

COMPARATIVE FINANCIAL STATEMENT

MARCH 31, 2022

TO OUR SHAREHOLDERS

FINANCIAL HIGHLIGHTS

Eastern Michigan Financial Corporation's (EMFC) earnings through the first three months of 2022 were \$705,000 or \$0.56 per share, versus \$1,279,000 or \$1.04 per share for the same period last year. Return on Average Equity (ROE) declined to 7.10%, compared with 11.75% for the first three months of 2021, and Return on Average Assets (ROA) decreased to 0.52%, versus 1.05% for the same period in 2021.

As of March 31, 2022, our Capital to Assets ratio was 6.87%, compared with 8.84% at the end of the first quarter of 2021. Book value per share ended the quarter at \$29.75, a decline of \$5.59 over the same period last year; and market value per share was \$31.50 as of the last known trade on March 31, 2022.

Total assets were \$545,351,000 at quarter's end, versus \$494,177,000 for the first three months of 2021. Loans decreased by 6.41% over the first quarter of 2021, ending the period at \$180,030,000. This decline can primarily be attributed to forgiveness and pay downs of Small Business Administration (SBA) Paycheck Protection Program (PPP) loans. Deposits increased by \$58,395,000 over the previous year, finishing the quarter at \$507,189,000. Consumer and public fund deposits from stimulus checks and other government benefits continue to be the primary driver of deposit growth.

SHAREHOLDER DIVIDEND

In the first quarter of 2022, the Board of Directors declared a special cash dividend of \$0.50 per share and a regular quarterly dividend of \$0.30 per share. Year to date, dividends paid total \$0.80 per share.

MANAGEMENT COMMENTS

Results for the first quarter of 2022 reflect the impact of the current rising rate environment on our net interest margin and the significant reduction in SBA PPP fees on interest income.

- Significant changes in the treasury yield curve have positively affected our income and will continue to do so in future quarters. As discussed further below, the Bank's balance sheet is interest-rate-sensitive, and we expect to see continued benefits from a rising interest rate environment.
- The benefit of our participation in the SBA PPP program is soon coming to an end. As of quarter end, only \$150,000 in unearned PPP fee income remains, most of which will be recognized in the second quarter of 2022.
- Credit quality remains strong, as do our credit standards. The vast majority of our commercial borrowers have not experienced material declines in their business, and many have seen significant improvement over the last several years.

- With decades-high inflation, the prospect of higher interest rates (especially short-term rates), and the possibility of the Federal Reserve's actions leading to a recession, we recognize there is significant uncertainty in the economy. While no one can accurately predict how economic conditions will unfold, we have taken steps to plan for a broad range of economic outcomes based on the data available.
- In anticipation of higher interest rates, the Bank purchased a rate cap on the federal funds rate in May 2021 before current inflation worries had commanded widespread attention. This interest rate cap works as a hedge against higher deposit rates as the Bank stands to benefit from higher overnight rates. If the federal funds rate exceeds the strike price of our rate cap, the Bank will receive a periodic payment that varies directly with how much the federal funds rate increases. Unless the Bank chooses to sell the cap before maturity, it will remain in effect until May 2031.

While proud of these results, we recognize the clear challenges and opportunities ahead and are working hard to address both. We respect your investment in Eastern Michigan Financial Corporation and Eastern Michigan Bank and thank you for your continued support.



President and Chief Executive Officer

**Eastern
Michigan
Financial
Corporation**



COMPARATIVE FINANCIAL STATEMENT

MARCH 31, 2022

CONSOLIDATED BALANCE SHEETS (unaudited)

| | March 31, | |
|---|-------------------|-------------------|
| | 2022 | 2021 |
| ASSETS | | |
| Cash and due from banks | \$ 97,500 | \$ 155,574 |
| Securities | 243,063 | 76,114 |
| Federal funds sold & other deposits | 1,201 | 88 |
| Loans..... | 180,030 | 241,923 |
| Allowance for loan loss..... | (1,722) | (1,707) |
| Other assets..... | 25,279 | 22,185 |
| TOTAL ASSETS..... | \$ 545,351 | \$ 494,177 |

LIABILITIES

| | | |
|-------------------------------|-------------------|-------------------|
| Deposits | | |
| Non-interest bearing..... | \$ 129,379 | \$ 130,540 |
| Interest bearing..... | 377,810 | 318,254 |
| Total deposits..... | 507,189 | 448,794 |
| Other liabilities..... | 685 | 1,677 |
| TOTAL LIABILITIES..... | \$ 507,874 | \$ 450,471 |

SHAREHOLDERS' EQUITY

| | | |
|--|-------------------|-------------------|
| Common stock (issued 1,259,887 shares in 2022 and 1,236,619 shares in 2021)..... | \$ 6,221 | \$ 6,130 |
| Surplus..... | 2,650 | 2,602 |
| Retained earnings..... | 36,645 | 34,378 |
| Accumulated other comprehensive income (loss)..... | (8,039) | 596 |
| TOTAL SHAREHOLDERS' EQUITY..... | \$ 37,477 | \$ 43,706 |
| TOTAL LIABILITIES & SHAREHOLDERS' EQUITY..... | \$ 545,351 | \$ 494,177 |

FINANCIAL RATIOS

| | | |
|--|-------|--------|
| Return on Average Equity (annualized)..... | 7.10% | 11.75% |
| Return on Average Assets (annualized)..... | 0.52% | 1.05% |
| Capital to Assets..... | 6.87% | 8.84% |
| Allowance for Loan Loss / Loans..... | 0.96% | 0.71% |

(Dollars in thousands except per share data)

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|-----------------|
| | 2022 | 2021 |
| INTEREST INCOME | | |
| Interest & fees on loans..... | \$ 2,284 | \$ 2,685 |
| Interest on federal funds sold & other deposits..... | 95 | 144 |
| Interest on investment securities..... | 796 | 320 |
| TOTAL INTEREST INCOME..... | 3,175 | 3,149 |
| INTEREST EXPENSE..... | 122 | 93 |
| NET INTEREST INCOME..... | 3,053 | 3,056 |
| PROVISION FOR LOAN LOSSES..... | 4 | (135) |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES..... | 3,049 | 3,191 |
| OTHER INCOME..... | 442 | 705 |
| OTHER OPERATING EXPENSES..... | 2,622 | 2,325 |
| INCOME BEFORE INCOME TAXES..... | 869 | 1,571 |
| INCOME TAX EXPENSE..... | 164 | 292 |
| NET INCOME..... | \$ 705 | \$ 1,279 |
| EARNINGS PER COMMON SHARE | \$ 0.56 | \$ 1.04 |

(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 Levitt, 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

| | 2022 | 2021 |
|--|-----------|-----------|
| Number of shares, issued and outstanding | 1,259,887 | 1,236,619 |
| Number of shareholders of record | 287 | 289 |
| Cash dividends declared, year-to-date | \$ 0.80 | \$ 0.25 |
| Book value, end-of-period | 29.75 | 35.34 |
| Market value, last trade known | 31.50 | 28.48 |

BOARD OF DIRECTORS

Timothy Ward, Chairperson
Retired Chief Executive Officer
Eastern Michigan Bank, Croswell

William Oldford, Jr., Vice Chairperson
President and Chief Executive Officer
Eastern Michigan Bank, Croswell

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

Karen Flanagan, Director
Farmer
Sandusky

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

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

Anthony Roggenbuck, Director
President, D&D Farms, Inc., Ruth
Owner Operator, Trucker T's Transport, LLC, Uby

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

Steven Schwehofer, Director
Former Chief Financial Officer
Foster Blue Water Oil, Richmond

Michael Wendling, Director
Prosecuting Attorney
St. Clair County

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

CORPORATE OFFICERS

William Oldford, Jr., President and Chief Executive Officer
Stacie Bales, Senior Vice President, Chief Operating Officer
Chad Deaner, Senior Vice President, Chief Lending Officer
Errin Levitt, Senior Vice President, Chief Financial Officer