

A historical map of the Arizona Territory, showing various counties, towns, and geographical features. The map is rendered in a sepia or aged paper tone. Overlaid on the map is the text "Stability. Community. Growth." in a large, bold, black serif font. The text is centered horizontally and vertically on the map. The map includes labels for counties such as Pinal, Maricopa, and Yuma, and towns like Phoenix, Tucson, and Prescott. The text "Stability. Community. Growth." is the primary focus of the image.

Stability. Community. Growth.

 CBOA Financial, Inc.

2010 Annual Report

Arizona's community bank

Dear Shareholders,

It has been an exciting and eventful year for all of us at Commerce Bank of Arizona. On May 7, 2010, we purchased Towne Bank in Mesa, Arizona. Towne Bank was put into receivership by the FDIC, and we were the successful bidder through the auction process established by the Regulators. Towne Bank, located at 3156 E. Baseline Rd. was merged into Commerce Bank of Arizona and has become our first branch in the Greater Phoenix market.

The acquisition initially added approximately \$90 million in total assets and deposits. Since the acquisition, we have intentionally reduced the size of the branch to approximately \$50 million through the liquidation of loans and the run-off of certificate of deposit balances. In addition to purchasing the assets at an 18% discount, the Bank entered into a loss share agreement with the FDIC. All future charge-offs and expenses associated with the liquidation of the purchased loan portfolio will be shared by the Bank and the FDIC on an 80%-20% basis, with the FDIC reimbursing the Bank for 80% of the incurred losses and expenses.

With the anticipated expansion of our franchise in the Phoenix market, we were fortunate to be able to employ John S. Lewis as Executive Vice President. Mr. Lewis has more than 20 years of banking experience in the Greater Phoenix market and will be responsible for the supervision of that market's growth. The employment of Mr. Lewis has already allowed us to get approval for a new branch at 4110 N. Scottsdale Rd. in the Scottsdale Financial Center. This branch is due to open in April 2011. This will be the Bank's seventh branch overall - with two in the Greater Phoenix area and five in the Southern Arizona market.

Another addition to the senior staff of the bank is Mr. Keith Heise, who has been employed to fill the vacant Chief Financial Officer position. Mr. Heise has held similar positions in various industries during his career. In addition, we have established a full time marketing department for the bank. Mrs. Noni Menke, an original employee of the Bank, has been transferred to this department and will occupy the new position of Vice President, Director of Marketing.

While all of these accomplishments have been achieved during 2010, the macro economic and regulatory climate for the banking industry as a whole has become much more complicated. The economy has shown very little improvement, and borrowers continue to be stressed. The passing by Congress of the Frank-Dodd Regulatory Reform Act has increased



the burden of complying with more than 400 pages of additional regulations by the Community Banking Industry. The new regulations not only add additional costs but, in many cases, limit the flexibility of the Bank to serve our customers and provide convenient and necessary services.

We continue to work with our customers when it is necessary and when it is possible to do so. Thus far, we have been able to maintain a quality loan portfolio and to continue receiving very high ratings by the various companies which provide this information to the public.

Included in this report are condensed financial statements of CBOA Financial, Inc. I urge you to review these reports. Due to the acquisition of Towne Bank, the Company was able to produce a substantial profit in the amount of \$4,657,015 for the year ended 2010. Total Assets were \$269,345,245 and Net Worth of the organization ended the year at \$19,884,361. This amounts to \$4.22/outstanding share in earnings and a Book Value of \$18.00/share.

Finally, Management and the Board sincerely want to thank you for your continued support. If you have any questions concerning CBOA Financial or the Bank during the coming year, please feel free to call. We have always enjoyed the opportunity to speak with you concerning your investment in us.

It is with great pride that I can tell you that we have a marvelous staff, without whom we would not have been able to achieve the exceptional results for 2010. All of us are dedicated to making this the best community bank in Arizona and we look forward to our expansion in the Greater Phoenix area.

Yours truly,



Randall J. Yenerich
President and CEO



Consolidated Balance Sheets

| ASSETS | 2010 | 2009 |
|---|-----------------------|-----------------------|
| Cash and due from financial institutions | \$ 34,555,020 | \$ 24,504,725 |
| Securities available for sale | 12,959,569 | 15,271,453 |
| Loans, net of allowance for loan losses of \$3,326,224 and \$1,720,728 | 199,709,373 | 165,286,586 |
| Federal Home Loan Bank stock | 446,700 | - |
| Leasehold improvements and equipment, net | 1,942,544 | 2,025,575 |
| Other real estate owned | 4,539,030 | 2,154,770 |
| Core deposit intangible | 61,440 | - |
| FDIC indemnification asset | 12,899,749 | - |
| Accrued interest receivable and other assets | 2,231,820 | 2,883,589 |
| | <u>\$ 269,345,245</u> | <u>\$ 212,126,698</u> |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | 2010 | 2009 |
| Deposits | | |
| Non-interest bearing | \$ 30,090,118 | \$ 26,302,679 |
| Interest bearing | 207,105,317 | 158,757,785 |
| Total deposits | 237,195,435 | 185,060,464 |
| Repurchase agreements | 2,494,693 | 5,895,350 |
| Subordinated debentures | 5,155,000 | 5,155,000 |
| FDIC clawback liability | 1,368,720 | - |
| Accrued interest payable and other liabilities | 3,247,036 | 767,052 |
| Total liabilities | 249,460,884 | 196,877,866 |
| Stockholders' equity | | |
| Common stock, no par value, 10,000,000 shares authorized, 1,104,436 shares issued and outstanding | 11,913,325 | 11,863,112 |
| Retained earnings | 8,088,176 | 3,431,161 |
| Accumulated other comprehensive income/(loss) | (117,140) | (45,441) |
| Total stockholders' equity | 19,884,361 | 15,248,832 |
| | <u>\$ 269,345,245</u> | <u>\$ 212,126,698</u> |

The accompanying condensed financial statements have been prepared by CBOA Financial, Inc. management. The Company's complete set of consolidated financial statements has been audited by Crowe Horwath LLP, and is available for inspection at the Company's main office at 3805 E. Broadway Blvd., Tucson, AZ 85716.

Consolidated Statements of Income

| | 2010 | 2009 |
|---|---------------------|--------------------|
| INTEREST INCOME | | |
| Loans, including fees | \$ 12,023,724 | \$ 9,977,149 |
| Investment securities | 359,697 | 474,530 |
| Federal funds sold and other cash equivalents | 51,861 | 26,801 |
| | <u>12,435,282</u> | <u>10,478,480</u> |
| INTEREST EXPENSE | | |
| Deposits | 2,799,202 | 3,159,465 |
| Subordinated debentures | 348,000 | 352,811 |
| Short term borrowings | 55,919 | 109,926 |
| | <u>3,203,121</u> | <u>3,622,202</u> |
| NET INTEREST INCOME | 9,232,161 | 6,856,278 |
| PROVISION FOR LOAN LOSSES | 3,186,000 | 710,000 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | <u>6,046,161</u> | <u>6,146,278</u> |
| NON-INTEREST INCOME | | |
| Service charges on deposit accounts | 378,810 | 307,835 |
| Net gains/(losses) on sales of securities | (2,504) | (7,000) |
| Gain on bargain purchase | 10,367,894 | - |
| Other | 425,255 | 182,545 |
| | <u>11,169,455</u> | <u>483,380</u> |
| NON-INTEREST EXPENSE | | |
| Salaries and employee benefits | 3,800,052 | 2,891,495 |
| Occupancy and equipment | 1,828,163 | 1,502,998 |
| Data processing | 608,952 | 451,245 |
| Advertising | 343,968 | 288,361 |
| FDIC insurance | 339,621 | 370,480 |
| Loss on sale and write down of other real estate | 1,073,894 | 388,381 |
| Other | 1,650,107 | 910,663 |
| | <u>9,644,757</u> | <u>6,803,623</u> |
| INCOME/(LOSS) BEFORE INCOME TAXES | 7,570,859 | (173,965) |
| INCOME TAX EXPENSE/(BENEFIT) | 2,913,844 | (85,706) |
| NET INCOME/(LOSS) | <u>\$ 4,657,015</u> | <u>\$ (88,259)</u> |
| EARNINGS/(LOSS) PER SHARE | | |
| Basic | <u>\$ 4.22</u> | <u>\$ (0.08)</u> |
| Diluted | <u>\$ 4.02</u> | <u>\$ (0.08)</u> |

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Board of Directors & Executive Officers

BOARD OF DIRECTORS

Randall J. Yenerich

*President and CEO
Commerce Bank of Arizona*

J. Wendell Tyson, M.D., F.A.C.R.

*Chairman of the Board
Commerce Bank of Arizona
Retired Radiologist*

John F. Munger

*Vice Chairman of the Board
Commerce Bank of Arizona
Managing Member
Munger Chadwick, PLC*

Richard P. Coleman

*Secretary of the Board
Commerce Bank of Arizona
President
R.P. Coleman & Company
Tucson Hearing Clinics, Inc.*

Michael S. Hammond

*Assistant Secretary of the Board
Commerce Bank of Arizona
President and Managing Shareholder
PICOR Commercial Real Estate Services*

James F. Frein

Retired Business Executive

Dean S. Greenberg

*President
Greenberg Financial Group*

Robert B. Holland

Business Consultant

James G. Horvath

*President
Town West Realty, Inc.
Town West Design Development, Inc.*

W. Sean Lawley

*Managing Member
Lawley Motors, LLC*

John S. Lewis

*Executive Vice President
Commerce Bank of Arizona*

Beth Walkup

Consultant

EXECUTIVE OFFICERS

Randall J. Yenerich

President and CEO

John S. Lewis

Executive Vice President

Fred Dawson, Jr.

*Executive Vice President
Chief Credit Officer*

Michael J. Burke

*Senior Vice President
Chief Operations Officer*

Alan J. Wahl

*Senior Vice President
Compliance Officer*

Keith A. Heise, CPA

Chief Financial Officer



Locations

LOCATIONS

Broadway Office

3805 E. Broadway Blvd.
Tucson, AZ 85716
520-325-5200
Fax 520-327-0513

Ina/La Cholla Office

2285 W. Ina Road
Tucson, AZ 85741
520-797-4160
Fax 520-797-6676

Campbell Office

3002 N. Campbell Avenue
Tucson, AZ 85719
520-795-1013
Fax 520-795-1618

Green Valley Office

222 W. Esperanza Blvd.
Green Valley, AZ 85614
520-625-4650
Fax 520-625-5028

Tubac Office

2221 E. Frontage Road
Building G, Suite 101
Mail - P.O. Box 4121
Tubac, AZ 85646-4121
520-398-9395
Fax 520-398-8609

Mesa Office

3156 E. Baseline Road
Mesa, AZ 85204
480-346-7550
Fax 480-346-7569

Scottsdale Office

Scottsdale Financial Center
4110 N. Scottsdale Road
Suite #120
Scottsdale, AZ 85251
480-253-4500
Fax 480-253-4151

