



Commerce
FINANCIAL HOLDINGS, INC.

2017 Annual Report



New Sheboygan Office Rendering

Message from the CEO

H. Jackson Brown Jr., an American author says, “Don’t work for recognition, but do work worthy of recognition.” Your company and its employees are doing that.

In 2017, Commerce Financial Holdings, Inc. (CFH) grew after-tax net income 16% to \$4,696,112; increasing book value \$3.72 during 2017 to \$34.39 per share.

Commerce Financial Holdings, Inc. delivered outstanding financial results:

2016 \$494,677MM

2017 \$575,149MM

Assets • 16% Increase

2016 \$422,042MM

2017 \$490,123MM

Deposits • 16% Increase

2016 \$414,083MM

2017 \$480,033MM

Loans • 16% Increase

A look back at the following comments from my shareholder letters in 2012-2016 shows hard work and persistence pays off.

In 2012 we asked, “Are we there yet?” In today’s economy, these are irritating words to bankers. Why? For bankers, we are referring to whether we have completely resolved problem loans. In many cases, problem loans take longer to resolve than anyone wants or expects. We should be producing more profit.

Was 2013 the year all the heavy stuff came down on CFH and the U.S. economy? I hope the answer is, “Yes!” I feel more confident about that answer for your company than I do for the economy.

For 2014, profits topped the \$1 million mark. The commercial loan portfolio grew nearly 15%. Classified assets dropped below 1%. It is easy to say we need to make more profit for the size of CFH, and we do need to make more profit. It is another to say we need to make more and to do it.

The word I would use to describe 2015 for Commerce Financial Holdings, Inc. is “build.” We identified key drivers that would most impact your company and shareholder value and built them.

By building the “footprint” of CFH, adding sources of fee income and new capital, we created long-term shareholder value. In addition, those strategic initiatives delivered profits of \$1,776,000 (up \$738,000, 71% increase) and grew assets \$54 million to \$408 million in comparison to 2014.

In 2016, I stated it’s very difficult to grow CFH, and grow its profits. It’s particularly difficult to deliver 0.90% Return on Average Assets (ROAA), 10.43% Return on Equity (ROE) and grow 21%; yet we made it happen. We are more excited about the prospects today than we were at the start of CFH. It energizes us to deliver results.

Beyond the financial results, our efforts increase franchise value, strengthen our communities and enhance our industry and professions. This annual report outlines many accolades received by your company and its employees in 2017. Proof that we are doing work worthy of recognition.



Thank you,

Joe Fazio III

Chief Executive Officer, Co-Founder

2017 Highlights

Profitable Efficient Growth

The company continued to focus on growing profitability in 2017. At the same time, we enhanced our asset quality and enjoy some of the lowest loan delinquency performance in our history. The company remains committed to running efficiently by leveraging our resources and technology.

Market Advancement

Construction is underway at 2230 Kohler Memorial Drive in Sheboygan with our new office scheduled to open June 2018. With the building and exceptional location, we anticipate continued market share progress. In addition, we expect continued growth in our other markets throughout 2018.

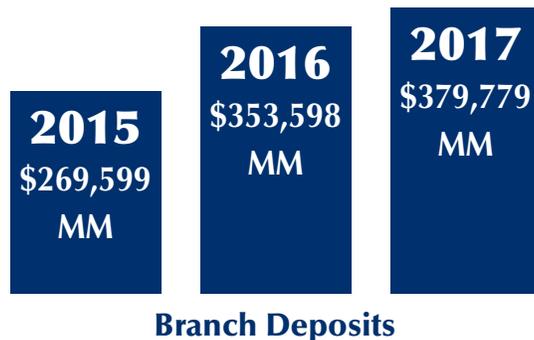
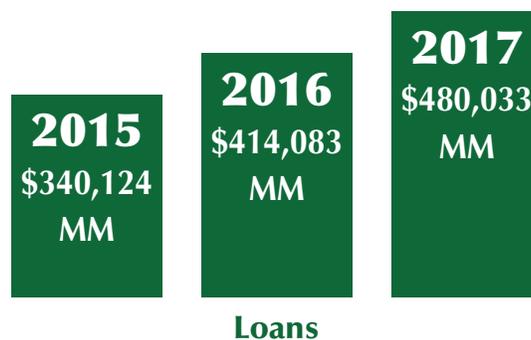


Community Involvement

Commerce Financial Holdings, Inc is very active in the communities we serve with employee involvement and supporting many charitable organizations. In 2018, we are the campaign chair team for United Way of Washington County.



\$56,955.06
Donations & Contributions



2017 Awards & Recognition



ICBA Names Joe Fazio as Community Banker of the Year

Washington, D.C. (Oct. 16, 2017)-The Independent Community Bankers of America® (ICBA) announced Joe Fazio, Chairman and CEO of Commerce State Bank in West Bend, Wisconsin as its 2017 National Community Banker of the Year. This annual ICBA award recognizes the exceptional work and commitment of individual community bank employees and their dedication to local communities.

“We are pleased to honor and recognize Joe Fazio as ICBA’s 2017 Community Banker of the Year,” said ICBA Chairman Scott Heitkamp, President and CEO of ValueBank Texas in Corpus Christi, Texas. “As a dedicated, driven leader and compassionate and conscientious citizen, Joe’s contributions to his community and the betterment of our industry are to be commended.”

Perhaps the best example of Fazio’s leadership and passion is his self-published book, “This might be a dumb question but... How Does Money Work?” which offers practical financial management advice for consumers. “Joe’s passion for explaining money matters begins with the belief that we need to stop talking about financial literacy” and instead focus on educating consumers about how to make their money work for them, said the Commerce State Bank employee who nominated Fazio.

The community leader also actively supports the community banking industry through his service on various boards and speaking engagements. He serves as a board member for the Federal Home Loan Bank of Chicago, was a Wisconsin Bankers Association board member, has testified before the State of Wisconsin Assembly Committee for Financial Institutions, and has traveled to Washington to advocate community bank-friendly policies. Fazio is also active in recruiting future banking talent, serving as a guest lecturer and panelist for Marquette University’s banking career night.

Wendy Conto, Vice President of Mortgage Lending named 2017 Best Loan Originator for Northeast Chapter for Wisconsin Mortgage Bankers Association



Amy Schmoldt, Linda Chesak and Darlene Emmer (left to right below), each received the 2017 Five Star Mortgage Professional Award. Award recipients are nominated by realtors and clients.



Commerce Financial Holdings, Inc. and Subsidiary

Condensed Statements of Condition December 31, 2017 and 2016 (Dollars in thousands)

Assets	2017	2016	Change
Cash and cash equivalents	\$40,927	\$31,650	29%
Investment Securities	28,263	26,119	8%
Loans, net	480,033	414,083	16%
Premises & equipment, net	12,827	11,461	12%
Foreclosed assets	517	499	4%
Cash value of life insurance	7,084	6,863	3%
Other assets	5,498	4,002	37%
Total Assets	\$575,149	\$494,677	16%

Liabilities

Deposits	\$490,123	\$422,042	16%
Borrowings	33,460	27,485	22%
Other liabilities	5,240	3,998	31%
Total Liabilities	528,823	453,525	17%

Stockholders' Equity

Common stock	\$32,731	\$32,238	2%
Retained earnings	13,790	9,094	52%
Accumulated other comprehensive earnings	(195)	(180)	8%
Total Stockholders' Equity	46,326	41,152	13%
Total Liabilities and Stockholders' Equity	\$575,149	\$494,677	16%

Condensed Statements of Income Years ended December 31, 2017 and 2016 (Dollars in thousands)

	2017	2016	Change
Interest income	\$23,341	\$19,306	21%
Interest expense	5,196	4,318	20%
Net interest income	18,145	14,988	21%
Provision for loan losses	985	555	77%
Net interest income after provision for loan losses	17,160	14,433	19%
Non-interest income	3,808	5,081	-25%
Non-interest expense	12,988	12,859	1%
Income before provision for income taxes	7,980	6,655	20%
Provision for income taxes	3,284	2,614	26%
Net Income	\$4,696	\$4,041	16%

Financial Highlights

	2017	2016
Common shares outstanding	1,346,958	1,341,558
Return on average equity	10.71%	10.43%
Return on average assets	0.84%	0.90%
Book value per share (dollars)	34.39	30.67

2018 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 Credit & 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 Tennies

*Certified Public Accountant
Midwest Accounting*

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.