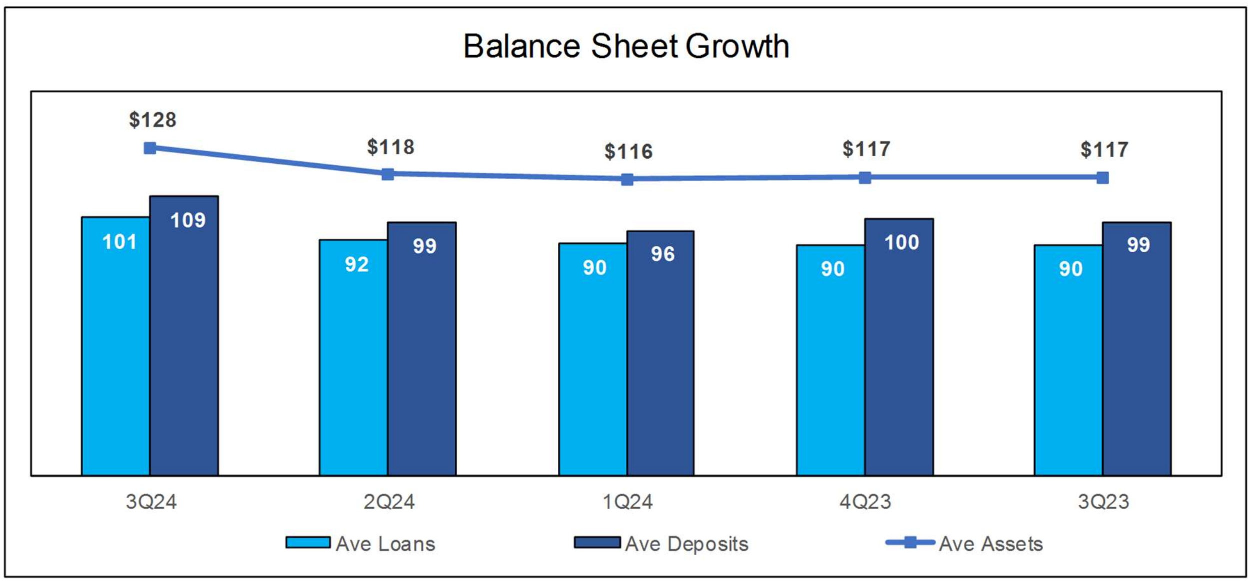
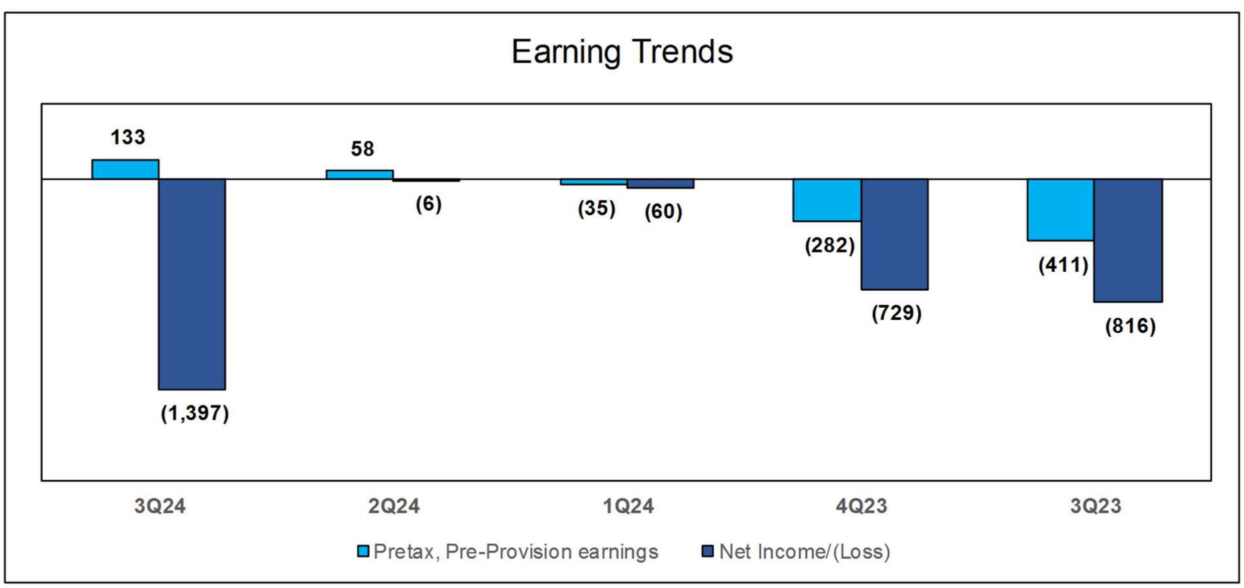
3Q24 Financial Highlights[1]

- Ave Core deposit growth of $5.6 miilion, up 6%
- Closed $11.5 million in new business loans in 3Q24
- Ave loans outstanding increased $10.7 million, up 12%
- Pretax, Pre-provision earnings $133 thousand, 132% improvement over same period prior year
- Noninterest income increased $591 thousand, up 288%
- Provision for loan losses up $1.3 million due to charge-offs & reserve build in 3Q24

1Percentage and dollar comparisons noted above are for the third quarter of 2024 versus the same period prior-year 2023, unless noted

Performance Trends





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October 31, 2024

Dear Fellow Shareholders,

Bank Michigan reported third quarter 2024 net loss of $1.4 million, or $(0.89) per common share, a decrease of $1.4 million, or $(0.89), from the prior quarter, and a decrease of $581 thousand, or $(0.13), from the year-ago quarter. Included in the third quarter of 2024 are $(1.6) million, or $(0.96) per common share, after-tax, of charges related to the loan loss provision. Pre-provision net income was $105 thousand, or $0.07 per common share, after-tax.

Bank Michigan's Pretax, Pre-Provision Earnings performed well in the third quarter. EPS was impacted by an increase in loan loss provision, reflecting the impact of net charge-offs and reserve build on commercial loans. As previously noted, the deterioration is primarily concentrated in one type of loan product. The bank no longer offers this loan type and the segment is fully reserved. The remainder of the portfolio is performing to expectations. The challenges of managing through a unique environment are reflected in our results this quarter. However, I expect underlying trends in lending, deposits and noninterest income to enhance future earnings and grow shareholder value.

In lending, we've originated $34 million in new business loans with strong risk adjusted yields. Business net charge-offs of 1.21% are elevated, but we are confident the curtailment actions we've taken will not negatively impact future earnings. We are maintaining our disciplined approach to managing credit quality, and believe the bank is well-positioned to operate through this dynamic environment.

Average core deposits of $101 million increased 6% from the year-ago quarter, our fourth consecutive quarter of sequential average deposit growth. Our strategies to build the deposit customer relationships are taking affect, resulting in lower cost of funds and noninterest income increases from deposit service fees.

We have an incredible team dedicated to servicing our clients through our diversified business model and focused on what we can control, executing on our long-term strategic priorities. We remain well-positioned to generate long-term, sustainable value to our shareholders as we continue to execute against our strategic objectives.

Best Regards,

Richard Northrup, President & CEO

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

				3Q24 Chg		Nine Months Ended September 30,		
Pretax, Pre-Provision Earnings (non-GAAP)	**3Q24**	**2Q24**	**3Q23**	**2Q24**	**3Q23**	**2024**	**2023**	**YOY Chg**
Net Interest Income	$ 1,370	$ 1,378	$ 1,270	$ (8)	$ 100	$ 4,060	$ 3,815	$ 246
Noninterest Income	797	492	205	304	591	1,800	805	995
Total Revenue	**2,167**	**1,870**	**1,476**	**296**	**691**	**5,860**	**4,619**	**1,241**
Noninterest Expense	2,034	1,812	1,887	222	147	5,704	5,579	125
Pretax, Pre-Provision Earnings	**133**	**58**	**(411)**	**74**	**544**	**156**	**(960)**	**1,116**
Provision for Loan Losses	1,900	64	628	1,836	1,271	2,002	688	1,314
Tax Provision (Benefit)	(370)	(0)	(224)	(370)	(147)	(384)	(350)	(34)
Net Income/(Loss)	**$ (1,397)**	**$ (6)**	**$ (816)**	**$ (1,391)**	**$ (581)**	**$ (1,462)**	**$ (1,298)**	**$ (164)**
Earnings & per Common Share data								
Earnings per share	$ (0.89)	$ (0.00)	$ (0.76)	$ (0.89)	$ (0.13)	$ (0.93)	$ (1.21)	$ 0.28
Book Value (excl. AOCI)	$ 7.09	$ 7.98	$ 8.75	$ (0.89)	$ (1.67)	$ 7.09	$ 8.75	$ (1.67)
Book Value	$ 6.97	$ 7.78	$ 8.33	$ (0.81)	$ (1.36)	$ 6.97	$ 8.33	$ (1.36)
Common shares period-end	1,570	1,570	1,070	-	500	1,570	1,070	500
Financial Ratios								
Return on Equity (a)	-44.99%	-0.18%	-33.60%	-44.80%	-11.39%	-15.92%	-17.35%	1.43%
Return on Assets (a)	-4.32%	-0.02%	-2.78%	-4.30%	-1.54%	-1.61%	-1.54%	-0.07%
Net interest margin	4.24%	4.69%	4.32%	-0.46%	-0.09%	4.48%	4.52%	-0.04%
Efficiency Ratio	94%	97%	128%	-3%	-34%	97%	121%	-24%
Full-time equivalent employees	46.4	44.4	44.4	2.0	2.0	45.2	43.9	1.3
Balance Sheet Highlights						(Average Balance)		
Avg Assets	128,246	117,744	116,557	10,502	11,689	115,828	110,293	5,535
Avg Loans & Leases	100,646	91,804	89,991	8,842	10,654	90,445	90,218	227
Allowance for Credit Loss Reserve (ACL)	(2,323)	(1,539)	(1,872)	(784)	(451)	(1,501)	(1,172)	(329)
Avg Core Deposits	100,891	93,780	95,256	7,111	5,635	95,815	91,227	4,588
Avg Non-core Deposits	8,071	4,958	3,983	3,113	4,088	5,382	5,069	314
Avg Deposits	108,979	98,738	99,239	10,241	9,740	95,788	95,115	673
Avg Other Borrowings	5,575	5,473	6,204	102	(629)	6,405	3,410	2,995
Avg Equity	12,317	12,180	9,631	137	2,686	12,210	10,263	1,947
Credit Quality								
Loans & Leases *at period-end*	100,222	95,381	89,647	4,841	10,575	90,679	86,414	4,265
Net Charge-Offs / Average Loans - YTD	1.61%	0.00%	0.01%	1.60%	1.60%	0.00%	0.01%	0.00%
ACL to total loans ratio	2.31%	1.68%	2.08%	0.63%	0.23%	1.66%	1.31%	0.35%
NPAs / Total Loans (xPPP)	1.04%	2.20%	3.66%	-1.17%	-2.62%	2.42%	0.64%	1.78%
Net Loan-to-deposits ratio (b)	88%	88%	86%	0%	2%	92%	94%	-2%
Capital Ratios								
Tier 1 leverage ratio	7.59%	9.74%	7.23%	-2.15%	0.36%	9.74%	8.46%	1.27%
Tier 1 risk-based capital ratio / (CET1)	9.88%	12.06%	9.49%	-2.18%	0.39%	12.06%	10.37%	1.68%
Total risk-based capital ratio	11.14%	13.31%	10.75%	-2.17%	0.39%	13.31%	11.62%	1.69%

(a) Quarterly ratios are based upon annualized amounts.

Discussion of Results:

Comparisons noted in the sections below are for the Third Quarter of 2024 versus the Second Quarter of 2024, unless otherwise specified.

Net loss was $1.4 million, down $1.4 million, driven by lower net interest income $8 thousand, higher noninterest income $304 thousand, higher noninterest expense $222 thousand, higher provision for loan losses $1.8 million, and lower income tax expense $370 thousand.

Net interest income was $1.4 million, down $8 thousand or 1%, driven by higher interest income on earning assets, partially offset by higher costs of funds. The net interest margin was 4.24%, down 46 basis points.

- Average earning assets increased $10.5 million, primarily from higher average loan balances due to new loan fundings and higher average interest-bearing balances due from Federal Reserve account.
- The yield on total loan portfolio was 6.94%, down 23 basis points primarily due to interests recovery on nonaccrual loan payoff in previous quarter. The yield on other earning assets for the third quarter was 3.80%, unchanged.
- Average deposits grew $10.2 million, or 10%, including a $7.1 million increase in core deposits with $3.1 million in wholesale deposits making up the balance. While average other borrowings increased $0.1 million from lower Fed Fund borrowings.
- The average cost of total deposits was 1.89%, up 36 basis points. The average cost of other borrowings was 3.90%, unchanged. The increase in deposit rates was largely attributable higher funding costs from wholesale deposits.

The provision for credit losses increased $1.8 million to $1.9 million, reflecting higher net charge-offs and an increase in loan loss reserves. Net charge-offs (NCOs) were $1.1 million in the current quarter compared to nil in prior quarter and annualized NCO rate at 1.61%. As a percentage of average loans, the allowance for credit losses was 2.46%, up 77 basis points. Non-performing assets were $1.0 million, down $1.0 million, primarily due to the charge-off of an adversely classified loan.

Noninterest income was $797 thousand, up $304 thousand, predominantly driven by increase in SBA loan sales, coupled with increases in service charges and interchange fees from continued growth of treasury management services partially offset by a decrease in loan servicing fees. SBA loan sales to the secondary market continued in the third quarter as acceptable pricing levels persisted.

Noninterest expense was $2.0 million, up $222 thousand, primarily driven by losses on the sale of held-for-sale investment securities, litigation reserve for funds transfer fraud, increase in outside services from card utilization fees, and impact of one extra day in the quarter.

Capital ratios are strong compared to the regulatory requirements for well capitalized banks. The CET1 capital ratio was 9.88%. Total risk-based capital was 11.14% and the Tier 1 leverage ratio was 7.59%.

Comparisons noted in the sections below are for the <u>Third Quarter of 2024 versus the Third Quarter of 2023</u>, unless otherwise specified.

Net loss was $1.4 million, up $581 thousand, driven by higher net interest income $100 thousand, higher noninterest income $591 thousand, higher noninterest expense $147 thousand, partially offset by higher provision for loan losses $1.3 million and lower income taxes $147 thousand.

Net interest income was $1.4 million, up $100 thousand or 8%, driven by higher interest income on earning assets, partially offset by higher costs of funds. The net interest margin was 4.24%, down 9 basis points.

- Average earning assets increased $10.0 million, primarily from higher average loan balances partially offset by lower average interest-bearing balances due from Federal Reserve account.
- The yield on total loan portfolio was 6.94%, up 61 basis points, primarily reflecting higher market interest rates. The yield on other earning assets for the current quarter was 3.80%, up 48 basis points.
- Average deposits increased $9.7 million, or 10%, while average other borrowings decreased $0.6 million, or 10%.
- The average cost of total deposits was 1.89%, up 82 basis points. The average cost of other borrowings was 3.90%, down 26 basis points. The increase in rates on deposits was largely attributable to the higher rate environment and the decline in other borrowings rate was due to payoff of the Bank Term Funding debt in 2024.

The provision for credit losses increased $1.3 million. The increase was primarily due higher net charge-offs and an increase in loan loss reserves. Net charge-offs (NCOs) were $1.1 million in the current quarter compared to nil in prior year and annualized NCO rate at 1.61%. The allowance to total loans ratio was 2.46%, up 37 basis points from prior year, reflecting increases in charge-offs and reserve build associated with non-performing assets. Non-performing assets were down $1.2 million compared to a year-ago primarily due to the charge-off of adversely classified loan in current quarter.

Noninterest income was $797 thousand, up $591 thousand, predominantly driven by increases in SBA loan sales, service charges and interchange income on deposits from continued growth of treasury management services, increase in loan servicing fees, partially offset by lower other fees.

Noninterest expense was $2.0 million, up $147 thousand, primarily due to losses on the sale of held-for-sale investment securities, litigation reserve for funds transfer fraud, increase in outside services from card utilization fees, higher depreciation and loan expenses, partially offset by decrease in legal expenses.

Capital ratios improved from same quarter prior year primarily due to successful completion of capital raise in 4Q23. The CET1 capital ratio was 9.88%, up 39 basis points. Total risk-based capital increased 39 basis points to 11.14% and the Tier 1 leverage ratio increased 36 basis points to 7.59%.

Comparisons noted in the sections below are for the September 2024 YTD versus the September 2023 YTD, unless otherwise specified.

Net loss was $1.5 million, down $164 thousand, driven by higher net interest income $246 thousand, higher noninterest income $995 thousand, offset by higher noninterest expense $125 thousand, higher provision for loan losses $1.3 million and lower income taxes $34 thousand.

Net interest income was $4.1 million, up $246 thousand or 6%, driven by higher interest income on earning assets, partially offset by higher costs of funds. The net interest margin was 4.48%, down 4 basis points.

- Average earning assets increased $5.1 million, primarily from higher average loan balances partially offset by lower average interest-bearing balances due from Federal Reserve account.
- The yield on total loan portfolio was 7.01%, up 73 basis points, primarily reflecting higher market interest rates. The yield on other earning assets for the current quarter was 3.67%, up 87 basis points.
- Average deposits increased $4.9 million, or 5%, while average other borrowings increased $0.6 million, or 11%.
- The average cost of total deposits was 1.60%, up 84 basis points. The average cost of other borrowings was 4.03%, down 11 basis points. The increase in rates on deposits was largely attributable to the higher rate environment and the decline in other borrowings rate was due to payoff of the Bank Term Funding debt in second quarter 2024.

The provision for credit losses increased $1.3 million. The increase was primarily due higher net charge-offs and an increase in loan loss reserves. Net charge-offs (NCOs) were $1.1 million in the current quarter compared to nil in prior year and annualized NCO rate at 1.61%. The allowance to total loans ratio was 2.46%, up 37 basis points from prior year, reflecting increases in charge-offs and reserve build associated with non-performing assets. Non-performing assets were down $1.2 million compared to a year-ago primarily due to the charge-off of adversely classified loan in current year.

Noninterest income was $1.8 million, up $1.0 million, predominantly driven by increases in SBA loan sales, service charges and interchange income on deposits from continued growth of treasury management services, increase in loan servicing fees, partially offset by lower other fees.

Noninterest expense was $5.7 million, up $125 thousand, primarily due to losses on the sale of held-for-sale investment securities, litigation reserve for funds transfer fraud, coupled with higher expenses associated with depreciation, advertising, loan workout, FDIC assessment and recruiting fee. Increases were partially offset by lower salary from lower performance-based compensation and lower legal expenses.

Capital ratios improved from same quarter prior year primarily due to successful completion of capital raise in 4Q23. The CET1 capital ratio was 9.88%, up 39 basis points. Total risk-based capital increased 39 basis points to 11.14% and the Tier 1 leverage ratio increased 36 basis points to 7.59%.