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Exchange Bank Announces Third Quarter Earnings

Exchange Bank announces results for the third quarter of 2018 with a profit after tax of \$9.53 million, compared to \$6.65 million in the third quarter of 2017. This represents a 43% increase compared to the same period a year ago. The Bank experienced another quarter of steady growth in its core business as evidenced by an increase in net interest income of \$3.27 million, a 16% increase for the quarter ending September 30, 2018 compared to the similar quarter in 2017.

Contributing to the positive trend in net interest income was growth in the loan portfolio of \$32 million and an increase in the investment portfolio of \$251 million, representing increases of 2.2% and 38.9% respectively over similar balances as of September 30, 2017. This strong growth in assets was funded by an increase in deposits totaling \$345 million, an increase of 17.1% above deposit balances at September 30, 2017. Deposit growth during this period was strongly influenced by fire related insurance proceeds received by customers of the Bank. The Bank estimates that such short term insurance related deposits contributed in excess of \$300 million of the Bank's total growth.

Non-interest income for the quarter ending September 30, 2018 was consistent with the similar quarter in 2017 at approximately \$5.6 million. Generally, increases in fee income generated from the Bank's Trust and Investment Division offset declines in deposit fee income. Operating expenses increased from approximately \$1 million during the third quarter of 2018 over the similar quarter in 2017 rising from \$15.1 million in 2017 to \$16.1 million in 2018, an increase of 7.2%. Increased operating expenses were focused on salaries and benefits which increased by approximately \$460 thousand as well as increases in professional services and Bank facilities. Contributing to the increased profitability during the third quarter of 2018 was the impact of a lower federal income tax rate, which declined from 35% in 2017 to 21% in 2018. The Bank estimates that the effect of this lower income tax rate in 2018 contributed approximately \$1.5 million to net income after tax during the third quarter of 2018.

During the nine months ending September 30, 2018, the Bank achieved net earnings of \$29.5 million, compared to \$19.8 million during the similar nine-

month period in 2017, an increase of approximately \$9.7 million or 49%. During the nine months ending September 30, 2018, the Bank's net interest income increased \$10.1 million over the similar nine-month period in 2017, an increase of 17.2%. Non-interest income for the nine months ended September 30, 2018 was positively influenced by gains on the sale of other real estate owned in the second quarter totaling approximately \$3.25 million. Similarly, non-interest income for the nine months ended September 30, 2017 was positively influenced by a litigation settlement of \$1.4 million in the second quarter of 2017, as well as gains on sale of other real estate totaling approximately \$1.38 million in the first quarter of 2017. Removing the after tax impact of these nonrecurring events during both nine-month periods in 2018 and 2017 would have produced net income after tax of approximately \$27.2 million in 2018, compared to \$18.1 million in 2017. The Bank estimates that the effect of a decline in the Federal tax rate from 35% in 2017 to 21% during 2018 contributed approximately \$4.5 million to net income after tax for the nine-month period ended September 30, 2018.

"We are very pleased to report strong earnings this quarter driven by our significant deposit growth," stated Gary Hartwick, President and CEO. "The meaningful increases we've witnessed during this past year in both loan and deposit volumes are a result of the hard work and dedication of our employees, as well as the continued loyalty of our clients and support from the communities we serve."

Exchange Bank paid a quarterly cash dividend of \$0.95 per share on common stock outstanding to shareholders on September 21, 2018. 50.44% of the cash dividend goes to the Doyle Trust which funds the Doyle Scholarships at the Santa Rosa Junior College.

Greg Jahn

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