

Dear Fellow Shareholders:

Once again we found the past year to be challenging and rewarding. Challenging in the fact that we saw a significant decrease in loan demand during the year as home sales and home refinancing in Michigan came to a virtual standstill. Rewarding in the fact that we accomplished a complete upgrade of our core processing system to serve us well into the next decade.

Specific accomplishments during the year were as follows:

- Net income totaled \$ 705,000 and produced a return on average assets of .97% and a return on average equity of 9.6%. The decrease in net income was the result of four major factors. First, lower fees from a significant decline in home mortgage demand; Second, a significant increase in cost of funds, which narrowed the bank's net interest margin; Third, an increase in our allowance for loan losses as we recognized higher than normal loan losses; and Fourth, extraordinary expenses with the planning, training, and implementation of our core processing upgrade.
- Total assets at year end 2006 increased to \$ 73,158,000 or 3% over year end 2005.
- Loans held total \$ 53,503,000. In addition, the bank services another 500 mortgages sold on the secondary market totaling \$ 38,750,000. In total, the bank services a loan portfolio in excess of \$ 92,250,000.
- We upgraded our core processing system bank-wide. This was a conversion to a completely new data processing system and included the conversion of every loan, deposit, and other relationships with our customers. The planning for this conversion began in 2005 with conversion taking place during the Easter weekend. We are confident this new system will serve us and our customers well into the next decade.
- Total deposits remained relatively unchanged and total \$ 57,800,000. Core deposit growth continues to be difficult. I attribute this to the recent strong returns in the stock market as well as the fact that family savings continue to decline.
- Our capital base remains strong with total equity increasing 6% to \$ 7,577,000, representing 10.36% of total assets.
- A strong capital base and earnings of \$ 7.35 per share allowed for an increase in dividends for the year from \$ 2.65 to \$ 3.00 per share. The book value of our shares increased 6.2% from \$ 74.12 to \$78.72.

Looking forward, I believe 2007 will again be a challenging year for the community bank sector as well as the state of Michigan. We continue to implement in phases of new technology to create operating efficiencies and generate additional income.

2007 will bring the retirement of two of Baybank's long-time associates. Executive Vice President Stephen Trottier and Vice President Bonnie Marenger will be retiring this fall. We are extremely grateful for their long-time commitment to Baybank and we wish them the very best in their retirement.

This year will also bring the retirement of Paddy Fitch from our Board of Directors. Paddy has been an outstanding Director since joining the Baybank board in 1990. She has been a pleasure to work with and we wish Paddy and her husband Don, the very best and thank them both for their long-time commitment to our Baybank.

I would like to thank all members of the Baybank family; our employees, our directors, our customers and you, our shareholders, for making 2006 a year of significant accomplishment for our 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 19, 2007 to review and celebrate our success.

Sincerely,

Donald P. St.Germaine  
President  
Baybank Corporation