Exchange Bank
Invested in you.

## October 30, 2023

# Exchange Bank Announces Third Quarter 2023 Earnings

**Santa Rosa, CA** – (October 30, 2023) - Exchange Bank (OTC: EXSR) today announced its unaudited financial results for the third quarter of 2023, reporting net income after taxes of $6.34 million, compared with $10.07 million for the same quarter of 2022, a decrease of 36.99% mainly due to the increased costs of deposits and interest expense related to borrowings.

**THIRD QUARTER HIGHLIGHTS:**

- In the third quarter, loan growth for the Bank continued with gross loan balances increasing by $43.42 million from June 30, 2023. On a year-to-date basis, the Bank has grown loan balances by $81.20 million or 5.40%.
- Loan quality remains strong, nonaccrual loans totaled $4.5 million, or 0.28% of gross loans, as of September 30, 2023.
- The allowance for credit losses, which is based on estimating credit losses for the life of the loans in the portfolio, totaled $41.33 million, or 2.60% of total loans.
- The Bank had year to date net income after taxes of $13.42 million, compared with $27.84 million for the nine months ended September 30, 2022. The decrease in income is related to a one-time charge of $9.10 million, net of taxes, related to the voluntary termination of the Exchange Bank Pension Plan in the second quarter of 2023 and an increase in cost of funds.
- The Bank's liquidity position remains healthy with more than $1.61 billion in available liquidity as of September 30, 2023.
- The Bank remains well-capitalized, and all capital ratios were well above regulatory requirements with a total risk-based capital ratio of 18.92% on September 30, 2023.

**INCOME STATEMENT:**

The Bank's net interest income decreased from $25.99 million during the three months ended September 30, 2022, to $21.54 million for the same period in 2023, a decrease of 17.13%. 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 third quarter of 2023 were $7.67 million as compared to $424,000 for the third quarter of 2022. Total funding costs are made up of interest paid to depositors of $5.17 million and $2.50 million paid on borrowings. The cost of deposits increased to 0.71% for the quarter while the cost of total funding increased to 0.99%. 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 and into next year. The Bank's net interest margin decreased from 2.91% in 2022 to 2.75% in 2023; the Bank anticipates the net interest margin will continue to 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 $2.79 million, or 10.56%, from the third quarter of 2022 to $29.20 million for the third quarter of 2023. Interest and fees earned on loans increased $2.86 million in 2023 to $20.91 million for the quarter due to increased volume and repricing of variable rate loans. The increase in loan interest income was offset by a decrease in investment portfolio interest of $0.67 million compared to 2022 due to expected maturities.

Non-interest income for three months ended September 30, 2023, decreased from $6.50 million in 2022 to $5.88 million for the same three-month period in 2023.

Non-interest expenses decreased 0.17% from the quarter ended September 30, 2022, to $18.55 million for the third quarter of 2023. The decrease in non-interest expenses relates to several areas, partially offset by an increase in salary and benefit expense of $183,000 in the third quarter of 2023.

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

During the nine months ending September 30, 2023, the Bank achieved net earnings of $13.42 million after the one-time charge in the second quarter related to the voluntary termination of the Exchange Bank Pension Plan as, compared with net income of $27.84 million for the same period in 2022. Excluding this one-time charge, earnings from the operations of Exchange Bank for the first nine months of 2023 were $22.47 million.

**BALANCE SHEET:**

Total assets decreased to $3.36 billion as of September 30, 2023, down from $3.43 billion as of September 30, 2022.

The market value of the investment portfolio was $1.47 billion as of September 30, 2023, down $139 million from one year before and down $59 million from June 30, 2023. The change in investments in the third quarter of 2023 is related to principal payments and maturities totaling $36.10 million and a decrease in the current fair market value of securities of $30.05 million offset by purchases of $7.00 million. Based on current rate conditions; the Bank expects natural portfolio paydowns of approximately $182.75 million through the end of 2024. We continue to maintain our entire portfolio as available for sale, providing full transparency and management flexibility. The Bank's portfolio has unrealized losses that are a direct result of increases in market interest rates and not a result of credit quality concerns.

Gross loans have increased, ending with $1.59 billion as of September 30, 2023, representing a $87.35 million increase from September 30, 2022. The Bank's largest loan types are commercial real estate loans making up 39.56% of the portfolio followed by 23.44% in residential loans and 9.68% in multifamily loans. Of the commercial real estate total, approximately 20% or $125.97 million is considered owner occupied and the remaining 80% or $504.53 million are non-owner occupied. The portfolio is well diversified between industries with no significant concentrations, including no material concentration in office space.

Loan quality remains strong, nonaccrual loans totaled $4.50 million, or 0.28% of gross loans, as of September 30, 2023, compared to $3.76 million or 0.25% of gross loans as of September 30, 2022. The allowance for credit losses, which is based on estimating credit losses for the life of the loans in the portfolio, totaled $41.33 million, or 2.60% of total loans. Although the portfolio has grown, the Bank did not book provision expense as there is sufficient allowance for credit losses.

Deposits decreased $281.69 million, or 8.80%, in the 12 months ended September 30, 2023. Since December 31, 2022, deposits have decreased $148.59 million, or 4.85%, ending at $2.92 billion as of September 30, 2023. Deposits increased $81.78 million in the third quarter of 2023, or 2.88%.

Non-interesting bearing deposits made up 35.03% of total deposits as of September 30, 2023, compared to 38.90% as of September 30, 2022. In addition, we estimate approximately 75% of all deposits were fully insured by the FDIC as of September 30, 2023. The Bank's combined on-balance sheet liquidity and contingent liquidity equate to 224% of the estimated uninsured deposits.

The Bank had borrowings of $175.00 million as of September 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 in 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.

The Bank's capital ratios remain well in excess of the regulatory minimums to be considered "well capitalized." As of September 30, 2023, the Bank reported a total risk-based capital ratio of 18.92%. The Bank's book equity increased $13.90 million, or 7.33%, since September 30, 2022, to a total of $203.47 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. 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 $388.30 million as of September 30, 2023, an increase of $15.05 million, or 4.03%, over the same period in 2022. Since December 31, 2022, regulatory capital has increased $8.04 million, or 2.12%.

On an ongoing basis, the Bank reviews its liquidity sources. As of September 30, 2023, the Bank has more than $1.61 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.

50.44% of the Bank's cash dividend goes to the Doyle Trust which funds the Doyle Scholarships at the 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 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 full-service community bank with assets of $3.36 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 an 18-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



###

Contact:

Charlotte Radmilovic, SVP, Chief Financial Officer

(707) 521-3751