

20
23

to our shareholders

March 31, 2023

financial highlights

Eastern Michigan Financial Corporation's (EMFC) earnings through the first three months of 2023 were \$1,465,000 or \$1.17 per share, versus \$705,000 or \$0.56 per share, for the same period last year. Return on Average Equity (ROE) during this time increased to 17.43% versus 7.10% for the first three months of 2022, and Return on Average Assets (ROA) increased to 1.04%, compared to 0.52% for the same period.

Our Capital to Assets ratio at the end of the first quarter was 6.16% versus 6.87% through the first three months of 2022. Book value per share ended the quarter at \$27.45 versus \$29.75 for the same period in 2022, and market value per share was \$25.00 as of the last known trade on March 31, 2023.

Total assets were \$557,260,000 at the quarter's end, compared to \$545,351,000 for the first three months of 2022. Loans increased by 2.28%, reaching \$184,128,000 as of March 31, 2023, versus \$180,030,000 on March 31, 2022. Deposits were \$521,997,000 at the end of the first quarter. This reflects an increase of \$14,808,000 over the same period last year but a decline of \$5,411,000 since year-end 2022.

shareholder dividend

The Board of Directors declared a first-quarter dividend of \$0.35 per share.

management comments

Results for the first quarter of 2023 were strong, largely driven by increases in the Federal Funds and Prime interest rates. Our balance sheet remains steady, with modest loan growth and only a nominal deposit decline. The duration of our investment portfolio remains relatively short, and our financial performance has undoubtedly benefited from the higher interest rates.

- The first quarter saw the failure of two mid-sized regional financial institutions in Signature Bank, and Silicon Valley Bank (SVB). These failures were primarily the result of liquidity crises where the banks were unable to return their depositors' funds upon demand. SVB and Signature Bank had uninsured deposits of 97% and 89%, respectively, and a high concentration in the specific type of customer they served. Eastern Michigan Bank's profile is quite different. Our uninsured deposits are below 30%, our customer base is quite diverse, and we have access to significant liquidity well beyond the total of our uninsured deposits.
- More substantial loan demand and improved calling efforts have increased our loan portfolio over 2022 results. Our loan pipeline remains strong, and we expect modest loan growth to continue.
- Net Interest Margin (NIM) improved from 2.16% for the first quarter of 2022 to 3.23% at the end of first quarter 2023. Our cost of funds is still low at 39 basis points, well below that of our peers.

- In the first quarter of 2023, most financial institutions became subject to a new accounting standard known as Current Expected Credit Loss (CECL). This new standard requires a potential provision to be carried against loans, held-to-maturity (HTM) securities, and off-balance-sheet liabilities. The implementation of CECL required a day-one adjustment that included a charge of \$616,000 to our equity account, a reflection of the new methodology. It is important to note that this charge is entirely a result of the implementation of CECL and in no way reflective of any credit deterioration in our loan or investment portfolios.
- Our book value has declined modestly compared to the first quarter of 2022, as we must account for unrealized losses in our investment portfolio. These losses are the result of a decrease in the value of the bonds in our investment portfolio due to the accounting treatment of our available-for-sale (AFS) securities and securities transferred to HTM. Given our significant deposit growth, we have amassed a very large securities portfolio, and, in accordance with the Generally Accepted Accounting Principles in the United States of America (GAAP), fluctuations in the market value of our AFS securities portfolio impact shareholders' equity. Nearly every bank has seen this same result, and we expect the decline in book value to be temporary as we have every intention of holding our bonds to maturity.
- Economic conditions in 2023 will likely continue to be volatile as the Federal Reserve works to control inflation and the looming prospect of a recession. We believe that continuing with our tradition of a conservative approach to lending remains our best strategy.

We are proud of the efforts our staff has put forth in starting 2023 off as one of our best years ever. As always, we appreciate your investment in EMFC as shareholders and value your continued trust and support.



President and Chief Executive Officer

**Eastern
Michigan
Financial
Corporation**



comparative financial statement

March 31, 2023

CONSOLIDATED BALANCE SHEETS (unaudited)

ASSETS	March 31,	
	2023	2022
Cash and due from banks	\$ 57,693	\$ 97,500
Securities	290,213	243,063
Federal funds sold & other deposits	734	1,201
Loans.....	184,128	180,030
Current expected credit loss on loans	(2,304)	(1,722)
Other assets.....	26,796	25,279
TOTAL ASSETS.....	\$ 557,260	\$ 545,351

LIABILITIES

Deposits		
Non-interest bearing.....	\$ 140,900	\$ 129,379
Interest bearing.....	381,097	377,810
Total deposits.....	521,997	507,189
Other liabilities.....	950	685
TOTAL LIABILITIES.....	\$ 522,947	\$ 507,874

SHAREHOLDERS' EQUITY

Common stock (issued 1,249,951 shares in 2023 and 1,259,887 shares in 2022).....	\$ 6,133	\$ 6,221
Surplus.....	2,993	2,650
Retained earnings.....	38,128	36,645
Accumulated other comprehensive loss.....	(12,941)	(8,039)
TOTAL SHAREHOLDERS' EQUITY.....	\$ 34,313	\$ 37,477
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY.....	\$ 557,260	\$ 545,351

FINANCIAL RATIOS

Return on Average Equity (annualized).....	17.43%	7.10%
Return on Average Assets (annualized).....	1.04%	0.52%
Capital to Assets.....	6.16%	6.87%
Current expected credit loss on loans/loans	1.25%	0.96%

(Dollars in thousands except per share data)

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

INTEREST INCOME	Three Months Ended	
	March 31, 2023	March 31, 2022
Interest & fees on loans.....	\$ 2,404	\$ 2,284
Interest on federal funds sold & other deposits.....	700	95
Interest on investment securities.....	1,741	796
TOTAL INTEREST INCOME.....	4,845	3,175
INTEREST EXPENSE.....	540	122
NET INTEREST INCOME.....	4,305	3,053
PROVISION FOR CURRENT EXPECTED CREDIT LOSSES.....	0	4
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES.....	4,305	3,049
OTHER INCOME.....	482	442
OTHER OPERATING EXPENSES.....	2,944	2,622
INCOME BEFORE INCOME TAXES.....	1,843	869
INCOME TAX EXPENSE.....	378	164
NET INCOME.....	\$ 1,465	\$ 705
EARNINGS PER COMMON SHARE	\$ 1.17	\$ 0.56

(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

	2023	2022
Number of shares, issued and outstanding	1,249,951	1,259,887
Number of shareholders of record	275	287
Cash dividends declared, year-to-date	\$ 0.35	\$ 0.80
Book value, end-of-period	27.45	29.75
Market value, last trade known	25.00	31.50

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
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

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