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A FRESH WAY TO BANK

November 7, 2024

Dear Eclipse Bancorp Shareholder:

The 3rd quarter was highlighted by a surge in core checking account balances, continued spending discipline, improved capital and non-performing loan ratios, and a 50-basis-point rate reduction by the Federal Reserve which is projected to substantially relieve funding costs over the coming quarters.

Checking account balances climbed by 5.7% on a linked-quarter basis, and by 12% compared to the 3rd quarter of 2023, highlighted by increases in non-interest bearing checking of 7.2% and 8.6%, respectively. Money market and savings account balances similarly grew, both on a linked-quarter and year-over-year basis, by 4.6% and 9.1%, respectively.

Net Interest Income dipped by 1.6% compared to the prior quarter, due to lower origination fee generation and a slight decline in loan balances, but increased by 16% year-over-year. Loan and deposit repricing schedules were somewhat muted for most of the quarter, providing limited opportunity to improve spread. However, given Eclipse's liability-sensitive balance sheet profile, we are well positioned for a falling rate environment, with sizable improvement in Net Interest Margin projected during the coming months even without additional rate reductions.

Earnings of -$267,545 represented a decline from the prior quarter's total of -$176,388, while NIM of 1.84% was essentially flat compared to 1.85% for the prior quarter. Average asset yields and non-interest expense as a percentage of assets continued to outperform our FDIC-defined peer group, though funding costs remain well above peer. As referenced in the prior quarter's letter, $53 million in CD's reprice during the 4th quarter at an average rate of 5.11%. Another $73 million reprices during the first half of 2025 at an average rate of 4.82%. These rates are far above both current market pricing and observed renewal rates in recent months.

Total assets of $491 million at quarter-end were down 1.4% on a linked-quarter basis and 2.3% year-over-year. Loans declined by 1.4% during the quarter and 2.4% year-over-year, while deposits decreased by 4% but climbed 0.4%, respectively. CD balances dipped by 12% during the quarter and 8.3% year-over-year, compared to collective increases of 5.1% and 11%, respectively, in all other account types. Declines in CD balances have largely consisted of high-cost wholesale and brokered funding.

Our Tier 1 Leverage ratio climbed from 9.02% to 9.21% during the quarter, while credit quality remained strong with Non-Performing Loans as a percentage of assets dropping from 0.69% to 0.61%. The majority of Non-Performing balances consist of two legacy relationships originated over 10 years ago.

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	Three Months Ended 9/30/2024	**Three Months Ended 6/30/2024**	Three Months Ended 9/30/2023
Net Return on Average Assets	**-0.21%**	**-0.14%**	-.22%
Net Return on Average Equity	**-3.25%**	**-2.14%**	-3.30%
Book Value Per Share, ex. AOCI	**$11.12**	**$11.20**	$11.30
Book Value Per Share, inc. AOCI	**$9.92**	**$9.98**	$9.87
Earnings Per Share (annualized)	**-$0.32**	**-$0.21**	-$0.31
Net Interest Margin	**1.84%**	**1.85%**	2.06%
Loan Loss Reserve as % of Total Loans	**0.94%**	**1.01%**	0.89%
Non-performing Loans as % of Total Loans	**0.61%**	**0.69%**	0.16%
Tier 1 Leverage Capital Ratio	**9.21%**	**9.02%**	9.38%
Total Assets	**$490,843,873**	**$498,076,736**	$502,330,422
Net Loans	**$414,520,993**	**$420,252,461**	$424,765,460
Deposits	**$358,463,933**	**$373,249,274**	$356,809,676
Equity Capital, ex. AOCI	**$36,713,474**	**$36,967,071**	$37,157,223
Equity Capital, inc. AOCI	**$32,777,751**	**$32,959,203**	$32,472,693

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

We outperformed our internal projections in numerous areas during the quarter. Net income of -$267,545 tracked 46% ahead of expectations for -$498,784, thanks to outperformance in net interest income (6.3%), non-interest expense (3.7%), and non-interest income (29%), positioning us ahead of where we expected to be going into the 4th quarter. Our focus through year-end will remain on reducing funding costs, continued low-cost deposit generation, and prudently managing our balance sheet and key ratios, as we position for improved performance metrics in 2025 and beyond. We look forward to outlining our progress in the next quarterly letter.

We appreciate your support and your investment in Eclipse.

Respectfully,

Andrew R. Pyles
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