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COMMERCEONE

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SHAREHOLDER UPDATE - Q3 2023



**A MESSAGE TO OUR**

# SHAREHOLDERS

October 27, 2023

As we turn the page to a new season, we hope this communication finds you and your family well. We also want to thank you for the opportunity to be your banking partner. The support of our shareholders has been and will continue to be vital to our success.



The year-to-date financial results for 2023 are strong. For the nine months ended September 30, 2023, KPI's include a net interest margin of 3.69%, return on assets of 1.57%, return on equity of 14.67%, and an efficiency ratio of 38.83%. The Bank's financial performance for the third quarter of 2023 was mixed. Negatively impacting the third quarter was the reversal of accrued interest in connection with three related loans being placed on non-accrual status as well as a partial charge down of these loans. While we work through the challenges of this specific credit, we remain confident in the overall credit quality of our loan portfolio. In addition, our capital levels continue to place CommerceOne among the strongest banks in the nation.



For the quarter ended September 30, 2023, CommerceOne reported net income totaling \$1.9 million for the period, or \$0.40 per share. Loans totaled \$519 million, and deposits totaled \$528 million as of September 30, 2023, representing a year-over-year increase of 14% and 16%, respectively.

The creation of shareholder value continues to be a top priority for CommerceOne. As a shareholder, the easiest way for you to enhance your investment is to refer CommerceOne to those within your sphere of influence. Please connect those in your network with any of our team members. We look forward to providing an exceptional client experience!

Thank you for your investment, support, and trust.

If you have questions or if we may be of service, please contact us at [investor.relations@commerceonebank.com](mailto:investor.relations@commerceonebank.com) or 205.719.5750.

Regards,



Kenneth W. Till  
Chief Executive Officer

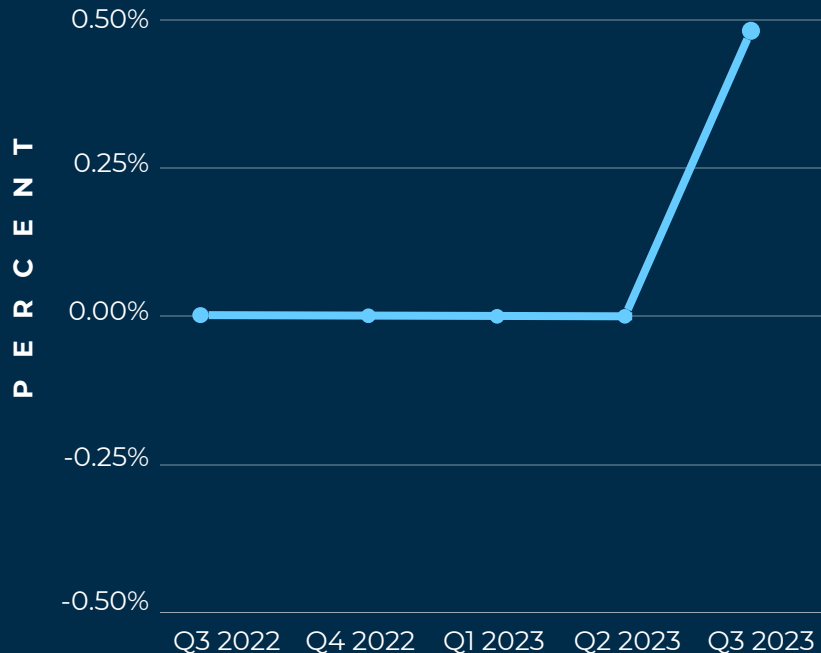


Ronald C. Jackson  
Chairman

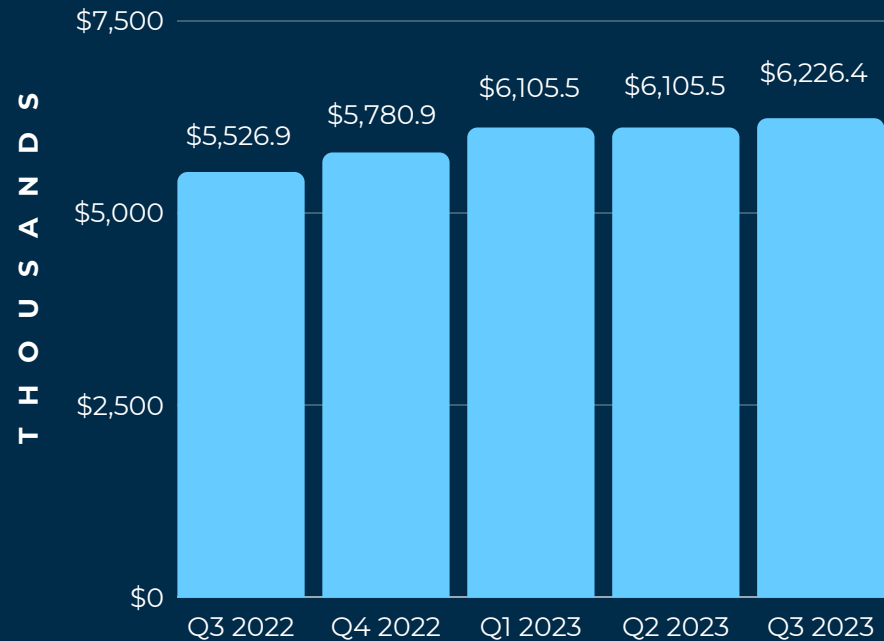


# THIRD QUARTER FINANCIAL REPORTS

## Net Charge-offs/Average Loans



## Allowance For Loan Losses

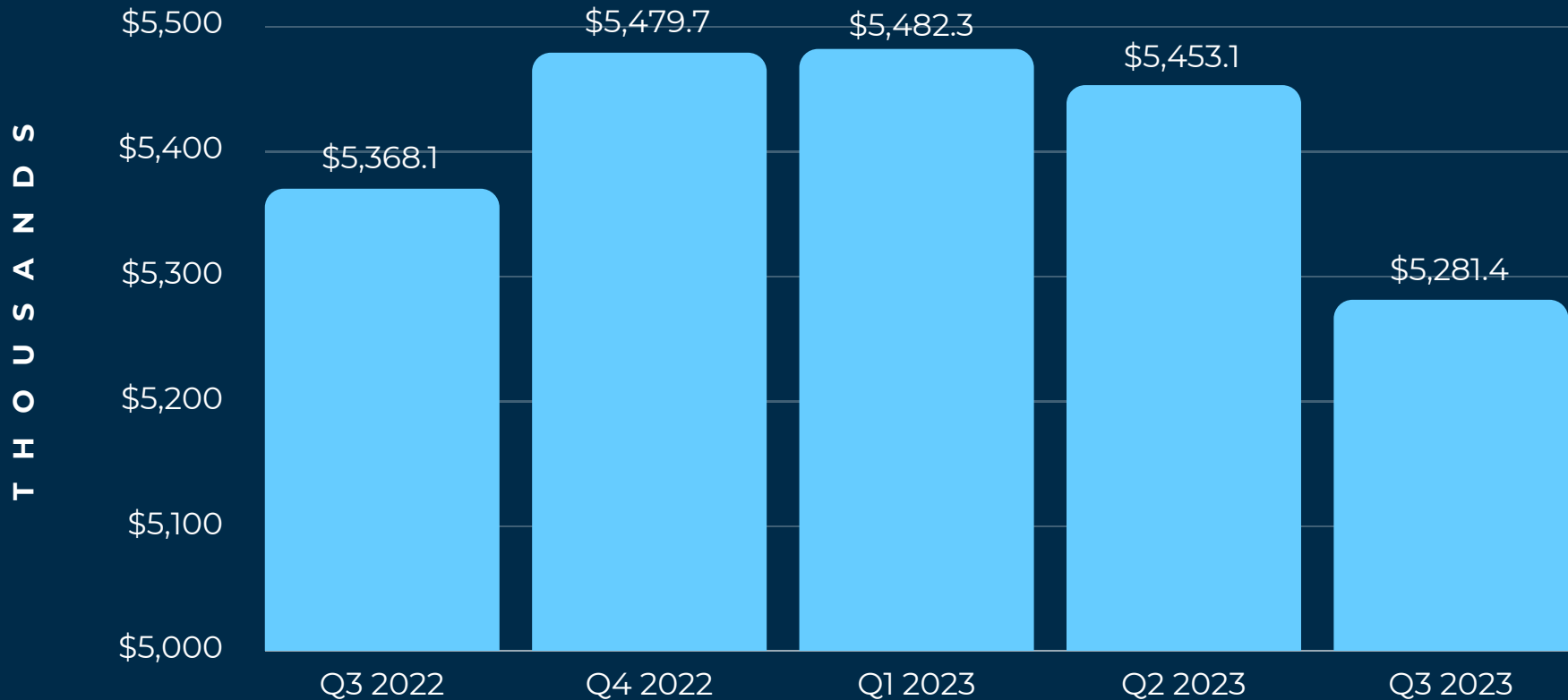


Asset quality is a leading principle for the CommerceOne management team. During the third quarter, three related loans totaling \$6.1 million to a client in the energy sector, were placed on non-accrual status. A charge-down of \$600,000 was also taken in connection with these loans. While funds to repay a majority of the remaining loan balance are in a court-administered escrow account awaiting release, the timing and amounts are not certain. The Bank's allowance for possible future loan losses totaled \$6.2 million or 1.20% of loans outstanding.



# THIRD QUARTER FINANCIAL REPORTS

## Total Revenue

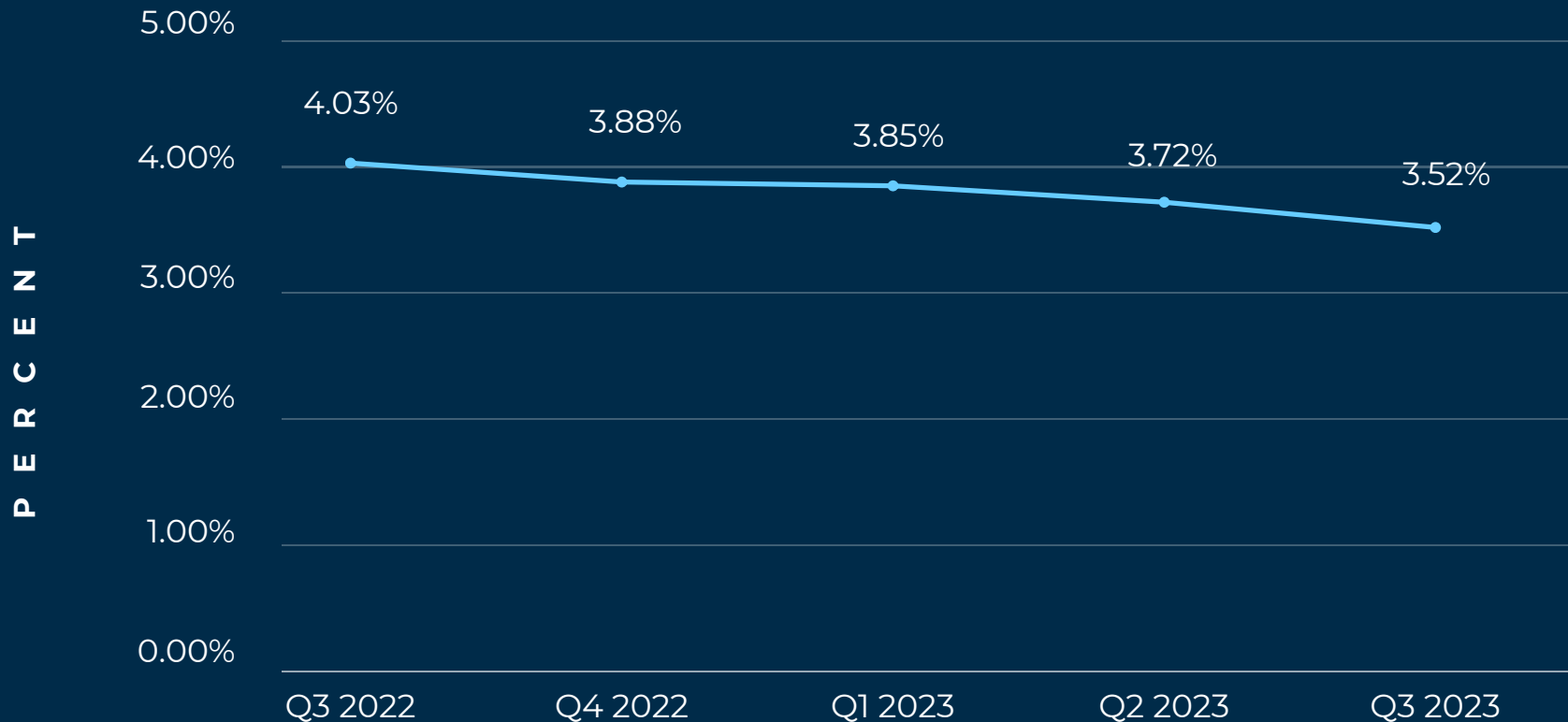


Revenue totaled \$5.3 million for the three months ended September 30, 2023, compared to \$5.5 million for the three months ended June 30, 2023, and \$5.4 million for the third quarter of 2022. On a year-over-year basis, revenue for the nine months ended September 30, 2023, increased \$2.2 million or 16%. Net interest income represented approximately 98% of total revenue.



# THIRD QUARTER FINANCIAL REPORTS

## Net Interest Margin



For the three months ended September 30, 2023, CommerceOne reported a net interest margin (NIM) of 3.52%, which was driven by a 6.57% average yield on earning assets and an average cost of funds of 3.44%. The third quarter NIM of 3.52% represents a decrease of 20 basis points from the 3.72% NIM for the second quarter of 2023 and a 51 basis point decrease compared to the third quarter of the prior year. The lower NIM during the third quarter was due to higher funding costs.



# THIRD QUARTER FINANCIAL REPORTS

## Non-Interest Expenses

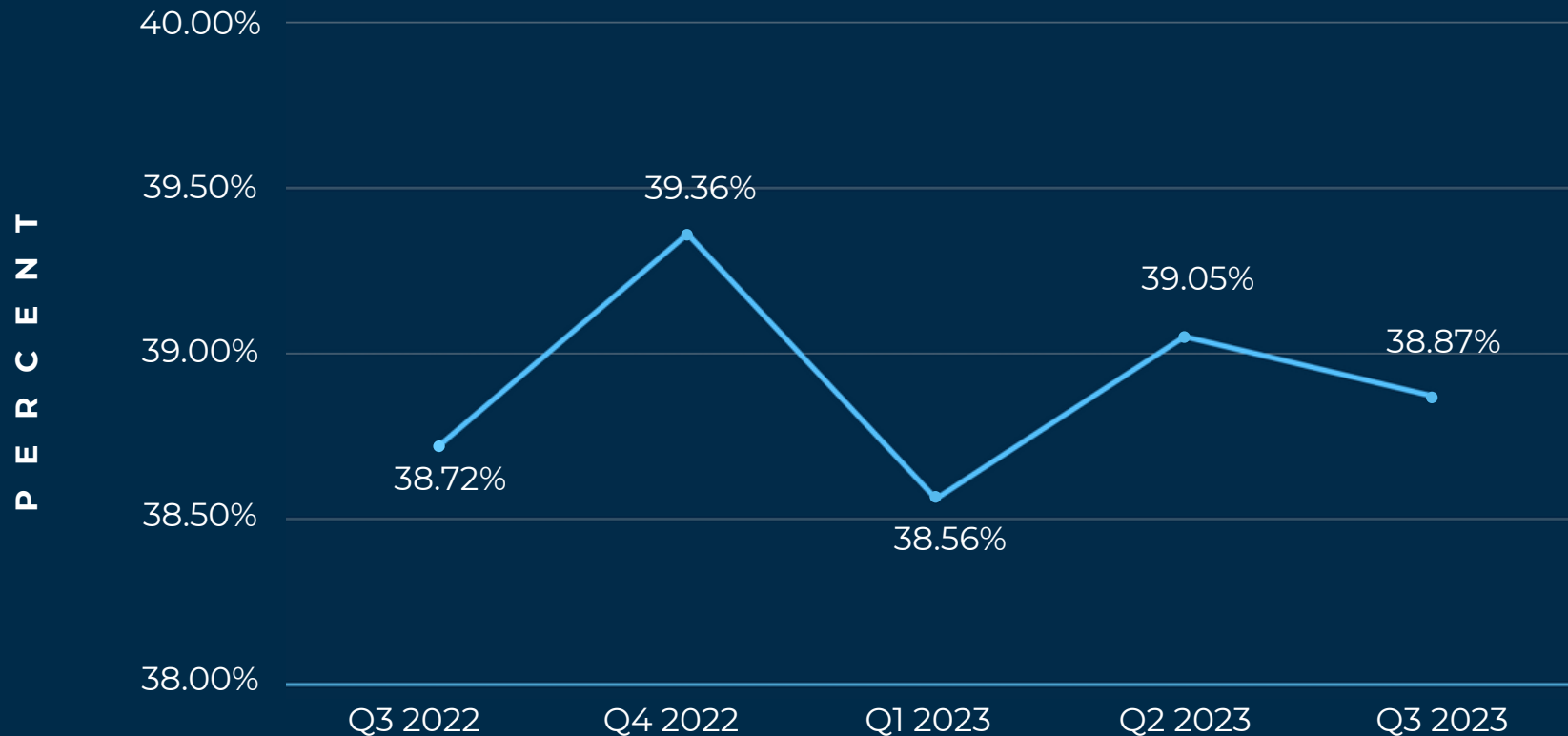


Non-interest expenses totaled \$2.1 million for the three months ended September 30, 2023, June 30, 2023, and September 30, 2022. On a year-over-year basis, non-interest expenses for the nine months ended September 30, 2023, increased \$401,000 or 7% due primarily to higher compensation costs, FDIC insurance, and technology expenses. Non-interest expenses include salaries and benefits (constituting 62% of the total), occupancy costs, and other non-interest expenses. As of September 30, 2023, CommerceOne had 35 full-time equivalent associates.



# THIRD QUARTER FINANCIAL REPORTS

## Efficiency Ratio



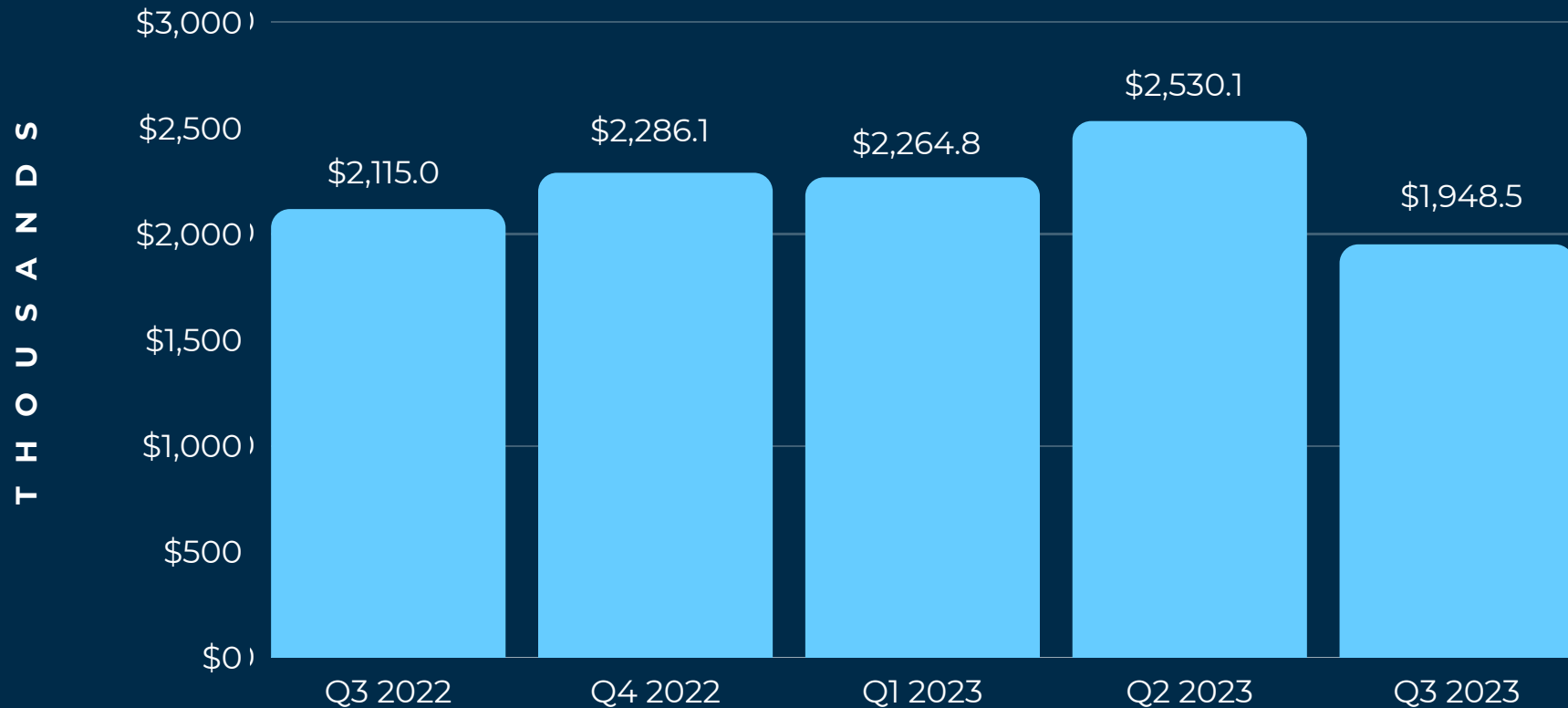
The efficiency ratio for the third quarter was 38.9% compared to 39.1% for the prior quarter and 38.7% for the third quarter of the prior year. The modest decrease compared to the prior quarter was driven primarily by lower compensation and occupancy costs.





# THIRD QUARTER FINANCIAL REPORTS

## Net Income



Net income totaled \$1.9 million for the three months ended September 30, 2023, compared to \$2.5 million for the three months ended June 30, 2023, and \$2.1 million for the third quarter of 2023. For the nine months ended September 30, 2023, basic earnings per share totaled \$1.39 per share, an increase of 28% compared to the prior year.



# THIRD QUARTER FINANCIAL REPORTS

## Total Loans

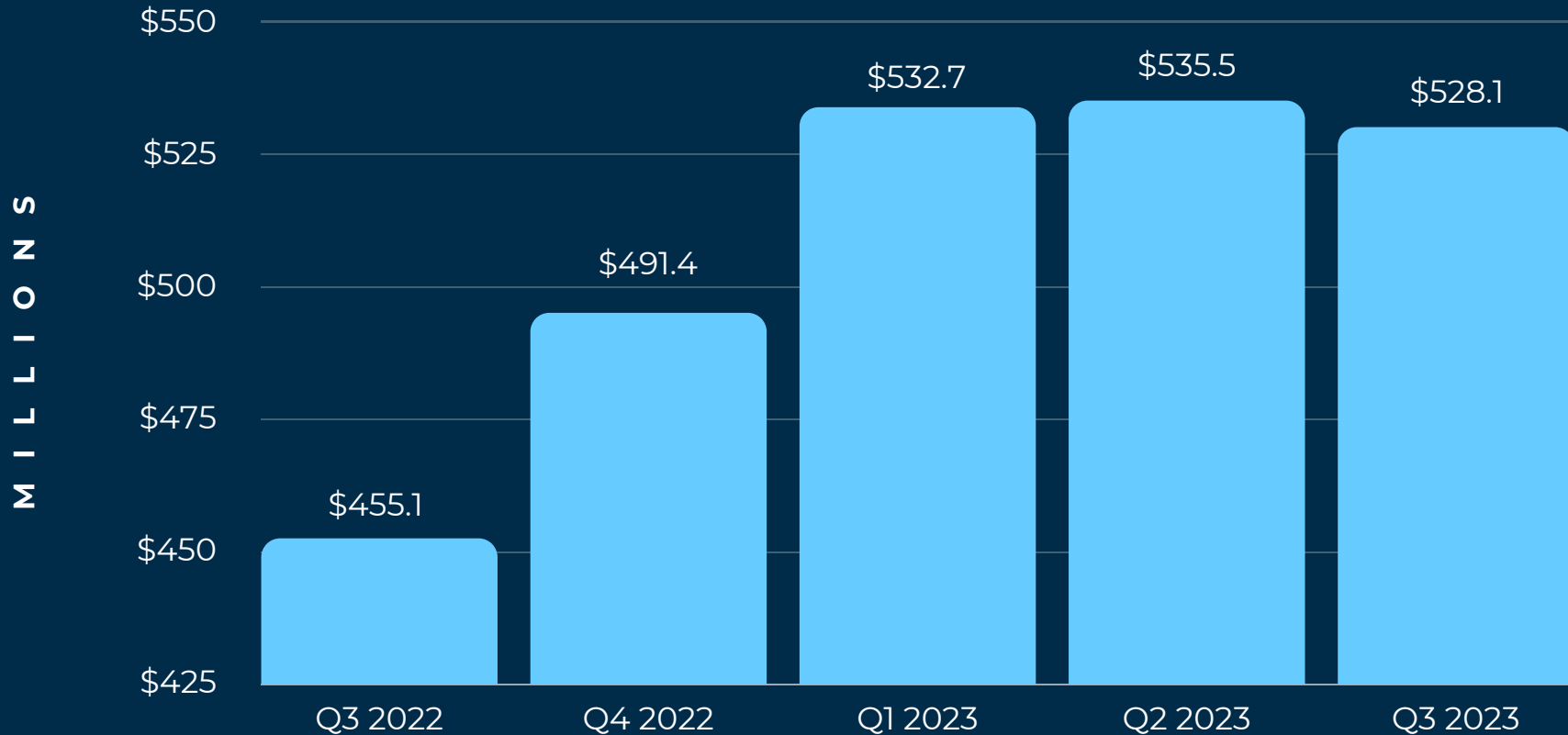


Loan balances of \$518.9 million are diversified with no undue concentrations with regard to industry, loan type, or collateral. Loan balances increased 14% compared to the third quarter of 2022 and increased 4% on a linked-quarter basis. As of September 30, 2023, the average loan size was \$513,000 with an average yield of 6.99%.



# THIRD QUARTER FINANCIAL REPORTS

## Total Deposits



Deposit balances totaled \$528.1 million as of September 30, 2023. This represents an increase of 16% compared to third quarter 2022 balances but a decrease of 1% on a linked-quarter basis. The deposit mix includes 60% in money market accounts and 21% in non-interest-bearing accounts.



# THIRD QUARTER FINANCIAL REPORTS

## Balance Sheet (Unaudited)

(in thousands, except per share data)

	<b>Sept. 30,</b> <b>2023</b>	<b>Sept. 30,</b> <b>2022</b>	<b>Change</b>
Loans, net of unearned income	518,870	453,903	14%
Total assets	603,732	521,775	16%
Deposits	528,064	455,088	16%
Total equity	63,764	55,113	16%
Book value per share	\$ 13.11	\$ 11.45	14%

## Income Statement (Unaudited)

(in thousands)

	Quarter to Date			Year to Date		
	<b>Sept. 30,</b> <b>2023</b>	<b>Sept. 30,</b> <b>2022</b>	<b>Change</b>	<b>Sept. 30,</b> <b>2023</b>	<b>Sept. 30,</b> <b>2022</b>	<b>Change</b>
Net interest income	5,163	5,253	-2%	15,856	13,695	16%
Provision for loan losses	608	433	40%	819	1,008	-19%
Total non-interest income	119	115	3%	361	323	12%
Total non-interest expense	2,061	2,084	-1%	6,320	5,918	7%
Net income	1,948	2,115	-8%	6,743	5,253	28%



# THIRD QUARTER FINANCIAL REPORTS

## Financial Ratios (Unaudited)

	Quarter to Date		Year to Date	
	<u>Sept. 30,</u> <u>2023</u>	<u>Sept. 30,</u> <u>2022</u>	<u>Sept. 30,</u> <u>2023</u>	<u>Sept. 30,</u> <u>2022</u>
Return on average assets	1.32%	1.61%	1.57%	1.42%
Return on average equity	12.15%	15.18%	14.67%	12.88%
Efficiency Ratio	38.87%	38.72%	38.83%	42.09%
Earnings per share	\$ 0.40	\$ 0.44	\$ 1.39	\$ 1.09
Net Interest margin	3.52%	4.03%	3.69%	3.72%





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