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Exchange Bank Announces Second Quarter Earnings

Santa Rosa, CA – On July 24, 2020, Exchange Bank announced results for the second quarter of 2020 with a profit after tax of \$7.85 million, compared to \$8.63 million in the previous quarter ending March 31, 2020.

“As we navigate through this period of extreme uncertainty created by the coronavirus pandemic, the Bank continues to respond to the needs of our clients and community. Our current focus is on the health and well-being of our employees and customers. We have waived certain deposit-related fees and provided payment deferrals to many loan clients who have been negatively impacted by the COVID-19 virus. We have also expended tremendous resources participating in the SBA Paycheck Protection Program (PPP) under the CARES Act. As a result of this effort, we have extended credit to 1,696 of our clients through PPP loans, totaling loan balances of approximately \$255 million. We are grateful for the opportunity to support the preservation of jobs in our community and extremely proud of the extraordinary efforts of our employees to meet the needs of our customers,” said Gary Hartwick, president and CEO.

The Bank generated a net income of \$7.85 million as compared to \$9.01 million in the second quarter of 2019. The decrease in earnings can be attributed to declines in both net interest income and non-interest income. The Bank’s second quarter 2020 results were heavily influenced by the changing patterns of behavior by both business and consumer clients as well as the fiscal and monetary response of the U.S. Government to the coronavirus pandemic. The Bank’s net interest income declined from \$24.01 million during the second quarter of 2019 to \$23.19 million during the second quarter of 2020. During a period of time when treasury yields were in a long, steady, downward decline that accelerated to historical lows with the onset of the coronavirus pandemic, the Bank’s margin was negatively impacted by declines in yields on loans and investments that could not be equally matched by declines in the Bank’s cost of funds. The loss of interest income due to lower yields on loans and investments more than offsets the increase in interest income as a result of the growth of \$255 million in PPP loans and other liquid investments totaling approximately \$179 million.

At the same time, non-interest income declined from the \$6.04 million in the second quarter of 2019 to \$4.74 million during the second quarter of 2020. During the second quarter of 2020, the Bank witnessed significant declines in several areas of non-interest

income that are directly associated with a weaker level of personal consumption, such as interchange fees and overdraft fee income, as well as reduction in SBA revenue due to the lack of new business formation in the midst of this crisis.

The Bank experienced a dramatic increase in deposit balances which were up year-over-year by approximately \$415 million or 18%. Much of this increase in deposits occurred during the second quarter of 2020 and were the result of PPP loan funds received by Bank clients. An additional source of deposits totaling approximately \$155 million came from both business and consumer clients who chose to hold more liquid assets during this period of great uncertainty. This increase in deposits led to a material decline in deposit service fee income as a result of the waiver of fees associated with higher customer compensating balances. The Bank expects to witness a significant run-off of this recent deposit growth due to the unusual and short-term nature of these excess deposits as funds are used to support small business and consumer related expenses over the next year.

During the six months ending June 30, 2020, the Bank achieved net earnings of \$16.49 million, compared to \$18.08 million during the similar six-month period in 2019, a decrease of \$1.59 million or 8.8%. The decline was driven by the same declines in net interest income and non-interest income as described previously and which occurred primarily during the second quarter of 2020 as a result of pandemic-related events. During the six months ending June 30, 2020, the growth in the Bank's Trust and Investment Management business, which was up approximately \$340 thousand, helped offset larger declines in deposit fee and SBA income, compared to the similar six-month period in 2019. The increase in Trust revenue was largely the result of a recent acquisition of Trust business in the South Bay.

"Given the significant negative impact of the coronavirus pandemic on businesses and households, the Bank is relatively pleased with the second quarter results. While our outlook for a quick economic turnaround is guarded, the Bank is well-positioned to meet future challenges that may arise. We entered this pandemic from a position of strength, with levels of capital, liquidity and reserves for loan losses near record levels," said Mr. Hartwick.

Exchange Bank paid a quarterly cash dividend of \$1.20 per share on common stock outstanding to shareholders on June 19, 2020. 50.44% of the cash dividend goes to the Doyle Trust which funds the Doyle Scholarships at the Santa Rosa Junior College.

About Exchange Bank

Headquartered in Sonoma County and founded in 1890, Exchange Bank is a premier community bank with assets of \$2.8 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 2020 North Bay Community Philanthropy Award and the 2019 Healthiest Companies in the North Bay Award. NorthBay biz magazine named Exchange Bank the 2020 Best Consumer and 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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