

# CBOA Financial, Inc.

Dear Fellow Shareholder,

My first letter to you as President & CEO of Commerce Bank of Arizona comes during an unprecedented period of turmoil in our society. The Covid-19 pandemic has caused widespread impact across every sector of our industry. I want to begin by telling you how our company has responded to the pandemic.

Beginning in February, as concerns grew over the spread of the virus, we closed our branch lobbies and initiated an extensive customer outreach program. Our top priority was to reassure our customers that all banking services would continue to be available. We spoke directly with hundreds of customers and encouraged use of our on-line and mobile banking services and, if needed, customers were invited by appointment to our branches. Customer feedback was universally supportive and thankful.

After Governor Ducey ordered a broad shut down of public services and non-essential businesses on March 30<sup>th</sup>, we again reached out to our loan customers to assure them we stood ready to support their businesses. Clients expressed great appreciation for our proactive outreach and assistance.

In mid-March, Congress approved the Corona Aid, Relief, and Economic Security Act (CARES Act) which included the critical Paycheck Protection Program, or PPP. The program was established to provide economic relief to businesses adversely impacted by Covid-19. The PPP is administered by the Small Business Administration (SBA) while loan processing and funding is handled by the nation's banking institutions. All PPP loans are 100% guaranteed by the SBA and there is no risk of loss to the Bank.

Commerce Bank has been an active participant in the PPP program. To date, we have provided critical lifeline funding of over \$54 million to 220 of our business customers. In addition we funded over \$10 million in loans to over 60 new and appreciative new business customers who now represent future significant relationships.

The PPP put a spotlight on the critical role Commerce Bank provides to small businesses in our communities, as these comments from our grateful customers illustrate:

*"Dear CBOA friends,  
Thank you so much for your excellent communication and diligence in processing and funding my PPP loan. I am grateful more than ever to work with local bankers who pay close attention. As someone in the professional service industry, I never take you for granted, especially during this period when the pressure must have been overwhelming. From talking to friends in Tucson, and reading the news, I know that my experience is exceedingly rare. I'm eager to point new business your way."*

And,

*"It is literally bringing tears to my eyes when I think about how amazing Commerce Bank has been through this difficult time."*

Like everyone, our goal is to "get to the other side" of the pandemic. We will continue to operate the Bank with social distancing measures in place until we are absolutely certain it is safe to do otherwise.

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This prudent approach is in the best interest and well-being of our customers and employees. Regardless, it will be and is “business as usual”. All customers will continue to receive the highest level of customer service.

In terms of financial performance, looking back to 2019 Commerce Bank of Arizona continued to grow profits. We added many new relationships during the year which drove deposit balances, but early loan payoffs in the second half of 2019 caused total loans to remain roughly flat for the full year. Overall profitability was strong for the second consecutive year.

Highlights from the fiscal year ended 2019 included:

- Consolidated Net income increased 11% to \$1,873,000 from \$1,687,000 in the full year of 2018.
- Net interest margin ended the year strong at 4.43% for the fourth quarter despite three Fed rate cuts during the year.
- Assets grew 13% during the year, driven by 18% growth in our deposit base.

During the first quarter of 2020, the Bank continued to work toward expanding our market share in both the Tucson and Phoenix markets. Our strategy has always been to increase our presence in the large and diverse Phoenix small business market. Acting on that plan, we added two experienced senior lending officers to our Scottsdale team early in the year. We started the quarter with strong performance in January and February however the speed and depth of the economic shutdown related to the pandemic quickly slowed our growth in March. Overall the quarter finished with good levels of profitability, net interest margin, and deposit growth.

Highlights from the recent quarter included:

- Strong net interest margin of 4.20% despite the 150bps of Fed rate cuts in March.
- Deposit growth continued to be strong at 2.5% for the quarter.
- Consolidated Net Income of \$371,000 for the quarter.

As difficult as the last two months have been for the communities where we live and work, our employees have relished the opportunity to help our customers navigate these challenging times. Arizona’s small businesses need a lifeline, today more than ever, and you can be proud that your Bank stepped up and provided that critical support.

Lastly, as you know, our Annual Shareholder meeting was postponed. It is still our intent to convene the 2020 meeting when safe and feasible. In the meantime I intend to provide more frequent communication to you as we work through the unknowns of the economic environment.

As always, I urge you to contact John Lewis or me with any questions. We always enjoy talking with you.

Best regards,



Chris Webster

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