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COMMERCEONE

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SHAREHOLDER UPDATE - Q4 2022



## A MESSAGE TO OUR

# SHAREHOLDERS

January 23, 2023

We trust you enjoyed a safe and healthy holiday season with family and friends. As a new year begins, we are grateful for the success of the past year and look forward to the opportunities ahead.



As we shared in the third quarter shareholder update, the formation of CommerceOne Financial Corporation became effective on October 3, 2022. Each of you should have received a mailing from American Stock Transfer & Trust Company with instructions to exchange your CommerceOne Bank shares for CommerceOne Financial Corporation shares. It is extremely important that you exchange your shares as soon as possible. If you need assistance or have questions regarding the exchange process, please contact us promptly at [investor.relations@commerceonebank.com](mailto:investor.relations@commerceonebank.com).

In March, you will receive details regarding our annual meeting of shareholders. Meeting information and voting instructions will be delivered electronically from our transfer agent. It is important that you exchange your shares so that you receive the annual meeting and other shareholder-related information timely. Additionally, I encourage you to follow us on [LinkedIn](#). This is an efficient means of keeping up with CommerceOne activities.

The Bank's financial performance for the fourth quarter of 2022 was excellent. Financial results for the full year 2022 were at record levels, exceeding our target key performance indicators for the year. For the year ended December 31, 2022, KPIs include a net interest margin of 3.77%, return on assets of 1.48%, return on equity of 13.70%, and an efficiency ratio of 41.28%.



For the year ended December 31, 2022, CommerceOne reported net earnings (on a pre-tax cash basis) of \$11.4 million while net income totaled \$7.5 million for the period. Credit quality continues to be at the core of our performance with no past-due or non-performing loans.

Loans totaled \$482 million, and deposits totaled \$491 million as of December 31, 2022, representing a year-over-year increase of 28% and 21%, respectively.


The actions of the Federal Reserve, both in terms of higher rates and quantitative tightening, continue to impact liquidity throughout the banking system. Inflationary pressures, particularly in wages, likely require the Fed to increase rates above current levels leading to slower economic growth in 2023.

While the year ahead may present challenges, we remain committed to the proven banking principles of safety and soundness, profitability, and growth – in that order. The creation of shareholder value continues to be a top priority for CommerceOne!

Several clients have contacted us regarding the purchase of CommerceOne stock. If you have an interest in selling your shares, please contact our team.

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





# NEWS AND ANNOUNCEMENTS

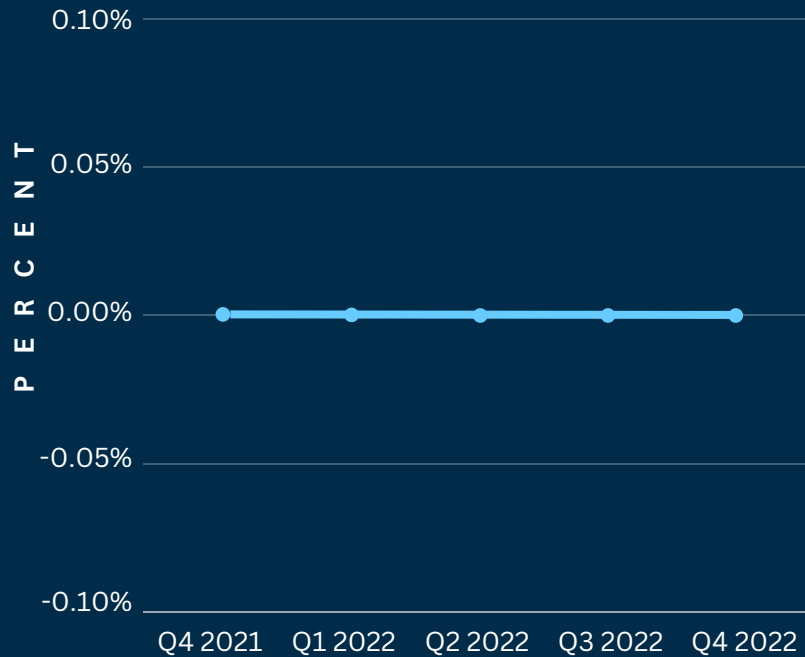


## Introducing the New CommerceOne Bank Card

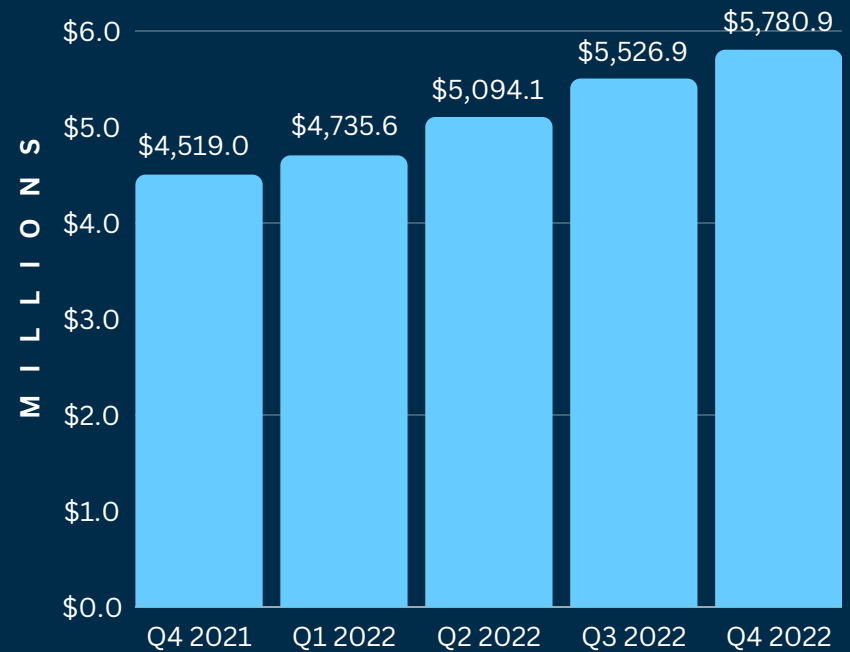
We worked to create a fresh look that promotes sophistication and brand recognition. In addition to the redesign, all new CommerceOne debit cards (both personal and business) are enabled for contactless payments. Our tap-to-pay feature enables quicker, more efficient transactions at the point of sale terminal, while also providing a more reliable and secure method of payment. We look forward to continuing to invest in payment options that limit the potential for fraud and give our clients peace of mind.

# FOURTH QUARTER FINANCIAL REPORTS

## Net Charge-offs/Average Loans



## Allowance For Loan Losses

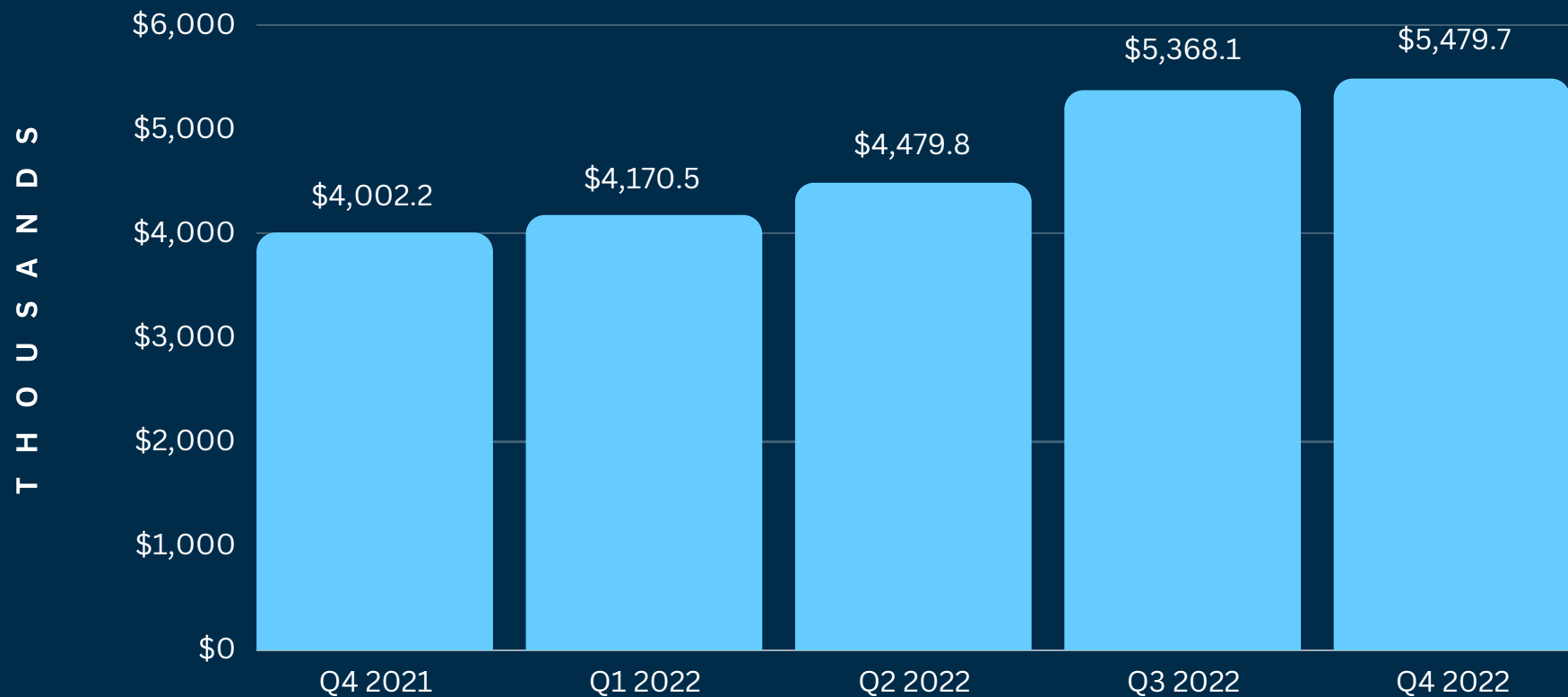


Each quarter we emphasize the importance of a disciplined approach to credit which is key to long-term, sustainable, shareholder value creation. Asset quality is the foundation of a bank's safety and soundness profile and is the leading principle for the CommerceOne management team. As of December 31, 2022, CommerceOne had no past due, delinquent, or non-performing loans. The Bank's allowance for possible future loan losses totaled \$5.8 million or 1.20% of loans outstanding.



# FOURTH QUARTER FINANCIAL REPORTS

## Total Revenue

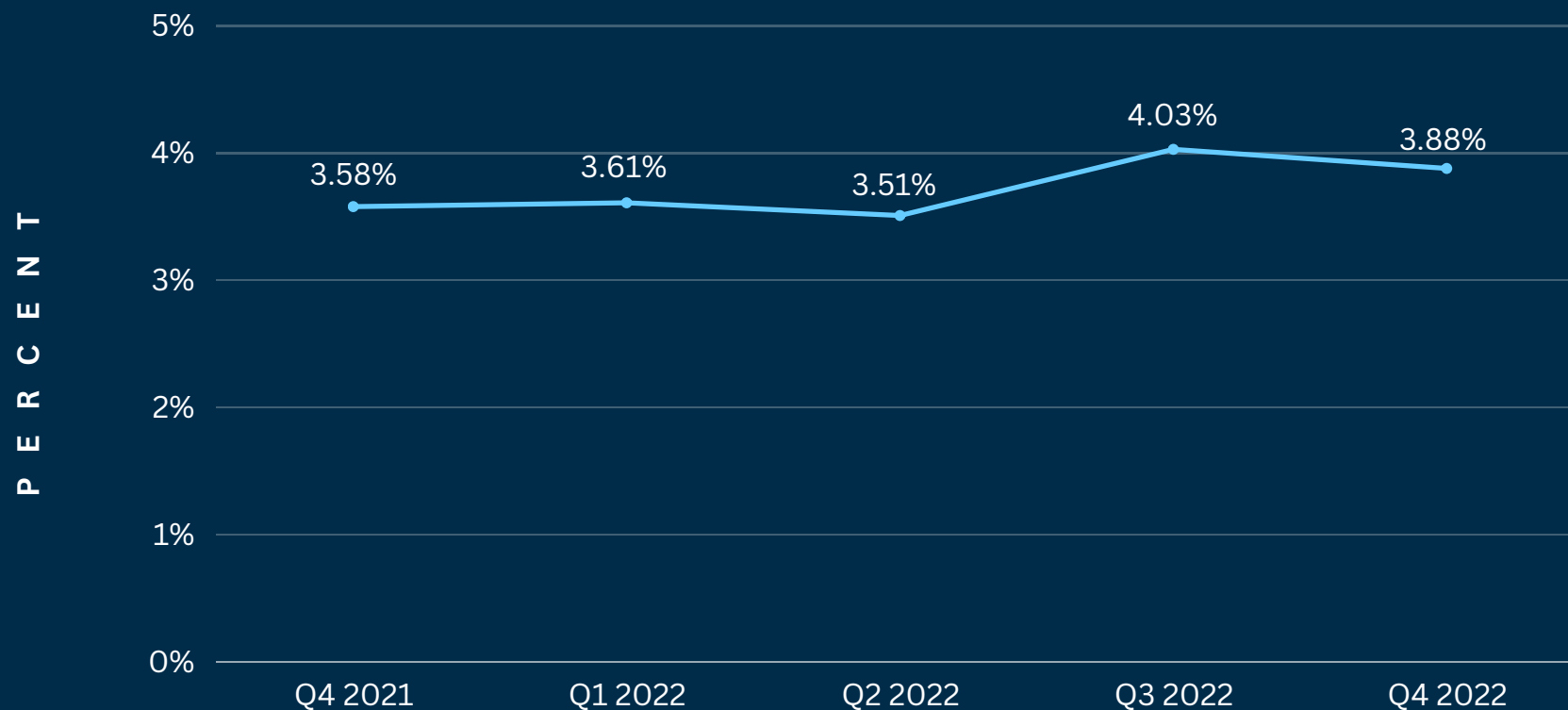


Revenue totaled \$5.5 million for the three months ended December 31, 2022, compared to \$5.4 million for the three months ended September 30, 2022, and \$4.0 million for the fourth quarter of 2021. On a year-over-year basis, revenue for the 12 months ended December 31, 2022, increased \$6.2 million or 46%. Net interest income represented approximately 98% of total revenue during 2022.



# FOURTH QUARTER FINANCIAL REPORTS

## Net Interest Margin

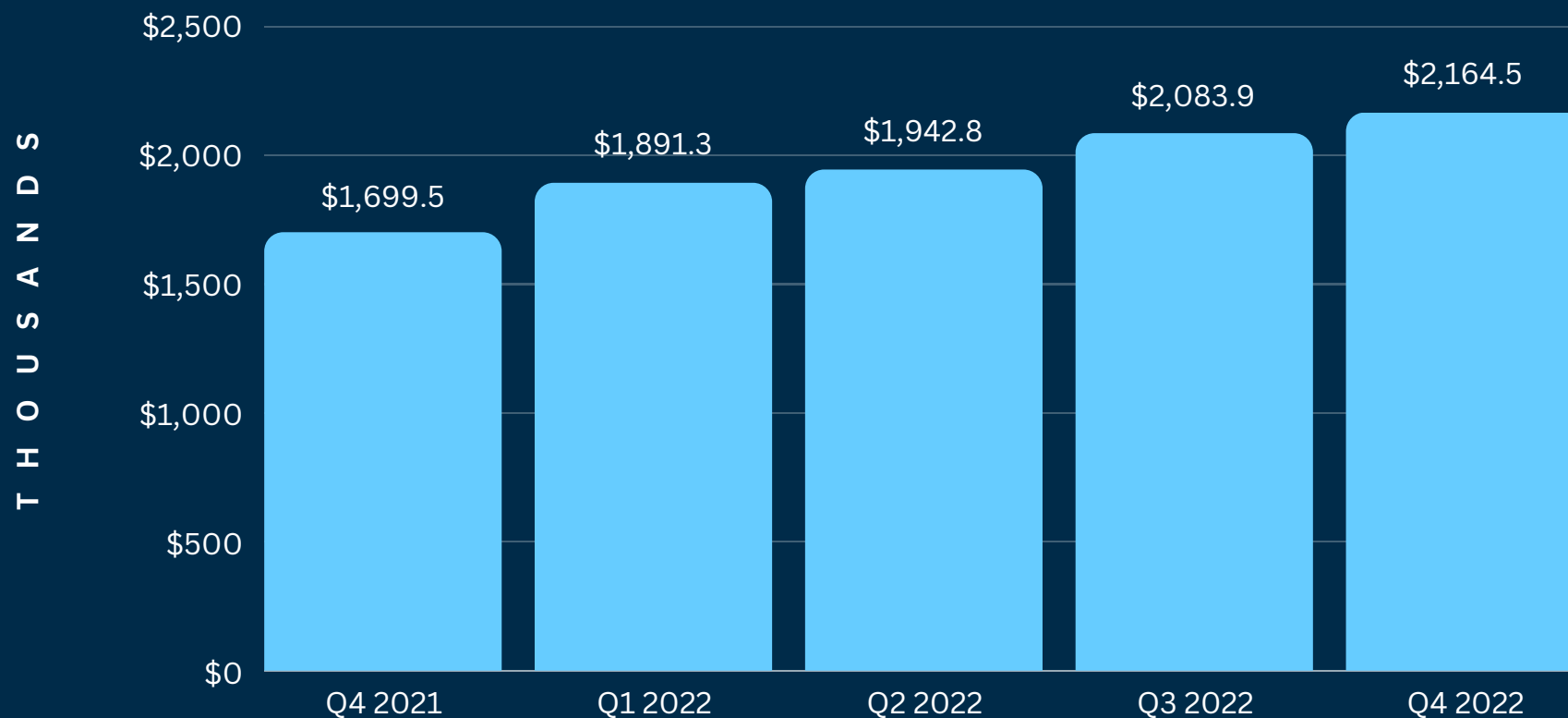


For the three months ended December 31, 2022, CommerceOne reported a net interest margin (NIM) of 3.88%, which was driven by a 5.67% average yield on earning assets and an average cost of funds of 2.00%. The fourth quarter NIM of 3.88% represents a decrease of 15 basis points from the 4.03% NIM for the third quarter of 2022, but a 30 basis point increase compared to the fourth quarter of the prior year. The lower NIM during the fourth quarter was primarily due to higher funding costs partially offset by higher yields on loans.



# FOURTH QUARTER FINANCIAL REPORTS

## Non-Interest Expenses



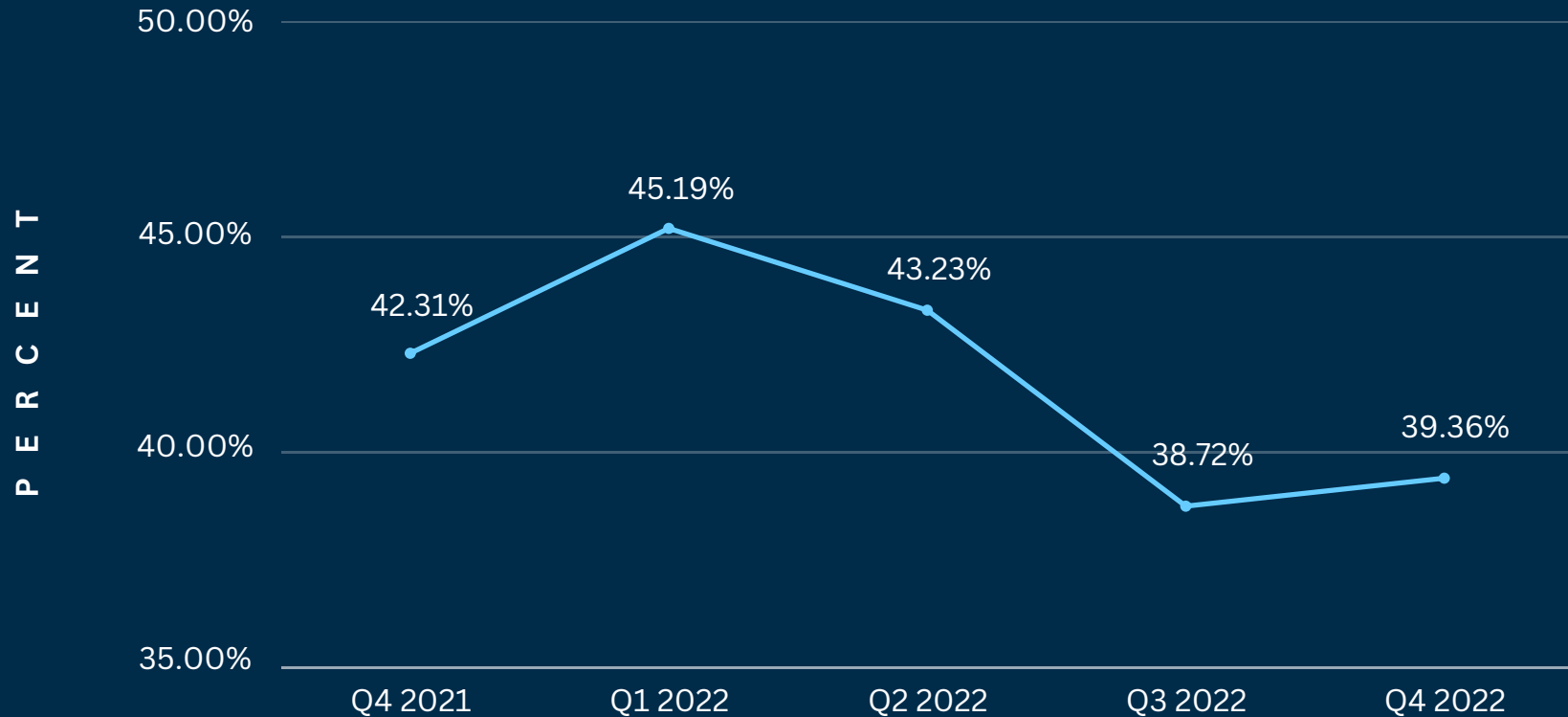
Non-interest expenses totaled \$2.2 million for the three months ended December 31, 2022 compared to \$2.1 million for the three months ended September 30, 2022 and \$1.7 million for the three months ended December 31, 2021. On a year-over-year basis, non-interest expenses for the 12 months ended December 31, 2022 increased \$1.6 million or 25% due primarily to higher compensation costs, technology expenses and professional services. Non-interest expenses include salaries and benefits (constituting 62% of the total), occupancy costs and other non-interest expenses. As of December 31, 2022, CommerceOne had 34 full-time equivalent associates.





# FOURTH QUARTER FINANCIAL REPORTS

## Efficiency Ratio

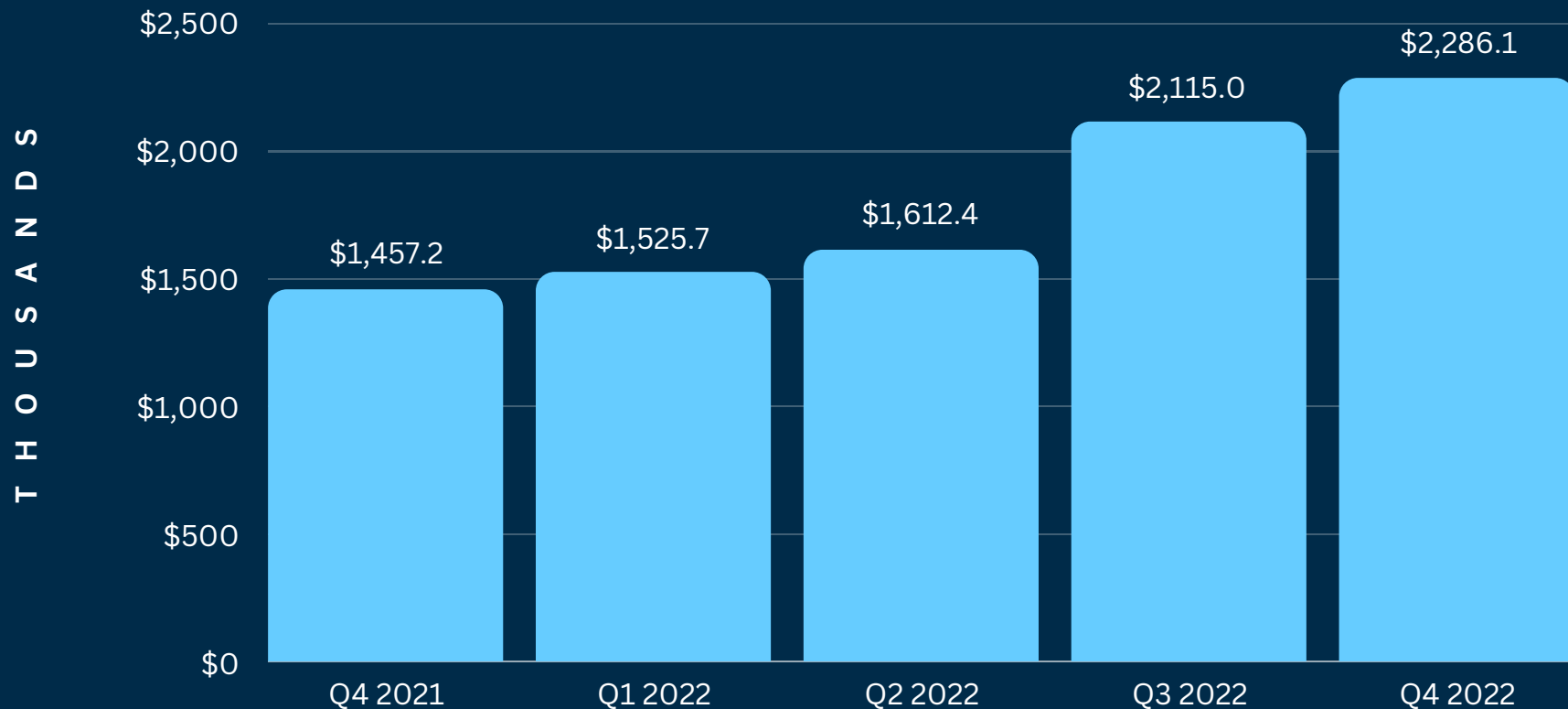


The efficiency ratio for the fourth quarter was 39.36% compared to 38.72% for the prior quarter and 42.31% for the fourth quarter of the prior year. The modest increase compared to the prior quarter was primarily driven by higher incentive and technology costs.



# FOURTH QUARTER FINANCIAL REPORTS

## Net Income



GAAP based net income totaled \$2.3 million for the three months ended December 31, 2022, compared to \$2.1 million for the three months ended September 30, 2022 and \$1.5 million for the fourth quarter of 2021. For the 12 months ended December 31, 2022, net income totaled \$7.5 million or \$1.55 per share, an increase of 87% compared to the prior year.



# FOURTH QUARTER FINANCIAL REPORTS

## Pre-Tax Income Before Provision

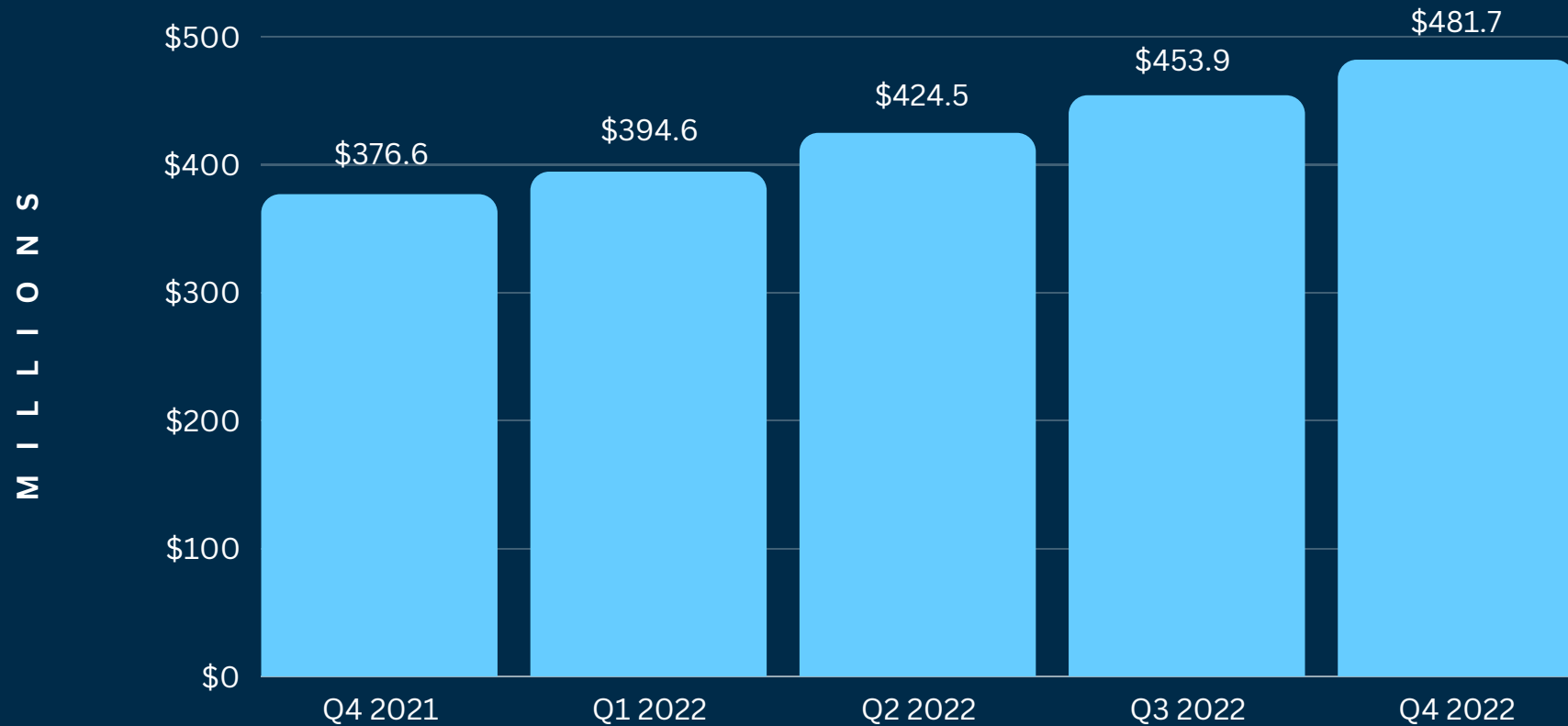


Loan growth during the period and the related provision for potential loan losses impacted GAAP net income. Adjusting for amounts allocated for potential future loan losses, pre-tax, net operating earnings (cash basis) for the 12 months ended December 31, 2022, totaled \$11.4 million, an increase of \$4.6 million or 67% compared to the prior year.



# FOURTH QUARTER FINANCIAL REPORTS

## Total Loans

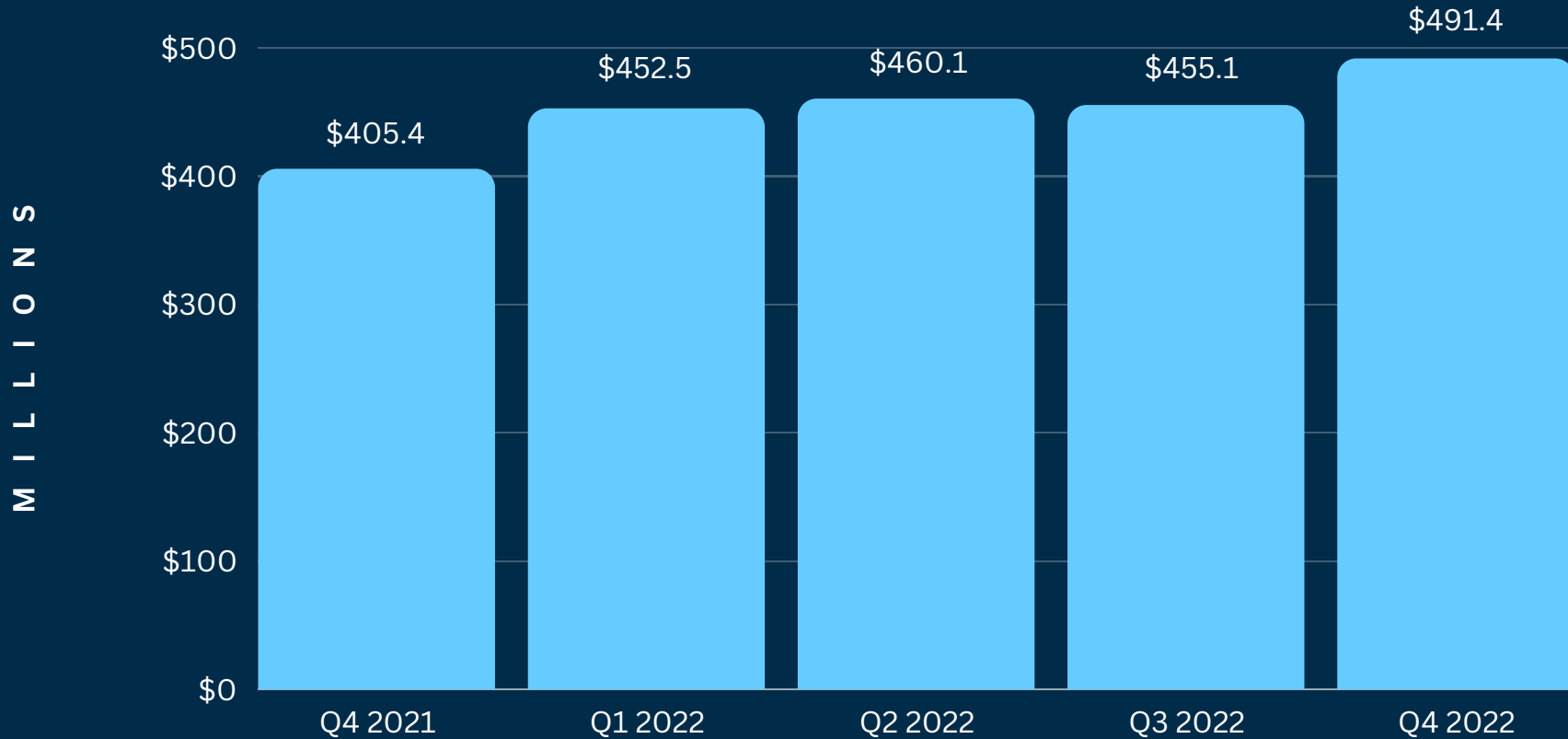


Loan balances of \$481.7 million are diversified with no undue concentrations with regards to industry, loan type or collateral. Loan balances increased 28% compared to the fourth quarter of 2021 and 6% on a linked-quarter basis. As of December 31, 2022, the average loan size was \$526,000 with an average yield of 6.25%.



# FOURTH QUARTER FINANCIAL REPORTS

## Total Deposits



Deposit balances totaled \$491.4 million as of December 31, 2022. This represents an increase of 21% compared to fourth quarter 2021 balances and an increase of 8% on a linked-quarter basis. The deposit mix includes 64% in money market accounts and 21% in non-interest-bearing accounts.



# FOURTH QUARTER FINANCIAL REPORTS

## Balance Sheet (Unaudited)

(in thousands, except per share data)

	December 31,		
	<u>2022</u>	<u>2021</u>	<u>Change</u>
Loans, net of unearned income	\$ 481,740	\$ 376,581	28%
Total assets	556,368	463,756	20%
Deposits	491,380	405,376	21%
Total equity	57,936	53,689	8%
Book value per share	\$ 11.92	\$ 11.16	7%

## Income Statement (Unaudited)

(in thousands)

	Quarter to Date December 31,			Year to Date December 31,		
	<u>2022</u>	<u>2021</u>	<u>Change</u>	<u>2022</u>	<u>2021</u>	<u>Change</u>
Net interest income	\$ 5,368	\$ 3,911	37%	\$ 19,063	\$ 12,985	47%
Provision for loan losses	254	349	-27%	1,262	1,376	-8%
Total non-interest income	112	91	23%	435	331	32%
Total non-interest expense	2,164	1,699	27%	8,083	6,482	25%
Net income	2,286	1,457	57%	7,539	4,036	87%



# FOURTH QUARTER FINANCIAL REPORTS

## Financial Ratios

	Quarter to Date		Year to Date	
	December 31,		December 31,	
	2022	2021	2022	2021
Return on average assets	1.64%	1.32%	1.48%	1.02%
Return on average equity	16.05%	10.88%	13.70%	7.84%
Efficiency Ratio	39.36%	42.31%	41.28%	48.53%
Earnings per share	\$ 0.47	\$ 0.30	\$ 1.55	\$ 0.84
Net Interest margin	3.88%	3.58%	3.77%	3.33%





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