

January 29, 2019

Exchange Bank Announces Fourth Quarter and Year Ending 2018 Earnings

Santa Rosa, CA – On January 29, 2019, Exchange Bank announced results for the fourth quarter and year ending 2018, reporting income before taxes of \$12.49 million in the fourth quarter of 2018, compared to \$10.86 million for the same period in 2017, an increase of 15%. Income before taxes for the year ended December 31, 2018 totaled \$53.50 million, compared to \$43.57 million a year ago, an increase of 22.8%. However, the comparisons between net income after tax for the quarter and year ending December 31, 2018 and 2017 were strongly influenced by the impact of a change in tax law enacted during 2017. As a result of the enactment of the “Tax Cuts and Jobs Act” (Tax Act) as signed into law on December 22, 2017, the Bank reported an additional adjustment to income tax expense totaling \$6.9 million in the fourth quarter of 2017, which had a material impact on net income for both the year and quarter ending December 31, 2017. As a result of this additional tax expense, the Bank reported a net loss of \$291 thousand in the fourth quarter of 2017 and net income for the year ending December 31, 2017 of \$19.5 million, as compared to net income of \$9.0 million and \$38.51 million for the quarter and year ended December 31, 2018. Without this additional income tax expense, net income would have been \$6.6 million and \$26.4 million for the quarter and year ending December 31, 2017.

“While the Bank was required to re-measure its net deferred tax assets in the fourth quarter of 2017, the reduction in federal tax rates beginning January 1, 2018 have had a significant and positive impact on net income in during 2018 and will continue to have positive impacts well into the future. Based on pretax earnings, the 2018 impact on tax expense resulting from the reduction in the Federal income tax rate from 35% to 21% added approximately \$6 million to net income after tax for the year ending December 31, 2018,” stated Executive Vice President and CFO, Greg Jahn.

During the first quarter of 2018 the Bank did benefit from a gain of \$3.25 million on the sale of other real estate held for sale. Such a gain is of a nonrecurring nature and such unusual gains are not anticipated in 2019. Similarly, the Bank did benefit from two unusual and nonrecurring items of income during 2017 that contributed to an elevated level of revenue in 2017, including a gain of \$1.6 million on the sale of other real estate held for sale and a \$1.4 million litigation settlement. During 2018, the Bank witnessed strong growth in revenue generated by the Bank’s Wealth Management division and our SBA lending division. Noninterest income generated by the Bank’s Wealth Management business increased from \$6.7 million in 2017 to \$7.3 million in 2018, an increase of \$.6 million or 9%. Revenue generated from gains on sale of SBA loans increased from \$1.0 million in 2017 to \$1.8 million in 2018 an increase of \$.8 million or 80%.

The earnings of the Bank were driven primarily by continued growth in average loans and investments, which were funded by a significant increase in the level of average deposits outstanding during the year. The growth in loans and investments led to an increase in net interest income of approximately \$12.4 million for the year ending December 31, 2018, a

15% increase over the year ending December 31, 2017. While the Bank experienced loan growth of approximately \$17 million using year end balances from December 31, 2017 to December 31, 2018, the average increase in loans outstanding during the year was a more significant \$51 million, an increase of 3.5% over the average balance outstanding during the year ending December 31, 2017. “The modest net growth in net loans outstanding during 2018, understates the Bank’s true commitment to supporting the economic growth and credit needs of the communities and clients we serve. In fact, the Bank supported our communities with an excess of \$300 million of new loan production during 2018. This was largely offset by an unusually high volume of prepayments the Bank experienced as clients elected to refinance existing debt into longer term structures during this period of rapidly rising interest rates,” stated President and CEO, Gary Hartwick.

As a result of the unusually strong deposit growth in the fourth quarter of 2017, the Bank carried significant levels of liquidity in interest earning deposits at the Fed and with other depository institutions at December 31, 2017. A significant amount of this liquidity was redeployed into higher yielding investment securities during 2018. On the surface, the growth in investments and other interest earning deposits as measured by balances at December 31, 2018 compared to December 31, 2017 in aggregate are modest, with aggregate growth in these assets of \$56 million. However, the growth year-over-year in average volumes paints a different picture. The average growth in the balance of investment securities totaled \$225 million and growth in average interest earning deposits totaled \$67 million, representing increases of 39% and 47% respectively over similar averages during the year ended December 31, 2017.

Similarly, the difference between year end balances in deposits compared to averages for the year are both significant and the drivers of this substantial growth in the average balances in loans and investments. While growth in deposits as measured by year end balances at December 31, 2018 over year end balances at December 31, 2017 reflects a modest increase of \$36 million, the average balances tell quite a different story. The increase in average deposits outstanding was approximately \$345 million, an increase of 17% over average deposit balances of \$2,029 million during 2017. The extraordinary growth in deposits occurred during the fourth quarter of 2017 and generally remained with the Bank throughout 2018. To a large extent, these deposits related to the inflow of insurance settlements received by the Bank’s clients who suffered losses as a result of the extraordinary wildfires that occurred in October of 2017 in the communities we serve. As we look forward to 2019, the Bank expects average deposit balances to decline as the Bank’s customers continue to move forward through the rebuild or relocation process.

The Bank’s credit quality remains strong, with non-accrual loans declining to just 0.28% of total loans at December 31, 2018. Despite continued loan growth, as a result of the continued improvement in asset quality and a limited amount of net charge offs, the Bank did not make any provision for loan losses in 2018 and was able to maintain a ratio of loan loss reserves to total loans of 2.63%. In addition, the Bank’s capital ratios remain in excess of the regulatory definitions of “well capitalized.” As of December 31, 2018, the Bank reported total risk-based capital of 15.14%.

“The strong financial performance we achieved in 2018 is due to the hard work of our dedicated employees and the continued support of our loyal customers,” said Mr. Hartwick.

Exchange Bank paid a quarterly cash dividend of \$1.00 per share on common stock outstanding to shareholders on December 14, 2018. Total dividends paid to Exchange Bank common shareholders during 2018 were \$6.6 million and represented an increase of approximately 14% above total dividends of \$5.8 million paid to common shareholders during 2017. The Doyle Trust, which funds the Doyle Scholarships at the Santa Rosa Junior College, receives 50.44% of all cash dividends paid by the Bank.

About Exchange Bank

Headquartered in Sonoma County and founded in 1890, Exchange Bank is a premier community bank with assets of \$2.6 billion. Exchange Bank provides a wide range of personal, commercial and trust and investment services with 18 branches in Sonoma County and a commercial and SBA lending office in Roseville and Marin, California. The Bank’s legacy of financial leadership and community support is grounded in its core values of Commitment, Respect, Integrity and Teamwork.

Exchange Bank is a 13-time winner of the North Bay Business Journal’s (NBBJ) Best Places to Work survey, a recipient of the 2018 North Bay Community Philanthropy Award and the 2018 Healthiest Companies in the North Bay Award. NorthBay biz magazine named Exchange Bank the 2018 Best Consumer Bank and Gold Medal Winner for Best Business Bank. The North Bay Bohemian’s Best of 2018 Readers Poll named Exchange Bank the Best Business Bank and Best Consumer Bank. Exchange Bank can also be found in the NBBJ’s Book of Lists as a leading lender and wealth management advisor—claiming the #1 position in SBA 7(a) lending in Sonoma County for 2018. www.exchangebank.com.

###

Contact: Greg Jahn, EVP, Chief Financial Officer
(707) 524.3218