



RepublicNotes

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

SHOP LOCAL. DINE LOCAL. BANK LOCAL.

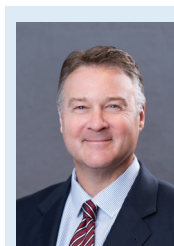


Republic Bank
of Arizona

WHAT DOES THE FED'S DOT PLOT REALLY MEAN?

Brian Ruisinger • President and Chief Executive Officer

Those of us from a certain generation may remember the first video game Pong, or the classic Etch-A-Sketch. Does the table here remind you of one of these blasts from the past? It actually represents how the governors of the Federal Reserve System provide their economic projections to the public and markets. The so-called dot-plot is published by the Fed once per quarter after meetings of its 16-member Federal Open Market Committee (FOMC), the central bank's policy-setting arm. The chart here is from December 2022.



Brian Ruisinger

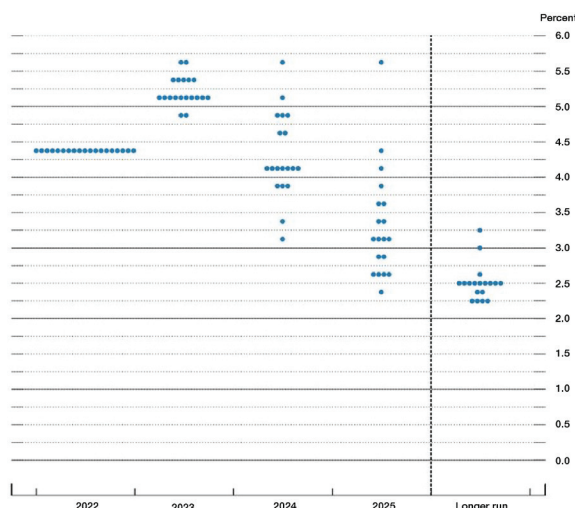
Each dot represents a Fed Governor as well as the Chairman and shows their anonymous projection for the central bank's short-term interest rate and the midpoint of the fed funds rate at the end of each calendar year three years into the future. They also provide a dot for the longer term point where rates are neither stimulating nor restricting economic growth.

The FOMC will be voting on the Fed Funds rate, the rate at which commercial banks borrow and lend to each other overnight. The Prime Rate is calculated by adding 3.00% to this rate, which is the rate most commonly applied to the public, individual and corporate entities. Today's Fed Funds rate is 4.75%, which equates to a Prime Rate of 7.75%, the highest in over a decade. At present, the Fed is in an aggressive tightening posture having raised rates seven times in 2022 and once already in 2023.

This dot plot shows the Governors expect to raise rates again in 2023 and then begin lowering rates in 2024 and 2025 with a longer run view of settling around 2.50% Fed Funds rate which would set the Prime Rate at 5.50%.

Our mission isn't to develop strategies interpreting the dot plot results, but to educate and inform you of this important transparency tool the Fed rolled out in 2012 following the 2008 Recession to provide insight into the FOMC's economic predictions. While these are only indications at a quarterly point in time and subject to change as economic indicators vary, it's certainly useful to indicate the direction of rates as you plan for your business and personal future decisions.

Now back to my Etch-a-Sketch. Someone shook it.



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SPOTLIGHT ON COPPERSTATE FARMS

MODERN FARMING DRIVES THRIVING CANNABIS BUSINESS

Arizona is home to one of the largest greenhouse cannabis producers in North America. With over 1.7 million square feet of canopy and 40 acres under glass, RBAZ customer Copperstate Farms brings the best practices from big agriculture to the growing cannabis industry.

Founder Fife Symington IV was no novice to agriculture when he started Copperstate Farms in 2016. With an extensive background in greenhouse agriculture, he recognized an opportunity to get in on the ground floor of an innovative new industry, which coincided with the chance to purchase an existing greenhouse farm in Snowflake, Arizona.

“I was looking for a new project and venture in my home state,” says Symington. “I began looking at land for a commercial cannabis greenhouse and eventually settled on the 40-acre facility in Snowflake. It had been previously used to grow tomatoes but closed in 2015. Not only was the building already designed for large-scale cultivation, but the location was ideal. Sitting at 5,600 feet above sea level, Snowflake averages around 300 days of sunshine annually. The natural sunlight allows us to cultivate consistent, high-quality, sun-grown cannabis.”

The company started small, serving just one dispensary when it began. Today, Copperstate Farms is a substantial wholesaler of cannabis products and serves as a parent company to several accessory products as well as a dispensary retail company. Symington attributes much of the company’s success to its mission of providing a high-quality product at the lowest cost possible.

IT’S ABOUT FARMING & COMMUNITY

From day one, Symington’s vision has been centered on economic growth and community welfare by hiring local residents, material suppliers, and contractors. Employing more than 520 people, Copperstate Farms is one of the largest employers in Snowflake.

The company’s retail dispensary, Sol Flower, has locations in Phoenix, Scottsdale, Sun City, and Tempe, and three new stores are planned to open in Tucson later this year. The Sun City location includes a café and wellness classroom.

“As we look forward, we’ll continue to expand our retail footprint



Frank Smith, left, with RBAZ Client Michael Bratton.

while strengthening our contribution to the local economy,” says Symington. “We’ll do that by developing innovative products, being responsive to customers, our staff, and the community, and by continually refining our cultivation and retail processes to serve the ever-evolving market.”

FINDING A TRUSTED FINANCIAL PARTNER

One of the biggest challenges for cannabis producers, dispensaries, and other marijuana-related businesses (MRBs) is obtaining access to banking and other financial services. Republic Bank of Arizona began working with MRBs in 2020 and is one of the two banks in the state that serves the industry.

For Copperstate Farms, the choice was easy. MRB banking specialist Frank Smith brought the program to RBAZ and has spearheaded its growth. “Frank’s been a forerunner for cannabis banking in Arizona,” says Michael Bratton, director of finance for Copperstate Farms. “We wanted to work with a financial partner that understands the challenges we face, but also respects the regulations associated with the industry and operates in a safe manner. RBAZ plays by the book and we play by the book. We also appreciate that RBAZ stays up to speed on the regulatory changes and helps drive the evolution from the banking perspective.”

“Copperstate is a leader in the cannabis industry, and we feel privileged to be their bank of choice,” says Frank Smith, RBAZ director of operations. “I’ve been associated with the company for many years, and I know they are dedicated to their employees, community, and customers. They do business the right way, take care of their employees, and care deeply about the community in which they live and work. I am impressed by their innovation and we look forward to supporting their strategic growth initiatives.”

FINANCIAL HIGHLIGHTS (UNAUDITED)		
(in thousands)	YTD Dec 2022	YTD Dec 2021
Total Assets	\$ 237,620	\$ 231,420
Loans & Leases	\$ 162,954	\$ 135,396
Total Deposits	\$ 203,332	\$ 205,403
Net Income	\$ 1,913	\$ 1,918
(Percentages)		
Return on Average Assets	0.80%	0.87%
Bank Liquidity Ratio	30.19%	45.21%
Bank Leverage Ratio	11.39%	10.55%

Financial highlights presented consolidated unless otherwise stated

INVESTING IN NEW SYSTEMS & HUMAN CAPITAL TO ELEVATE YOUR BANKING EXPERIENCE

Amy Lou Blunt • Executive Vice President • Chief Credit Officer

Given the news in the headlines including inflation rates, interest rates, international espionage, and incessant infighting, our way forward as a country seems a bit cloudy and concerning. In quite a contrast, RBAZ has a clear and cohesive vision for 2023 that includes expansion - geographically, technologically and in our human investment.



Amy Lou Blunt

While there is a great deal of uncertainty regarding our local, national and global economies and the degree to which they impact our community and businesses, RBAZ has taken deliberate steps to strategically move forward to enhance the value of your interaction with the bank.

As you have seen from a series of personal communications, we are dramatically improving our processing and delivery system, including our mobile and online banking experience. This is a significant undertaking, and we believe the effort to be well worth the upgrade, both internally and externally. As I mentioned in an earlier article, I also hope to launch a digital enhancement to our commercial loan application process this year, and have made progress on that front as well.

We have made strategic additions to our staff, including branch managers tasked with business development at all branches, plus additional frontline staff and commercial bankers. If you do not have the opportunity to stop in and meet them in person, stay tuned for our upcoming Employee Spotlights.

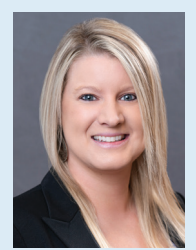
All of these elements, leveraging technology and evolving your digital experience, anchored by our professional bankers' knowledge, judgment and availability to meet with you at any of our locations or yours, combine to elevate our methods to support our mission statement:

“To be the premier Arizona-based community business bank, dedicated to helping Arizona businesses succeed.”

50% INCREASE IN EARNINGS FROM CORE BANKING OPERATIONS YOY

Christine Haugen • Executive Vice President • Chief Financial Officer

Consolidated earnings were \$1,913,000, or \$1.06 per share, for the year ended December 31, 2022 compared to \$1,918,000, or \$1.06 per share, for the comparative period in 2021. While total consolidated earnings in 2022 trailed slightly behind those of 2021, consolidated earnings related to the Company's core operations have increased. Current year consolidated earnings of \$1.06 per share were comprised of \$0.96 per share attributable to core operations and \$0.10 per share due to impacts from the Paycheck Protection Program (“PPP”), whereas prior year consolidated earnings of \$1.06 per share were comprised of \$0.63 per share attributable to core operations and \$0.43 per share due to impacts from the PPP.



Christine Haugen

Our core consolidated earnings increased over 50% year-over-year as net interest income increased 14% despite rapid rate increases by the Federal Reserve resulting in industry-wide margin compression. Supplementing the increase in net interest income was a 32% increase year-over-year in non-interest income as leadership placed a priority on this area in our strategic plan for 2022.

Total assets ended the year at \$237.6 million. Significant in the fourth quarter was the change in asset composition as the Company had record net loan growth of \$20.1 million. Loans ended the year at \$163.0 million, an increase of 20% annually. This increase consisted of \$32.2 million, or 24%, in net portfolio loan growth, offset by \$4.6 million of PPP loan forgiveness received during the year.

Deposits ended the year at \$203.3 million, a decrease of 1% from December 31, 2021. This decrease consisted of \$17.3 million in anticipated deposit outflows relating to capital accounts for De Novo institutions that opened for business during 2022, offset by \$15.2 million in deposit growth through deepening of existing relationships and generation of new banking relationships.

The Bank remains Well Capitalized with an 11.39% leverage capital ratio and maintains its Bauer five-star rating.

ARIZONA BUSINESSES BANK WITH US

\$2,825,000

CRE Term Loan
Multifamily
Arcadia/Phoenix

\$2,600,000

CRE Term Loan
CML Mixed Use
Scottsdale

\$2,000,000

CRE Term Loan
MRB
Scottsdale

\$3,375,000

CRE Term Loan
Industrial
Mesa

\$800,000

RLC
RE Investor
Avondale

\$1,925,000

CRE Term Loan
Industrial
Moorpark

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COMING SOON
SYSTEM
IMPROVEMENTS
& A BETTER
BANKING
EXPERIENCE

Conversion Weekend Starts March 16

For updates and information regarding impacts
to your accounts, ask our team.

Or check out our website
republicbankaz.com/conversion.html

