

# COMPARATIVE FINANCIAL STATEMENT

MARCH 31, 2019

## To Our Shareholders

### FINANCIAL HIGHLIGHTS

Eastern Michigan Financial Corporation earnings through the first quarter of 2019 were \$936,000 or \$0.78 per share, up nicely from the same period in 2018. Return on Average Equity (ROE) during this time increased to 10.64% compared to 7.64% in 2018 and nearly double our ROE for 2017. Return on Average Assets (ROA) increased as well, 1.04% versus 0.76% in the first quarter 2018.

### SHAREHOLDER DIVIDEND

The Board of Directors declared a first quarter 2019 dividend of \$0.17 per share, an increase of \$0.04 per share from the first quarter of 2018.

### MANAGEMENT COMMENTS

Our first quarter of 2019 was very solid. Net income was up 50% over last year at this time, driven by an increase of more than \$400,000 in net interest income. This NII increase continues the trend from the last half of 2018 as we have continued to improve our net interest margin through higher yields and a greater asset base.

We maintain a significant amount of liquidity and we have positioned ourselves well to take advantage of the rising rate environment, particularly on the short end of the interest rate yield curve. With Fed Funds now at 2.25% to 2.50%, our overnight investment income has improved significantly from a year ago. We did see downward pressure on longer term rates with the 10 year treasury falling from above 3.00% earlier this year to closer to 2.50% at quarter end. Many times, when the yield curve flattens or becomes inverted with short term rates higher than long term rates, it is a sign of a faltering economy - yet we have not seen significant weakness overall.

Our substantial exposure to agricultural related borrowers gives us some caution as we approach the planting season. Current commodity prices for corn, wheat, and soybeans are at or below many farmers' cost of production and few, if any, of our borrowers are entering into contracts to sell their crops in the fall as they are hoping for price increases in the interim. Last spring, many of these same borrowers had already contracted at least a portion of their crop at a price that turned out to be 20% higher than the cash price available at harvest. Soybean growers were also assisted by trade mitigation payments for the previous crop year.

Our deposit balances continued to grow in early 2019 as a result of new public fund relationships. While the addition of these new relationships has affected our cost of funds, we still maintain a cost of funds of less than 0.20%.

In the first quarter of 2019, Ann Kendrick stepped down from both the Eastern Michigan Financial Corporation and Bank Board of Directors to focus on her business. Both the Board members and the employees thank Ann for her years of service.

We are pleased to announce the appointment of Donna Niester to the Board of Directors of Eastern Michigan Financial Corporation and Eastern Michigan Bank. Miss Niester is the President and CEO of Acheson Ventures, LLC, Trustee of the James C. Acheson Foundation, and a Certified Public Accountant. She has a long and distinguished record of service to the Port Huron community volunteering on various boards and committees.

Certainly, management is pleased with first quarter results and the continued growth in the balance sheet. Going into the remainder of the year, loan growth and the development of new business relationships will remain our focus, and we appreciate the dedication and hard work of our staff towards that end. Thank you, as always, for your support as a shareholder.



Chief Executive Officer

**Eastern  
Michigan**  
**Financial  
Corporation**



## CONSOLIDATED BALANCE SHEETS (unaudited)

| ASSETS                                   | March 31,         |                   |
|--|-------------------|-------------------|
|  | 2019              | 2018              |
| Cash and due from banks.....             | \$ 20,012         | \$ 20,416         |
| Securities.....                          | 110,042           | 110,096           |
| Federal funds sold & other deposits..... | 35,003            | 16,837            |
| Loans.....                               | 178,087           | 169,692           |
| Allowance for loan loss.....             | (1,483)           | (1,382)           |
| Other assets.....                        | 19,190            | 19,345            |
| <b>TOTAL ASSETS.....</b>                 | <b>\$ 360,851</b> | <b>\$ 335,004</b> |

## LIABILITIES

|                               |                   |                   |
|-------------------------------|-------------------|-------------------|
| Deposits                      |                   |                   |
| Non-interest bearing.....     | \$ 73,019         | \$ 75,575         |
| Interest bearing.....         | 251,339           | 226,045           |
| Total deposits.....           | 324,358           | 301,620           |
| Other liabilities.....        | 763               | 809               |
| <b>TOTAL LIABILITIES.....</b> | <b>\$ 325,121</b> | <b>\$ 302,429</b> |

## SHAREHOLDERS' EQUITY

|  |                   |                   |
|--|-------------------|-------------------|
| Common stock (issued 1,202,178 shares in 2019 and 1,183,446 shares in 2018)..... | \$ 6,009          | \$ 5,917          |
| Surplus.....   | 2,227             | 2,204             |
| Retained earnings.....   | 28,182            | 25,713            |
| Accumulated other comprehensive income (loss)....                                | (688)             | (1,259)           |
| <b>TOTAL SHAREHOLDERS' EQUITY.....</b>   | <b>\$ 35,730</b>  | <b>\$ 32,575</b>  |
| <b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY.....</b>                         | <b>\$ 360,851</b> | <b>\$ 335,004</b> |

## FINANCIAL RATIOS

|  |        |       |
|--|--------|-------|
| Return on Average Equity (annualized)..... | 10.64% | 7.64% |
| Return on Average Assets (annualized)..... | 1.04%  | 0.76% |
| Capital to Assets.....                     | 9.90%  | 9.72% |
| Allowance for Loan Loss / Loans.....       | 0.83%  | 0.81% |

(Dollars in thousands except per share data)

## CONSOLIDATED STATEMENTS OF INCOME (unaudited)

| INTEREST INCOME   | Three Months Ended March 31, |                |
|---|------------------------------|----------------|
|   | 2019                         | 2018           |
| Interest & fees on loans.....                                   | \$ 2,120                     | \$ 2,069       |
| Interest on federal funds sold & other deposits..               | 427                          | 131            |
| Interest on investment securities.....                          | 528                          | 448            |
| <b>TOTAL INTEREST INCOME.....</b>                               | <b>3,075</b>                 | <b>2,648</b>   |
| <b>INTEREST EXPENSE.....</b>                                    | <b>192</b>                   | <b>97</b>      |
| <b>NET INTEREST INCOME.....</b>                                 | <b>2,883</b>                 | <b>2,551</b>   |
| <b>PROVISION FOR LOAN LOSSES.....</b>                           | <b>77</b>                    | <b>176</b>     |
| <b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES.....</b> | <b>2,806</b>                 | <b>2,375</b>   |
| <b>OTHER INCOME.....</b>  | <b>386</b>                   | <b>466</b>     |
| <b>OTHER OPERATING EXPENSES.....</b>                            | <b>2,102</b>                 | <b>2,031</b>   |
| <b>INCOME BEFORE INCOME TAXES.....</b>                          | <b>1,090</b>                 | <b>810</b>     |
| <b>INCOME TAX EXPENSE.....</b>                                  | <b>154</b>                   | <b>188</b>     |
| <b>NET INCOME.....</b>  | <b>\$ 936</b>                | <b>\$ 622</b>  |
| <b>EARNINGS PER COMMON SHARE</b>                                | <b>\$ 0.78</b>               | <b>\$ 0.53</b> |

(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

|   | 2019      | 2018      |
|---|-----------|-----------|
| <b>Number of shares, issued and outstanding</b> | 1,202,178 | 1,183,446 |
| <b>Number of shareholders of record</b>         | 296       | 295       |
| <b>Cash dividends declared, year-to-date</b>    | \$ 0.17   | \$ 0.13   |
| <b>Book value, end-of-period</b>                | 29.72     | 27.53     |
| <b>Market value, last trade known</b>           | 25.00     | 23.75     |

## 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

**Donna M. Niester**, Director  
President and Chief Executive Officer  
Acheson Ventures, LLC, Port Huron

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

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

**Patricia W. Ryan**, Director  
Retired Partner  
Frohman, 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