

COMPARATIVE FINANCIAL STATEMENT

September 30, 2020

To Our Shareholders

FINANCIAL HIGHLIGHTS

Eastern Michigan Financial Corporation's (EMFC) earnings through the first three quarters of 2020 were \$3,054,000 or \$2.51 per share, versus \$3,170,000 for the same period last year or \$2.64 per share. Return on Average Equity (ROE) during this time decreased to 10.10% as compared to 11.77% in 2019. Return on Average Assets (ROA) decreased to 0.97% versus 1.14% through the first three quarters.

Our Capital to Assets ratio as of September 30, 2020, was 8.77% compared to 9.54% as of June 30, 2019. This decrease in this ratio was primarily driven by an increase in assets related to the Small Business Administration (SBA) Paycheck Protection Program discussed in more detail below. As these loans are paid off by the SBA, this ratio will improve.

Book value per share ended the quarter at \$34.48 an improvement of \$2.75 over the same period last year. Market value per share was \$26.50 as of the last known trade on September 30, 2020.

Total assets were \$481,542,000 compared to \$400,172,000 for the first three quarters in 2019, an increase of 20.3%. Loans increased by 30.1% over the first three quarters of 2020, ending at \$239,244,000. Deposits were \$437,600,000 at quarter's end, a 21.3% increase over the same period last year. The primary driver of these increases continues to be the SBA Paycheck Protection Program, and consumer deposits from stimulus checks and other government benefits.

SHAREHOLDER DIVIDEND

The Board of Directors declared a third-quarter 2020 dividend of \$0.25 per share. Year to date we have paid \$0.75 per share.

MANAGEMENT COMMENTS

While challenges remain in our local and national economy, EMFC's performance for the first three quarters of 2020 have been strong, primarily driven by the following factors:

- As reported last quarter, we were successful for both the Bank and our local businesses to be very active with the SBA Paycheck Protection Program. We are now focused on working with the borrowers through the forgiveness process with the SBA. With the changes to the Paycheck Protection Program, we have not seen a significant number of borrowers requesting forgiveness in this quarter and expect most forgiveness applications to come in the fourth quarter of 2020 and the first half of 2021. As a result, we expect nearly all of the PPP loans to remain on our books through the end of the year.

Our mortgage origination activity continues to not only improve but accelerate in this quarter. For the first three quarters of 2020, our mortgage income was \$512,000 compared to \$68,000 for the same period last year. Our pipeline going into the fourth quarter remains strong. We were fortunate that the lending team completed the installation of a turn key, online application portal at the

beginning of this quarter which significantly improved the ability to process our mortgage applications.

- While our credit quality remains strong, our Allowance for Loan and Lease Losses (ALLL) has grown. With the uncertainty in the economy due to Covid-19, our methodology permits additional allowance. As a percentage of total loans (including fully insured PPP loans), our ALLL stands at 0.74% of loans. As a percentage of loans (excluding PPP loans), our ALLL stands at 1.0%, compared to 0.83% at the same time in 2019.
- On August 31, 2020, we purchased the historic Parfet Building on the south side of Port Huron from Acheson Ventures, LLC. Currently, the building has two tenants and we will occupy a portion of the building. Our offices in the building will consolidate all of our lending teams in St. Clair County to help us grow our loan production within the market. While we will remain a Sanilac County-based bank, and continue to expand our customer base in Sanilac County, given our market share, we believe a significant growth opportunity exists in Port Huron and St. Clair County.

We are focused on a strong finish for 2020 and are working on strategies for 2021 and 2022, given the current interest rate environment. As the Federal Reserve has indicated, it expects short term rates to remain low for the next several years, and if the yield curve remains flat, our interest margin will continue to be under pressure.

Thank you for your support of Eastern Michigan Financial Corporation and Eastern Michigan Bank. We respect your investment in us and all of the employees will continue to work hard to service our customers.



President and Chief Executive Officer

**Eastern
Michigan
Financial
Corporation**



