

To Our Shareholders

FINANCIAL HIGHLIGHTS

Eastern Michigan Financial Corporation's (EMFC) earnings through the third quarter of 2018 were \$2,120,000 or \$1.78 per share.

Return on Average Equity (ROE) was 8.71% during this time period. Return on Average Assets (ROA) was 0.85% compared to 0.66% a year ago and the Capital to Assets ratio at quarter's end was 9.64%, compared to 9.81% as of September 30, 2017.

Book value per share rose \$0.40 over third quarter 2017, ending at \$28.17.

Total assets were \$348,378,000 compared to \$331,098,000 last year at this time. Loans were \$176,510,000 compared to \$169,625,000 and deposits were \$313,781,000 compared to \$297,556,000 one year ago.

SHAREHOLDER DIVIDEND

The Board of Directors have declared a third quarter dividend of \$0.17 per share. Year to date, EMFC has paid \$0.43 per share as compared to the same period in 2017 when \$0.37 per share was paid.

MANAGEMENT COMMENTS

Earnings for the first nine months of 2018 are ahead of budget and well ahead of the same period in 2017. As stated in earlier communications, the increase in net income has been driven by recent tax law changes, an increase in loan outstandings, and multiple increases in the prime rate and short term borrowing rates.

Loan outstandings were up approximately \$6,900,000 as compared to the same time last year. Some of the loan growth originated from existing commitments on lines of credit that were utilized over the last two quarters – particularly lines to agricultural borrowers for input costs. As crops are harvested, we expect to see some of these lines paid down. We have also had success with a home equity loan campaign designed to increase our variable rate equity loans and capture high credit quality loans. Our commercial loan portfolio has grown modestly as well.

Fee income from the sale of home mortgages to the secondary market provided a lift in other income, as did an increase in mortgage loan production overall. Other income also received a boost from fees derived from agricultural loans sold to Farmer Mac, service charges on deposit accounts, and miscellaneous customer service fees.

While there is much good news in terms of loan growth, some deterioration within individual loans and a write-down on a specific loan which had been in work out prompted management to increase loan loss provision. It is important to note that the loan portfolio remains strong overall.

Deposit balances continue to increase with the primary growth coming from municipal core deposits. We believe it is important for Eastern Michigan Bank to be the "bank of choice" for the municipalities we serve and have been able to acquire several of these relationships through competitive products, pricing, and exceptional service.

As with the agricultural community on the whole, lower crop prices this harvest season may impact cash flow for some of our borrowers. Higher than average yields could help offset the impact of these reduced prices and fortunately, many of our customers had contracted in advance to sell their crops at higher rates. Questions remain over crop prices beyond the current season however, so we will continue to underwrite our loans conservatively and make every effort to work with borrowers while protecting the Bank's exposure. Like all banks who serve agricultural customers, our experience has been that the members of this community are resilient and capable of weathering these current challenges.

Management is pleased with the growth in the balance sheet and income statement, and will continue to look for profitable new business opportunities while remaining mindful of both financial and regulatory risk. We are also pleased to have been able to increase the dividend and return more capital to our shareholders, while continuing to improve our book value and capital position. Thank you again for placing your confidence in EMFC and providing us with the ability to serve our community.



Chief Executive Officer

COMPARATIVE FINANCIAL STATEMENT

SEPTEMBER 30, 2018

**Eastern
Michigan**

**Financial
Corporation**



CONSOLIDATED BALANCE SHEETS (unaudited)

ASSETS	September 30,	
	2018	2017
Cash and due from banks.....	\$ 31,885	\$ 43,490
Securities.....	101,098	99,378
Federal funds sold & other deposits.....	20,759	256
Loans.....	176,510	169,625
Allowance for loan losses.....	(1,367)	(1,353)
Other assets.....	19,493	19,702
TOTAL ASSETS.....	\$ 348,378	\$ 331,098
LIABILITIES		
Deposits		
Non-interest bearing.....	\$ 69,116	\$ 78,721
Interest bearing.....	244,665	218,835
Total deposits.....	313,781	297,556
Other liabilities.....	1,006	1,070
TOTAL LIABILITIES.....	314,787	298,626
SHAREHOLDERS' EQUITY		
Common stock (issued 1,192,349 in 2018 and 1,169,349 in 2017).....	\$ 5,962	\$ 5,821
Surplus.....	2,404	2,057
Retained earnings.....	26,694	24,743
Accumulated other comprehensive income (loss)....	(1,469)	(149)
TOTAL SHAREHOLDERS' EQUITY.....	33,591	32,472
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY.....	\$ 348,378	\$ 331,098

FINANCIAL RATIOS

Return on Average Equity (annualized).....	8.71%	6.77%
Return on Average Assets (annualized).....	0.85%	0.66%
Capital to Assets.....	9.64%	9.81%
Allowance for Loan Loss / Loans.....	0.77%	0.80%

(Dollars in thousands except per share data)

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

INTEREST INCOME	Nine Months Ended September 30,	
	2018	2017
Interest & fees on loans.....	\$ 6,230	\$ 5,388
Interest on federal funds sold & other deposits.....	414	327
Interest on investment securities.....	1,476	1,387
TOTAL INTEREST INCOME.....	8,120	7,102
INTEREST EXPENSE.....	341	274
NET INTEREST INCOME.....	7,779	6,828
PROVISION FOR LOAN LOSSES.....	388	182
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES.....	7,391	6,646
OTHER INCOME.....	1,425	1,268
OTHER OPERATING EXPENSES.....	6,040	5,676
INCOME BEFORE INCOME TAXES.....	2,776	2,238
INCOME TAX EXPENSE.....	656	604
NET INCOME.....	\$ 2,120	\$ 1,634
EARNINGS PER COMMON SHARE	\$ 1.78	\$ 1.40

(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 McMillan, 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

	2018	2017
Number of shares, issued and outstanding	1,192,349	1,169,349
Number of shareholders of record	296	309
Cash dividends declared, year-to-date	0.43	0.37
Book value, end-of-period	28.17	27.77
Market value, last trade known	24.27	21.05

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

William G. Oldford, Jr., Director
President
Eastern Michigan Bank, Croswell

Kathlene M. Partaka, Director
Retired Executive Vice President, Operations
Eastern Michigan Bank, Croswell

Ann Randall Kendrick, Director
Owner
Pollock Randall Funeral Home, Port Huron
Marysville Funeral Home, Marysville

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 McMillan, Vice President, Chief Financial Officer