



Commerce
FINANCIAL HOLDINGS, INC.

2015 Annual Report

Message from the CEO

Taking inspiration from the PBS Kids character, Bob the Builder's catchphrase, "**Can we build it? Yes we can!**" The word I would use to describe 2015 for Commerce Financial Holdings, Inc (CFH) is "build." We identified key drivers that would most impact bank and shareholder value and built them:

- Entered two new markets; Elm Grove and Sheboygan
- Added Small Business Administration loan sales/servicing
- Added a Wealth Management Division
- Raised \$5.8 million additional capital to support growth

By building the "footprint" of CFH, adding sources of fee income, and new capital we are creating long-term shareholder value. These strategic initiatives delivered the following results:

- Profits grew to nearly \$1.8 million (up \$738,000, 71% increase)
- Total assets grew to \$408 million (up \$54 million, 15% increase)
- Core deposits grew to \$267 million (up \$58 million, 28% increase)
- Net loan portfolio grew to \$340 million (up \$50 million, 17% increase)
- Asset quality improved
- Mortgage fee income totaled \$964,000 (up \$501,000, 108% increase)

By building new revenue sources we positioned CFH to focus on growing our assets, revenues, and profits going forward. Now that we have built it, we are not assuming "they will come." We are proactively seeking business with our new offerings in the communities we serve. While in 2015 we increased profits and made significant investments in CFH's future, it is essential we continue growing profits.

2016 will be a pivotal year for CFH. Why? Our focus pivots to growing assets, revenue, and profits from our 2015 investments.

In our next annual report, I anticipate using "execute" as the word to describe 2016. We have the resources built, now we need to execute the strategy. I look forward to another great year for Commerce Financial Holdings, Inc.



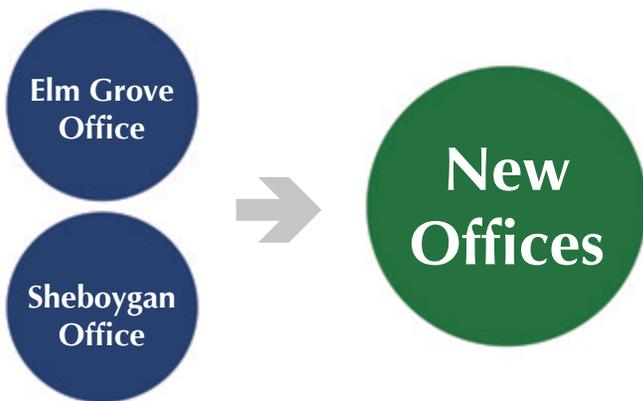
Joe Fazio III
CEO



2015 Highlights

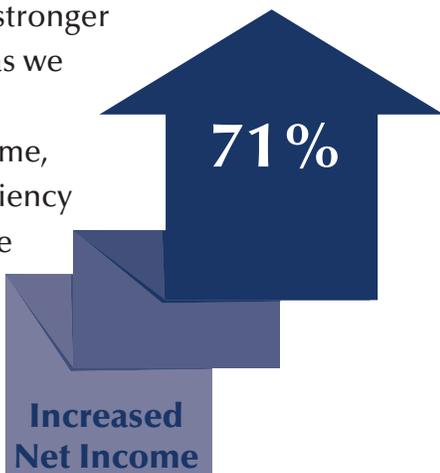
Opened New Offices

Commerce Financial Holdings, Inc. (CFH) was opportunistic by entering new markets in Elm Grove and Sheboygan. We hired experienced and talented bankers with roots in the community. These bankers have many long-term client relationships and are busy earning those relationships for CFH.



Improved Profitability

The company increased net income 71% in 2015, despite the significant capital and personnel expense required to open two new markets. CFH is positioned for stronger earnings in 2016 as we continue to grow non-interest income, improve our efficiency ratio, and leverage the investments made to open Elm Grove and Sheboygan.



Raised Capital

CFH completed a successful capital campaign, raising a total of \$9.1 million and redeeming \$3.3 million of common stock. The new capital raised is a critical component to growing in the markets we serve.



Increased Assets

Assets increased 15% for the year due to the commercial loan portfolio growing more than \$50 million or 17%. As we look to 2016, our markets will provide us with additional growth opportunities.



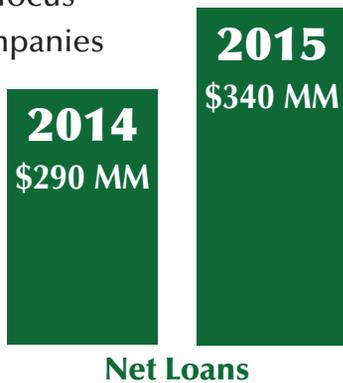
Elm Grove Office



2015 Highlights

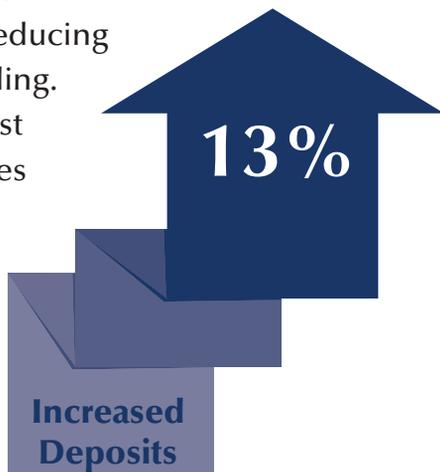
Loans

The 17% growth in the loan portfolio provided increased revenue in 2015. More importantly, the loan portfolio is performing very well. The company posted its lowest loan delinquency numbers since 2007. The non-current loan ratio closed the year at 0.05%. We continue to shift our commercial loan focus toward operating companies to achieve a better balance in the portfolio while reducing our concentration in real estate.



Deposits

The company grew deposits 13% from 2014. We continue working to increase non-interest bearing deposit balances and reducing wholesale funding. The non-interest bearing balances grew 55% while wholesale funding dropped 14%.



Opened Commerce Wealth Management

CFH added an experienced investment professional to build an investment subsidiary of the bank. This provides the company another source of non-interest income and additional investment alternatives for our clients.

Community Involvement

We are dedicated to making a positive impact in the communities we serve throughout Southeastern Wisconsin. Through our Random Acts of Commerce Program, CFH employees are involved in assisting and supporting various charitable organizations.



\$36,880.00
Donations & Contributions

Sheboygan Office



Commerce Financial Holdings, Inc. and Subsidiary

Condensed Statements of Condition December 31, 2015 and 2014 (Dollars in thousands)

Assets	2015	2014	Change
Cash and cash equivalents	\$ 23,131	\$ 15,794	46%
Investment Securities	19,787	22,630	-13%
Loans, net	340,124	289,710	17%
Premises & equipment, net	12,724	12,700	0%
Foreclosed assets	1,171	2,709	-57%
Cash value of life insurance	6,632	6,406	4%
Other assets	4,408	4,092	8%
Total Assets	\$ 407,977	\$ 354,041	15%
Liabilities			
Deposits	\$361,827	\$318,920	13%
Borrowings	7,485	5,535	35%
Other liabilities	3,463	1,949	78%
Total Liabilities	372,775	326,404	14%
Stockholders' Equity			
Common stock	\$29,992	\$24,009	25%
Retained earnings	5,053	3,277	54%
Accumulated other comprehensive earnings	156	351	-56%
Total Stockholders' Equity	35,201	27,637	27%
Total Liabilities and Stockholders' Equity	\$407,976	\$354,041	15%

Condensed Statements of Income Years ended December 31, 2015 and 2014 (Dollars in thousands)

	2015	2014	Change
Interest income	\$15,637	\$13,737	14%
Interest expense	3,757	3,096	21%
Net interest income	11,880	10,641	12%
Provision for loan losses	650	676	-4%
Net interest income after provision for loan losses	11,230	9,965	13%
Non-interest income	2,754	1,390	98%
Non-interest expense	11,226	9,813	14%
Income before provision for income taxes	2,758	1,542	79%
Provision for income taxes	982	504	95%
Net Income	\$1,776	\$1,038	71%

2015 Board of Directors

Joseph Fazio III

*Chief Executive Officer & Co-Founder
Commerce State Bank*

David Borchardt

*Chief Operating Officer, Chief Financial Officer
& Co-Founder
Commerce State Bank*

Thomas Hopp

*President & Co-Founder
Commerce State Bank*

Kevin Volm

*Chief Risk Officer & Corporate Secretary
Commerce State Bank*

Brian Dix

*President
Infinity Benefit Solutions*

Cory Davis

*Senior Vice President, Private Wealth Management
Robert W. Baird & Co.*

David Stroik

*Chief Executive Officer & President
Zimmerman Architectural Studios, Inc*

Jack Enea

*Attorney, CPA
Whyte Hirschboeck Dudek, S.C.*

Scott Tennies

*President & Owner
Tennies Accounting and Business Services, CPAs*

Van Mobley, Ph.D.

*Associate Professor
Concordia University*

This Annual report may contain certain forward-looking statements with respect to the financial condition, results of operations, objectives, plans, future performance and business of the company. Statements that are not historical facts, including statements about beliefs and expectations, are forward-looking statements. These statements are based on beliefs and assumptions for the Company's management and on information currently available to management. Statements containing the words "believe," "expect," "anticipate," "plan," "intends," "estimate," "may," "will," "would," "could," and "should," or similar expressions are forward-looking statements. All statements in this report, including forward-looking statements, speak only as of the day they are made, and the Company undertakes no obligation pursuant to this section to update any statement in light of new information of future events.