

July 12, 2023

Dear Shareholder,

You may recall that on April 27<sup>th</sup>, we announced the signing of a definitive merger agreement with Bancorp 34, Inc. headquartered in Scottsdale, Arizona. Bancorp 34, Inc. is the holding company of Bank 34 (B34) which is one of the largest community banks headquartered in Arizona. Details of the announcement are included in the attached press release. The proposed merger is subject to shareholder approval from both banks and regulatory approval. Before I update you on Commerce Bank of Arizona's (CBAZ or the Bank) year-to-date performance, I would like to share the progress we are making on the proposed merger with Bank 34.

Since the signing of the merger agreement, the management of both banks have been working closely together on transition and combined operating plans. Meaningful cost and growth synergies are expected to be realized following the closing of the transaction. Much work is underway to prepare the necessary merger documentation. In addition, the application to federal regulators requesting approval of the proposed merger has been filed. More details on the approval process later in the letter.

We know a transaction like this can be complicated. So if you have any questions about the proposed merger, I encourage you to please reach out to me or Evan Anderson, our Chief Financial Officer. We can be reached at my direct number at 480.253.4511 or [cwebster@commercebankaz.com](mailto:cwebster@commercebankaz.com). Evan can be reached at 480.253.4501 or [eanderson@commercebankaz.com](mailto:eanderson@commercebankaz.com).

On to financial performance. CBAZ's operating results for the first half of 2023 were very strong. Net Loans grew 18.4% to \$304.3 million from \$256.9 million at quarter-end June 2022. Net Interest Income increased 23.9% or \$1.6 million over the comparable six month period in 2022. Despite rising deposit costs related to the Federal Reserve's ongoing policy of increasing interest rates, the Bank's Net Interest Margin remained relatively stable at 4.37% for the second quarter. Total Deposits were stable at \$303.0 million compared to the year-end 2022 level of \$306.3 million. Other financial highlights included:

- Total Assets increased 5.4% or \$19.6 million year-over-year.
- Tangible Book Value per Share increased 6.5% to \$2.97 per share, up from \$2.79 per share a year ago.
- Securities Held For Sale decreased by \$4.1 million since June, 2022.

We are closely monitoring the impacts of increasing interest costs and changing economic conditions on our customers. While the Bank's Loan Portfolio continues to perform at very acceptable levels, we did experience a slight uptick in Nonperforming assets from the negligible level of .01% at quarter-end March 31, 2023 to .40% the current quarter-end.

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 12.8%, well in excess of the guideline levels of 5.0% and 10.0%, respectively.

We will continue to provide periodic updates as the legal and regulatory requirements of the proposed merger with B34 move forward. At a future date later this summer you will receive proxy materials detailing the proposed merger transaction with Bancorp 34, Inc. These materials will include a proxy ballot requesting your support of the proposed merger. More details on the proxy materials to follow in future communications from the Bank.

Overall, we are very satisfied with the performance of the Bank over the first six months of 2023. We will continue to exercise caution in our approach to the extension of credit in light of additional interest rate increases and elevated market growth concerns.

If you have any specific questions about the Bank's performance, Evan and I welcome your calls. Please do not hesitate to reach out to us. On behalf of our management team and the Board of Directors we thank you for your ongoing support and trust.

Sincerely,



Chris Webster  
President and CEO

Attachments:

- CBOA Financial, Inc. Unaudited Consolidated Summary Financial Information
- Press Release dated April 27, 2023

Unaudited Consolidated Summary Financial Information					
<i>Dollars in thousands - Unaudited</i>	For the quarter ended			Year to Date	
	6/30/2023	3/31/2023	6/30/2022	6/30/2023	6/30/2022
<b>Summary Income Data</b>					
Interest Income	5,115	4,912	3,608	10,027	6,916
Interest expense	1,113	797	148	1,910	288
Net Interest Income	4,002	4,115	3,460	8,117	6,628
Provision for (reduction in) loan losses	-	-	-	-	37
Non-interest income	79	93	87	172	539
Realized gains (losses) on sales of securities	-	(1)	-	(1)	-
Non-interest expense	3,506	3,127	2,540	6,633	5,245
Income (loss) before income taxes	575	1,080	1,007	1,655	1,885
Provision for income tax	149	278	260	427	488
Net Income	426	802	747	1,228	1,397
<b>Per Share Data</b>					
Shares outstanding end-of-period	10,345	10,345	9,555	10,345	9,555
Earnings per common share (\$'s)	0.04	0.08	0.08	0.12	0.15
Earnings per common share (Diluted) (\$'s)	0.04	0.08	0.07	0.12	0.14
Cash dividend declared	-	-	-	-	-
Total shareholders' equity	30,772	31,051	26,641	30,772	26,641
Tangible Book value per share (\$'s)	2.97	3.00	2.79	2.97	2.79
<b>Selected Balance Sheet Data</b>					
Total assets	383,277	372,386	363,548	383,277	363,548
Securities available-for-sale	58,855	61,490	63,027	58,855	63,027
Loans	304,268	277,079	256,905	304,268	256,905
Allowance for credit losses	3,716	3,716	3,702	3,716	3,702
Deposits	302,999	307,877	327,574	302,999	327,574
Other borrowings	40,000	24,150	-	40,000	-
Shareholders' equity	30,772	31,051	26,641	30,772	26,641
<b>Performance Ratios (%)</b>					
Return on avg shareholders' equity	5.53	11.87	11.22	9.36	10.49
Net interest margin (Bank)	4.44	4.65	4.02	4.55	3.95
Efficiency ratio (Bank)	76.43	74.33	71.61	74.39	73.18
<b>Asset Quality Data (%)</b>					
Nonperforming assets to total assets	0.40	0.01	0.08	0.40	0.08
Reserve for credit losses to total loans	1.22	1.34	1.44	1.22	1.44
Net Charge-offs to avg loans for period	-	-	-	-	(0.03)
<b>Regulatory Capital Ratios (%)</b>					
Common Equity Tier 1	11.68	12.31	11.30	12.31	11.30
Tier 1 risk-based capital ratio	11.68	12.31	11.30	12.31	11.30
Total risk-based capital ratio	12.75	13.56	12.55	13.56	12.55
Tier 1 leverage capital ratio	10.71	10.72	9.62	10.72	9.62