



TO OUR SHAREHOLDERS

MARCH 31
20
21

FINANCIAL HIGHLIGHTS

Eastern Michigan Financial Corporation's (Company) earnings through the first quarter of 2021 were \$1,279,000 or \$1.04 per share, versus \$761,000 for the same period last year or \$0.63 per share. Return on Average Equity (ROE) during this time improved to 11.75% compared to 7.77% for the first quarter of 2020. Return on Average Assets (ROA) improved to 1.05% from 0.81% for the same quarter in 2020.

Our Capital to Assets ratio as of March 31, 2021 was 8.84% versus 10.48%, with the decrease driven by significant asset growth discussed in more detail under Management Comments. Book value per share ended the quarter at \$35.34, an improvement of \$3.26 over the same period last year. Market value per share was \$28.48 as of the last known trade on March 31, 2021.

Total assets were \$494,177,000 compared to \$373,245,000 for the first quarter of 2020. Loans increased by 29.6% for the first quarter of 2021, ending at \$241,923,000. Deposits were \$448,794,000 at quarter's end, a 34.7% increase over the same period last year. The primary driver of these increases continues to be the Small Business Administration (SBA) Paycheck Protection Program (PPP), and consumer deposits from stimulus checks and other government benefits.

SHAREHOLDER DIVIDEND

The Board of Directors declared a first quarter 2021 dividend of \$0.25 per share.

MANAGEMENT COMMENTS

While challenges remain in our local and national economies, your Company's performance for the first quarter of 2021 has been very strong, primarily driven by the following factors:

- As previously reported, the Bank has been very active in each round of SBA PPP lending. Currently in its third round, this program is set to expire no later than May, 31, 2021. PPP loans have several benefits for both the Bank and the communities we serve:
 - When fully forgiven, PPP loans act as grants to businesses in our communities, helping customers weather the financial impact of the Covid-19 virus.
 - The Bank earns a fee on each PPP loan originated. These fees are initially amortized into income over the life of the loan, but once a loan receives full forgiveness, any unamortized fees are immediately recognized as income.
 - As of quarter's end, the Bank had recognized \$712,500 in fees this calendar year, with an outstanding unrecognized fee balance of \$2,928,000. Since we expect a large majority of these loans to be forgiven in 2021, we can also expect most of this fee income to be recognized in 2021.

- As of March 31, 2021, the Bank had originated a total of \$111,985,000 in PPP loans, with a total of \$73,906,000 still outstanding.
- PPP loans have an interest rate of 1%, and given the current yield curve, this rate helps our interest income.
- Mortgage origination activity also remains strong. As of March 31, 2021, mortgage loan activity had generated year-to-date fee income of \$313,000, versus only \$30,000 in the first quarter of 2020.
- Despite credit quality remaining high, the Bank's Allowance for Loan and Lease Losses (ALLL) has grown. While we have not experienced an increase in credit losses due to Covid-19's business impact, ALLL has grown to 1.16% (excluding PPP loans). Our current ALLL is more in line with peers and reflects some continued uncertainty with the economic conditions, especially as government stimulus is no longer available.

Overall, despite the challenges faced with Covid-19, the interest rate environment, and business conditions in the communities we serve, your Company remains strong and continues to strive for reasonable growth, while still managing risk.

We respect your investment in us as a shareholder and want you to know that each employee continues to work hard to deliver exceptional service to our customers and the communities we serve. Thank you for your support of Eastern Michigan Financial Corporation and Eastern Michigan Bank.

President and Chief Executive Officer

**Eastern
Michigan
Financial
Corporation**



CONSOLIDATED BALANCE SHEETS (unaudited)

	March 31,	
	2021	2020
ASSETS		
Cash and due from banks.....	\$ 155,574	\$ 23,179
Securities.....	76,114	114,288
Federal funds sold & other deposits.....	88	31,309
Loans.....	241,923	186,735
Allowance for loan loss.....	(1,707)	(1,662)
Other assets.....	22,185	19,396
TOTAL ASSETS.....	\$ 494,177	\$ 373,245
LIABILITIES		
Deposits		
Non-interest bearing.....	\$ 130,540	\$ 77,014
Interest bearing.....	318,254	256,263
Total deposits.....	448,794	333,277
Other liabilities.....	1,677	838
TOTAL LIABILITIES.....	\$ 450,471	\$ 334,115
SHAREHOLDERS' EQUITY		
Common stock (issued 1,236,619 shares in 2021 and 1,222,080 shares in 2020).....	\$ 6,130	\$ 6,064
Surplus.....	2,602	2,421
Retained earnings.....	34,378	30,901
Accumulated other comprehensive income (loss).....	596	(256)
TOTAL SHAREHOLDERS' EQUITY.....	\$ 43,706	\$ 39,130
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY.....	\$ 494,177	\$ 373,245

FINANCIAL RATIOS

Return on Average Equity (annualized).....	11.75%	7.77%
Return on Average Assets (annualized).....	1.05%	0.81%
Capital to Assets.....	8.84%	10.48%
Allowance for Loan Loss / Loans.....	0.71%	0.89%

(Dollars in thousands except per share data)

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	Three Months Ended March 31,	
	2021	2020
INTEREST INCOME		
Interest & fees on loans.....	\$ 2,685	\$ 2,153
Interest on federal funds sold & other deposits.....	144	252
Interest on investment securities.....	320	614
TOTAL INTEREST INCOME.....	3,149	3,019
INTEREST EXPENSE.....	93	191
NET INTEREST INCOME.....	3,056	2,828
PROVISION FOR LOAN LOSSES.....	(135)	83
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES.....	3,191	2,745
OTHER INCOME.....	705	464
OTHER OPERATING EXPENSES.....	2,325	2,273
INCOME BEFORE INCOME TAXES.....	1,571	936
INCOME TAX EXPENSE.....	292	175
NET INCOME.....	\$ 1,279	\$ 761
EARNINGS PER COMMON SHARE	\$ 1.04	\$ 0.63

(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 M. 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

	2021	2020
Number of shares, issued and outstanding	1,236,619	1,219,602
Number of shareholders of record	289	287
Cash dividends declared, year-to-date	\$ 0.25	\$ 0.25
Book value, end-of-period	35.34	32.08
Market value, last trade known	28.48	22.10

BOARD OF DIRECTORS

Earl E. DesJardins, Chairman
Retired Civil Engineer
BMJ Engineers & Surveyors, Inc., Port Huron

Timothy M. Ward, Vice Chairman
Retired 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 and Chief Executive Officer
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

Michael D. Wendling, Director
Prosecuting Attorney
St. Clair County

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

CORPORATE OFFICERS

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