

FOR IMMEDIATE RELEASE

Bank of San Francisco Reports Results for the Fourth Quarter of 2018 and Full Year

SAN FRANCISCO, CA – (02/04/2019)—Bank of San Francisco (OTCQX: BSFO), a forward-thinking community bank serving Bay Area businesses, nonprofits and individuals, announced unaudited results for the fourth quarter and full year ended December 31, 2018. Net income for the full year was \$3,312,000, or \$1.84 per share, compared to \$1,310,000, or \$0.87 per share, for the full year ended December 31, 2017. Net income for the fourth quarter of 2018 grew by 8% to \$1,010,000, or \$0.50 per share, compared to the prior quarter, and was an increase from \$11,000, or \$0.01 per share, earned for the same period in 2017. While the results for the full year ended December 31, 2018 benefited from the Tax Cuts and Jobs Act of 2017, results for the fourth quarter of 2017 included a \$411,000 charge to income tax expense as a result of that legislation.

“We are pleased with 2018’s record earnings and our continued pristine credit quality. We are working through the challenges posed by the increased competition for deposits and the rising cost of funds that have impacted the entire U.S. banking industry,” said Ed Obuchowski, CEO, Bank of San Francisco.

Financial Highlights:

- Net Income was \$1,010,000 for the fourth quarter compared to \$938,000 for the prior quarter. Net income growth was primarily from growth in net interest income, which increased as a result of loan growth and margin benefits from the Federal Reserve rate increases. Net income was \$3,312,000 for 2018 compared to \$1,310,000 for 2017. Results for 2018 reflected earnings from a 22% increase in loans and an increase in net interest margin, coupled with the lower tax rate. Pretax income was \$4,672,000, an increase of 60% compared to \$2,921,000 for 2017.
- Net Interest Income was \$3,635,000 for the fourth quarter of 2018, an increase of \$253,000 over the preceding quarter, and \$964,000 over the \$2,671,000 achieved in the fourth quarter of 2017. Net interest income was \$13,018,000 for 2018, up 34% over 2017. Net interest margin continued to increase in the fourth quarter to 4.47% from 4.34% in the preceding quarter and 3.80% in the fourth quarter of 2017. Net interest margin for the full year was 4.31%, up from 3.90% in 2017. The Bank’s loan growth and the impact of the rate increases by the Federal Reserve on loans and liquid assets contributed to the increase in revenue. However, the increase in cost of funds to 0.42% in the fourth quarter from 0.36% in the preceding quarter and to 0.35% for 2018 from 0.28% for 2017 moderated the incremental growth. The Bank has experienced pressure to offer higher deposit rates as the Federal Reserve continues to increase rates and competition from traditional banks, brokerage firms and internet banks is increasing.

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- Operating Expenses were \$2,147,000 for the fourth quarter of 2018, an increase of \$131,000 over the preceding quarter and an increase of \$288,000 over the \$1,859,000 reported for the fourth quarter of 2017. Operating expenses were \$8,270,000 in 2018, an 18% increase from 2017. Higher salary and vacation accruals contributed to the increase in Salary and Employee Benefits expenses while professional fees drove the increase in Other Operating Expenses for the fourth quarter. The increase in 2018's operating expenses was primarily due to increases in salaries and incentive compensation necessary to attract and retain top-performing bankers. Even with the increase in operating expenses, the efficiency ratio improved to 57.59% for the fourth quarter and to 60.29% for 2018.
- Diluted and Basic Earnings per Common Share were \$0.50 for the quarter, an increase of \$0.03 compared to the third quarter of 2018. Diluted and Basic Earnings per Common Share were \$1.84 for 2018, an increase of \$0.97 compared to 2017. Earnings per Common Share were impacted by the 500,000 in newly issued common shares on May 29, 2018 and the improvement in net income.
- Total Loans, net of deferred fees, were up \$8 million from September 30, 2018, and up \$51 million from December 31, 2017. The loan growth for the fourth quarter of 2018 and full year were primarily from residential real estate loans. Unexpected loan prepayments from a number of borrowers who took advantage of the strong commercial real estate market and sold their properties, and an unexpected bequeath used to prepay a nonprofit client's large commercial real estate loan, negatively impacted commercial loan growth.
- Total Deposits were up \$6 million from September 30, 2018 and up \$26 million from December 31, 2017. The deposit growth in the fourth quarter and in 2018 was largely from interest bearing deposits, resulting in a lower Non-Interest Bearing to Total Deposits ratio of 40.65% at December 31, 2018, compared to 43.26% at September 30, 2018 and 43.11% at December 31, 2017. Growth from existing relationships contributed to most of the deposit growth. The pressure on deposit rates and the higher level of interest bearing deposits contributed to the increase in cost of funds for the fourth quarter of 2018 and for the full year.
- Credit Quality remains strong and stable with no non-accrual loans or loans more than 30 days past-due. The Allowance for Loan and Lease Loss reserve ratio was 1.40% at December 31, 2018, an increase from 1.38% at September 30, 2018. Loan loss provision expense for the fourth quarter was \$185,000 and \$775,000 for 2018 due to loan growth.
- Book Value per Share increased to \$18.18 per share at December 31, 2018, from \$17.67 at September 30, 2018 and \$15.82 per share at December 31, 2017.
- The Bank continues to be well-capitalized, with a Tier 1 Leverage Ratio of 10.97%, Tier 1 Risk Based Capital and Common Equity Tier 1 ratios of 15.76%, and a Total Risk Based Capital ratio of 17.02%.

“We thank our long-time and new clients for their support in making 2018 a banner year for the Bank. As we expand our presence in the Bay Area, we look forward to the opening of our Walnut Creek office by the beginning of the second quarter,” said Wendy Ross, President, Bank of San Francisco.

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About Bank of San Francisco

Bank of San Francisco, headquartered in San Francisco, is a progressive community bank that reflects the best of San Francisco and Bay Area culture – flexible, entrepreneurial, and forward-thinking. We are a local bank, with significant ownership by members of the community, serving Bay Area businesses, nonprofits, individuals, and families. Bank of San Francisco delivers high-touch, personalized service with agility and accountability. Our team is as diverse as the community we serve, which allows us to understand our clients’ unique needs and goals. We invite you to learn more about Bank of San Francisco and to join our family of successful, community-minded clients. For more information about Bank of San Francisco, please call us at (415) 744-6700, or visit us at www.bankofsf.com. Bank of San Francisco is a member of the FDIC and is an Equal Housing Lender.

Forward-Looking Statement

This press release contains certain forward-looking statements that involve risks and uncertainties, including statements relating to our anticipated growth. Forward-looking statements are those that are not statements of historical fact and may be identifiable by use of the words “believe,” “expect,” “intend,” “anticipate,” “plan,” “estimate,” “project,” or similar expressions. These statements are based on current expectations, estimates and projections about Bank of San Francisco’s business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. These risks and uncertainties may affect the operations, performance, development, growth projections, capital needs and results of Bank of San Francisco’s business and include, but are not limited to, local and national economic conditions, interest rate movements, changes in the financial performance and/or condition of our loan and deposit clients, changes in the levels of performing and nonperforming assets and charge-offs, timely implementation by Bank of San Francisco of technology enhancements for its products and operating systems, the impact of competitive products, services and pricing, acts of war or terrorism, or natural disasters, such as earthquakes, clients’ requirements and preferences, federal, state and local legislation and regulatory developments, the ability to retain or increase market share, retain or grow client relationships and control expenses, changes in regulatory or generally accepted accounting principles and other similar matters. Readers are cautioned not to place undue reliance on forward-looking statements, which are subject to influence by the foregoing risk factors and unanticipated future events. Actual results, accordingly, may differ materially from management expectations. Bank of San Francisco undertakes no obligation to update such forward-looking statements except as required by law.

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Bank of San Francisco

Balance Sheets (Unaudited)

(\$'000, except share and per share amounts)

	For the Periods Ended					Year Over Year Change	
	12/31/2018	9/30/2018	6/30/2018	3/31/2018	12/31/2017	\$	%
Assets							
Cash and due from banks	\$ 9,344	\$ 6,611	\$ 7,028	\$ 6,210	\$ 7,358	\$ 1,986	27%
Interest bearing deposits in banks	38,757	42,243	41,848	41,487	52,657	(13,900)	-26%
Total cash and cash equivalents	48,101	48,854	48,876	47,697	60,015	(11,914)	-20%
Loans, net of deferred costs/fees	280,636	272,147	259,932	248,216	229,521	51,115	22%
Allowance for Loan Losses	(3,940)	(3,755)	(3,625)	(3,425)	(3,165)	(775)	24%
Loans, net of allowance of loan losses	276,696	268,392	256,307	244,791	226,356	50,340	22%
Premises and equipment, net	274	299	313	318	346	(72)	-21%
Accrued interest receivable & other assets	4,017	3,759	3,790	3,195	3,174	843	27%
Total Assets	<u>\$ 329,088</u>	<u>\$ 321,304</u>	<u>\$ 309,286</u>	<u>\$ 296,001</u>	<u>\$ 289,891</u>	<u>\$ 39,197</u>	<u>14%</u>
Liabilities							
Non-interest bearing deposits	\$ 118,328	\$ 123,099	\$ 113,606	\$ 115,227	\$ 114,155	\$ 4,173	4%
Interest bearing deposits	172,727	161,478	159,955	154,900	150,639	22,088	15%
Total deposits	291,055	284,577	273,561	270,127	264,794	26,261	10%
Accrued interest payable and other liabilities	1,289	1,023	987	1,208	1,032	257	25%
Total Liabilities	292,344	285,600	274,548	271,335	265,826	26,518	10%
Shareholders' equity							
Common stock	\$ 26,472	\$ 26,443	\$ 26,415	17,135	17,106	9,366	55%
Retained earnings	10,272	9,261	8,323	7,531	6,959	3,313	48%
Total shareholders' equity	36,744	35,704	34,738	24,666	24,065	12,679	53%
Total Liabilities & Shareholders' Equity	<u>\$ 329,088</u>	<u>\$ 321,304</u>	<u>\$ 309,286</u>	<u>\$ 296,001</u>	<u>\$ 289,891</u>	<u>\$ 39,197</u>	<u>14%</u>
Book Value per Common Share	\$ 18.18	\$ 17.67	\$ 17.19	\$ 16.22	\$ 15.82	\$ 2.36	15%
Total Common Shares Outstanding	2,021,003	2,021,003	2,021,003	1,521,003	1,521,003	500,000	33%
Capital Ratios							
Tier 1 Leverage ratio	10.97%	11.14%	11.29%	8.70%	8.26%	2.71%	33%
Tier 1 RBC ratio	15.76%	15.32%	15.36%	11.22%	11.82%	3.94%	33%
Common Equity Tier 1 RBC ratio	15.76%	15.32%	15.36%	11.22%	11.82%	3.94%	33%
Total Risk-Based Capital (RBC) ratio	17.02%	16.58%	16.61%	12.48%	13.07%	3.95%	30%
Other Ratios							
Non-interest bearing to Total Deposits	40.65%	43.26%	41.53%	42.66%	43.11%	-2.46%	-6%
Loan to Deposit ratio	96.42%	95.63%	95.02%	91.89%	86.68%	9.74%	11%
Allowance for Loan Losses to Total Loans	1.40%	1.38%	1.39%	1.38%	1.38%	0.02%	2%
ALLL to Nonperforming Loans	n/a	n/a	n/a	n/a	904%	n/a	n/a
Nonperforming Assets to Total Assets	n/a	n/a	n/a	n/a	0.12%	n/a	n/a

Bank of San Francisco

Statement of Income (Unaudited)

(\$000, except share and per share amounts)

	Three Months Ended					Year Over Year Change	
	12/31/2018	9/30/2018	6/30/2018	3/31/2018	12/31/2017	\$	%
Interest on loans, including fees	\$ 3,628	\$ 3,383	\$ 3,140	\$ 2,893	\$ 2,628	\$ 1,000	38%
Interest on deposits in banks	261	229	198	141	212	49	23%
Other interest income	45	22	18	18	18	27	150%
Total interest income	3,934	3,634	3,356	3,052	2,858	1,076	38%
Deposits interest expense	298	252	223	184	187	111	59%
Other interest expense	1	-	-	-	-	1	0%
Total interest expense	299	252	223	184	187	112	60%
Net interest income	3,635	3,382	3,133	2,868	2,671	964	36%
Provision for loan losses	185	130	200	260	280	(95)	-34%
Net interest income after provision	3,450	3,252	2,933	2,608	2,391	1,059	44%
Service charges on deposits	50	48	48	48	46	4	9%
Gains on sale of loans	-	-	201	84	57	(57)	-100%
Other non-interest income	43	50	57	70	70	(27)	-39%
Total non-interest income	93	98	306	202	173	(80)	-46%
Salaries and employee benefits expense	1,421	1,353	1,430	1,315	1,214	207	17%
Occupancy and equipment expense	191	191	195	189	189	2	1%
Other operating expense	535	472	486	492	456	79	17%
Total non-interest expense	2,147	2,016	2,111	1,996	1,859	288	15%
Income before income taxes	1,396	1,334	1,128	814	705	691	98%
Income tax expense	386	396	335	243	694	(308)	-44%
Net income	\$ 1,010	\$ 938	\$ 793	\$ 571	\$ 11	\$ 999	9082%
Basic Earnings per Share	\$ 0.50	\$ 0.47	\$ 0.47	\$ 0.38	\$ 0.01	\$ 0.49	4900%
Average Shares Outstanding	2,007,451	2,000,749	1,681,994	1,500,675	1,500,675	506,776	34%
Diluted Earnings per Share	\$ 0.50	\$ 0.47	\$ 0.47	\$ 0.38	\$ 0.01	\$ 0.49	4900%
Average Shares Outstanding	2,009,505	2,001,183	1,687,463	1,503,472	1,501,716	507,789	34%
Annualized Performance Ratios							
Return on Average Assets	1.21%	1.18%	1.04%	0.81%	0.02%	1.19%	5950%
Return on Average Common Equity	11.15%	10.65%	10.68%	9.37%	0.18%	10.97%	6094%
Net Interest Margin	4.47%	4.34%	4.21%	4.19%	3.80%	0.67%	18%
Cost of Funds	0.42%	0.36%	0.33%	0.28%	0.29%	0.13%	45%
Efficiency Ratio	57.59%	57.93%	61.38%	65.02%	65.37%	-7.78%	-12%

Bank of San Francisco**Statement of Income (Unaudited)**

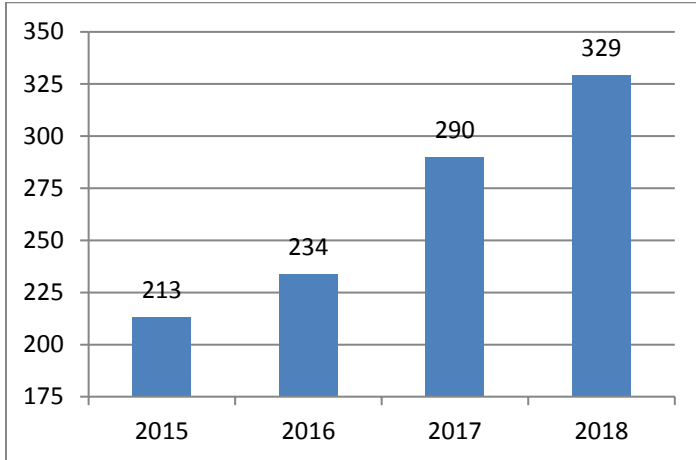
(\$000, except share and per share amounts)

	Twelve Month Ended		Year Over Year Change	
	12/31/2018	12/31/2017	\$	%
Interest on loans, including fees	\$ 13,044	\$ 9,799	\$ 3,245	33%
Interest on deposits in banks	829	516	313	61%
Other interest income	103	73	30	41%
Total interest income	13,976	10,388	3,588	35%
Deposits interest expense	957	657	300	46%
Other interest expense	1	7	(6)	-86%
Total interest expense	958	664	294	44%
Net interest income	13,018	9,724	3,294	34%
Provision for loan losses	775	590	185	31%
Net interest income after provision	12,243	9,134	3,109	34%
Service charges on deposits	194	196	(2)	-1%
Gains on sale of loans	285	404	(119)	-29%
Other non-interest income	220	197	23	12%
Total non-interest income	699	797	(98)	-12%
Salaries and employee benefits expense	5,519	4,560	959	21%
Occupancy and equipment expense	766	768	(2)	0%
Other operating expense	1,985	1,682	303	18%
Total non-interest expense	8,270	7,010	1,260	18%
Income before income taxes	4,672	2,921	1,751	60%
Income tax expense	1,360	1,611	(251)	-16%
Net income	\$ 3,312	\$ 1,310	\$ 2,002	153%
Basic Earnings per Share	\$ 1.84	\$ 0.87	\$ 0.97	111%
Average Shares Outstanding	1,799,662	1,500,675	298,987	20%
Diluted Earnings per Share	\$ 1.84	\$ 0.87	\$ 0.97	111%
Average Shares Outstanding	1,799,662	1,501,716	297,946	20%
Performance Ratios				
Return on Average Assets	1.07%	0.51%	0.56%	110%
Return on Average Common Equity	10.62%	5.58%	5.04%	90%
Net Interest Margin	4.31%	3.90%	0.41%	11%
Cost of Funds	0.35%	0.28%	0.07%	25%
Efficiency Ratio	60.29%	66.63%	-6.34%	-10%

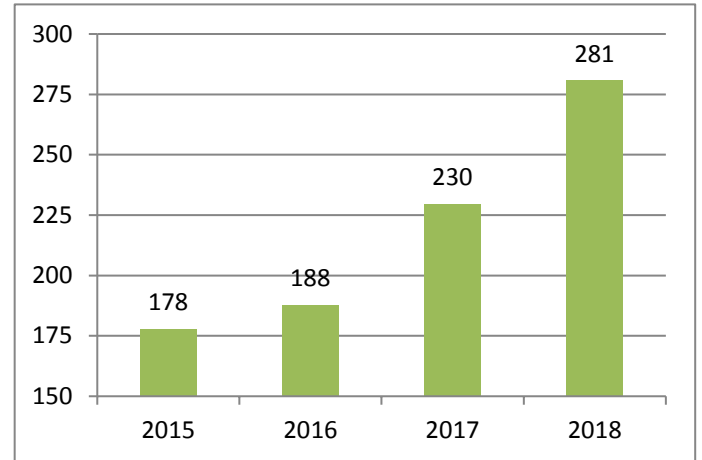
FINANCIAL HIGHLIGHTS



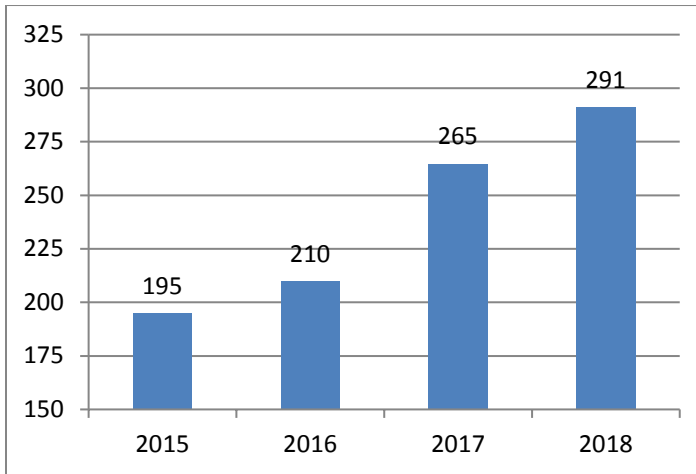
Total Assets (\$ Millions)



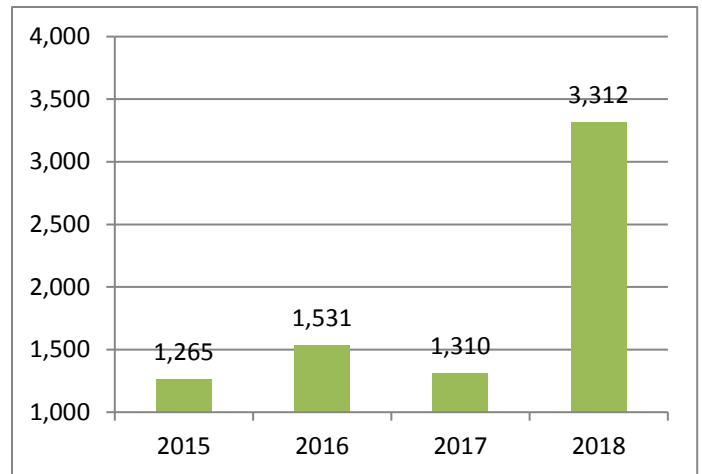
Total Loans (\$ Millions)



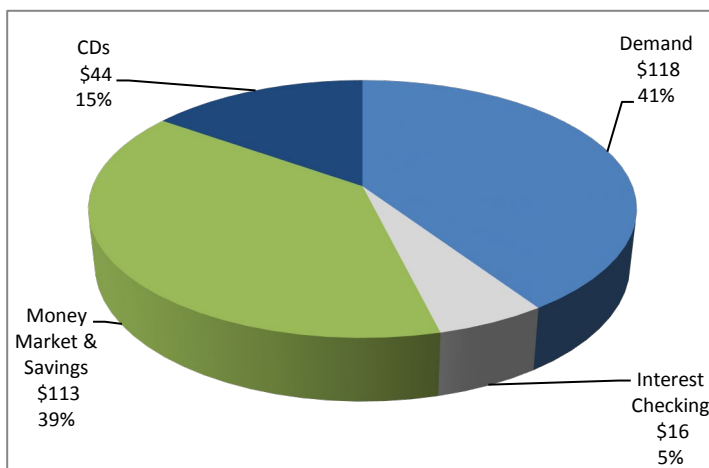
Total Deposits (\$ Millions)



Net Profit (\$ Thousands)



Deposits Composition (\$ Millions)



Loan Composition (\$ Millions)

