

To Our Shareholders

FINANCIAL HIGHLIGHTS

Eastern Michigan Financial Corporation's earnings through the second quarter of 2018 were \$1,294,000 or \$1.09 per share.

Return on Average Equity (ROE) was 8.04% during this time period. Return on Average Assets (ROA) was 0.79%, an increase of 0.17% over one year ago, and our Capital to Assets ratio at quarter's end was 10.01%, compared to 9.67% as of June 30, 2017.

Book value per share rose \$0.44 over second quarter 2017, ending at \$27.79.

Total assets increased \$165,000 over last year at this time, \$330.26 million compared to \$330.05 million. Loans grew \$14.60 million, \$175.03 million versus \$160.44 million, and deposits decreased slightly, \$296.34 million versus \$297.01 million one year ago.

SHAREHOLDER DIVIDEND

The Board of Directors declared a second quarter dividend of \$0.13 per share. Year to date, we have paid \$0.26 per share.

MANAGEMENT COMMENTS

Earnings for the first six months of 2018 are ahead of budget and well ahead of the same period in 2017. As stated in the first quarter 2018 financial statement, the increase in net income has been driven by recent tax law changes and our increase in loan outstandings.

Loan principal balances were up more than \$5 million in the second quarter versus the first quarter of this year. We have booked a few modest commercial loans, but some of the increase came from existing lines of credit drawn on over the quarter, particularly lines to farmers as they used the money to cover their crop input costs during the spring planting season. We have also had success growing the loans portfolio with a recent home equity line of credit promotion.

Increased loan volume and fee income from the origination of sold home mortgages helped our "Other Income" category this quarter. Home sales have been strong in our market over the spring and early summer, and we have seen a steady stream of referrals through relationships we have built and continue to foster.

While there is a lot of good news on loan growth, it is disappointing to report an increase in our loan loss provision as compared to one year ago. Further reserves had to be set aside to cover losses from a long term borrower that unexpectedly went out of business in January. We feel, however, that we have a very good grasp of our shortfall and do not expect to take any further losses on this relationship.

Clouds loom large for our agricultural borrowers as we have seen significant reduction in anticipated fall crop prices. Corn is trading at less than three dollars per bushel and soy beans are below eight dollars per bushel for fall delivery. If these prices do not improve, it will likely impact our farm borrowers' abilities to meet their financial obligations going forward. Many of our crop production borrowers enter into forward grain sale contracts each year, which should provide some protection for them this year. Long term however, crop prices need to increase to cover production costs.

Despite a decline in deposits from the previous year and first quarter of this year, we still have ample liquidity through maturing investment securities. The liquidity of the Bank remains very strong overall and the recent increase in the prime rate has helped our overall interest margin as well. While we continue to pay competitive deposit rates, we have not had to chase deposits like other depository institutions due to our strong liquidity position.

Halfway through the year, results are encouraging, and management will make every effort to keep this momentum going. Loan growth and the development of new relationships remains a priority, and we believe we have a solid team in place to accomplish these goals.

We acknowledge the hard work of our staff and continue to appreciate the support of our shareholders.



Chief Executive Officer

COMPARATIVE FINANCIAL STATEMENT

JUNE 30, 2018

**Eastern
Michigan**

**Financial
Corporation**



CONSOLIDATED BALANCE SHEETS (unaudited)

	June 30,	
	2018	2017
ASSETS		
Cash and due from banks.....	\$ 21,770	\$ 19,538
Securities.....	103,002	107,878
Federal funds sold & other deposits.....	13,661	24,239
Loans.....	175,031	160,436
Allowance for loan loss.....	(1,463)	(1,249)
Other assets.....	18,214	19,208
TOTAL ASSETS.....	\$ 330,215	\$ 330,050
LIABILITIES		
Deposits		
Non-interest bearing.....	\$ 70,230	\$ 78,370
Interest bearing.....	226,113	218,729
Total deposits.....	296,343	297,099
Other liabilities.....	832	1,032
TOTAL LIABILITIES.....	297,175	298,131
SHAREHOLDERS' EQUITY		
Common stock (issued 1,188,988 in 2018 and 1,167,042 in 2017).....	5,945	5,809
Surplus.....	2,348	2,034
Retained earnings.....	26,071	24,275
Accumulated other comprehensive income (loss).....	(1,324)	(199)
TOTAL SHAREHOLDERS' EQUITY.....	33,040	31,919
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY.....	\$ 330,215	\$ 330,050

FINANCIAL RATIOS

Return on Average Equity (annualized).....	8.04%	6.54%
Return on Average Assets (annualized).....	0.79%	0.62%
Capital to Assets.....	10.01%	9.67%
Allowance for Loan Loss / Loans.....	0.84%	0.78%

(Dollars in thousands except per share data)

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	Six Months Ended June 30,	
	2018	2017
INTEREST INCOME		
Interest & fees on loans.....	\$ 4,103	\$ 3,487
Interest on federal funds sold & other deposits.....	223	218
Interest on investment securities.....	979	948
TOTAL INTEREST INCOME.....	5,305	4,653
INTEREST EXPENSE.....	211	180
NET INTEREST INCOME.....	5,094	4,473
PROVISION FOR LOAN LOSSES.....	343	78
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES.....	4,751	4,395
OTHER INCOME.....	982	823
OTHER OPERATING EXPENSES.....	4,039	3,829
INCOME BEFORE INCOME TAXES.....	1,694	1,389
INCOME TAX EXPENSE.....	400	375
NET INCOME.....	\$ 1,294	\$ 1,014
EARNINGS PER COMMON SHARE	\$ 1.09	\$ 0.87

(Dollars in thousands except per share data)

STOCK INFORMATION

Transfer Agent and Registrar:
Computershare Shareholder Services
P.O. Box 30170
College Station, Texas 77842-3170
800.368.5948

Stock Listing:
Symbol: EFIN
Over-The-Counter
Bulletin Board

Investor Relations Contact:

Errin McMillan, Chief Financial Officer
Eastern Michigan Financial Corporation
810.398.5135

Corporate Headquarters:

Eastern Michigan Financial Corporation
65 N. Howard Avenue
Croswell, Michigan 48422-0139
800.397.2504

	2018	2017
Number of shares, issued and outstanding	1,188,988	1,167,042
Number of shareholders of record	301	310
Cash dividends declared, year-to-date	0.26	0.24
Book value, end-of-period	27.79	27.35
Market value, last trade known	25.00	21.58

BOARD OF DIRECTORS

Earl E. DesJardins, Chairman
Retired Civil Engineer
BMJ Engineers & Surveyors, Inc., Port Huron

Timothy M. Ward, Vice Chairman
Chief Executive Officer
Eastern Michigan Bank, Croswell

Bradley D. Apsey, Director
President
Apsey Funeral Home, Inc., Deckerville

Karen S. Flanagan, Director
Farmer
Sandusky

William G. Oldford, Jr., Director
President
Eastern Michigan Bank, Croswell

Kathlene M. Partaka, Director
Retired Executive Vice President, Operations
Eastern Michigan Bank, Croswell

Ann Randall Kendrick, Director
Owner
Pollock Randall Funeral Home, Port Huron
Marysville Funeral Home, Marysville

Patricia W. Ryan, Director
Retired Partner
Frohm, Kelley, Butler & Ryan, P.C., Port Huron

John C. Williams, Director
Retired Superintendent
Croswell Electrical and Water Departments, Croswell

CORPORATE OFFICERS

Timothy M. Ward, Chief Executive Officer

William G. Oldford, Jr., President

Errin McMillan, Vice President, Chief Financial Officer