July 26, 2023

Exchange Bank Announces Second Quarter 2023 Results; Declaration of Third Quarter Cash Dividend

Santa Rosa, CA – Exchange Bank (OTC: EXSR) today announced results for the second quarter of 2023, reporting a net loss after taxes of $2.14 million. The net loss is after a one-time charge of $9.10 million, net of taxes, related to the voluntary termination of the Exchange Bank Pension Plan (the "Plan"). Excluding this one-time charge, recurring net earnings from the operations of Exchange Bank for the second quarter of 2023 were $6.96 million as compared with net earnings of $9.52 million for the same quarter of 2022.

With this level of core profitability, on July 18, 2023, the Board of Directors of the Bank declared a third quarter dividend of $1.30 per share, the same amount as paid in the prior quarter of 2023, payable on September 15, 2023, to shareholders of record as of September 1, 2023.

The Bank booked this one-time after-tax expenditure of $9.10 million in connection with fully retiring and settling all of its obligations to retirees and certain active employees who were once a part of the now terminated Plan. Mr. Sanderson remarked, "Similar to decisions made over the years by many other companies, this long-contemplated action by the Bank to terminate the Plan, which was initiated in mid-2022, follows 70 years of managing through complex and costly accounting and regulatory Plan requirements. The Bank believes this action now eliminates all future actuarial and regulatory risks for the Bank related to the Plan, as well as the administrative expenses to manage it." All former Plan members were made completely whole through either lump-sum distributions or the provision of individual annuities.

Through the reversal of certain accruals and tax treatments related to the Plan, the Bank's final net adjustment to capital specifically related to the Plan's termination was a negative $3.2 million. The Bank believes this one-time reduction of Bank capital, equal to less than 1% of the Bank's current total regulatory capital, will likely be offset in the coming years by savings tied to the elimination of the costs to administer the Plan. Further, the Bank believes that termination of the Plan eliminates the risk of any future monetary contributions that could be required by the Bank due to negative future changes in the market value of the assets that were held in the Plan. After the one-time charge related to the Plan termination, and as of June 30, 2023, the Bank reported a total risk-based capital ratio of 18.86% and a leverage ratio of 10.30%. Both ratios are well in excess of minimums to be considered "well-capitalized" for regulatory purposes.

The Bank's net interest income decreased from $24.54 million during the three months ended June 30, 2022, to $22.83 million for the same period in 2023, a decrease of 7%. The decrease in net interest income is due to the increased costs of deposits and interest expense related to borrowings. Total funding costs for the second quarter of 2023 were $5.78 million as compared to $407,000 for the second quarter of 2022. Total funding costs are made up of interest paid to depositors of $3.41 million and $2.37 million paid on borrowings. The cost of deposits increased to 0.47% for the quarter while the cost of total funding increased to 0.76%. In the comparable 2022 quarter, the funding costs were all allocated to interest paid to depositors. The Bank expects funding costs to remain elevated throughout 2023. The Bank's net interest margin increased from 2.80% in 2022 to 3.07% in 2023; however, the Bank anticipates the net interest margin will decline throughout the remainder of 2023 as funding costs remain elevated.

The increased interest costs were partially offset by positive trends in interest income. Interest income on assets increased $3.65 million, or 14.64%, from the second quarter of 2022 to $28.60 million for the second quarter of 2023. The investment portfolio interest grew to $8.21 million which was a $0.97 million increase in 2023 compared to 2022. Interest and fees earned on loans increased $2.69 million in 2023 to $20.39 million for the quarter due to repricing of variable rate loans. These positive changes in loan yields were somewhat offset by a decrease in PPP loan fees of $1.1 million from 2022 to 2023.

Non-interest income for three months ended June 30, 2023, decreased from $6.1 million in 2022 to $5.8 million for the same three month period in 2023.

Non-interest expenses increased 9.79% from the quarter ended June 30, 2022, to $19.18 million for the second quarter of 2023. The increase in non-interest expenses relates to several areas. Salary and benefit expense increased $1.1 million in the second quarter of 2023. Software and professional fees related to technology increased $544,000 during the same three-month period.

The quality of the Bank's loan portfolio remains strong; the Bank did not take a provision for loan losses in 2022 nor 2023.

Total assets decreased to $3.32 billion as of June 30, 2023, down from $3.47 billion as of June 30, 2022.

The market value of the investment portfolio was $1.533 billion as of June 30, 2023, down $100 million from one year before and down $62 million from March 31, 2023. The change in investments in the second quarter of 2023 is related to principal payments totaling $44.36 million and a decrease in the current fair market value of securities of $17.64 million. Based on current rate conditions, the Bank expects natural portfolio paydowns of approximately $221 million through the end of 2024. We continue to maintain our entire portfolio as available for sale, providing full transparency and management flexibility.

Gross loans have increased ending with $1.55 billion as of June 30, 2023, representing a $24.01 million increase from June 30, 2022.

Deposits decreased $367.76 million, or 11.48%, in the 12 months ended June 30, 2023. Since December 31, 2022, deposits have decreased $230.36 million, or 7.51%, ending at $2.836 billion as of June 30, 2023. Deposits decreased $83.21 million in the second quarter of 2023, or 2.85%. While there was initially some deposit outflow due to industry concerns in March 2023, the Bank believes the majority of deposit outflows have been related to the expected use of excess deposits, rate competition and normal business activities.

Non-interesting bearing deposits made up 36.53% of total deposits as of June 30, 2023, compared to 38.18% as of June 30, 2022. In addition, we estimate approximately 74% of all deposits were fully insured by the FDIC as of June 30, 2023.

The Bank had borrowings of $207 million as of June 30, 2023.

The Bank believes that it is probable it will continue to experience additional runoff of the excess deposits gathered in 2020 and 2021 due to their unusual and short-term nature as they are used to support small business and consumer-related expenses over the next year. In addition, the competition for deposits has increased significantly over the first two quarters of 2023. As noted above, with the increased competition for deposits, borrowing levels are likely to remain elevated along with overall funding costs as the Bank continues to be active in the lending market, fulfilling its core mission of providing needed credit facilities to our community.

During the six months ending June 30, 2023, the Bank achieved net earnings of $7.08 million after the one-time charge related to the termination of the Plan as, compared with net income of $17.78 million for the same period in 2022. Excluding this one-time charge, earnings from the operations of Exchange Bank for the first six months of 2023 were $16.18 million. The change in operating income was driven mainly by changes in net interest income as described previously. Net interest income increased $0.65 million from $46.92 million for the six months ended June 30, 2022, to $47.57 million for the same period in 2023. $2.19 million of PPP loan fees are included in 2022 net interest income. Interest income on investments increased $3.44 million to $16.36 million in the first six months during 2023. For the 2023 period, interest and fee income on loans increased $4.86 million to a total of $39.67 million. Offsetting these increases in interest income was an increase in interest expense of $7.65 million in the first six months of 2023. This increase in interest expenses is due to increased rates paid to customers on deposit accounts of $4.09 million and $3.56 million related to borrowings. The cost of deposits increased to 0.34% year-to-date while the cost of total funding increased to 0.56%.

The Bank's capital ratios remain well in excess of the regulatory minimums to be considered "well capitalized." As reported previously, as of June 30, 2023, the Bank reported a total risk-based capital ratio of 18.86%. The Bank's book equity decreased $16.28 million, or 6.89%, since June 30, 2022, to a total of $220.02 million. As previously noted, the unrealized losses on available for sale securities have arisen due to the significant increase in interest rates since the end of 2022 and account for $34.99 million of the decrease. The Bank has the intent and ability to hold the investments until maturity, expects full collection of the carrying amount of these securities, and does not expect to recognize the unrealized losses.

The Bank does not view the temporary nature of the book unrealized losses to be a significant risk to its long-term capital position. The unrealized losses reduce the Bank's accumulated other comprehensive income, which the Bank has opted to exclude from its common equity tier 1 capital. Therefore, the Bank's regulatory capital is not impacted by the changes in the market value of the investment securities in the Bank's investment portfolio. The Bank's regulatory capital, as defined by the FDIC, was $358.31 million as of June 30, 2023, an increase of $18.04 million, or 5.30%, over the same period in 2022. Since December 31, 2022, regulatory capital has increased $2.62 million, or 0.74%.

On an ongoing basis, the Bank reviews its liquidity sources. As of June 30, 2023, the Bank has more than $1.79 billion in available liquidity. The Bank's liquidity position was supplemented in March 2023 by the Federal Reserve Bank Term Funding Program (BTFP). While the Bank believes it had more than sufficient liquidity before the formation of the new program, the BTFP provides additional funding flexibility to the Bank as needed.

With respect to the cash dividend declared by the Board, 50.44% of the Bank's cash dividend goes to the Doyle Trust which funds the Doyle Scholarships at Santa Rosa Junior College.

FORWARD-LOOKING INFORMATION:

The following appears in accordance with the Private Securities Litigation Reform Act of 1995: This press release may contain forward-looking statements about the Bank, 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 Bank's control — could cause actual conditions, events, or results to differ significantly from those described in the forward-looking statements. These factors include: local, regional, national and international economic conditions and events, including the effects of recent bank failures, and the impact they may have on us and our customers, and in particular in our market areas; the effects resulting from termination of the Plan; our ability to attract deposits and other sources of liquidity; our ability to maintain adequate liquidity levels; oversupply of property inventory and deterioration in values of California real estate, both residential and commercial; premature payoffs in our loan portfolio; a prolonged slowdown or decline in construction activity; changes in the financial performance and/or condition of our borrowers; changes in the level of non-performing assets and charge-offs; the cost or effect of acquisitions or dispositions we have made or we may make in the future; the effect of changes in laws and regulations (including laws, regulations and judicial decisions concerning financial reform, capital requirements, taxes, banking, securities, employment, executive compensation, insurance, and information security) with which we must comply; changes in estimates of future reserve requirements and minimum capital requirements based upon the periodic review thereof under relevant regulatory and accounting requirements; inflation, interest rates, securities market and monetary fluctuations; cyber-security threats including loss of system functionality, or theft, or loss of data; political instability; acts of war or terrorism, or natural disasters, such as earthquakes, or the effects of pandemic disease (including Covid-19) and flu; destabilization in international economies; the timely development and acceptance of new banking products and services and perceived overall value of these products and services by users; changes in consumer spending, borrowing and savings habits; technological changes; the ability to increase market share, retain customers and control expenses; our ability to attract and retain key management and personnel; changes in the competitive environment among financial and bank holding companies and other financial service providers; volatility in the credit and equity markets and its effect on the general economy; changes in interest rates; the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters; changes in our organization, management, compensation and benefit plans, and our ability to retain or expand our management team; the costs and effects of legal and regulatory developments including the resolution of legal proceedings, or regulatory, or other governmental inquiries and the results of regulatory examinations or reviews; our success at managing the risks involved in the foregoing items.

Forward-looking statements speak only as of the date they are made. The Bank does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date forward looking statements are made except as required by law.

About Exchange Bank

Headquartered in Sonoma County and founded in 1890, Exchange Bank is a full-service community bank with assets of $3.32 billion. Exchange Bank provides a wide range of personal, commercial and trust and investment management services with 16 retail branches in Sonoma County, a commercial branch in Roseville and Trust & Investment Management offices in Santa Rosa, Roseville, Marin County and Silicon Valley. 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 known for its people who care about their customers, their company and the communities where they live and work. Exchange Bank is a 17-year winner of the North Bay Business Journal's Best Places to Work survey and the 2023 San Francisco Business Times Corporate Philanthropy Award. Exchange Bank was named Best Consumer Bank by the NorthBay biz Magazine's Best of the North Bay readers' poll. The Petaluma Argus Courier People's Choice Awards named Exchange Bank Best Local Bank 2023 and the Bohemian Magazine's Best of the North Bay 2023 named Exchange Bank Best Business Bank and Best Consumer Bank. www.exchangebank.com

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Troy Sanderson
President & CEO
Exchange Bank
(707) 524-3111

Shari DeMaris
EVP, Chief Operating Officer
Exchange Bank
(707) 524-3067