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to our shareholders

September 30, 2023

financial highlights

Eastern Michigan Financial Corporation (the Company) had strong earnings for the first three quarters of 2023, reporting net income of \$4.4 million and earnings per share of \$3.53. Both figures represent substantial increases from the same period in 2022.

Q3 2023 Highlights Versus Q3 2022

- Net income increased by 98.7% over the first three quarters of 2022 to \$4.4 million.
- Net interest income improved by 45.6%.
- Cost of funds rose by 77.8% to 48 basis points.
- Deposits declined by 8.1%, to \$506.9 million.
- Loans increased by 14.2%, to \$204.2 million.
- Shareholders earned a cash dividend of \$0.40 per share for the quarter, with an annualized dividend yield of 6.1%, as of September 30, 2023.

Higher interest rates, measurable growth in our loan portfolio, and a modest cost of funds were the primary drivers of significant year-over-year growth in net interest income. Furthermore, a duration of less than 2.7 years enabled us to reinvest the cash flows from our investment portfolio into higher-yielding investments and loans.

operating results

Net income: Net income for the first three quarters of 2023 increased by 98.7%, or \$4.4 million, versus \$2.2 million one year ago. Earnings per share increased by 99.5%, or \$1.76, for the first three quarters of 2023, compared to \$1.77 for the same period in 2022.

Net Interest Income: Interest income for the first three quarters of 2023 increased by \$4.6 million, or 45.6%, over the same period in 2022. Interest expense also increased, totaling \$1.4 million in the first three quarters of 2023 versus \$605 thousand for the same period last year. Overall, net interest income for the first three quarters of 2023 increased by \$3.7 million, a 39.9% increase from the same period in 2022.

balance sheet

Return on Average Assets (ROA): Our ROA improved to 1.09% for the first three quarters of 2023 versus an ROA of 0.53% in the same period of 2022.

Return on Average Equity (ROE): Our ROE improved to 16.86% for the first three quarters of 2023 compared to 8.37% for the same period in 2022.

Deposits: Deposits for the first three quarters of 2023 declined to \$506.9 million compared to \$551.6 million for the same period in 2022. Part of the decline was due to a small number of customers taking advantage of a program providing up to \$50.1 million in FDIC insurance, representing a total of \$24.5 million in deposits. While we do not receive interest income from this program, our participation enables us to reduce interest expense.

Capital: The Company continues to be well-capitalized. As of the end of the first three quarters of 2023, our Tier 1 Leverage Ratio was 9.4%, Tier 1 Capital Ratio was 12.7%, and Total Capital Ratio was 13.3%.

Investment Portfolio: As of the end of the third quarter, our investment portfolio totaled \$272.5 million, an increase of \$8.0 million from the same period last year. Due to rising interest rates, the security portfolio has accumulated unrealized losses of \$13.9 million, which reduces our generally accepted accounting principles (GAAP) capital but does not impact our regulatory capital. While the relatively short duration of our portfolio has benefited us in a rising interest rate environment, we believe it is time to work on lengthening the duration from the current 2.7 years to between 3.5 and 4 years.

Stock Price and Book Value: Our last known trade, as of September 30, 2023, was \$24.50 per share. Book value on this date was \$28.62 per share, an increase of \$3.25 per share over the end of third quarter 2022.

Overall, your Company continues to perform well, and all signs indicate a successful 2023. Our staff remain diligent in their efforts to provide exceptional customer service, which not only provides a competitive advantage but has historically resulted in a strong outcome for our shareholders. As always, we appreciate the trust you have placed in us and thank you for your support.

In closing, we have some sad news to share. Director John Williams passed away suddenly on October 11, 2023. Jack was appointed to Eastern Michigan Financial Corporation and Eastern Michigan Bank boards in 2003 and faithfully served for over twenty years. He worked for the City of Croswell for over 40 years, retiring as the Superintendent of the Electrical and Water Departments. Jack was also a former member of the Croswell Fair Board and attended the Croswell Wesleyan Church.

We extend our deepest sympathies to Jack's wife, Christine, their sons, and their extended family.



President and Chief Executive Officer

**Eastern
Michigan
Financial
Corporation**



comparative financial statement

September 30, 2023

CONSOLIDATED BALANCE SHEETS (unaudited)

	September 30,	
	2023	2022
ASSETS		
Cash and due from banks	\$ 34,671	\$ 114,639
Securities	272,493	264,506
Federal funds sold & other deposits	7,421	403
Loans.....	204,229	178,835
Current expected credit loss on loans.....	(2,606)	(1,725)
Other assets.....	27,935	27,997
TOTAL ASSETS.....	\$ 544,143	\$ 584,655
LIABILITIES		
Deposits		
Non-interest bearing.....	\$ 138,048	\$ 143,378
Interest bearing.....	368,880	408,197
Total deposits.....	506,928	551,575
Other liabilities.....	1,423	1,231
TOTAL LIABILITIES.....	\$ 508,351	\$ 552,806
SHAREHOLDERS' EQUITY		
Common stock (issued 1,250,757 shares in 2023 and 1,255,503 shares in 2022).....	\$ 6,129	\$ 6,190
Surplus.....	3,123	2,626
Retained earnings.....	40,139	37,343
Accumulated other comprehensive income (loss)...	(13,599)	(14,310)
TOTAL SHAREHOLDERS' EQUITY.....	\$ 35,792	\$ 31,849
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY.....	\$ 544,143	\$ 584,655

FINANCIAL RATIOS

Return on Average Equity (annualized).....	16.86%	8.37%
Return on Average Assets (annualized).....	1.09%	0.53%
Capital to Assets.....	6.58%	5.45%
Current Expected Credit Loss on Loans / Loans.....	1.28%	0.96%

(Dollars in thousands except per share data)

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

	Nine Months Ended September 30,	
	2023	2022
INTEREST INCOME		
Interest & fees on loans.....	\$ 7,641	\$ 6,312
Interest on federal funds sold & other deposits....	1,478	841
Interest on investment securities.....	5,407	2,823
TOTAL INTEREST INCOME.....	14,526	9,976
INTEREST EXPENSE.....	1,420	605
NET INTEREST INCOME.....	13,106	9,371
PROVISION FOR CURRENT EXPECTED CREDIT LOSSES.....	279	(4)
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES.....	12,827	9,375
OTHER INCOME.....	1,504	1,458
OTHER OPERATING EXPENSES.....	8,772	8,063
INCOME BEFORE INCOME TAXES.....	5,559	2,770
INCOME TAX EXPENSE.....	1,141	547
NET INCOME.....	\$ 4,418	\$ 2,223
EARNINGS PER COMMON SHARE	\$ 3.53	\$ 1.77

(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

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

Stock Listing:
Symbol: EFIN
Over-The-Counter
Bulletin Board

	2023	2022
Number of shares, issued and outstanding	1,250,757	1,255,503
Number of shareholders of record	272	280
Cash dividends declared, year-to-date	\$ 1.10	\$ 1.45
Book value, end-of-period	28.62	25.37
Market value, last trade known	24.50	25.25

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

Lisa Disser, Director
Controller
Gielow Pickles, Inc., Lexington
Gielow Logistics, LLC, Lexington

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
Frohman, 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

The Board of Directors of Eastern Michigan Financial Corporation is pleased to welcome Lisa Disser as a director of Eastern Michigan Financial Corporation and Eastern Michigan Bank. Lisa is the Controller for Lexington-based Gielow Pickles, Inc., and Gielow Logistics, LLC, and a lifelong resident of the Croswell-Lexington area.



Lisa Disser

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