CBOA Financial, Inc.

CommerceBankAZ.com
7315 N Oracle Rd, Ste 181
Tucson, AZ 85704

April 12, 2023

Dear Shareholder,

Apologies in advance as this letter is slightly longer than usual in light of recent events in the banking industry.

Some in the industry have described the first quarter of 2023 as the most chaotic since March of 2020. While I would not disagree with that assessment in general, I am happy to report Commerce Bank of Arizona (CBAZ or Bank) has so far "weathered the storm" of broad industry challenges caused by the rapid failure of two FDIC insured banks about a month ago. More about that topic in a minute. First, I want to make one last comment on the Bank's 2022 performance in light of the Federal Reserve's (Fed) interest rate strategy to control inflation.

For many years, the Fed maintained an essentially "zero" interest rate policy resulting in a historically low inflationary economy. In early 2022, the Fed shifted its rate strategy in an effort to control persistently high inflation. After increasing rates seven times during the year, the Fed Funds rate reached over 4.25% by year end.

During the years that rates were near zero, CBAZ's strategy was to diligently build an "asset sensitive" balance sheet that would benefit from rising rates. This structure would allow the Bank's assets (primarily loans) to re-price more quickly than its liabilities in a rising rate environment. When rates eventually rose rapidly throughout 2022, so did the interest rates on our loan portfolio and other new investments. These higher yields produced significant increases in interest income during the year, much of which flowed to the bottom line.

There are many points of view on the primary causes of the Silicon Valley Bank and Signature Bank's failures. What everyone agrees on is that both banks were holding unusually large amounts of deposits over the FDIC insurance limit, and that those deposits were heavily concentrated in a single industry. Ultimately, quick and excessive withdrawals of those deposits left the banks far below the minimum liquidity requirements of the FDIC.

CBAZ's operating model is far different than those used by these banks. Our long term strategy of serving the business banking needs of Arizona's small to medium sized companies has created a diversified and stable base of deposit relationships. Our business customers rely on the consistency and experience of our banking professionals, leadership and Board of Directors. Our balance sheet structure reflects the safety of our business model:

- Our on balance sheet liquidity significantly exceeds the minimums required by FDIC guidelines.

- Our core deposit base is highly diversified across a large number of businesses, all operating in many different industries. Again, our customer base reflects the Arizona business landscape.
- Our capital base is strong and produces ratios well in excess of those established by the Dodd Frank banking legislation.
- CBAZ has access to additional funding sources that have been available as part of our long standing Liquidity Program which is reviewed and approved quarterly by our Board of Directors. These sources remain robust and sound today.

Shifting to first quarter 2023 performance, let me start with deposits; Total Deposits were $307.9 million at quarter-end as compared to $306.3 million at fiscal year-end December 31, 2022 indicating the Bank experienced little to no deposit attrition at quarter-end.

Net Interest Income increased by 29.9% or $947,000 over the same period in 2022. Net Income of $775,000 was 19.2% or $125,000 over the first quarter of 2022. Tangible Book Value per share rose to $3.00 from $2.84 at fiscal year-end December 31, 2022. And, the Bank's Net Interest Margin dropped slightly to $4.65% from 4.79% at fiscal year-end but remains one of the highest among our banking peers. The decrease in Margin is reflective of an overall increase of deposit rates which we expect to continue throughout 2023.

Net Loans declined slightly to $277 million from our year-end level of $281 million reflecting a slower start to the year due to uncertain economic conditions. Other performance benchmarks remained favorable:

- Reserve for Credit Losses was 1.34% versus 1.32% at December 31, 2022.
- Securities Available for Sale declined to $61.5 million at quarter-end from $66.8 million at fiscal year-end.
- Nonperforming assets remained unchanged at a negligible level of .01%.

The Bank remains well-capitalized according to the minimums required by the Dodd Frank Wall Street Reform Act. CBAZ's Tier 1 Leverage ratio at quarter end was 10.7% and the Total Risk-Based Capital ratio was 13.6%, well in excess of the guideline levels of 5.0% and 10.0%, respectively.

In summary, CBAZ is off to a good start for the year. In light of recent events, Balance Sheet strength and stability is the primary focus of management and the Board of Directors. Additionally, due to the prospects of an uneven economic horizon our credit profile remains cautious.

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As always, if you have any specific questions about the Bank, I along with Evan Anderson our Chief Financial Officer, welcome your calls. Please do not hesitate to reach me at 480.253.4511 or cwebster@commercebankaz.com. Evan can be reached at 480.253.4501 or eanderson@commercebankaz.com. We thank you for your ongoing support and trust.

Sincerely,

Chris Webster
President and CEO

Attachment: CBOA Financial, Inc. Unaudited Consolidated Summary Financial Information

CBOA Financial, Inc.

Unaudited Consolidated Summary Financial Information					
Dollars in thousands - Unaudited	**For the quarter ended**			**Year to Date**	
	3/31/2023	**12/31/2022**	**3/31/2022**	**3/31/2023**	**3/31/2022**
Summary Income Data					
Interest Income	4,912	4,705	3,308	4,912	3,308
Interest expense	797	368	140	797	140
Net Interest Income	4,115	4,337	3,168	4,115	3,168
Provision for (reduction in) loan losses	-	-	37	-	37
Non-interest income	93	156	452	93	452
Realized gains (losses) on sales of securities	(1)	-	-	(1)	-
Non-interest expense	3,127	3,062	2,705	3,127	2,705
Income (loss) before income taxes	1,081	1,431	878	1,081	878
Provision for income tax	306	370	228	306	228
Net Income	775	1,061	650	775	650
Per Share Data					
Shares outstanding end-of-period	10,345	10,214	9,356	10,345	9,356
Earnings per common share ($'s)	0.07	0.10	0.07	0.07	0.07
Earnings per common share (Diluted) ($'s)	0.07	0.10	0.06	0.07	0.06
Cash dividend declared	-	-	-	-	-
Total shareholders' equity	31,051	29,012	27,024	31,051	27,024
Tangible Book value per share ($'s)	3.00	2.84	2.89	3.00	2.89
Selected Balance Sheet Data					
Total assets	372,386	370,251	354,914	372,386	354,914
Securities available-for-sale	61,490	66,766	59,339	61,490	59,339
Loans	277,079	281,020	237,554	277,079	237,554
Allowance for credit losses	3,716	3,716	3,431	3,716	3,431
Deposits	307,877	306,287	318,580	307,877	318,580
Other borrowings	24,150	26,050	-	24,150	-
Shareholders' equity	31,051	29,012	27,024	31,051	27,024
Performance Ratios (%)					
Return on avg shareholders' equity	11.47	15.35	9.62	11.47	9.62
Net interest margin (Bank)	4.65	4.79	3.83	4.65	3.83
Efficiency ratio (Bank)	74.33	68.15	74.72	74.33	74.72
Asset Quality Data (%)					
Nonperforming assets to total assets	0.01	0.01	0.37	0.01	0.37
Reserve for credit losses to total loans	1.34	1.32	1.44	1.34	1.44
Net Charge-offs to avg loans for period	-	-	(0.03)	-	(0.03)
Regulatory Capital Ratios (%)					
Common Equity Tier 1	12.31	11.58	12.16	12.31	12.16
Tier 1 risk-based capital ratio	12.31	11.58	12.16	12.31	12.16
Total risk-based capital ratio	13.56	12.67	13.41	13.56	13.41
Tier 1 leverage capital ratio	10.72	10.31	9.72	10.72	9.72