



## FOR IMMEDIATE RELEASE

**October 23, 2019**

### **Exchange Bank Announces Third Quarter Earnings**

**Santa Rosa, CA** – On October 23, 2019, Exchange Bank announced earnings of \$9.35 million in the third quarter of 2019, compared to \$9.0 million in the second quarter of 2019, a 4% increase over the prior quarter. The \$9.35 million earned in the third quarter of 2019 represented a 2% decline from \$9.53 million earned in the third quarter of 2018.

“The small decline in net income in the quarter ended September 30, 2019 compared to the similar quarter in 2018 does not paint a true picture of the Bank’s very positive financial success. During this current quarter, operating expenses were heavily influenced by the Bank’s conversion to a new online and mobile banking platform to better serve our valued clients. In aggregate, the Bank recognized approximately \$800 thousand of increased operating expenses during the third quarter relating to the Bank’s new digital delivery systems. Our third quarter performance was very good and the Bank’s core business remains strong,” said Gary Hartwick, president and CEO of Exchange Bank.

The Bank continues to experience strong growth in its core business as evidenced by an increase in net interest income which increased from \$23.74 million in the third quarter of 2018 to \$24.93 million during the quarter ending September 30, 2019, an increase of 5.0%. Contributing to the positive trend in net interest income was growth in the loan portfolio of approximately \$82 million, an increase of 5.5% over similar balances as of September 30, 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 higher treasury yields during much of 2018, the Bank was able to increase its net interest margin from 3.70% for the nine months in 2018 to 3.91% for the similar period ending September 30, 2019. As interest rates have declined materially during the first nine months of 2019, the Bank will be challenged to continue this expansion of net interest margin in the foreseeable future.

The Bank’s balance sheet experienced a small decline during the 12-month period ending September 30, 2019 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, deposits declined from \$2.357 billion at September 30, 2018 to \$2.295 billion at September

30, 2019. Funding the decline of \$62 million in deposits and the aforementioned loan growth, was a reduction in liquid investments totaling approximately \$95 million. The Bank expects this trend of deposits utilized to support the rebuild efforts to continue throughout the remainder of 2019 and well into 2020.

Non-interest income increased in the third quarter of 2019 by \$581 thousand compared to the similar quarter ending September 30, 2018. A comparison of second quarter non-interest income year-over-year was primarily influenced by an increase of approximately \$440 thousand in revenue generated by our Trust and Investment Management business. The increase in Trust revenue was largely the result of recent acquisitions of Trust business in the Sacramento and South Bay markets.

During the nine months ending September 30, 2019, the Bank achieved net earnings of \$27.43 million, compared to \$29.51 million during the similar nine-month period in 2018, a decrease of approximately \$2.08 million or 7.0%. The nine-month period ending September 30, 2018 was positively influenced by the one-time gain of \$3.25 million on the sale of other real estate (OREO) that did not exist in the similar nine months ending September 30, 2019. Additionally, during the nine months ending September 30, 2019, the Bank recognized operating expenses totaling approximately \$1.3 million that were not present during the similar nine-month period in 2018, relating to the conversion of the Bank's internet and mobile banking platform. Absent this unusual gain of \$3.25 million in 2018, and the one-time expense relating to the Bank's digital conversion, the Bank would have experienced net income of approximately \$27.15 million during the nine months ending September 30, 2018 compared to net income of \$28.28 million during the similar period during 2019, an increase of 4.2%. During the nine months ending September 30, 2019, the Bank's net interest income increased \$3.79 million over the similar nine-month period in 2018, an increase of 5.5%.

When excluding the OREO gain of \$3.25 million from non-interest income during the nine months ending September 30, 2018, non-interest income would have increased from \$16.86 million to \$18.09 million during the similar period ending in 2019. Operating expenses for the nine months ending September 30, 2019 increased by 9.5% 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 \$1.3 million of expenses during the nine months ending September 30, 2019 relating to the implementation of a new online and mobile banking platform. Exclusive of these non-recurring expenses, the Bank's total operating expenses would have increased by \$3.3 million or 6.8%.

"We believe the investment in a new state-of-the-art online and mobile banking platform will meet the needs of our valued clients today and well into the future," said Mr. Hartwick.

Exchange Bank paid a quarterly cash dividend of \$1.10 per share on common stock outstanding to shareholders on June 21, 2019. 50.44% of the cash dividend goes to the Doyle Trust which funds the Doyle Scholarships at the Santa Rosa Junior College.

### **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 2018. [www.exchangebank.com](http://www.exchangebank.com).

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