

To Our Shareholders

FINANCIAL HIGHLIGHTS

Eastern Michigan Financial Corporation's (EMFC) earnings through the third quarter of 2019 were \$3,170,000 or \$2.64 per share, up significantly from the same period in 2018. Return on Average Equity (ROE) during this time increased to 11.77% as compared to 8.71% in 2018. Return on Average Assets (ROA) increased as well, 1.14% versus 0.85% through the first three quarters of 2018.

EMFC's Capital to Assets ratio as of September 30, 2019, was 9.54%, compared to 9.64% as of September 30, 2018.

Book value per share increased by \$3.56 per share from the third quarter 2018 to \$31.73 and market value per share was \$26.75 as of the last known trade at quarter's end.

Total assets were \$400,172,000 compared to \$348,378,000 for the same quarter in 2018, an increase of 14.87%. Loans increased by 4.22% over third quarter 2018, ending at \$183,966,000. Deposits were \$360,681,000 at quarter's end, a 14.95% increase over the same period last year.

SHAREHOLDER DIVIDEND

The Board of Directors of EMFC declared a third quarter 2019 dividend of \$0.25 per share. This dividend is an increase of \$0.08 from our last quarterly dividend. For the last several years, the Board has been consistent in declaring a bonus dividend in the fourth quarter of each year. As the Board is confident in the continued ability of EMFC to generate value for its shareholders, it is anticipated the Board will move away from the bonus dividend to a more consistent quarterly dividend.

MANAGEMENT COMMENTS

Through the third quarter of 2019, EMFC has experienced a record year. With net income to date exceeding \$3,000,000, final year-end profit is expected to far surpass annual net income generated in any previous year. Earnings for the third quarter of 2019 were the highest quarterly earnings achieved as an organization at \$1,210,000. EMFC also recently achieved a landmark by having total assets exceed \$400,000,000 for the first time in its history.

Balance sheet growth has been driven by a nearly 15% deposit balance increase over the last year. This was principally achieved by management's focused effort to increase municipal deposit business. While these types of deposits may increase overall cost of funds, they have boosted net income growth. Further, as these balances tend to fluctuate more than other deposit types, we do maintain higher balances invested in Fed Funds to provide needed liquidity.

This has been a very challenging year for local farmers. A wet spring delayed and even prevented planting, and was followed by a dry summer which will likely result in lower crop yields. Many of our borrowers obtained a degree of relief by filing claims under their crop insurance coverage for acres they were unable to plant. The federal government's Market Facilitation Program has been an additional source of assistance to those impacted by the trade war, with most farmers receiving the first half of their compensation payment last month.

COMPARATIVE FINANCIAL STATEMENT

SEPTEMBER 30, 2019

News for the dairy industry has been somewhat better as milk prices have increased and the futures market shows additional upward movement.

This letter to shareholders represents a milestone in my career. It will be the last time I communicate with you via this forum as I am retiring at year-end. As planned nearly four years ago when Will Oldford joined Eastern Michigan Bank as President, he will be expanding his responsibilities and become the new Chief Executive Officer upon my departure. EMFC has been fortunate to build a solid team of professionals to assist Will, with Errin Levitt as Senior Vice President, Chief Financial Officer, Chad Deaner as Vice President, Senior Lender, and Stacie Bales as Vice President, Operations.

I have seen a wealth of changes in my 38 plus years of banking, but the fundamentals remain the same. Banking is still a personal service business based on trust and relationships. As a community bank, this is where EMFC can excel.

Thank you for the trust you place in this organization every day, and more personally, thank you for the trust you have placed in me. I have valued your support over these past nearly 15 years. Together, we have weathered some challenging times, but came through as a stronger, more vibrant organization, positioned extremely well for the future.



Chief Executive Officer

**Eastern
Michigan**

**Financial
Corporation**



CONSOLIDATED BALANCE SHEETS (unaudited)

ASSETS

	September 30,	
	2019	2018
Cash and due from banks.....	\$ 55,607	\$ 31,885
Securities.....	101,934	101,098
Federal funds sold & other deposits.....	40,653	20,759
Loans.....	183,966	176,510
Allowance for loan losses.....	(1,523)	(1,367)
Other assets.....	19,535	19,493
TOTAL ASSETS.....	\$ 400,172	\$ 348,378

LIABILITIES

Deposits		
Non-interest bearing.....	\$ 83,165	\$ 69,116
Interest bearing.....	277,516	244,665
Total deposits.....	360,681	313,781
Other liabilities.....	1,331	1,006
TOTAL LIABILITIES.....	\$ 362,012	\$ 314,787

SHAREHOLDERS' EQUITY

Common stock (issued 1,202,754 in 2019 and 1,192,349 in 2018).....	\$ 6,013	\$ 5,962
Surplus.....	2,259	2,404
Retained earnings.....	29,954	26,694
Accumulated other comprehensive income (loss).....	(66)	(1,469)
TOTAL SHAREHOLDERS' EQUITY.....	\$ 38,160	\$ 33,591
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY.....	\$ 400,172	\$ 348,378

FINANCIAL RATIOS

Return on Average Equity (annualized).....	11.77%	8.71%
Return on Average Assets (annualized).....	1.14%	0.85%
Capital to Assets.....	9.54%	9.64%
Allowance for Loan Loss / Loans.....	0.83%	0.77%

(Dollars in thousands except per share data)

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	Nine Months Ended September 30,	
	2019	2018
INTEREST INCOME		
Interest & fees on loans.....	\$ 6,692	\$ 6,230
Interest on federal funds sold & other deposits.....	1,167	414
Interest on investment securities.....	1,806	1,476
TOTAL INTEREST INCOME.....	9,665	8,120
INTEREST EXPENSE.....	661	341
NET INTEREST INCOME.....	9,004	7,779
PROVISION FOR LOAN LOSSES.....	102	388
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES.....	8,902	7,391
OTHER INCOME.....	1,297	1,425
OTHER OPERATING EXPENSES.....	6,359	6,040
INCOME BEFORE INCOME TAXES.....	3,840	2,776
INCOME TAX EXPENSE.....	670	656
NET INCOME.....	\$ 3,170	\$ 2,120
EARNINGS PER COMMON SHARE	\$ 2.64	\$ 1.78

(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

	2019	2018
Number of shares, issued and outstanding	1,202,754	1,192,349
Number of shareholders of record	288	296
Cash dividends declared, year-to-date	\$ 0.59	\$ 0.43
Book value, end-of-period	31.73	28.17
Market value, last trade known	26.75	24.27

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 M. Levitt, Vice President, Chief Financial Officer