

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.

COMPARATIVE FINANCIAL STATEMENT

MARCH 31, 2019

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)

	March 31,	
	2019	2018
ASSETS		
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
TOTAL ASSETS.....	\$ 360,851	\$ 335,004

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
TOTAL LIABILITIES.....	\$ 325,121	\$ 302,429

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)
TOTAL SHAREHOLDERS' EQUITY.....	\$ 35,730	\$ 32,575
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY.....	\$ 360,851	\$ 335,004

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)

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

(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
Number of shares, issued and outstanding	1,202,178	1,183,446
Number of shareholders of record	296	295
Cash dividends declared, year-to-date	\$ 0.17	\$ 0.13
Book value, end-of-period	29.72	27.53
Market value, last trade known	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
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