

COMPARATIVE FINANCIAL STATEMENT

JUNE 30, 2022

TO OUR SHAREHOLDERS

FINANCIAL HIGHLIGHTS

Eastern Michigan Financial Corporation's (EMFC) earnings through the first half of 2022 were \$1.3 million or \$1.03 per share, versus \$2.4 million or \$1.94 per share, for the same period last year. Return on Average Equity (ROE) during this time declined to 7.05% versus 10.88% for the first half of 2021. Return on Average Assets (ROA) decreased to 0.47%, compared to 0.96% for the same period in 2021.

Our Capital to Assets ratio as of June 30, 2022, was 5.84% versus 8.84% at the end of the first half of 2021. Book value per share ended the period at \$25.57, a decline of \$10.29 over the same period last year. Market value per share was \$28.01 as of the last known trade on June 30, 2022.

Total assets were \$548.8 million at the quarter's end, compared to \$502.2 million for the first six months of 2021. Loans decreased by 6.71% during the first six months of 2022, ending at \$179.4 million, primarily attributable to Small Business Administration (SBA) Paycheck Protection Program (PPP) loan forgiveness and pay downs. Deposits were \$516.3 million at the end of June 2022, a \$60.2 million increase over the same period last year. The primary driver of this increase continues to be consumer and public fund deposits, including new deposits from customers leaving larger competitors.

SHAREHOLDER DIVIDEND

Through the first half of this year, the Board of Directors has declared dividends totaling \$1.10 per share. This includes a regular dividend of \$0.30 per share paid in each of the first two quarters and a special one-time dividend of \$0.50 per share that was paid in March.

MANAGEMENT COMMENTS

EMFC's results for the first six months of 2022 have steadily improved, a direct result of the rising interest rate environment. As expected, interest rates - particularly the Federal Funds rate - have continued to increase since March and we are well positioned to benefit from this improvement.

- As noted above, our financial statements show a significant decline in loan balances, primarily driven by a reduction in PPP loans. As of the end of the first half of 2022, only a few small PPP loans remain on our books. Nearly all of our PPP loans were forgiven and paid by the SBA, and the remainder of our loan portfolio remains strong and continues to perform well.
- Several of our ratios related to capital have declined. In particular, Capital to Assets declined by 3.0%, and book value per share decreased by \$10.29, a direct result of unrealized losses in our available for sale investment portfolio. Accounting rules require that unrealized gains and losses are reflected in capital accounting, but the unrealized gains and losses do not affect regulatory capital, which remains well above the required thresholds. As of June 30, 2022, there

were more than \$15 million of unrealized net losses in our investment portfolio, driven exclusively by the increase in interest rates. Most banks are experiencing a similar impact on their capital accounts, given the low-interest rate environment of the last several years. As these bonds get closer to maturity, the effect on capital will be reversed.

- We recently announced a new stock buyback plan as part of our continued effort to return excess capital to shareholders. Under the previous buyback plan, we were able to purchase 14,986 shares for \$498,858. The new plan permits the purchase of up to \$500,000 in shares between now and June 30, 2023.

While we recognize that significant economic uncertainty remains given the current interest rate environment, high inflation, and a war in eastern Europe, we are confident that our current position has us well prepared for a range of possible economic outcomes in the near term.

Thank you for your confidence in our company. We respect your investment in Eastern Michigan Financial Corporation and Eastern Michigan Bank and appreciate your continued support.



President and Chief Executive Officer

**Eastern
Michigan
Financial
Corporation**



COMPARATIVE FINANCIAL STATEMENT

JUNE 30, 2022

CONSOLIDATED BALANCE SHEETS (unaudited)

	June 30,	
	2022	2021
ASSETS		
Cash and due from banks	\$ 85,956	\$ 96,309
Securities	248,905	145,072
Federal funds sold & other deposits	9,248	18,574
Loans.....	179,447	221,301
Allowance for loan loss.....	(1,742)	(1,644)
Other assets.....	27,016	22,594
TOTAL ASSETS.....	\$ 548,830	\$ 502,206

LIABILITIES

Deposits		
Non-interest bearing.....	\$ 150,716	\$ 129,693
Interest bearing.....	365,616	326,468
Total deposits.....	516,332	456,161
Other liabilities.....	434	1,650
TOTAL LIABILITIES.....	\$ 516,766	\$ 457,811

SHAREHOLDERS' EQUITY

Common stock (issued 1,253,895 shares in 2022 and 1,237,861 shares in 2021).....	\$ 6,186	\$ 6,133
Surplus.....	2,558	2,646
Retained earnings.....	36,851	35,172
Accumulated other comprehensive income (loss).....	(13,531)	444
TOTAL SHAREHOLDERS' EQUITY.....	\$ 32,064	\$ 44,395
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY.....	\$ 548,830	\$ 502,206

FINANCIAL RATIOS

Return on Average Equity (annualized).....	7.05%	10.88%
Return on Average Assets (annualized).....	0.47%	0.96%
Capital to Assets.....	5.84%	8.84%
Allowance for Loan Loss / Loans.....	0.97%	0.74%

(Dollars in thousands except per share data)

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	Six Months Ended June 30,	
	2022	2021
INTEREST INCOME		
Interest & fees on loans.....	\$ 4,223	\$ 5,318
Interest on federal funds sold & other deposits.....	312	260
Interest on investment securities.....	1,720	782
TOTAL INTEREST INCOME.....	6,255	6,360
INTEREST EXPENSE.....	280	196
NET INTEREST INCOME.....	5,975	6,164
PROVISION FOR LOAN LOSSES.....	8	(200)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES.....	5,967	6,364
OTHER INCOME.....	952	1,314
OTHER OPERATING EXPENSES.....	5,305	4,724
INCOME BEFORE INCOME TAXES.....	1,614	2,954
INCOME TAX EXPENSE.....	322	566
NET INCOME.....	\$ 1,292	\$ 2,388
EARNINGS PER COMMON SHARE	\$ 1.03	\$ 1.94

(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	1,253,895	1,237,861
Number of shareholders of record	282	292
Cash dividends declared, year-to-date	\$ 1.10	\$ 0.50
Book value, end-of-period	25.57	35.86
Market value, last trade known	28.01	30.75

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

Karen Flanagan, Director
Farmer
Sandusky

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

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

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