

Dear Fellow Shareholder:

The past year (2004) was a year of growth for your company. Loan growth, deposit growth, and capital growth were all products of successful strategic planning by the Directors and Officers of Baybank and the exemplary commitment and hard work by Baybank employees.

Specific highlights of this success include:

- **Net income totaled \$ 772,000 for the year representing a return on average assets of 1.16% and a return on average equity of 12%. Net income decreased 3%; however, given the fact that mortgage origination fees were down over \$330,000 from the record volume of 2003, I consider the fact that net income decreased by only \$ 23,000 to be a terrific accomplishment.**
- **Total loans serviced increased 9 % from \$ 78,700,000 to \$86,300,000. Of this total, \$ 36,000,000 were “Freddie Mac” home mortgages that are sold into the secondary mortgage market but serviced by the bank for a fee.**
- **Total deposits increased 10% from \$ 51,700,000 to \$ 57,000,000. Even more exciting is that “core deposits” increased 15% making us less reliant on large rate sensitive certificates of deposit. “Core” deposit relationships are the key to building household relationships, which are crucial in selling additional bank and investment services.**
- **A strong capital base and earnings of \$ 8.02 per share allowed for an increase in dividends for the year from \$ 2.30 to \$ 2.40 per share. We continue to follow a path of conservative dividend growth and strong capital retention in order to support future growth.**
- **The financial strength and soundness of your corporation continues to be solid.**

In December, the Board of Directors elected Venetia Bryers to the Board. Venetia is President and CEO of Rampart EMS of Escanaba and a long-time Gladstone resident. We are very pleased to have Venetia onboard as she is an excellent community leader and experienced businesswoman.

This year will also bring the retirement of Jim Johnson from our Board of Directors. Jim has been an outstanding Director since joining the Baybank board back in June 1987. His local knowledge, wit and wisdom have benefited our company extensively. We wish Jim, and his wife Alice, the very best and thank them both for their long-time commitment to our Baybank.

Baybank now has more full-service banking offices in Delta County than any other bank or credit union. We have the people and the locations to assure our customers and potential customers of our unwavering commitment to meeting their financial needs.

I would like to thank all members of the Baybank family; our employees, our directors, our customers, and you, our shareholders, for making 2004 a year of significant accomplishment for your corporation.

Enclosed is a Notice of Annual Meeting of Shareholders, a proxy statement, and proxy voting form for you to sign and return. I hope you can join us at the Terrace Bay Resort on Thursday, April 14, 2005 to review and celebrate our success.

Sincerely,

**Donald P. St.Germaine
President**