



FOR IMMEDIATE RELEASE

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Exchange Bank Announces Fourth Quarter and Year Ending 2019 Earnings

Santa Rosa, CA – On January 30, 2020, Exchange Bank announced results for the fourth quarter and year ending 2019, reporting net income after taxes of \$9.07 million in the fourth quarter of 2019, compared to \$9.01 million for the same quarter in 2018, an increase of 1%. On the strength of growth in net interest income of almost 4%, the Bank achieved net income for the year ending December 31, 2019 totaling \$36.50 million. While net income for 2019 came in slightly lower than the \$38.51 million recorded in 2018, when adjusted for elements that were unusual to our normal sources of revenue and expense, the true outstanding results of 2019 as compared to 2018 become evident.

During 2019, the Bank undertook a major bank-wide initiative of converting its existing online and mobile banking platform to a new state-of-the-art digital platform. As a result of this successful initiative, the Bank recognized operating expenses totaling approximately \$1.86 million that were not present during the similar 12-month period in 2018. Additionally, during 2018, the Bank recognized an unusually large gain of \$3.25 million on the sale of other real estate owned (OREO) that did not exist in the similar year ending December 31, 2019. Absent this unusual gain of \$3.25 million in 2018 and the one-time expense of \$1.86 million relating to the Bank's digital conversion in 2019 (both adjusted for the impact of taxes), the Bank would have experienced net income of approximately \$36.17 million in the year ending December 31, 2018 compared to net income of \$37.84 million during the year ending December 31, 2019, an increase of 4.6%.

The following table sets forth a reconciliation of GAAP net income to normalized earnings by removing OREO gains from 2018 and removing unusual operating expenses relating to the Bank's digital conversion in 2019, both adjusted for the impact of associated income tax expense.

<i>(All \$ in millions)</i>	2019	2018
Reported Net Income	\$36.50	\$38.51
OREO Gain		(3.25)
Digital Conversion Operating Expenses	1.86	
Provision for income tax	(.52)	.91
Net income after tax	\$37.84	\$36.17

"We believe that our investment in technology in the form of a robust online and mobile banking platform is a valuable investment in our customers and in our future. Our ability to meet the changing needs of our clients and to allow our customers to bank whenever and wherever they want will always remain a priority at Exchange Bank," said Gary Hartwick, president and CEO.

The Bank continues to experience growth in its primary business of meeting the credit needs of its communities. In this regard, the Bank experienced strong growth in net interest income, which increased from \$93.3 million in 2018 to \$96.9 million 2019, an increase of 3.84%. Contributing to the positive trend in net interest income was growth in the loan portfolio of approximately \$67 million, an increase of 4.4% over similar balances as of December 31, 2018. Additionally, the Bank's increased net interest income was strongly influenced by the generally rising interest rate environment during much of 2018. As a result of the lagged effect of higher treasury yields during much of 2018 as well as prudent management of the balance sheet, the Bank was able to increase its net interest margin from 3.73% during the 12 months in 2018 to 3.89% for the similar period ending December 31, 2019. Due to the material decline in interest rates during 2019, the Bank will be challenged to continue this expansion of net interest margin into 2020.

The Bank's balance sheet growth during the year ending December 31, 2019 was somewhat inhibited as the Bank continued to witness deposit withdrawals from clients who were impacted by the wildfires of 2017. As the rebuild efforts have continued to accelerate, those clients have had the opportunity to utilize cash reserves from their insurance proceeds held at the Bank to rebuild or relocate their primary residence. As a result, the Bank estimates that approximately \$150 million of deposits related to insurance proceeds were utilized by clients and exited the Bank during 2019. This runoff of insurance-related deposits was largely offset by organic growth in deposits totaling approximately \$122 million, leaving the Bank with a net decline in total deposits of \$25 million, as total deposits declined from \$2.380 billion at December 31, 2018 to \$2.355 billion at December 31, 2019. The Bank's net growth in deposits will continue to be challenged by deposit runoff utilized to support the rebuild efforts throughout 2020.

When excluding the OREO gain of \$3.25 million from non-interest income during the year ending December 31, 2018, non-interest income would have increased from \$22.5 million to \$24.2 million during 2019. This 7.6% increase in non-interest income year-over-year was primarily driven by an increase of approximately \$1.3 million in revenue generated by our Trust and Investment Management business. In addition to organic growth of approximately \$500 thousand in the Sonoma County market, approximately \$800 thousand of growth in Trust revenue was the result of recent acquisitions of Trust business in the Sacramento and South Bay markets.

Operating expenses for the year ending December 31, 2019 increased by \$4.7 million or 7.2% over the similar period in 2018 as the Bank continued to invest in technology and personnel necessary to support future growth. The Bank recognized approximately \$1.86 million of expenses during 2019 relating to the implementation of a new online and mobile banking platform that are spread between salaries, professional fees and other expenses.

Exclusive of these non-recurring expenses, the Bank's total operating expenses would have increased by \$3.0 million or 4.6%.

"2019 was another year of exceptional performance for Exchange Bank. The dedication and teamwork of our employees to support and serve our clients and our strong partnerships and support in our community are a winning combination for our continued success," said Mr. Hartwick.

The Bank's credit quality remains strong, with non-accrual loans of just 0.33% of total loans at December 31, 2019. 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 2019 and was able to maintain a ratio of loan loss reserves to total loans of 2.52%. In addition, the Bank's capital ratios remain well in excess of the regulatory definitions of "well capitalized." As of December 31, 2019, the Bank reported total risk-based capital of 15.79%.

Exchange Bank paid a quarterly cash dividend of \$1.15 per share on common stock outstanding to shareholders on December 13, 2019. 50.44% of the cash dividend goes to the Doyle Trust which funds the Doyle Scholarships at the Santa Rosa Junior College.

Reconciliation of GAAP Net Income to Normalized Earnings

Management has presented these non-GAAP financial measures in this earnings release because it believes that they provide useful and comparative information to assess trends in the Company's financial position reflected in the current quarter and year-to-date results and facilitate comparison of our performance with the performance of our peers.

Forward looking information

This press release may contain forward-looking statements about the Company, including descriptions of plans or objectives of its management for future operations, products or services, and forecasts of its revenues, earnings or other measures of economic performance. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include the words "believe," "expect," "anticipate," "intend," "plan," "estimate," or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could," or "may."

Forward-looking statements, by their nature, are subject to risks and uncertainties. A number of factors—many of which are beyond the Company's control—could cause actual conditions, events or results to differ significantly from those described in the forward-looking statements. Forward-looking statements speak only as of the date they are made. The Company does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date forward looking statements are made.

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 14-time winner of the North Bay Business Journal's (NBBJ) Best Places to Work survey, a recipient of the 2019 North Bay Community Philanthropy Award and the 2019 Healthiest Companies in the North Bay Award. NorthBay biz magazine named Exchange Bank the 2019 Best Consumer Bank and Gold Medal Winner for Best Business Bank. The North Bay Bohemian's Best of 2019 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 2019. www.exchangebank.com.

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