



May 17, 2024

Dear Eclipse Bancorp Shareholder:

The 1st quarter was highlighted by a \$1.7 million nonrecurring gain related to the sale/leaseback of our St. Matthews office, continued expense discipline, and efforts to reduce funding costs.

Total assets of \$510 million at quarter-end were relatively flat on a linked-quarter basis and 19% higher year-over-year. Loans declined by 1.6% during the quarter but increased 6.7% year-over-year growth, while deposits increased by 3.4% and 13.6%, respectively. The increase in deposits and decline in loan balances were primarily attributable to our continued focus on increasing liquidity and controlling interest expense. Deposits climbed across all categories, with core checking account balances higher by 4%, or 16% annualized, savings & money market up 2.8%, or 11.2% annualized, and CD balances 3.6%, or 14% annualized higher. This increase in liquidity enabled us to pay down nearly \$18 million in high-cost short-term Federal Home Loan Bank borrowings during the quarter.

Earnings during the period were \$625,357, with the previously referenced gain on sale offsetting a challenging Net Interest Income backdrop. Non-Interest Expense as a percentage of assets declined further during the quarter, from 2.20% to 2.06%, which continued to compare favorably to our FDIC-defined peer group averages of 2.47% and 2.45%, respectively. Earning asset yields, which climbed by 26 basis points to 5.22%, outperformed the peer group by 14 basis points, though interest expense of 3.93% far exceeded the peer average of 1.87%, resulting in further Net Interest Margin compression. Deposit funding and pricing pressures began to ease somewhat in our Louisville market during the quarter for the first time since the liquidity crisis of early 2023, offsetting heightened competition in our Johnson City market. The average CD renewal rate bank-wide during March declined from 4.72% during the prior month to 3.01%. While not as low as March, we are seeing continued relief in renewal rates to begin the 2nd quarter and believe Net Interest Margin likely troughed during Q1.

We remain well-capitalized, with a Tier 1 Leverage ratio of 8.9%. Credit quality remains strong with Non-Performing Loans as a percentage of assets decreasing slightly during the quarter, from 0.62% to 0.51%.

	<u>Three Months</u> <u>Ended</u> <u>3/31/2024</u>	Three Months Ended <u>12/31/2023</u>	<u>Three Months</u> <u>Ended</u> <u>3/31/2023</u>
Net Return on Average Assets	0.49%	-0.80%	0.22%
Net Return on Average Equity	7.86%	-12.28%	2.83%
Book Value Per Share, ex. AOCI	\$11.24	\$10.98	\$11.48



Book Value Per Share, inc. AOCI	\$9.89	\$9.48	\$10.01
Earnings Per Share (annualized)	\$0.76	-\$1.20	\$0.28
Net Interest Margin	1.26%	1.45%	2.67%
Loan Loss Reserve as % of Total Loans	1.01%	0.99%	0.86%
Non-performing Loans as % of Total Loans	0.51%	0.62%	0.12%
Tier 1 Leverage Capital Ratio	8.90%	9.33%	10.95%
Total Assets	\$509,580,027	\$509,890,220	\$456,372,537
Net Loans	\$421,292,546	\$428,004,185	\$394,821,122
Deposits	\$377,033,489	\$364,995,236	\$331,982,488
Equity Capital, ex. AOCI	\$36,980,945	\$36,333,511	\$37,776,269
Equity Capital, inc. AOCI	\$32,530,296	\$31,421,343	\$32,932,836

**AOCI = Accumulated Other Comprehensive Income (includes "mark-to-market" securities adjustment)*

Net Interest Income stands to improve throughout the year as \$32 million in fixed rate loans reprice – approximately three times 2023 levels – from an average rate of less than 5%. Additionally, as previously mentioned, we are seeing a slight loosening in deposit competition/pricing in our Louisville market which we expect to greatly impact interest expense over the coming months. We expect these factors, combined with a strong pipeline within our SBA lending vertical, to boost core earnings during the next quarter and beyond.

We appreciate your support and your investment in Eclipse.

Respectfully,

Andrew R. Pyles
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