



# RepublicNotes

SHOP LOCAL. DINE LOCAL. BANK LOCAL.

Newsletter exclusively for the shareholders, clients, employees and followers of Republic Bank of Arizona

## TAKING A DISCIPLINED APPROACH

Brian Ruisinger • President and Chief Executive Officer

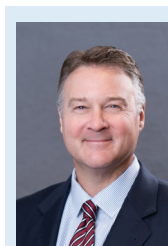
After our record loan growth of \$14 million late in the fourth quarter, our Q1 loan production moved into an anticipated and natural quiet period. We also experienced some significant loan payoffs as our business owners took advantage of record valuations to sell their business assets. Deposits continued to fuel our total asset growth with over \$18 million in net increase while reducing cost of funding. Our earnings continue to be strong and on track with 2022 budget expectations as we saw a 29% increase in quarter over quarter core earnings.

As we see the tail end of the Paycheck Protection Program (PPP) final round paying off, we turn our focus to the economic impacts of rising interest rates and record inflation on our customers and local economy. You have all undoubtedly seen and heard about rising interest rates. The Federal Reserve has increased its benchmark rate twice this year already three quarters of a point, with predictions of raises at each of the remaining seven meetings this year in order to try and head off runaway inflation.

So what does this mean for you and RBAZ? Rates have been at historically low levels for a decade now and we all became accustomed to low residential mortgage, commercial loan, and deposit rates at banks. The correlation between deposit rates rising at banks may be delayed because banks are loaded with deposits coming out of the pandemic and government assistance programs of the past two years. This, combined with soft loan demand may signal that we do not see banks raising deposit rates in direct correlation with the Fed increases. At RBAZ, we monitor the deposit rates of all competitors in the Phoenix metro area on a weekly basis to insure we are priced competitively in the top 20% of all categories.

Banks must maintain a healthy spread, or margin, between their loan rates and deposit rates in order to be profitable. We will be disciplined in our approach to setting rates during this rapid action by the Fed. We have already seen our bell-weather 10 year Treasury bond go from 1.75% to 3.00% in 60 days. This is an historic rise in rates and just like the supply chain interruptions we are experiencing from the pandemic, it will take some time for the financial services industry to adjust and find a new leveling. Choppy waters are likely ahead for the rest of 2022 regarding interest rates.

Staffing remains a challenge to engage the right people to support our growth and expansion plans, but we remain vigilant and confident in our pursuit of finding the right bankers to join the RBAZ family. RBAZ remains well capitalized and poised for continued growth in its mission to be the premier Arizona-based community business bank, as reflected in our Bauer Five-Star bank rating.



Brian Ruisinger

**RBAZ** | Republic Bank  
of Arizona

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P.O. Box 1688  
Big Bear Lake, CA 92315  
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**Janney Montgomery Scott, LLC**  
**Anthony Bello**  
abello@janney.com  
1475 Peachtree St. NE, Ste. 800  
Atlanta, GA 30309  
404.601.7236

**JWTT Inc.**  
**Joey Warmenhoven**  
1231 NW Hoyt Street, Suite 206  
Portland, OR 97209  
971.323.0700

**Wedbush Securities, Inc.**  
**Tyler McCullough**  
tyler.mccullough@wedbush.com  
5885 SW Meadows Rd., Ste. 350  
Lake Oswego, OR 97035  
503.471.6782

### FINANCIAL HIGHLIGHTS (UNAUDITED)

(in thousands)	YTD March 2022	YTD March 2021
Total Assets	\$ 249,174	\$ 217,837
Loans & Leases	\$ 132,938	\$ 118,717
Total Deposits	\$ 223,847	\$ 193,395
Net Income	\$ 450	\$ 557
<b>(Percentages)</b>		
Return on Average Assets	0.76%	1.12%
Liquidity Ratio	50.52%	48.31%
Leverage Ratio	10.36%	8.66%



## SPOTLIGHT ON PHOENIX CITY GRILLE

### FALLING IN LOVE WITH THE RESTAURANT BIZ

This was not the plan. The original strategy was to get a degree and a job that would allow him to live in Europe, explains Phoenix City Grille owner Sheldon Knapp, an RBAZ client. “A friend advised me that if I wanted to work overseas, I should get a degree at Thunderbird,” said Sheldon referring to the Thunderbird School of Global Management.

But while pursuing that degree, Sheldon began working in the restaurant and nightclub industry, and, you can probably guess, he fell in love. “The more I got to know Arizona, the more I realized this was the clear path I wanted to follow,” he said. So goodbye Europe and hello to an incredible career in the restaurant industry that eventually led to the opening of Phoenix City Grille in 1997.

### RIGHT TIME, RIGHT PLACE

When Phoenix City Grille opened its doors, Sheldon was a food and beverage industry veteran, launching a few establishments of his own, but also gaining years of training and experience in many areas of the food and beverage industry. He believes those years of learning the ins and outs of all aspects of the industry significantly contributed to his success at Phoenix City Grille.

He sought out jobs at restaurants that he felt brought unique concepts to the marketplace. There he absorbed as much knowledge as he could to use as the foundation for launching his own successful and unique restaurant. Finally, the time was right and when the perfect location became available, he grabbed it. “I knew the neighborhood well. The facility was well built with good features,” says Sheldon of the location at 16th Street and Bethany Home Road in Phoenix.

Phoenix City Grille has thrived for 25 years as a place for customers to have a great meal in a relaxed and friendly environment. For Sheldon, that success is the result of three main ingredients:

**1) Perseverance.** “You have to be flexible and be able to adapt to outside factors like a major recession and a global pandemic.”

**2) Experience and Know-How.** “I was exposed to a wide range of management training in my previous positions from how to run a kitchen to planning a menu. I had a lot of guidance to draw upon from the management training I received.”

**3) Continuous Improvement.** “My outlook is that a restaurant is always a work in progress. You must be able to keep putting your profits back into your business.”



*Sheldon Knapp, Owner of the Phoenix City Grille*

### KEEPING THE MENU FRESH AND EXCITING

The menu at Phoenix City Grille is always changing. “I like to rotate dishes out with different specials,” explains Sheldon. Menu selections are often created based on seasonal favorites and new discoveries. As an example, Sheldon described how he and the culinary team developed a new steak sauce using black garlic he was introduced to on a culinary trip a few years ago. The Phoenix City Grille was the first to bring this new ingredient to the Phoenix market. “Discoveries like that help keep things fresh and exciting for everyone, our staff and customers,” he says.

And after 25 years, Sheldon continues to enjoy serving up great dishes for an appreciative clientele. “Eating is a very personal thing,” he says. “Our customers are quick to express their gratitude for a great meal and dining experience. That makes it very fulfilling and what I enjoy most about running my restaurant.”

### RBAZ MAKES A SURPRISING INTRODUCTION

Being solicited by a bank is practically unheard of for a restaurant, says Sheldon. “Some banks won’t touch our business. Which is not fair to our industry and those of us with a good track record.” But when Sheldon was looking for a local bank, RBAZ came knocking. “The bank solicited our business, so when I met with them and told them what I needed, the bank was able to put together a plan for us. The most important thing for me is that my bank has an understanding of my businesses.”

RBAZ greatly values its relationship with Sheldon and the Phoenix City Grille. “It means a lot to us to be able to support a longtime local establishment like the Phoenix City Grille,” says Amy Lou Blunt, executive vice president and chief credit officer. “Sheldon and his team are real experts in the industry and Sheldon’s passion for delivering great cuisine in a friendly and relaxed environment makes his establishment a unique and exciting experience. We look forward to partnering with them for many more years.”



## INFLATION AND RISING RATES: WHAT BORROWERS NEED TO KNOW

Amy Lou Blunt • Executive Vice President • Chief Credit Officer

As you have read or heard on the news, the Federal Reserve has raised interest rates by 75 basis points so far this year, and are indicating there will be many more incremental increases to follow. Loans are priced using a number of different indexes, with the most common being Wall Street Journal Prime Rate and Treasury Constant Maturity rates (3, 5, or 10 year), plus a fixed spread. Changes made in the Fed Funds rate are immediately reflected in the Prime Rate. Economic policy, inflation and changes in the market affect the Treasury rates.

If you have a fixed rate loan, these increases will not have an immediate impact on you, however, many term loans with fixed rates have one or more pre-set rate resets throughout the term of the loan. At the date of the reset, whatever the prevailing Index rate is plus your pre-determined margin will be your rate for that period and, most likely, your monthly payments will be re-amortized using this new rate. If you have a floating rate loan, which is most common with revolving or construction lines of credit, the change in rate will be immediate, and reflected in the interest accrual.

Rates have been historically low for years, with little to no movement. For example, WSJ Prime was 3.25% from December 2008 to December 2015, and again from March 2020 to March 2022. Even so, it is common practice for banks to underwrite loans as actually priced, as well as 1% to 3% above, to ensure a borrower's ability to repay the loan in a rising interest rate environment. This debt repayment amount is measured against historic cash flow. Given the cues from the Fed, underwriting will likely stress the interest rate a bit further, as well as finding a "break even" point at a 1:1 coverage of cash flow to debt service, and forecasting its likelihood.

Adding to the mix, we have record inflation, with increased cost of goods, transportation and labor. The use of historic cash flow may no longer be an appropriate test. Don't be too surprised if that element of your historic financial performance isn't also stressed in underwriting. Perhaps the best lesson in all of this is not to be surprised at all.

It is a good exercise for all business owners contemplating a new loan request, along with those who have existing loans, to take a close look at these elements. Identify the true purpose of your lending need, and weigh both the pros and cons. It is critical that you have the peace of mind knowing that you have not overextended or over leveraged your company's assets, and can navigate the choppy waters ahead. Debt is a very valuable tool in supporting and growing your business, with the right structure and amount, but it can sink the ship if it is not the right fit.

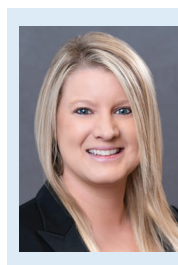


Amy Lou Blunt

## STRONG Q1 GROWTH AND EARNINGS SET PACE FOR 2022

Christine Haugen • Executive Vice President • Chief Financial Officer

The first quarter of 2022 set the pace for growth and earnings for the year. Total assets at March 31, 2022 were \$249.2 million, finishing the quarter just short of \$250 million. The Bank is positioned to achieve \$250 million in total assets early in the second quarter, a significant milestone for the Bank.



Christine Haugen

Total assets of \$249.2 million represent an 8% increase since December 31, 2021 and was the result of significant deposit growth during the quarter. Total deposits at March 31, 2022 were \$223.8 million, an increase of \$18.3 million or 9% since year-end. Deposit growth was generated through many avenues including deepening of existing customer relationships and new business earned through increased marketing efforts, our online presence and a strong referral network.

Loans, on the other hand, saw a slight contraction in the first quarter of 2022 ending at \$132.9 million, a decrease of \$2.5 million or 2% from December 31, 2021. Of the \$2.5 million decrease, \$1.0 million was attributed to forgiveness received during the quarter on Paycheck Protection Program ("PPP") loans and the remaining \$1.5 million was related to portfolio loans.

After our record loan growth of \$14 million late in the fourth quarter of 2021, we had a natural lull in loan production to begin the year. We also experienced some significant loan payoffs as our business owners took advantage of record valuations to sell their business assets. The Bank is positioned to overcome this first quarter contraction with a strong loan pipeline heading into the second quarter.

Earnings were \$450,000, or \$0.25 per share, for the quarter ended March 31, 2022 compared to \$557,000, or \$0.31 per share, for the comparative quarter in 2021. Significant to note is the contribution of PPP in each of these quarters. Current quarter Bank earnings of \$0.25 per share were comprised of \$0.22 per share attributable to core operations and \$0.03 per share due to impacts from PPP whereas prior quarter Bank earnings of \$0.31 per share were comprised of \$0.17 per share attributable to core operations and \$0.14 per share due to impacts from PPP.

The Bank remains Well Capitalized with a 10.36% leverage capital ratio and maintains its Bauer five-star rating.

645 E. Missouri Ave., Ste 108  
Phoenix, AZ 85012-1314  
602.277.2500

6909 E. Greenway Pkwy., Ste. 150  
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**\$4,500,000**

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RLC  
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**\$1,800,000**

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### To learn more, contact:

**Brian Ruisinger**  
President & CEO  
602.280.9404  
bruisinger@republicaz.com

**Amy Lou Blunt**  
Chief Credit Officer  
602.280.9402  
ablunt@republicaz.com

## WILL YOU HELP US REACH #1?



Every year we get closer. With your help, 2023 can be our year to reach the #1 Ranking. Please vote for Republic Bank of Arizona for Best Bank. Just visit the Ranking Arizona website > Finance & Professional > Banks > Republic Bank of Arizona. Once you register, you can vote every hour, every day until July 31, 2022.

THANK YOU for your vote!