



PRESS RELEASE

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Mackinac Financial Corporation Announces Annual Results for 2006

(Manistique, Michigan) – Mackinac Financial Corporation (Nasdaq: MFNC), the holding company for mBank, has reported net income of \$1.716 million, or \$.50 per share, for the year ended December 31, 2006, compared to a net loss of \$7.364 million, or \$2.15 per share, for 2005. Weighted average shares outstanding amounted to 3,428,695 in both years.

The 2006 operations include a \$600,000 negative provision recorded in the first quarter, in recognition of improved credit quality, a \$261,000 negative provision recorded in the fourth quarter to recognize a specific reserve reduction on a loan payoff, and a \$500,000 deferred tax benefit recorded in the third quarter. The deferred tax benefit was recorded in accordance with generally accepted accounting principles for recognition of a portion of the benefits to be derived from NOL carry-forwards. The 2006 results also include \$310,000 of stock option expense required under the new accounting rules for stock compensation plans, as well as \$550,000 of expenses incurred to pursue legal action against the Corporation's former accountants. The costs associated with the pursuit of this legal action have surpassed our earlier estimates but management and the Corporation's Board of Directors believe the case has merit and pursuing it is in the best interests of our shareholders.

The 2005 loss of \$7.364 million includes a number of significant one-time charges. Included are \$4.320 million of penalties incurred to prepay \$48.555 million of FHLB borrowings, \$.815 million of costs associated with conversion of the Corporation's data processing system, approximately \$500,000 of marketing expense to launch the new "mBank" name along with a new line of products and services, and lastly a \$200,000 write-down of other real estate property.

Paul Tobias, Chairman and Chief Executive Officer commented, "In 2006, the Corporation was extremely successful in generating new loans and deposits which enabled us to attain core profitability. This balance sheet growth provides the foundation in which to increase profits in future periods; however, in order to bring profitability in line with our peers and meet shareholder expectations we will need to improve our funding mix and constrain noninterest expenses."

Total assets of the Corporation at December 31, 2006 were \$382.791 million, an increase of 28.1% from total assets of \$298.722 million reported at December 31, 2005.

During 2006 the Corporation's loans stood at \$322.581 million, an increase of \$82.810 million from 2005 year-end balances of \$239.771 million, a 34.5% increase. Total loan originations in 2006 amounted to \$135.2 million.

Tobias stated, "We are extremely pleased with our team's ability to originate high quality loan relationships. This loan growth in 2006 along with our 2005 growth of \$35.939 million demonstrates the effectiveness of our strategy in staffing our organization with experienced, highly skilled commercial lenders. In 2007 and beyond our ability to fund continued loan growth with a higher portion of in-market lower cost transactional deposits is another key variable for increased profitability."

Asset quality remains strong. Nonperforming loans, as a percent of loans, was .91% at December 31, 2006. Nonperforming assets at December 31, 2006 were \$2.965 million, .77% of total assets, compared to \$1.059 million or .35% of total assets at December 31, 2005. Tobias added, "During our rapid loan portfolio expansion, we have been diligent in our credit administration and have continued to focus on credit quality. Our process, which is administrated under a committee system, and anchored by strong underwriting, has proved effective in maintaining our strong credit quality. The increase in nonperforming assets reflects the impact of two large credits moving into the nonaccrual category. These credits were originated before our team arrived and in both instances, we are well reserved and have a strategy for adequate recovery."

Total deposits grew from \$232.632 million at December 31, 2005 to \$312.421 million at December 31, 2006, an increase of 34.3%. The increase includes a growth in core deposits of the Bank in the amount of \$25.079 million, a 14.4% increase from 2005 year end balances of \$174.530 million, and increases in non-core deposits of \$54.710 million, which include bank CDs greater than \$100,000 and brokered deposits.

Net interest income for the year ended December 31, 2006 was \$11.593 million compared to \$9.780 million for the year ended December 31, 2005, an increase of \$1.813 million. The margin percentage for 2006 was 3.51% compared to 3.64% in 2005. This decrease in the net interest margin is attributable to a number of factors. During 2006 the prime rate increased from 7.25% to 8.25%, which was beneficial to the Corporation since a majority of the commercial loan portfolio repriced upwards with each prime rate change. A factor which negatively impacted the margin in 2006 was the increased

reliance on brokered deposits to fund loan growth. The Corporation also experienced a migration of deposits from low cost transactional accounts to higher cost money market accounts. Tobias commented, "We realize the importance of obtaining lower cost transactional deposits to maintain our interest margin. We have directed our efforts towards this need by staffing our branches with sales oriented branch managers supported by the right systems and products. We will be implementing appropriate incentives in 2007 to help reward the individuals that grow low cost deposits."

Shareholders' equity totaled \$28.790 million at December 31, 2006 compared to \$26.588 million at the end of 2005, an increase of \$2.202 million. This increase reflects consolidated net income of \$1.716 million, the capital contribution impact of stock options and also the increase in equity due to the increase in the market value of held-for-sale investments, which amounted to \$.176 million. The book value per share at December 31, 2006 amounted to \$8.40 compared to \$7.75 at the end of 2005. Tobias concluded, "The increase in equity during 2006 reflects the return to profitability which is an important step towards our goal to generate top tier returns for our shareholders."

Mackinac Financial Corporation is a registered bank holding company which owns mBank. The Bank has 13 branch offices; nine in the Upper Peninsula of Michigan and four in Lower Michigan. The Company's banking services include commercial lending and treasury management products and services geared toward small to mid-sized businesses; as well as checking and savings accounts, time deposits, interest bearing transaction accounts, safe deposit facilities, real estate mortgage lending, and direct and indirect consumer financing.

This release contains certain forward-looking statements. Words such as "anticipates," "believes," "estimates," "expects," "intends," "should," "will," and variations of such words and similar expressions are intended to identify forward-looking statements: as defined by the Private Securities Litigation Reform Act of 1995. These statements reflect management's current beliefs as to expected outcomes of future events and are not guarantees of future performance. These statements involve certain risks, uncertainties and assumptions that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements. Factors that could cause a difference include among others: changes in the national and local economies or market conditions; changes in interest rates and banking regulations; the impact of competition from traditional or new sources; and the possibility that anticipated cost savings and revenue enhancements from mergers and acquisitions, bank consolidations, branch closings and other sources may not be fully realized at all or within specified time frames as well as other risks and uncertainties including but not limited to those detailed from time to time in filings of the Company with the Securities and Exchange Commission. These and other factors may cause decisions and actual results to differ materially from current expectations. Mackinac Financial Corporation undertakes no obligation to revise, update, or clarify forward-looking statements to reflect events or conditions after the date of this release.

MACKINAC FINANCIAL CORPORATION AND SUBSIDIARIES

SELECTED FINANCIAL HIGHLIGHTS

| (Dollars in thousands, except per share data) | For The Years Ended December 31, | |
|--|----------------------------------|----------------|
| | 2006 | 2005 |
| | (Unaudited) | (Audited) |
| Selected Financial Condition Data (at end of period): | | |
| Total assets | \$ 382,791 | \$ 298,722 |
| Total loans | 322,581 | 239,771 |
| Total deposits | 312,421 | 232,632 |
| Borrowings and subordinated debentures | 38,307 | 36,417 |
| Total shareholders' equity | 28,790 | 26,588 |
| Selected Statements of Income Data: | | |
| Net interest income | \$ 11,593 | \$ 9,780 |
| Income (loss) before taxes | 1,216 | (7,364) |
| Net income (loss) | 1,716 | (7,364) |
| Income (loss) per common share - Basic | .50 | (2.15) |
| Income (loss) per common share - Diluted | .50 | (2.15) |
| Selected Financial Ratios and Other Data: | | |
| <i>Performance Ratios:</i> | | |
| Net interest margin | 3.51 % | 3.64 % |
| Efficiency ratio | 93.95 | 160.43 |
| Return on average assets | .49 | (2.58) |
| Return on average equity | 6.19 | (25.63) |
| Average total assets | \$ 347,927 | \$ 285,896 |
| Average total shareholders' equity | 27,744 | 28,732 |
| Average loans to average deposits ratio | 99.77 % | 98.17 % |
| <i>Common Share Data at end of period:</i> | | |
| Market price per common share | \$ 11.50 | \$ 9.10 |
| Book value per common share | \$ 8.40 | \$ 7.75 |
| Common shares outstanding | 3,428,695 | 3,428,695 |
| Weighted average shares outstanding | 3,428,695 | 3,428,695 |
| <i>Other Data at end of period:</i> | | |
| Allowance for loan losses | \$ 5,006 | \$ 6,108 |
| Non-performing assets | \$ 2,965 | \$ 1,059 |
| Allowance for loan losses to total loans | 1.55 % | 2.55 % |
| Non-performing assets to total assets | .77 % | .35 % |
| Number of: | | |
| Branch locations | 13 | 12 |

MACKINAC FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share data)

| ASSETS | December 31, | |
|--|---------------------|-------------------|
| | 2006 (Unaudited) | 2005 (Audited) |
| Cash and due from banks | \$ 4,865 | \$ 4,833 |
| Federal funds sold | 5,841 | 3,110 |
| Cash and cash equivalents | 10,706 | 7,943 |
| Interest-bearing deposits in other financial institutions | 856 | 1,025 |
| Securities available for sale | 32,769 | 34,210 |
| Federal Home Loan Bank stock | 3,794 | 4,855 |
| Loans: | | |
| Commercial | 261,726 | 192,826 |
| Mortgage | 58,014 | 44,660 |
| Installment | 2,841 | 2,285 |
| Total loans | 322,581 | 239,771 |
| Allowance for loan losses | (5,006) | (6,108) |
| Net loans | 317,575 | 233,663 |
| Premises and equipment | 12,453 | 11,987 |
| Other real estate held for sale | 26 | 945 |
| Other assets | 4,612 | 4,094 |
| TOTAL ASSETS | \$ 382,791 | \$ 298,722 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities: | | |
| Non-interest-bearing deposits | \$ 23,471 | \$ 19,684 |
| Interest-bearing deposits | | |
| Money market | 42,340 | 31,198 |
| NOW, Savings, and IRA | 53,079 | 55,923 |
| CDs <\$100,000 | 80,719 | 67,725 |
| CDs >\$100,000 | 23,645 | 12,335 |
| Brokered | 89,167 | 45,767 |
| Total deposits | 312,421 | 232,632 |
| Borrowings | 38,307 | 36,417 |
| Other liabilities | 3,273 | 3,085 |
| Total liabilities | 354,001 | 272,134 |
| Shareholders' equity: | | |
| Preferred stock - No par value: | | |
| Authorized 500,000 shares, no shares outstanding | - | - |
| Common stock and additional paid in capital - No par value | | |
| Authorized - 18,000,000 shares | | |
| Issued and outstanding - 3,428,695 shares | 42,720 | 42,412 |
| Retained earnings | (13,743) | (15,461) |
| Accumulated other comprehensive income (loss) | (187) | (363) |
| Total shareholders' equity | 28,790 | 26,588 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 382,791 | \$ 298,722 |

MACKINAC FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share data)

| | For The Years Ended December 31, | | |
|---|----------------------------------|-------------------|-------------------|
| | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| | (Unaudited) | (Audited) | (Audited) |
| Interest income: | | | |
| Interest and fees on loans: | | | |
| Taxable | \$ 21,239 | \$ 13,862 | \$ 14,517 |
| Tax-exempt | 753 | 928 | 1,180 |
| Interest on securities: | | | |
| Taxable | 1,186 | 1,455 | 2,401 |
| Tax-exempt | 87 | 167 | 171 |
| Other interest income | <u>787</u> | <u>564</u> | <u>584</u> |
| Total interest income | <u>24,052</u> | <u>16,976</u> | <u>18,853</u> |
| Interest expense: | | | |
| Deposits | 10,575 | 5,259 | 5,443 |
| Borrowings | 1,884 | 1,937 | 4,730 |
| Subordinated debentures | - | - | 442 |
| Total interest expense | <u>12,459</u> | <u>7,196</u> | <u>10,615</u> |
| Net interest income | <u>11,593</u> | <u>9,780</u> | <u>8,238</u> |
| Provision for loan losses | (861) | - | - |
| Net interest income after provision for loan losses | <u>12,454</u> | <u>9,780</u> | <u>8,238</u> |
| Other income | | | |
| Service fees | 547 | 586 | 982 |
| Net gains on sale of loans | 197 | 49 | 39 |
| Loan and lease fees | 79 | 21 | 17 |
| Net security gains (losses) | (1) | 95 | - |
| Gain on sale of branches | - | - | 205 |
| Gain on settlement of subordinated debentures | - | - | 6,617 |
| Other | <u>161</u> | <u>360</u> | <u>682</u> |
| Total other income | <u>983</u> | <u>1,111</u> | <u>8,542</u> |
| Other expenses: | | | |
| Salaries and employee benefits | 6,132 | 6,090 | 8,032 |
| Occupancy | 1,264 | 1,053 | 994 |
| Furniture and equipment | 631 | 560 | 887 |
| Data processing | 691 | 1,720 | 1,220 |
| Accounting, legal and consulting fees | 1,425 | 886 | 1,836 |
| Loan and deposit | 392 | 852 | 1,718 |
| Telephone | 210 | 271 | 382 |
| Advertising | 346 | 814 | 115 |
| Penalty on prepayment of FHLB borrowings | - | 4,320 | - |
| Other | <u>1,130</u> | <u>1,689</u> | <u>3,044</u> |
| Total other expenses | <u>12,221</u> | <u>18,255</u> | <u>18,228</u> |
| Income (loss) before provision for income taxes | 1,216 | (7,364) | (1,448) |
| Provision for (benefit of) income taxes | (500) | - | 147 |
| Net income (loss) | <u>\$ 1,716</u> | <u>\$ (7,364)</u> | <u>\$ (1,595)</u> |
| Income (loss) per common share: | | | |
| Basic | <u>\$.50</u> | <u>\$ (2.15)</u> | <u>\$ (3.23)</u> |
| Diluted | <u>\$.50</u> | <u>\$ (2.15)</u> | <u>\$ (3.23)</u> |

MACKINAC FINANCIAL CORPORATION AND SUBSIDIARIES

LOAN PORTFOLIO AND CREDIT QUALITY

(Dollars in thousands)

Loan Portfolio Balances (at end of period):

| | December 31, | |
|---|-----------------------|-----------------------|
| | 2006 | 2005 |
| Commercial Loans | | |
| Real estate - operators of nonresidential buildings | \$ 44,308 | \$ 28,217 |
| Hospitality and tourism | 30,826 | 37,681 |
| Real estate agents and managers | 25,071 | 10,588 |
| New car dealers | 10,086 | 9,995 |
| Other | 115,426 | 88,842 |
| Total Commercial Loans | <u>225,717</u> | <u>175,323</u> |
| 1-4 family residential real estate | 58,014 | 44,660 |
| Consumer | 2,841 | 2,285 |
| Construction | <u>36,009</u> | <u>17,503</u> |
| Total Loans | <u>\$ 322,581</u> | <u>\$ 239,771</u> |

Credit Quality (at end of period):

| | December 31, | |
|---------------------------------------|-----------------|-------------------|
| | 2006 | 2005 |
| Nonperforming Assets | | |
| Nonaccrual loans | \$ 2,899 | \$ 15 |
| Loans past due 90 days or more | 40 | 99 |
| Restructured loans | - | - |
| Total nonperforming loans | <u>2,939</u> | <u>114</u> |
| Other real estate owned | 26 | 945 |
| Total nonperforming assets | <u>\$ 2,965</u> | <u>\$ 1,059</u> |
| Nonperforming loans as a % of loans | <u>.91</u> % | <u>.05</u> % |
| Nonperforming assets as a % of assets | <u>.77</u> % | <u>.35</u> % |
| Reserve for Loan Losses: | | |
| At period end | \$ 5,006 | \$ 6,108 |
| As a % of loans | <u>1.55</u> % | <u>2.55</u> % |
| As a % of nonperforming loans | <u>170.33</u> % | <u>5,357.89</u> % |
| As a % of nonaccrual loans | <u>172.68</u> % | <u>N/M</u> % |
| Charge-off Information: | | |
| Average loans | \$ 278,953 | \$ 207,928 |
| Net charge-offs | \$ 241 | \$ 858 |
| Charge-offs as a % of average loans | <u>.09</u> % | <u>.41</u> % |

MACKINAC FINANCIAL CORPORATION AND SUBSIDIARIES

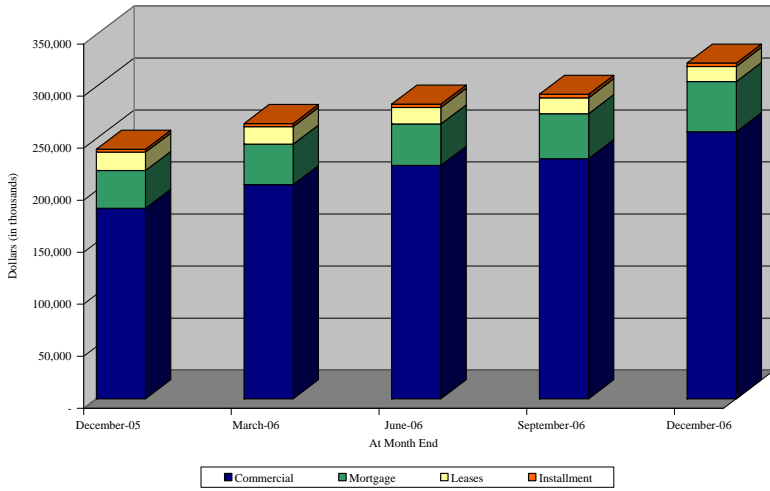
QUARTERLY FINANCIAL HIGHLIGHTS

| | QUARTER ENDED | | | | |
|--|----------------------|-----------------------|------------------|-------------------|----------------------|
| | December 31, 2006 | September 30, 2006 | June 30, 2006 | March 31, 2006 | December 31, 2005 |
| BALANCE SHEET (Dollars in thousands) | | | | | |
| Total loans | \$ 322,581 | \$ 292,614 | \$ 283,110 | \$ 264,471 | \$ 239,771 |
| Allowance for loan losses | (5,006) | (5,316) | (5,415) | (5,415) | (6,108) |
| Total loans, net | 317,575 | 287,298 | 277,695 | 259,056 | 233,663 |
| Intangible assets | 205 | 237 | 268 | 299 | 330 |
| Total assets | 382,791 | 363,191 | 352,497 | 334,591 | 298,722 |
| Core deposits | 199,609 | 195,774 | 185,784 | 183,438 | 174,530 |
| Noncore deposits ⁽¹⁾ | 112,812 | 97,720 | 98,380 | 84,516 | 58,102 |
| Total deposits | 312,421 | 293,494 | 284,164 | 267,954 | 232,632 |
| Total borrowings | 38,307 | 38,307 | 37,617 | 36,417 | 36,417 |
| Total shareholders' equity | 28,790 | 28,226 | 27,179 | 27,173 | 26,588 |
| Total shares outstanding | 3,428,695 | 3,428,695 | 3,428,695 | 3,428,695 | 3,428,695 |
| INCOME STATEMENT (Dollars in thousands) | | | | | |
| Net interest income | \$ 3,027 | \$ 2,952 | \$ 2,935 | \$ 2,679 | \$ 2,680 |
| Provision for loan losses | (261) | - | - | (600) | - |
| Net interest income after provision | 3,288 | 2,952 | 2,935 | 3,279 | 2,680 |
| Total noninterest income | 276 | 240 | 251 | 216 | 303 |
| Total noninterest expense | 3,226 | 3,002 | 2,996 | 2,997 | 4,011 |
| Income before taxes | 338 | 190 | 190 | 498 | (1,028) |
| Provision for income taxes | - | (500) | - | - | - |
| Net income | \$ 338 | \$ 690 | \$ 190 | \$ 498 | \$ (1,028) |
| PER SHARE DATA | | | | | |
| Earnings per share - basic | \$.10 | \$.20 | \$.05 | \$.15 | \$ (.30) |
| Earnings per share - diluted | .10 | .20 | .05 | .15 | (.30) |
| Book value per share | 8.40 | 8.23 | 7.93 | 7.93 | 7.75 |
| ASSET QUALITY RATIOS | | | | | |
| Nonperforming loans/total loans | .91 % | .71 % | .16 % | N/M % | .05 % |
| Nonperforming assets/total assets | .77 | .58 | .14 | .28 | .35 |
| Allowance for loan losses/total loans | 1.55 | 1.82 | 1.91 | 2.05 | 2.55 |
| Allowance for loan losses/nonperforming loans | 170.33 | 257.43 | 1,214.13 | N/M | 5,357.89 |
| PROFITABILITY RATIOS | | | | | |
| Return on average assets | .37 % | .75 % | .22 % | .63 % | (1.41) % |
| Return on average equity | 4.68 | 9.76 | 2.82 | 7.47 | (14.95) |
| Net interest margin | 3.44 | 3.36 | 3.62 | 3.62 | 3.96 |
| Efficiency ratio | 94.60 | 91.17 | 91.41 | 99.37 | 128.37 |
| Average loans/average deposits | 102.29 | 97.51 | 99.67 | 98.44 | 102.01 |
| CAPITAL ADEQUACY RATIOS | | | | | |
| Leverage ratio | 7.85 | 7.81 | 8.04 | 8.54 | 9.23 |
| Tier 1 capital ratio | 8.77 | 9.36 | 9.28 | 9.74 | 10.57 |
| Total capital ratio | 10.02 | 10.62 | 10.54 | 11.00 | 11.84 |
| Average equity/average assets | 7.81 | 7.73 | 7.94 | 8.48 | 9.45 |
| Tangible equity/tangible assets | 7.47 | 7.71 | 7.64 | 8.04 | 8.80 |

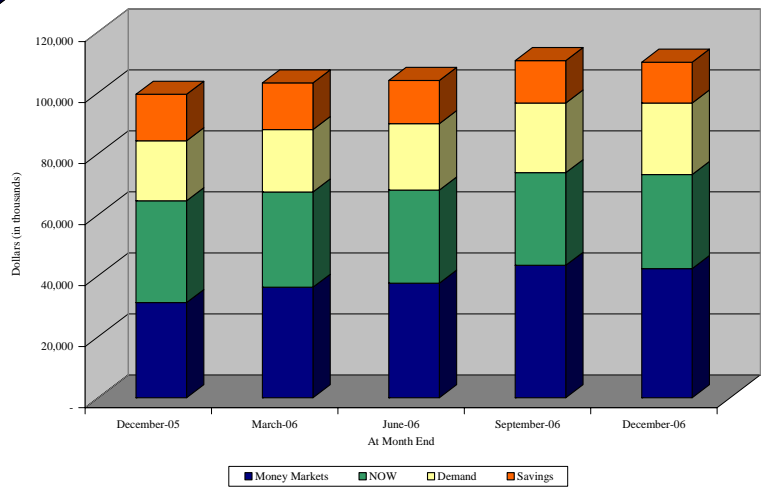
⁽¹⁾ Noncore deposits includes brokered deposits and CDs greater than \$100,000

MACKINAC FINANCIAL CORPORATION AND SUBSIDIARIES QUARTERLY FINANCIAL HIGHLIGHTS

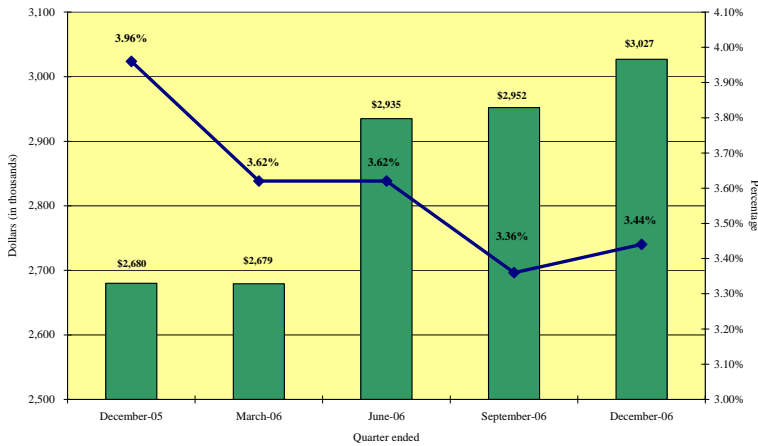
LOAN PORTFOLIO BALANCES



TRANSACTIONAL ACCOUNT DEPOSITS



NET INTEREST MARGIN



EFFICIENCY RATIO

