

# CBOA Financial, Inc.

Dear Shareholder,

CBOA Financial (Company or Bank) finished the third quarter with another solid financial performance. For the quarter ended September 30, 2020 the Company reported consolidated Net Income of \$457 thousand as compared to \$499 thousand for the third quarter last year. For the nine month period, Net Income was \$1.2 million as compared to \$1.4 million in 2019. Our performance was driven by stable loan and deposit growth along with strong net interest margin, despite downward rate pressure caused by the Federal Reserve's low interest rate policy.

Organic or non-Paycheck Protection Program (PPP) loan growth was \$8.7 million or 3.6% for the quarter while deposit growth was \$10.4 million or 3.9%. Net Interest Margin was 4.2% which is only approximately 20 basis points off our margin from one year ago. Our Net Interest Margin has remained strong while the Federal Reserve has lowered the Fed funds rates by more than 100 basis points during the period. The stable margin is reflective of the Bank's discipline around loan and deposit pricing, and our culture of offering loan products as a service versus a "lowest rate provider". A summary of the third quarter performance is presented in the table below:

<i>Dollars in thousands - Unaudited</i>	For the quarter ended			Year to Date	
	9/30/2020	6/30/2020	9/30/2019	9/30/2020	9/30/2019
<b>Summary Income Data</b>				YTD	
Interest Income	3,202	3,549	2,955	9,577	8,835
Interest expense	356	366	519	1,168	1,425
Net Interest Income	2,846	3,183	2,436	8,409	7,410
Provision for (reduction in) loan losses	-	-	(79)	(279)	(79)
Non-interest income	(49)	(460)	130	(501)	359
Realized gains/(losses) on securities	-	47	(5)	168	(5)
Non-interest expense	2,340	2,375	2,141	7,132	6,417
Income (loss) before income taxes	457	395	499	1,223	1,426
Provision for income tax	-	-	-	-	-
Net Income	457	395	499	1,223	1,426
<b>Selected Balance Sheet Data</b>					
Total assets	331,636	315,312	251,568	331,636	251,568
Securities available-for-sale	36,636	29,854	24,283	36,636	24,283
Loans	249,684	240,979	178,120	249,684	178,120
Allowance for loan losses	2,996	2,991	2,945	2,996	2,945
Deposits	279,187	268,836	221,032	279,187	221,032
Other borrowings	21,574	14,808	2,808	21,574	2,808
Shareholders' equity	23,589	23,049	20,732	23,589	20,732
<b>Performance Ratios (%)</b>					
Return on avg equity (annualized)	6.76	6.62	8.82	6.76	8.82
Net interest margin	4.18	4.51	4.47	4.18	4.47
Efficiency ratio	90.81	85.38	81.32	90.81	81.32

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Many observers are wondering about the impact of the pandemic on the Bank's loan portfolio. While the nature of the current recession is unlike anything we have seen, the condition of the loan portfolio has not deteriorated. Clearly some businesses continue to experience challenges however several companies are showing earnings consistent with or even out-performing last years' results. Early in the spring, the FDIC recognized this phenomena and allowed all banks to offer loan payment deferments to companies which demonstrated pandemic related financial challenges. We initially offered three month deferments to over 40 loan customers. As of 9/30/20, only 9 of those businesses requested a second three month deferment, indicating improving conditions for most of our challenged customers. While we are not out of the woods yet, we remain committed to closely work with our customers who need assistance. It is times like these when our community Bank will continue to step up and "be there" for all our customers.

You should have received notification and proxy materials for the Annual Shareholder meeting on Thursday, November 12<sup>th</sup>. Because of COVID related restrictions and precautions, the meeting will be held via an audio conference call. A unique call-in number and password will soon be mailed to you. Besides the business meeting and director re-election, Chairman Bill Assenmacher and bank executive management will comment on bank performance so far this year and discuss how we are meeting the challenges related to the pandemic. There will also be a Q&A session. In addition, during the week of November 16<sup>th</sup>, executive management will be available at the Broadway Office for in-person meetings. Meetings will be for 30 minutes and available to any CBOA Financial shareholder. To schedule a meeting, please contact Thomas Gomez at [tgomez2@commercebankaz.com](mailto:tgomez2@commercebankaz.com).

Lastly, I would like to quickly mention two important topics which we will elaborate further during the shareholder meeting. First, we expect to adopt a stock buyback plan under SEC Rule 10b5-1 in the near future that would allow us to make limited repurchases of our stock, when it is accretive to our shareholders. Management is working on details for the plan which will be open before year-end.

The Board of Directors has decided to extend the exercise period for the 2015 warrants because it believes the unprecedented events arising from the pandemic require that warrant holders have additional time to consider whether to exercise their warrants. An extension notice will be sent to 2015 warrant holders in the near future, outlining the terms of the extension.

We remain committed to keeping you updated on the Bank's performance as we maneuver through these uncharted waters. We look forward to talking with you in more detail on November 12<sup>th</sup>. As always, we welcome your questions and feedback. Please feel free to contact me directly at 480.253.4511 ([cwebster@commercebankaz.com](mailto:cwebster@commercebankaz.com)) or John Lewis at 520.320.9070 ([jpl@commercebankaz.com](mailto:jpl@commercebankaz.com)).

Best regards,



Chris Webster

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