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Exchange Bank Announces Fourth Quarter and Year Ending 2020 Earnings

Santa Rosa, CA – On February 15, 2021, Exchange Bank announced results for the fourth quarter and year ending 2020, reporting net income after taxes of \$9.24 million in the fourth quarter of 2020, compared with \$9.07 million for the same quarter in 2019, an increase of 1.87%. The Bank achieved net income for the year ended December 31, 2020 of \$33.70 million.

“In a historically low interest rate environment, and in the midst of a significant economic disruption caused by the pandemic, the Bank posted solid operating results in 2020 by focusing on its core mission as a community bank—supporting our customers,” said Troy Sanderson, president and CEO.

The Bank continues to support its customers, providing payment deferrals to borrowers who have been negatively impacted by the COVID-19 virus. For a portion of 2020, the Bank also waived ATM and overdraft fees for their consumer and business customers. Exchange Bank expended tremendous internal resources participating in the SBA Paycheck Protection Program (PPP) under the CARES Act. As a result of this effort, they were successful in providing loans to 1,780 small businesses in the community with loan balances totaling approximately \$260 million.

“I am extremely proud of our employees who worked tirelessly to secure this much needed financial support for our local small businesses through the PPP program,” said Sanderson. “Even more impressive, \$22 million of these PPP loans were made to local nonprofit and charitable organizations, enabling them to continue to provide critical needed assistance to our community during these very difficult times.”

Exchange Bank’s net income for 2020 was \$33.70 million, compared with \$36.50 million in 2019. The decrease in earnings can be directly attributed to declines in net interest income,

non-interest income and an increase in the provision for loan loss. The Bank's 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 slightly from \$96.91 million during the 12 months ended December 31, 2019 to \$96.38 million the same period in 2020. During a period of time when treasury yields remained anchored near historic lows, the Bank's margin was negatively impacted by declines in yields on loans and investments that surpassed the Bank's ability to affect a similar decline in interest expense through a lower cost of funds. As a result, the Bank experienced a decline of \$531 thousand in net interest income for the 12 months ended December 31, 2020 compared with the similar period in 2019. The loss of interest income was somewhat offset by the increase in interest income as a result of the growth of \$260 million in PPP loans and other liquid investments totaling approximately \$180 million. The Bank's net interest margin decreased from 3.89% in 2019 to 3.46% in 2020. The Bank expects net interest margin challenges to continue into 2021 with the expectation that treasury yields will remain low.

Non-interest income declined from \$24.23 million in 2019 to \$21.54 million in 2020. During 2020, the Bank witnessed significant declines in various elements of deposit service fee income that are directly associated with a weaker level of personal consumption and low interest rates, as well as a reduction in SBA revenue due to the lack of new business formation in the midst of this crisis.

The previously discussed declines in revenue were somewhat offset by the Bank's focus on controlling operating expenses. Adjusting to an environment of generally slower business activity, the Bank was successful in reducing operating expenses during the 12 months ending December 31, 2020, by approximately \$1.70 million or 2.41%. In addition, during 2020, the Bank had one-time expenses related to its core operating system conversion of approximately \$2.3 million before taxes. Without such expenses, the Bank's 2020 income would have been closer to its 2019 results.

The quality of the Bank's loan portfolio remains strong; however, due to the economic uncertainty that exists today, the Bank elected to strengthen its reserve for potential future losses with a provision for loan loss totaling \$1.8 million during 2020. The Bank did not take a provision for loan loss during the similar period in 2019.

Overall, the Bank's balance sheet growth for the year ending December 31, 2020 was bolstered by the PPP loans and deposit growth as previously noted. Total assets increased to \$3.14 billion as of December 31, 2020 up from \$2.67 billion in 2019, an increase of 17.43%. Gross loans increased from \$1.58 billion in 2019 to \$1.73 billion in 2020.

The Bank experienced a dramatic increase in deposit balances which were up year-over-year by approximately \$424 million or 18%. This increase in deposits mainly occurred during the second quarter of 2020, resulting from business deposits totaling approximately \$260 million relating to the deposit of PPP loan funds received by Bank clients. An additional source of deposits totaling \$176 million came from both business and consumer customers who chose to hold more liquid assets during this period of great uncertainty. The 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. It is possible the Bank could experience a significant runoff of the excess deposits due to their unusual and short-term nature as they are used to support small business and consumer-related expenses over the next year. The effect of the 2021 PPP loan program on deposit and loan balances is uncertain at this time, but could have a material impact on the Bank's results during the coming year.

The Bank's capital ratios remain well in excess of the regulatory definitions of "well capitalized." As of December 31, 2020, the Bank reported total risk-based capital of 15.92%.

"While 2020 was a financially successful year for Exchange Bank, it was also a year focused on a substantial investment in the continuity of our legacy," said Mr. Sanderson. "Now, with two very large information technology upgrades implemented within the past two years, Exchange Bank is well-positioned to leverage these new capabilities to better support and serve our clients and community for many years to come."

About Exchange Bank

Headquartered in Sonoma County and founded in 1890, Exchange Bank is a premier community bank with assets of \$3.1 billion. Exchange Bank provides a wide range of personal, commercial and trust and investment services with 18 branches in Sonoma County and a commercial branch in Roseville, 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 15-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 Bank and Best Business Bank. The Petaluma People's Choice Awards named Exchange Bank the Best Local Bank and 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 2020. www.exchangebank.com.

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