

To Our Shareholders

FINANCIAL HIGHLIGHTS

Eastern Michigan Financial Corporation earnings through the first quarter of 2018 were \$622,000 or \$0.53 per share, up nicely from the same period in 2017. Return on Average Equity (ROE) during this time increased to 7.64% as compared to 5.95% in 2017. Return on Average Assets (ROA) increased as well, 0.76% versus 0.56% in the first quarter 2017.

Our Capital to Assets ratio as of March 31, 2018, was 9.72%, compared to 9.45% as of March 31, 2017.

Book value per share rose \$0.76 over first quarter 2017 to \$27.53 and market value per share was \$23.75 as of the last known trade at quarter's end.

Total assets were \$335,004,000 compared to \$329,639,000 for the same quarter in 2017, an increase of 1.6%. Loans increased by more than 10% over first quarter 2017, ending at \$169,692,000. Deposits were \$301,620,000 at quarter's end, a 1.5% increase over the same period last year.

STOCKHOLDER DIVIDEND

The Board of Directors declared a first quarter 2018 dividend of \$0.13 per share, an increase of \$0.01 per share from the first quarter of 2017.

MANAGEMENT COMMENTS

2018 has commenced on a positive note. On a net income basis, we were about 5% ahead of budget. Our budget was based on the loan growth we had seen in 2017 and knowing how the new tax rates would affect us. Year over year, net income was up nearly 35%.

Though down modestly from year end, loan outstandings have grown as compared to one year ago. While we did unfortunately lose one large relationship in the first quarter, we have already been able to replace most of what we lost. Our loan officers continue their diligent calling efforts and both they and the branch management staff are in the second year of modest variable compensation to drive loan and fee income growth.

The recent changes to the Federal corporate tax laws have had a positive impact on our net income and even though profits were up nearly 35%, we have expensed less than a 10% increase in taxes for the first quarter. In general, banks like ours are significant tax paying entities and should continue to see benefits from the tax law change across the board.

Interest income was up 15% over first quarter 2017, largely driven by two factors. The loan growth mentioned earlier contributed to this increase as loans typically carry a higher interest rate than what we can earn on an investment security. The 0.75% increase in the prime interest rate year over year was a factor as well, as this is the index that we, like most banks, use to price variable rate loans, resulting in a higher overall rate for these loans.

Despite our 9% increase in interest expense, competition in our market still has not dictated the same level of pressure to increase deposit rates that we have experienced on the loan side of our balance sheet. Our cost of funds remains as one of the lowest for any bank in Michigan.

One clear disappointment in the first quarter was our need to make a six figure provision in our loan loss reserve when a loan customer in business for 30 plus years unexpectedly closed their doors. Even though our loans to them are collateralized, we took the prudent step of reserving for a possible future loss as we work through the liquidation process.

Certainly first quarter results are encouraging and provide a solid framework on which to build going forward. Loan growth, with strong credit parameters, remains a priority as does the development of new business relationships. Management continues to look for new ways to enhance our product and service offerings, to keep them competitive and attractive to a broad range of customers. As always, we appreciate the dedication and hard work of our staff and the support of our shareholders. Our success is firmly rooted in both.



Chief Executive Officer

COMPARATIVE FINANCIAL STATEMENT

MARCH 31, 2018

**Eastern
Michigan**

**Financial
Corporation**



CONSOLIDATED BALANCE SHEETS (unaudited)

	March 31,	
	2018	2017
ASSETS		
Cash and due from banks.....	\$ 20,416	\$ 21,713
Securities.....	110,096	110,192
Federal funds sold & other deposits.....	16,837	24,259
Loans.....	169,692	154,239
Allowance for loan loss.....	(1,382)	(1,229)
Other assets.....	19,345	20,465
TOTAL ASSETS.....	\$ 335,004	\$ 329,639
LIABILITIES		
Deposits		
Non-interest bearing.....	\$ 75,575	\$ 76,074
Interest bearing.....	226,045	221,115
Total deposits.....	301,620	297,189
Other liabilities.....	809	1,293
TOTAL LIABILITIES.....	302,429	298,482
SHAREHOLDERS' EQUITY		
Common stock (issued 1,183,446 shares in 2018 and 1,164,258 shares in 2017).....	5,917	5,796
Surplus.....	2,204	2,008
Retained earnings.....	25,713	23,862
Accumulated other comprehensive income (loss).....	(1,259)	(509)
TOTAL SHAREHOLDERS' EQUITY.....	32,575	31,157
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY.....	\$ 335,004	\$ 329,639
FINANCIAL RATIOS		
Return on Average Equity (annualized).....	7.64%	5.95%
Return on Average Assets (annualized).....	0.76%	0.56%
Capital to Assets.....	9.72%	9.45%
Allowance for Loan Loss / Loans.....	0.81%	0.80%

(Dollars in thousands except per share data)

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	Three Months Ended March 31,	
	2018	2017
INTEREST INCOME		
Interest & fees on loans.....	\$ 2,069	\$ 1,721
Interest on federal funds sold & other deposits.....	131	108
Interest on investment securities.....	448	465
TOTAL INTEREST INCOME.....	2,648	2,294
INTEREST EXPENSE.....	97	89
NET INTEREST INCOME.....	2,551	2,205
PROVISION FOR LOAN LOSSES.....	176	40
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES.....	2,375	2,165
OTHER INCOME.....	466	413
OTHER OPERATING EXPENSES.....	2,031	1,945
INCOME BEFORE INCOME TAXES.....	810	633
INCOME TAX EXPENSE.....	188	172
NET INCOME.....	\$ 622	\$ 461
EARNINGS PER COMMON SHARE	\$ 0.53	\$ 0.40

(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:

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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	1,183,446	1,164,258
Number of shareholders of record	295	321
Cash dividends declared, year-to-date	0.13	0.12
Book value, end-of-period	27.53	26.76
Market value, last trade known	23.75	21.50

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