

Dear Fellow Shareholder:

During 2002, the employees, officers and directors of baybank again made excellent progress in improving the profitability of your company. Some of the highlights of this success include:

- **Net income of \$ 651,000 represents a 14% increase over the previous year. The return on average assets for your corporation was 1.10% and return on average equity was over 12%.**
- **Total assets increased 6% to \$ 59,900,000.**
- **Total loans serviced increased 21% from \$ 54,000,000 to \$ 65,600,000. I am very proud to tell you that this marks the second consecutive year in which the employees of your corporation originated, funded, and serviced loan growth in excess of 20%.**
- **Asset quality remains good . Past due loans totaled 1.5% of total loans. Our investment portfolio has net unearned income of \$205,000 at year end.**
- **Our success in increasing profitability again allowed us to increase dividends per share 10% from \$ 1.85 to \$ 2.05. Total equity capital of your corporation also increased 10% and now totals over \$ 5,600,000.**
- **The strength and soundness of your corporation continues to be solid.**

We introduced internet banking in 2002 and as of this letter, we have over 350 customers who use BayNet regularly to transact business and review activity. Our website has moved and can now be found at www.baybank.us. Visit our site and see what is new online.

On April 7th, baybank will open a new branch office on US 2/41 in Wells Township. We will then have 4 full-service offices strategically located to provide superior convenient service to the people of Delta County.

As you know, Jim McCarthy retired from the bank Board of Directors at year end. Our Board has elected Herbert D. Iverson as Chairman. Herb is a life-long Gladstone resident and successful businessman. Besides owning and operating Iverson Home Supply in Gladstone, Herb has built 7 motels throughout the U.P. Herb and his wife, Marcia, continue to operate motels located in Marquette, Iron Mountain, and Escanaba. Herb's business sense and contacts will be beneficial in his new role as leader of our Board of Directors.

Enclosed is a Notice of Annual Meeting of Shareholders on Wednesday, April 23, 2003, a proxy statement, and proxy voting form for you to sign and return. I hope you can join us.

On behalf of everyone at baybank, we thank our shareholders for their support and our customers for their confidence and business. I am very proud of the successful efforts of all of the Baybank employees, directors, shareholders in the exceptional success we enjoyed in 2002. Excellent customer service continues to be the primary mission which drives every Baybank employee every day. Our 33 dedicated

employees know that superior customer service brings tremendous rewards to our shareholders, our customers, our community, and themselves.

Sincerely,

Donald P. St.Germain
President