

COMPARATIVE FINANCIAL STATEMENT

SEPTEMBER 30, 2022

TO OUR SHAREHOLDERS

FINANCIAL HIGHLIGHTS

Eastern Michigan Financial Corporation's (EMFC) earnings through the first nine months of 2022 were \$2,223,000 or \$1.77 per share, versus \$3,923,000 or \$3.17 per share, for the first three quarters of 2021. Return on Average Equity (ROE) decreased to 8.37% versus 11.76% for the same period, and Return on Average Assets (ROA) decreased to 0.53%, compared to 1.04%.

As of September 30, 2022, our Capital to Assets ratio was 5.45% versus 8.84% at end of the third quarter 2021. Book value per share ended the quarter at \$25.37, a decrease of \$11.37 over the same period last year, and market value per share was \$25.25 as of the last known trade at the quarter's end.

Total assets finished the quarter at \$584,655,000, an increase of \$66,007,000 over the first nine months of 2021. Loans decreased by 7.03% for the first three quarters of 2022, ending at \$178,835,000. This is primarily attributable to the forgiveness payoffs of Small Business Administration (SBA) Paycheck Protection Program (PPP) loans. Deposits grew by \$80,450,000 over 2021, ending the quarter at \$551,575,000. The primary driver of this increase continues to be consumer and public fund deposits.

SHAREHOLDER DIVIDEND

The Board of Directors declared a third-quarter dividend of \$0.35 per share, an increase of \$0.05 from prior quarters. Year-to-date dividends total \$1.45 per share.

MANAGEMENT COMMENTS

EMFC quarterly and year-to-date earnings remain below last year's results, primarily due to the absence of SBA PPP loan fees. All of these loans have now been resolved with the SBA, and most of the related fees have been taken into income.

- The payoff of SBA PPP loans has caused our loan portfolio to decline as compared to last year at this time. Further, we had over \$10 million in short-term municipal loans payoff due to competitors offering interest rates below the Federal Funds rate.
- ROA has declined due to the significant asset growth we are still experiencing and the year-over-year decline in net income.

Despite these challenges, EMFC's results for the first three quarters of 2022 were strong.

- Last quarter, we discussed how our capital ratios and book value are declining due to required accounting adjustments for our available-for-sale investment portfolio. While the decline appears dramatic, it does not indicate a systemic problem with EMFC or Eastern Michigan Bank (Bank), and nearly every bank is affected similarly. We fully expect this accounting decline to return as either interest rates decline or our investments mature.
- Throughout 2022, there has been a significant increase in the Federal Funds rate and the entire treasury yield curve. While we have had to adjust our capital with these changes, we are well-positioned to take advantage of additional net interest income at current or rising rates in the medium and longer term.
- Our team's sales efforts continue to create deposit growth, especially in public funds. We also strongly believe that customers will continue to migrate to us from larger competitors due to the challenges created by recent mergers.

We anticipate a solid finish to 2022. Results continue to improve heading into year-end, laying a solid foundation for a strong start to 2023. As always, your investment in the Bank and EMFC is appreciated, as is your support.



President and Chief Executive Officer

**Eastern
Michigan
Financial
Corporation**



COMPARATIVE FINANCIAL STATEMENT

SEPTEMBER 30, 2022

CONSOLIDATED BALANCE SHEETS (unaudited)

	September 30,	
	2022	2021
ASSETS		
Cash and due from banks	\$ 114,639	\$ 108,624
Securities	264,506	185,988
Federal funds sold & other deposits	403	252
Loans.....	178,835	202,917
Allowance for loan loss.....	(1,725)	(1,776)
Other assets.....	27,997	22,643
TOTAL ASSETS.....	\$ 584,655	\$ 518,648

LIABILITIES

Deposits		
Non-interest bearing.....	\$ 143,378	\$ 138,386
Interest bearing.....	408,197	332,739
Total deposits.....	551,575	471,125
Other liabilities.....	1,231	1,687
TOTAL LIABILITIES.....	\$ 552,806	\$ 472,812

SHAREHOLDERS' EQUITY

Common stock (issued 1,255,503 shares in 2022 and 1,247,608 shares in 2021).....	\$ 6,190	\$ 6,156
Surplus.....	2,626	2,748
Retained earnings.....	37,343	36,333
Accumulated other comprehensive income (loss).....	(14,310)	599
TOTAL SHAREHOLDERS' EQUITY.....	\$ 31,849	\$ 45,836
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY.....	\$ 584,655	\$ 518,648

FINANCIAL RATIOS

Return on Average Equity (annualized).....	8.37%	11.76%
Return on Average Assets (annualized).....	0.53%	1.04%
Capital to Assets.....	5.45%	8.84%
Allowance for Loan Loss / Loans.....	0.96%	0.88%

(Dollars in thousands except per share data)

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	Nine Months Ended September 30,	
	2022	2021
INTEREST INCOME		
Interest & fees on loans.....	\$ 6,312	\$ 8,472
Interest on federal funds sold & other deposits.....	841	370
Interest on investment securities.....	2,823	1,403
TOTAL INTEREST INCOME.....	9,976	10,245
INTEREST EXPENSE.....	605	311
NET INTEREST INCOME.....	9,371	9,934
PROVISION FOR LOAN LOSSES.....	(4)	(70)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES.....	9,375	10,004
OTHER INCOME.....	1,458	2,058
OTHER OPERATING EXPENSES.....	8,063	7,239
INCOME BEFORE INCOME TAXES.....	2,770	4,823
INCOME TAX EXPENSE.....	547	900
NET INCOME.....	\$ 2,223	\$ 3,923
EARNINGS PER COMMON SHARE	\$ 1.77	\$ 3.17

(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	1,255,503	1,247,608
Number of shareholders of record	280	287
Cash dividends declared, year-to-date	\$ 1.45	\$ 0.80
Book value, end-of-period	25.37	36.74
Market value, last trade known	25.25	31.80

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