

COMPARATIVE FINANCIAL STATEMENT

June 30, 2020

To Our Shareholders

FINANCIAL HIGHLIGHTS

Eastern Michigan Financial Corporation's (EMFC) earnings through the first half of 2020 were \$1,942,000 or \$1.60 per share, versus \$1,960,000 for the same period last year or \$1.63 per share. Return on Average Equity (ROE) during this time decreased to 9.75% as compared to 11.14% in 2019. Return on Average Assets (ROA) decreased to 0.96% versus 1.08% through the first half of 2019.

Our Capital to Assets ratio as of June 30, 2020, was 9.35% compared to 10.09% 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 detail below.

Book value per share ended the quarter at \$33.66, an improvement of \$2.80 over the same period last year. Market value per share was \$26.50 as of the last known trade on June 30, 2020.

Total assets were \$440,152,000 compared to \$367,978,000 for the first half in 2019, an increase of 19.61%. Loans increased by 34.36% over the first half of 2020, ending at \$243,640,000. Deposits were \$387,115,000 at quarter's end, a 17.30% increase over the same period last year. The primary driver of these increases was the SBA Paycheck Protection Program, and the deposit of the loan proceeds with the Bank.

SHAREHOLDER DIVIDEND

The Board of Directors declared a second-quarter 2020 dividend of \$0.25 per share. Year to date we have paid \$0.50 per share.

MANAGEMENT COMMENTS

Like many of our competitors, the flat yield curve and low rates continue to have a negative effect on our interest income, and the COVID-19 pandemic has directly impacted our manner of doing business. Despite these challenges, however, EMFC's performance for the first half of 2020 has been strong, primarily driven by the following factors:

- Eastern Michigan Bank was one of the first banks in our market area to be ready to accept SBA Paycheck Protection Program (PPP) applications, a factor which gave us a significant advantage over our competitors. As of June 30, 2020, we had originated over \$71,300,000 in PPP loans with expected total fees of \$2,329,000. Currently, these fees accrue to income at approximately \$85,000 per month. If a loan is fully forgiven, however, the entire fee associated with that loan will fully amortize to income. Based on our understanding of the forgiveness terms, we would expect nearly all of the SBA PPP loans we originated to be forgiven within the next nine to twelve months. While these fees will help boost profitability in the near term, they are non-recurring. Also, while the SBA has provided an outline of the forgiveness program, several unanswered questions remain. We continue to originate SBA PPP loans in the third quarter, though at a significantly slower pace.

- Our mortgage origination activity is up significantly compared to the same time last year as customers are eager to take advantage of historically low mortgage interest rates. As of June 30, 2020, our mortgage fee income was \$280,000, compared to \$33,000 for the same period last year.
- We were able to capture over \$100,000 in additional, one-time fee income from a rate swap arrangement and the renegotiation of our debit card issuer agreement with Mastercard.

Concerning our loan portfolio, we have agreed to several three-month deferments of either entire loan payments or the principal due. Overall, the number of deferment requests remains modest relative to the total loan portfolio. As the earliest of these deferral arrangements expire, we have had few borrowers seek extensions, and experienced minimal credit deterioration within the loan portfolio. While our historical charge off figures have not increased, the COVID-19's impact on the economy and employment has given members of the Allowance for Loan and Lease Loss Committee concern over future credit losses. With that said, we have increased our provision for loan losses, adding \$288,000 in the first half of 2020, compared to \$92,000 for the same period last year. As the uncertainty in the economy and with employment is likely to continue, additional provisions may be necessary.

Thank you for your support of Eastern Michigan Financial Corporation and Eastern Michigan Bank. Every employee is working hard to provide a strong return for our shareholders by delivering exceptional service to our customers and the communities in which we live.



President and Chief Executive Officer

**Eastern
Michigan
Financial
Corporation**



CONSOLIDATED BALANCE SHEETS (unaudited)

ASSETS	June 30,	
	2020	2019
Cash and due from banks.....	\$ 35,645	\$ 20,589
Securities.....	99,297	107,100
Federal funds sold & other deposits.....	43,961	39,771
Loans.....	243,640	182,802
Allowance for loan loss.....	(1,871)	(1,492)
Other assets.....	19,480	19,208
TOTAL ASSETS.....	\$ 440,152	\$ 367,978
LIABILITIES		
Deposits		
Non-interest bearing.....	\$ 115,103	\$ 80,147
Interest bearing.....	272,012	249,873
Total deposits.....	387,115	330,020
Other liabilities.....	11,897	813
TOTAL LIABILITIES.....	\$ 399,012	\$ 330,833
SHAREHOLDERS' EQUITY		
Common stock (issued 1,222,080 shares in 2020 and 1,203,543 shares in 2019).....	\$ 6,087	\$ 6,010
Surplus.....	2,306	2,237
Retained earnings.....	31,909	29,044
Accumulated other comprehensive income (loss)...	838	(146)
TOTAL SHAREHOLDERS' EQUITY.....	\$ 41,140	\$ 37,145
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY.....	\$ 440,152	\$ 367,978

FINANCIAL RATIOS

Return on Average Equity (annualized).....	9.75%	11.14%
Return on Average Assets (annualized).....	0.96%	1.08%
Capital to Assets.....	9.35%	10.09%
Allowance for Loan Loss / Loans.....	0.77%	0.82%

(Dollars in thousands except per share data)

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

INTEREST INCOME	Six Months Ended	
	June 30,	2019
Interest & fees on loans.....	\$ 4,567	\$ 4,384
Interest on federal funds sold & other deposits.....	409	785
Interest on investment securities.....	1,148	1,174
TOTAL INTEREST INCOME.....	6,124	6,343
INTEREST EXPENSE.....	276	413
NET INTEREST INCOME.....	5,848	5,930
PROVISION FOR LOAN LOSSES.....	288	92
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES.....	5,560	5,838
OTHER INCOME.....	1,221	824
OTHER OPERATING EXPENSES.....	4,397	4,304
INCOME BEFORE INCOME TAXES.....	2,384	2,358
INCOME TAX EXPENSE.....	442	398
NET INCOME.....	\$ 1,942	\$ 1,960
EARNINGS PER COMMON SHARE	\$ 1.60	\$ 1.63

(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

	2020	2019
Number of shares, issued and outstanding	1,222,080	1,203,543
Number of shareholders of record	286	294
Cash dividends declared, year-to-date	\$ 0.50	\$ 0.34
Book value, end-of-period	33.66	30.86
Market value, last trade known	26.50	25.30

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
Frohman, Kelley, Butler & Ryan, P.C., Port

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