



GRAND RIVER
COMMERCE, INC.



FINANCIAL STATEMENTS

**Quarter Ending
March 31, 2023**

May 8, 2023

To Our Shareholders:

We present for your review the results of operations for Grand River Commerce, Inc. (the “Company”) and Grand River Bank (the “Bank”) for the three-month period ended March 31, 2023.

As of March 31, 2023, total assets of the Company stood at \$515 million, a decrease of \$15 million from year-end 2022. This decrease was the result of a \$22 million reduction in cash which was partially offset by increases in loans, loans held-for-sale and other assets. Our loan portfolio grew by \$4 million, an annualized rate of 3.3%.

Deposits decreased by \$23 million during the period, or 20% on an annualized basis. While the Bank typically sees runoff in the first quarter of the year, rapidly rising interest rates and broader market forces impacted the level of outflow. As was the case with most community banks, we spoke with customers who were concerned about instability in the banking system. By offering perspective and reassurance, supplemented by products and tools which offer expanded FDIC insurance coverage, we were able to minimize the impact of this concern.

Our loan portfolio continues to perform exceptionally well, with negligible delinquency and no charge-offs. At quarter-end, we continued to monitor one relatively small non-performing loan relationship that we believe poses no risk of loss.

Reflecting our historically-strong asset quality, our allowance for loan losses stood at 1.27% at quarter-end, compared to 1.29% at year-end. Following industry accounting standards, we adopted ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, commonly referred to as CECL, effective January 1, 2023. The standard requires that we calculate our reserve, in part, by measuring all expected credit losses for amortized financial assets at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts.

As will be discussed in the following paragraphs, the Company, as of March 31, posted a net loss of \$1.9 million, while the Bank reported net loss of \$1.7 million. Consolidated performance was impacted by expenses associated with the continued development of Grand River Mortgage Company, LLC (“GRMC”). Net of the investment in GRMC, the Bank reported net income of \$15,000.

For many years, Grand River Bank has been known for consistent growth and earnings, pristine asset quality and a uniquely-attractive position in the markets we serve. As we’ve shared in previous communications, our investment in GRMC, a nationwide mortgage lending subsidiary, is intended to create future income diversification, provide additional financial resources to support the continued expansion of our core West Michigan banking franchise, increase the value of the Company for the benefit of our shareholders, and provide the Bank and our team members with even greater opportunities. GRMC combines a first-class operating platform and highly-experienced mortgage professionals. Primarily due to factors that are unprecedented and beyond our control, however, it has simply taken longer to build the pipeline necessary to realize the targeted results.

GRMC continues to experience net losses but has shown month-over-month improvement since operations commenced. Seasoned mortgaged sales professionals continue to join GRMC and the company is licensed to operate in a of majority states. While steadily increasing, production

revenue has not yet caught up with operating costs. In addition, mortgage rate increases at a pace not previously experienced have negatively impacted the level of loan originations. While we cannot predict with certainty the ultimate trajectory of the overall economy and we acknowledge that there are factors over which we have no influence, we expect GRMC to achieve profitability during this year.

Sharply rising rates have caused interest expense to increase more rapidly than interest income. As a result, net interest income decreased \$216,000, or 6.4%, on a year-over-year basis. This margin compression is the result of deposits repricing faster than loans, due primarily to the longer duration of loans than deposits. The company expects margin pressure to continue for the foreseeable future.

Non-interest income increased \$89,000, or 33%, over the same period last year due to an increase in the volume of residential mortgage loan activity. While there was a slight decrease of 6.8% year-over-year in the gain on sale of loans, \$99,000 in revenue was recognized as gain on the fair value of Interest Rate Lock Commitments (IRLC's) and Loans Held for Sale (LHFS). No income was recognized for gains on IRLC's or LHFS in the first quarter of 2022.

Non-interest expense (NIE) increased \$2.3 million, or 64%, over the prior-year period. As noted earlier in this letter, the majority of the increase was attributable to expenses associated with GRMC. Net of GRMC-related expenses, the NIE increase for the Bank was approximately \$283,000, or 9.0%, and the Holding Company was approximately \$51,000, or 37%, when compared to the same period last year.

Maintaining capital ratios that meet or exceed the regulatory definition of well-capitalized continues to be a priority. As has been the case since its inception, the Bank again met those requirements as of March 31, 2023. In support of the GRMC investment, the Company injected \$2.5 million of additional capital into the Bank during the first quarter.

Earlier this year, Drew Ysseldyke joined Grand River Bank as president. Drew succeeds Liz Bracken, who retired from the Bank at year-end 2022. A career West Michigan banker, an exceptional leader and a passionate advocate for community banking, Drew has fit seamlessly into our organization and is already making an important difference. We're excited to have Drew at the helm of Grand River Bank and grateful to him for joining our outstanding team.

Our financial results are always available via the Investor Relations section of our website, www.grandriverbank.com. We encourage you to use this comprehensive resource to track performance and to gain valuable information about your investment in our Company. Thank you for your investment and your continued support.

Sincerely,



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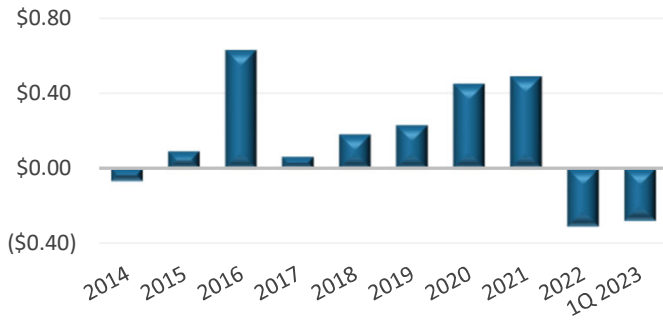
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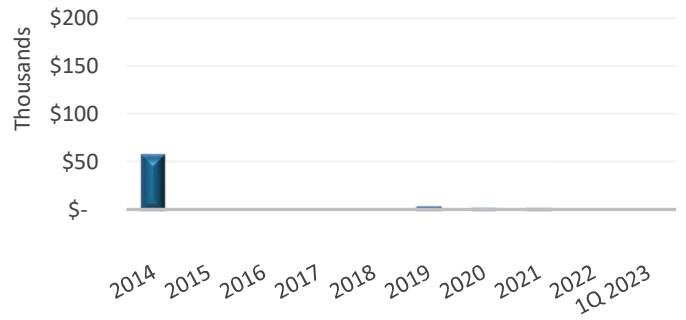
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Key ratios

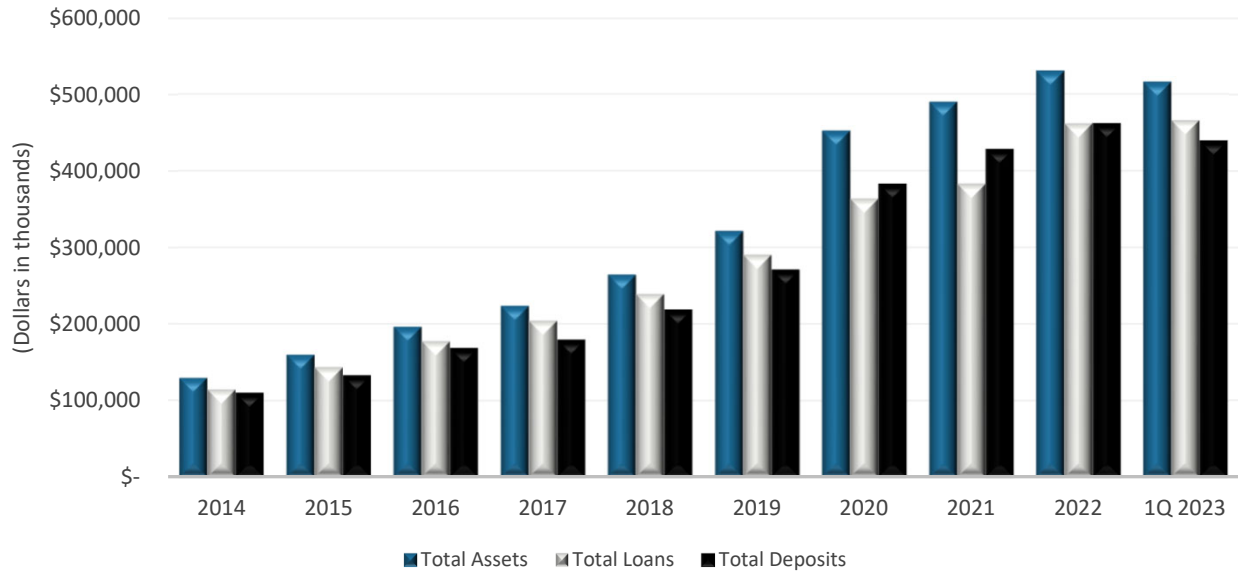
Earnings Per Share



Net Charge-offs

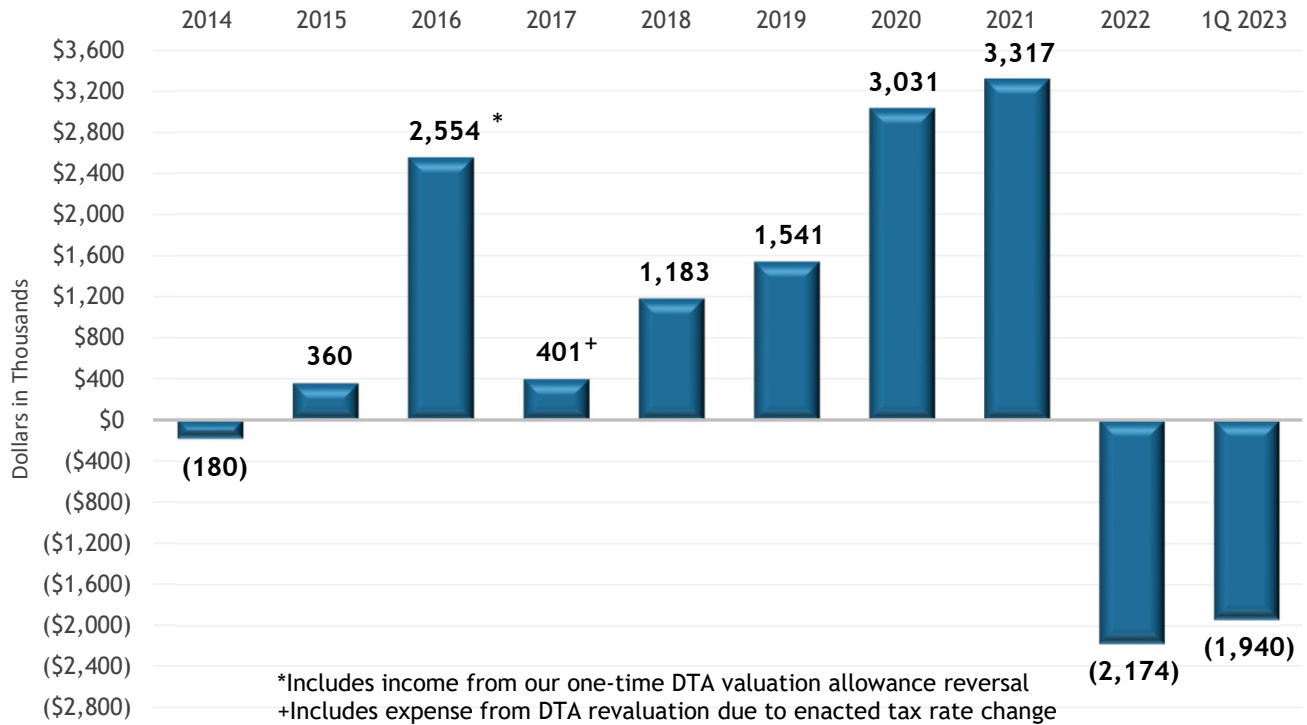


Growth

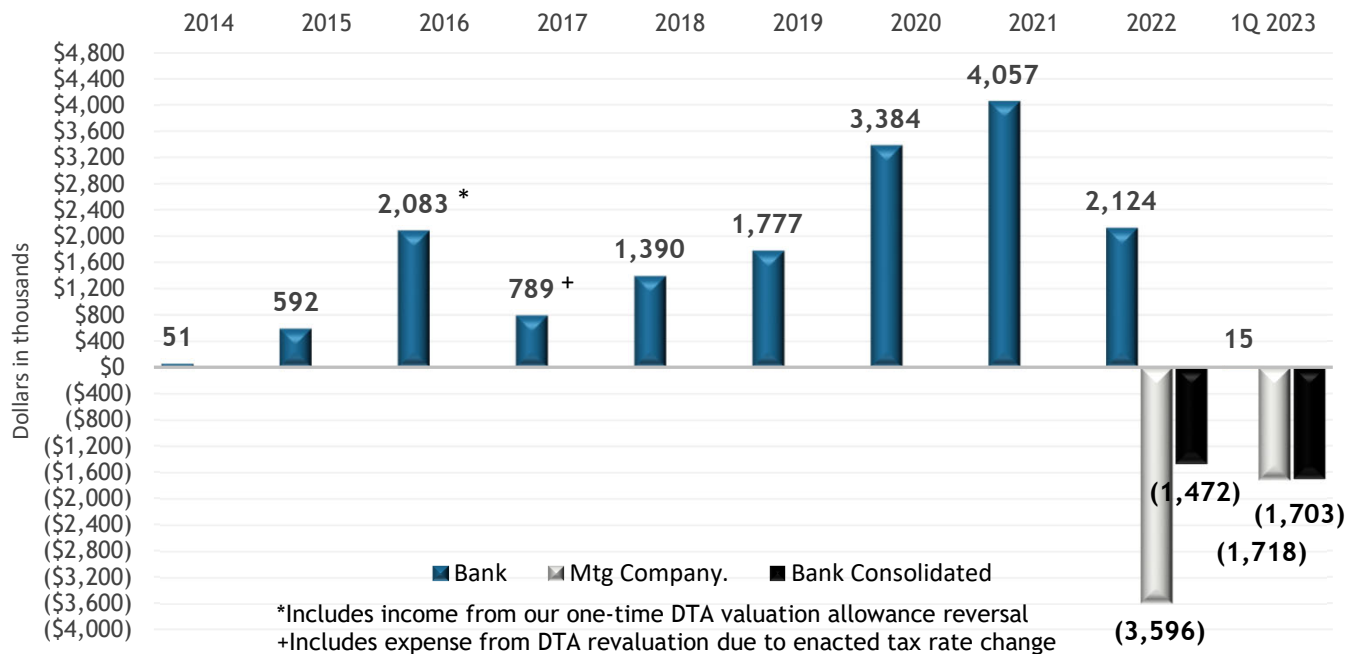


Key ratios (continued)

Consolidated Net (Loss) Income



Bank Only Net (Loss) Income



Grand River Commerce, Inc.

Selected Financial Data*

For the three months ended March 31,

For the year ended December 31,

	2023	2022	2021	2020	2019	2018
(dollars in thousands, except share data)						
Summary Income Statement Data:						
Total interest income	\$ 5,876	\$ 19,073	\$ 16,085	\$ 15,085	\$ 13,189	\$ 10,415
Total interest expense	2,723	4,083	2,530	3,859	4,300	2,434
Net interest income	3,153	14,990	13,555	11,226	8,889	7,981
Provision for loan losses	-	1,063	160	1,531	536	273
Non interest income	361	1,134	3,181	4,314	1,789	679
Non interest expense	5,971	17,868	12,333	10,136	8,177	6,881
Income (loss) before income taxes	(2,457)	(2,807)	4,243	3,873	1,965	1,506
Income tax expense	(517)	(633)	926	842	424	323
Net income (loss)	(1,940)	(2,174)	3,317	3,031	1,541	1,183
Pre-provision / Pre-tax income	(2,457)	(1,744)	4,403	5,404	2,501	1,779
Per Share Income Data:						
Shares outstanding - ending	7,041,423	7,026,423	6,761,758	6,731,809	6,733,809	6,713,809
Shares outstanding - average	7,028,812	6,962,466	6,749,388	6,733,633	6,727,211	6,707,220
Shares outstanding - diluted average	7,088,812	7,074,279	7,119,295	7,078,933	7,072,511	7,095,261
Earnings per common share	\$ (0.28)	\$ (0.31)	\$ 0.49	\$ 0.45	\$ 0.23	\$ 0.18
Cash dividends per share	-	-	-	-	-	-
Share market high / low YTD	5.30-6.00	5.50-7.39	5.05-7.75	4.20-6.35	5.70-8.10	5.85 - 6.50
Closing share price	5.40	5.50	7.50	5.05	5.75	6.24
Book value per share	5.83	6.10	6.72	6.28	5.81	5.55
Tangible book value per share	5.83	6.10	6.72	6.09	5.70	5.46
Share price to book	93%	90%	112%	80%	99%	112%
Selected Balance Sheet Data:						
Total assets	\$ 515,450	\$ 530,250	\$ 489,452	\$ 451,919	\$ 321,326	\$ 264,321
Loans, net of allowance for loan losses	459,172	455,362	377,343	358,500	286,723	236,062
Memo: Paycheck Protection Program Loans (Net of Unearned Fees and Costs)	-	-	4,287	47,286	-	-
Total deposits	438,711	461,677	427,859	382,864	270,962	218,914
Shareholder's equity	41,046	42,839	45,437	42,244	39,104	37,277
Bank Asset Quality Data:						
Nonperforming Assets	\$ 1,220	\$ 1,244	\$ 1,311	\$ -	\$ -	\$ -
NPAs/ Assets	0.2%	0.2%	0.3%	0%	0%	0%
NPAs & 90+ PD/ Assets	0.2%	0.2%	0.3%	0%	0%	0%
Nonaccrual & 90+ & OREO/ Assets	0.0%	0.0%	0.0%	0%	0%	0%
NCOs/ Avg Loans	0.0%	0.0%	0.0%	0%	0%	0%
Loan Loss Reserves/ Gross Loans	1.27%	1.29%	1.27%	1.30%	1.10%	1.10%
Performance Ratios:						
Return on average shareholder's equity	-18.39%	-4.84%	7.54%	7.51%	4.04%	3.24%
Return on average assets	-1.50%	-0.43%	0.69%	0.76%	0.52%	0.49%
Avg. shareholders' equity to avg. assets	8.15%	8.89%	9.19%	10.12%	12.91%	15.09%
Asset Growth Rate Annualized	-11%	8%	8%	41%	22%	18%
Efficiency ratio	169.92%	110.82%	73.69%	65.23%	76.58%	79.46%
Bank Regulatory Capital Ratios:						
Common equity tier 1 capital ratio	10.23%	9.82%	11.14%	12.61%	11.28%	11.21%
Tier 1 leverage capital ratio	9.16%	8.85%	8.87%	9.12%	10.50%	10.48%
Tier 1 risk based capital ratio	10.23%	9.82%	11.14%	12.61%	11.28%	11.21%
Total risk based capital ratio	11.48%	11.07%	12.36%	13.86%	12.33%	12.29%
Capital Buffer	3.48%	3.07%	4.36%	5.86%	4.33%	4.29%
YTD average assets	\$ 517,562	\$ 505,311	\$ 478,673	\$ 398,858	\$ 295,619	\$ 242,043
YTD average equity	\$ 42,186	\$ 44,911	\$ 44,000	\$ 40,381	\$ 38,178	\$ 36,523

**Income recognized on the fair value of Interest Rate Lock Commitments (IRLC's) and Loans Held For Sale (LHFS).

Balance Sheet*
Grand River Commerce, Inc.

	3/31/2023	12/31/2022	\$ Change
Assets			
Cash and due from banks	\$ 25,613	\$ 47,731	\$ (22,118)
Federal funds sold	689	648	41
Total Cash and Cash Equivalents	<u>26,302</u>	<u>48,379</u>	<u>(22,077)</u>
Securities, available for sale	14,683	15,036	(353)
FHLB & FRB stock, at cost	2,239	1,788	451
Loans held for sale	2,859	433	2,426
All Other Loans	465,100	461,290	3,810
Less: allowance for loan losses	5,928	5,928	-
Net Loans	<u>459,172</u>	<u>455,362</u>	<u>3,810</u>
Premises and equipment, net	2,353	2,472	(119)
DTA, net	1,911	2,191	(280)
Interest receivable and other assets	5,931	4,589	1,342
Total assets	\$ 515,450	\$ 530,250	\$ (14,800)
Liabilities			
Non-interest bearing deposits	106,466	124,424	(17,958)
Interest bearing deposits	332,245	337,253	(5,008)
Total Deposits	<u>438,711</u>	<u>461,677</u>	<u>(22,966)</u>
FHLB borrowings	24,500	14,500	10,000
Fed Funds Purchased & Other Borrowings	-	-	-
Interest payable and other liabilities	3,142	3,189	(47)
Subordinated Debt	8,051	8,045	6
Total liabilities	<u>474,404</u>	<u>487,411</u>	<u>(13,007)</u>
Equity			
Common stock	70	70	-
Additional paid-in capital	38,749	38,614	135
Additional paid-in capital Warrants	2,542	2,542	-
Retained Earnings(Accumulated deficit)	1,882	3,822	(1,940)
Accumulated other comprehensive income(loss)	(2,197)	(2,209)	12
Total equity	<u>41,046</u>	<u>42,839</u>	<u>(1,793)</u>
Total liabilities and equity	\$ 515,450	\$ 530,250	\$ (14,800)

*Source: 2023 unaudited; 2022: condensed from audited financial statements.

Statement of Operations*
Grand River Commerce, Inc.

	YTD 3/31/2023	YTD 3/31/2022	\$ Change
Interest Income			
Loans, including fees	\$ 5,460	\$ 3,738	\$ 1,722
Securities	97	93	4
Federal funds sold and other income	319	37	282
Total interest income	5,876	3,868	2,008
Interest Expense			
Deposits	2,433	347	2,086
Borrowings	290	152	138
Total interest expense	2,723	499	2,224
Net interest income	3,153	3,369	(216)
Provision for loan losses	-	-	-
Net interest income after provision for loan losses	3,153	3,369	(216)
Non-interest income			
Service charges and other fees	12	10	2
Gain on sale of loans	192	206	(14)
Gain on Fair Value of IRLC's and LHFS**	99	-	99
Other income	58	56	2
Total non-interest income	361	272	89
Non-interest expense			
Salaries and benefits	3,743	2,595	1,148
Occupancy & equipment expense	387	247	140
Data processing & computer support	98	83	15
Professional Services	366	147	219
Insurance	138	93	45
Software	295	121	174
Other	944	347	597
Total non-interest expense	5,971	3,633	2,338
Income before taxes	\$ (2,457)	\$ 8	\$ (2,465)
Income tax expense	(517)	(1)	(516)
Net income	\$ (1,940)	\$ 9	\$ (1,949)

*Source: unaudited

**Income recognized on the fair value of Interest Rate Lock Commitments (IRLC's) and Loans Held For Sale (LHFS).