



July 30, 2024

Dear Eclipse Bancorp Shareholder:

Our continued focus on cost containment, Net Interest Margin improvement, and high-yielding SBA loans positively impacted 2<sup>nd</sup> quarter results.

Earnings of -\$176,388 represented a decline compared to 1<sup>st</sup> quarter profitability of \$625,357. However, core earnings (excluding nonrecurring gains) improved by \$438,525, or 249%, on a linked-quarter basis. Net Interest Income (“NII”) increased by 45% thanks to strong loan fee generation and a 59 basis point increase in Net Interest Margin (“NIM”). NIM of 1.85% increased by 47% vs. the prior quarter, while NIM and NII were both the highest since the 2<sup>nd</sup> quarter of 2023. Overhead as a percentage of average assets declined slightly, from 2.06% to 2.05%, despite a lower asset base, further demonstrating our conservative spending approach.

Total assets of \$498 million at quarter-end were down 2.25% on a linked-quarter basis but up 1.2% year-over-year. Loans declined by 0.2% during the quarter but increased 6.7% year-over-year, while deposits decreased by 1% but climbed 5.7%, respectively. The quarterly dip in deposits consisted primarily of high-cost CD’s and wholesale funding that we allowed to run off. FHLB borrowings were also trimmed by another 8.9% during the quarter bringing the total year-to-date reduction in borrowings to \$25 million, or 25%.

Our Tier 1 Leverage ratio of 9.02% was slightly higher than the prior quarter level of 8.9%. Credit quality remains strong with Non-Performing Loans as a percentage of assets at 0.69%. While this represents an increase compared to 0.51% for the prior quarter, current credit loss reserve levels equal 1.01% of all loans and 146% of Non-Performing Loans. Moreover, 74% of Non-Performing Loans consist of legacy relationships originated more than 10 years ago.

	<u>Three Months</u> <u>Ended</u> <u>6/30/2024</u>	<u>Three Months</u> <u>Ended 3/31/2024</u>	<u>Three Months</u> <u>Ended</u> <u>6/31/2023</u>
Net Return on Average Assets	-0.14%	0.49%	-.20%
Net Return on Average Equity	-2.14%	7.86%	-3.00%
Book Value Per Share, ex. AOCI	\$11.20	\$11.24	\$11.41
Book Value Per Share, inc. AOCI	\$9.98	\$9.89	\$10.08
Earnings Per Share (annualized)	-\$0.21	\$0.76	-\$0.31
Net Interest Margin	1.85%	1.26%	2.00%
Loan Loss Reserve as % of Total Loans	1.01%	1.01%	0.89%



Non-performing Loans as % of Total Loans	<b>0.69%</b>	<b>0.51%</b>	0.16%
Tier 1 Leverage Capital Ratio	<b>9.02%</b>	<b>8.90%</b>	9.90%
Total Assets	<b>\$498,076,736</b>	<b>\$509,580,027</b>	\$492,055,970
Net Loans	<b>\$420,252,461</b>	<b>\$421,292,546</b>	\$423,318,633
Deposits	<b>\$373,249,274</b>	<b>\$377,033,489</b>	\$352,965,557
Equity Capital, ex. AOCI	<b>\$36,967,071</b>	<b>\$36,980,945</b>	\$37,528,563
Equity Capital, inc. AOCI	<b>\$32,959,203</b>	<b>\$32,530,296</b>	\$33,153,273

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

Despite a slight reduction in loan balances during the quarter, Commercial and Industrial ("C&I") loans increased by 46% and represented 8.37% of all loans, compared to 5.72% during the 1<sup>st</sup> quarter. The growth in C&I was driven by our SBA vertical which consists of floating rate, high-yield government guaranteed credits. Eclipse currently ranks 3<sup>rd</sup> in SBA production, in terms of dollar volume, in the state of Kentucky for fiscal year 2024.

Much of our attention to Net Interest Margin has involved reducing our retail CD rates at renewal. After peaking at 4.72% in February, average renewal rates have fallen below 4.00% each month since. While maturities will be somewhat limited during the next quarter, approximately \$53 million is scheduled to mature during the 4<sup>th</sup> quarter at an average rate of 5.11%. Given current renewal rate trends, combined with expectations for 25-75 basis points in rate reductions by the Federal Reserve, we anticipate substantial interest expense savings by year-end. Additionally, approximately \$20 million in fixed rate loans currently yielding just over 5.00% are scheduled to reprice during the 2<sup>nd</sup> half of the year, providing further tailwinds to NIM expectations.

We appreciate your support and your investment in Eclipse.

Respectfully,

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