



Commerce
FINANCIAL HOLDINGS, INC.

2016 Annual Report

Message from the CEO

In the 2015 annual report shareholder letter, I used the word “execute” to describe 2016; that we would execute our strategy to deliver results. I am happy to report we executed so well that I want to use a better word to describe 2016’s results:

Accomplishment: [Ac•com•plish•ment] [ə'kæmpliSHmənt] [uh-kom-plish-muh nt]

*Something difficult that you succeed in doing,
especially after working hard over a period of time.*

It’s very difficult to grow Commerce Financial Holdings, Inc. (CFH), and its net profit. Why? As you grow, expenses incurred for people and facilities happen immediately, while revenues lag. Also, another major factor is the need to fund loan loss reserve for an expanding loan portfolio. It’s particularly difficult to deliver 0.90% Return on Average Assets (ROAA) and 10.43% Return on Equity (ROE) and grow 21%. These were big accomplishments for CFH in 2016.

We live in a results driven world and it’s always exciting to announce positive results. CFH succeeded in 2016 by proactively seeking business in current and new markets, and in the communities we serve. In addition to our achievements, we received the following accolades:

- 2016 Best Place to Work by Milwaukee Business Journal
- 2016 Business of the Year by the City of West Bend for leadership in the community and its industry
- 2016 Business of the Year by Ozaukee Economic Development for economic growth, employee growth, and contributions in the community

We expect to accomplish more in 2017, starting with asset growth. As mortgage interest rates rise, we anticipate a slowing of mortgage fee income due to lower refinance volumes. However, a rising interest rate environment will be a lift for our commercial loan portfolio. Therefore, we anticipate interest income to be a larger portion of our revenue and profit mix in 2017.

2016 marked the 11th full year of operations for Commerce Financial Holdings, Inc. and Commerce State Bank. We are more excited about the prospects for your company today than when it began. It energizes us to deliver positive results. It seems so long ago that the economy was in recession, with the greatest financial collapse in generations that caused numerous bank failures. The founders appreciate how our shareholders stood with us as we worked through that time period. We are grateful to have you as a shareholder, and look forward to accomplishing more at CFH.

Thank you,



Joe Fazio III

Chief Executive Officer, Co-Founder

2016 Highlights

Profitability Enhancement

The company's expansion into the Elm Grove and Sheboygan markets in 2015 provided strong loan and deposit growth that resulted in a 128% increase in net income for 2016. The company is well positioned for 2017 to be another strong earnings year as asset quality remains solid and we continue to earn new loan and deposit relationships. Non-interest income grew

2015 \$1,776MM

2016 \$4,041MM

Net Income

2015 \$11,880MM

2016 \$14,690MM

Net Interest Income

2015 \$11,226MM

2016 \$12,859MM

Non-Interest Expense

2015 \$2,754MM

2016 \$5,379MM

Non-Interest Income

95% from 2015 on the strength of mortgage and SBA loan sales. In addition, we continue to improve our efficiency ratio maximizing overall return. Book value per share at year-end was \$30.67 with earnings per share of \$3.05.

Asset Growth

Commerce Financial Holdings, Inc. (CFH) posted another outstanding year of asset growth at 21% over 2016. The expansion of the commercial loan portfolio was the main contributor to the increase in assets. We continue growing our market share in the primary markets of Washington, Ozaukee, Milwaukee, Waukesha and Sheboygan counties.

2015 \$407,977MM

2016 \$494,120MM

Assets

Loan Expansion

2016 was another exciting year for loan growth as we experienced a 22% increase in the loan portfolio, fueled primarily by our newest markets. Loan quality remained strong with our delinquent loans-to-loans ratio ending the year at 0.18%. In addition to the exceptional balance sheet growth, we service \$198 million of off-balance sheet loans sold in the secondary market. They include residential mortgages, SBA 7a Loans and commercial loan participations.

2015 \$340,124MM

2016 \$413,328MM

Loans

2015 \$311,260MM

2016 \$377,003MM

Business Loans

2015 \$149,130MM

2016 \$198,720MM

Loans Sold/Serviced

Core Deposit Growth

Deposits grew 17% in 2016. We made considerable progress increasing our non-interest bearing deposit balances and reducing our use of brokered and wholesale deposits. We posted 98% growth in non-interest bearing balances and decreased our wholesale funding 31% from 2015 levels. In 2017, we will likely utilize more wholesale funding to support projected loan growth; this will assist in managing the asset liability sensitivity of the bank.

2015 \$361,827MM

2016 \$421,703MM

Deposits

2015 \$40,129MM

2016 \$79,474MM

Non-Interest Bearing Deposits

2015 \$95,242MM

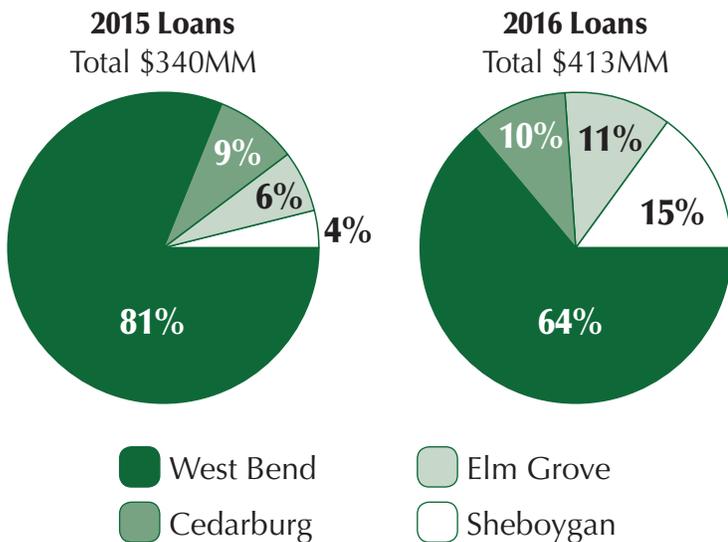
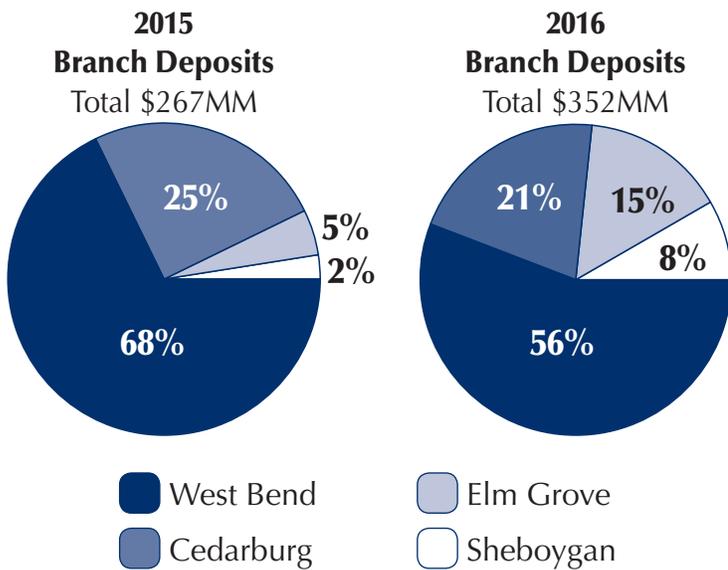
2016 \$66,088MM

Brokered and National Deposits

2016 Highlights

Market Penetration

CFH continues to benefit from increasing our market share within our branch network. We are confident the new markets will continue to provide additional opportunities for growth. The combination of our quality products, talented sales teams and leveraging bank technology, will allow us to grow our revenue while minimizing additional operating expense.



Community Involvement

Commerce Financial Holdings, Inc provided \$53,969.25 in contributions and sponsorships in 2016. We are dedicated to helping communities through our Random Acts of Commerce Program. CFH employees are involved in assisting and supporting various charitable organizations.



\$53,969.25
Donations & Contributions

2016 Awards & Recognition



2016 Business of the Year by the City of West Bend- Leadership in the community and its industry



2016 Best Place to Work by Milwaukee Business Journal



2016 Business of the Year by Ozaukee Economic Development- Economic growth, employee growth, and contributions in the community

Commerce Financial Holdings, Inc. and Subsidiary

Condensed Statements of Condition December 31, 2016 and 2015 (Dollars in thousands)

Assets	2016	2015	Change
Cash and cash equivalents	\$31,650	\$23,131	37%
Investment Securities	26,119	19,787	32%
Loans, net	413,328	340,124	22%
Premises & equipment, net of allowance	11,461	12,724	-10%
Foreclosed assets	499	1,171	-57%
Cash value of life insurance	6,863	6,632	3%
Other assets	4,200	4,408	-5%
Total Assets	\$494,120	\$407,977	21%
Liabilities			
Deposits	\$421,703	\$361,827	17%
Borrowings	27,485	7,485	267%
Other liabilities	3,781	3,463	9%
Total Liabilities	452,969	372,775	22%
Stockholders' Equity			
Common stock	\$32,237	\$29,992	7%
Retained earnings	9,094	5,053	80%
Accumulated other comprehensive earnings	(180)	157	-215%
Total Stockholders' Equity	41,151	35,201	17%
Total Liabilities and Stockholders' Equity	\$494,120	\$407,977	21%

Condensed Statements of Income Years ended December 31, 2016 and 2015 (Dollars in thousands)

	2016	2015	Change
Interest income	\$19,008	\$15,637	22%
Interest expense	4,318	3,757	15%
Net interest income	14,690	11,880	24%
Provision for loan losses	555	650	-15%
Net interest income after provision for loan losses	14,135	11,230	26%
Non-interest income	5,379	2,754	95%
Non-interest expense	12,859	11,226	15%
Income before provision for income taxes	6,655	2,758	141%
Provision for income taxes	2,614	982	166%
Net Income	\$4,041	\$1,776	128%

Financial Highlights

	2016	2015
Common shares outstanding	1,341,558	1,264,022
Return on average equity	10.43%	5.92%
Return on average assets	0.90%	0.47%
Book value per share (dollars)	30.67	27.85

2016 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*

Jack Enea

*Managing Partner, Attorney
Husch Blackwell
Chairman of Commerce Financial Holdings, Inc.*

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*

Scott Tennes

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

Van Mobley, Ph.D.

*Associate Professor
Concordia University*

Anthony Jovanovich

*Retired Chief Executive Officer & Chairman
Community Bank and Trust*

Kevin Allis

*President & Owner
Thunderbird Strategic, LLC*

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.