

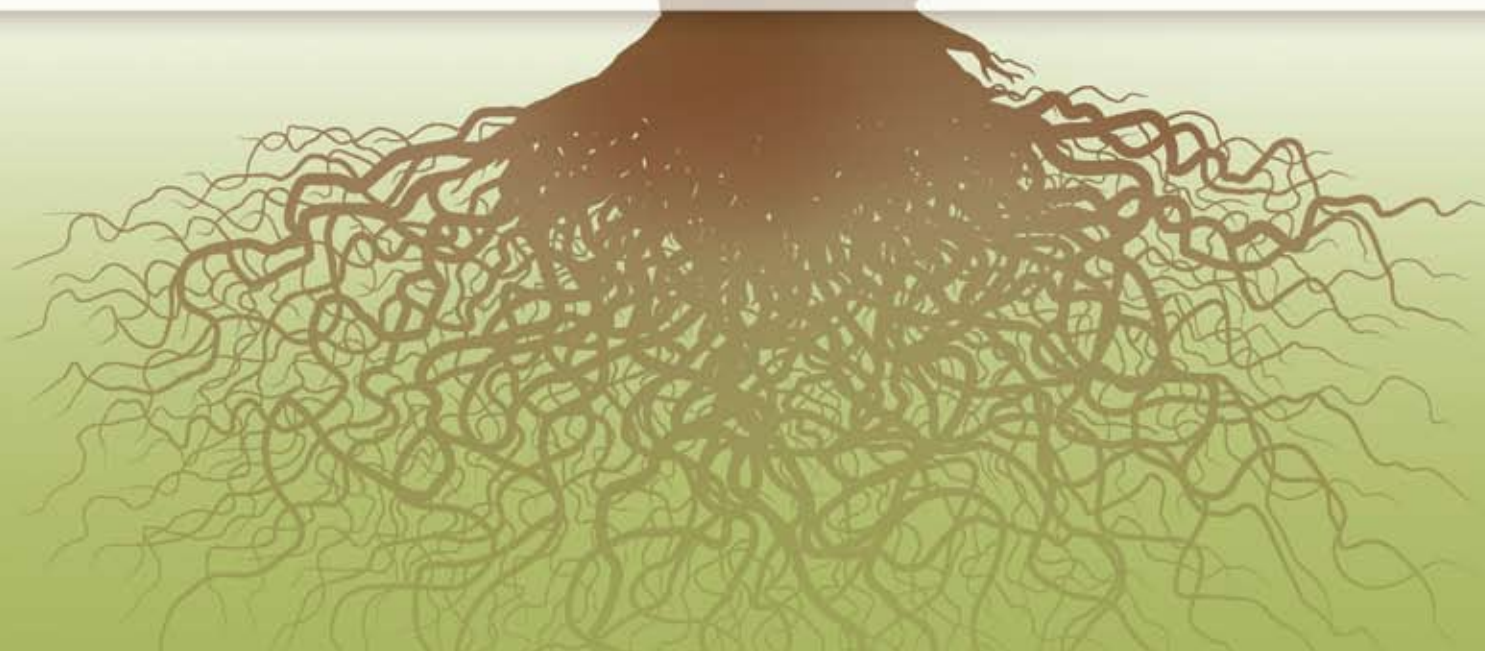


Exchange Bank

2009 Report



**ROOTED IN THE PAST
PRIMED FOR THE FUTURE**



Letter to Our Shareholders

Over the last two years much has been said about the dramatic and severe economic challenges facing our county, our local community, and the banking industry itself. It is clear that we are working closely with our customers through some of the most challenging times since the Depression.

These strained conditions have painfully produced high unemployment, weak consumer activity, and depressed values for both local real estate and agricultural products. As the leading business lender in the North Bay, we have long been widely invested in nearly every major industry group ranging from construction, agriculture, professional service providers, and local retail establishments. A significant number of our clients and neighbors are now struggling to survive financially and we are doing everything we can to work with them on a borrower by borrower basis.

We are prepared for a 2010 in which economic performance will likely remain uneven with unemployment remaining stubbornly high, prices of real estate depressed, and general growth restrained as consumer and business slowly work through today's difficulties.

Even under these conditions, we have continued to lend, build business relationships, support our customers and communities, and position the Bank for renewed growth as the North Coast economy improves. We are grateful to our customers and proud to serve them. The Bank's 400 employees are committed and focused, and we are thankful to have such a fine team as evidenced by once again being named one of Sonoma County's "Best Business Banks" and "Best Places to Work".

In these difficult times, we are pleased to report that 2009's operating performance improved over 2008. We ended the year with a strong fourth quarter profit of \$3.2 million, putting together three consecutive quarterly profit periods. When combined with earnings of \$2.4 million in the second quarter and \$816 thousand in the third quarter the Bank ended the year with a loss of \$3.9 million. These results represent significant progress in reversing a net loss of \$18.5 million for 2008 and a first quarter 2009 loss of \$10.3 million. Aside from the additions to loan loss reserves, our core banking operations remain strong. Our earnings before taxes and the loan loss provision were \$30 million in 2009.

At \$1.091 billion, loans were down slightly for the year, reflecting reduced loan demand related to the wider economic environment. Overall deposits were up \$29 million.

We find that customers come to Exchange Bank and stay with us because they appreciate our commitment to service.



Especially in these times, businesses and individuals place great value on our customer service orientation, our full range of financial products and services offered through a relationship banking model, and our faithful commitment to them and to our communities.

To position us more effectively in the marketplace, we realigned several business units in 2009. First, we collapsed our retail brokerage department into our Wealth Management Group to capture synergies in our trust, investment management, and retail investment sales. We anticipate growth in this important segment particularly with a renewed emphasis on personal trust management. Second, to focus on the needs of small and medium sized businesses, we created an SBA lending group to work with our other credit and ancillary offerings to build more and deeper relationships in this important segment. In 2009 this newly formed SBA group achieved a Small Business Administration "Preferred Lender" designation that enables us to underwrite 7a and 504 loans on an expedited basis for our customers. In addition, through an initiative we call i-Statements, we launched electronic deposit and loan statements and notices to deliver customer account information in a more timely manner and with less energy consumption. This initiative along with solar panel deployment and energy saving lighting retrofits at select branches earned Exchange Bank the Business Environmental Alliance Best Practices Award.

We will continue to aggressively manage our loan portfolio, take prudent reserves and work unwaveringly toward the restoration of profitability. We have made senior level additions to our credit administration staff and strengthened our loan management. Outstanding residential construction loans have



BACK ROW, LEFT TO RIGHT: **CHARLES R. BARTLEY SR.**, Retired President, Bartley Pump Company; Vice Chairman of the Board, Exchange Bank; Trustee, Frank P. Doyle Trust. **JAMES M. RYAN**, President, Ryan Mortgage Company; Trustee, Frank P. Doyle Trust. **WILLIAM R. SCHRADER**, President and Chief Executive Officer, Exchange Bank. **C. WILLIAM REINKING**, Chairman of the Board, Exchange Bank. **DANTE B. BENEDETTI**, Clover Stornetta Farms, Inc., Trustee, Frank P. Doyle Trust. **MARLENE K. SOILAND**, President and Chief Executive Officer, Soiland Management Company, Corporate Secretary, Exchange Bank. **CARLOS G. TAMAYO**, President and Chairman of the Board, La Tortilla Factory. **DANIEL G. LIBARLE**, President, Lace House Linen, Inc.

been reduced from \$114 million at the end of 2007 to \$22 million at the end of 2009; a reduction from 16% of our total real estate loan portfolio to 4%.

As continued recovery in asset quality proceeds throughout 2010 and 2011, it will eventually lead the way to more substantial improvement in profitability and return us back to the strong performance levels of the past. 2010 will be a year of hard work and focus on recovery. The effect of national and regional economic trends will continue to play a role in the pace of our recovery – but we believe Exchange Bank’s recovery is under way and progressing.

Each of us here is committed to doing what it takes to weather this storm and to be an important contributing force to the economic recovery of our community.

Thank you for your continued confidence and support.

William R. Schrader
President and Chief Executive Officer

C. William Reinking
Chairman of the Board

CONSOLIDATED BALANCE SHEET

EXCHANGE BANK AND SUBSIDIARY

– Unaudited –

December 31, 2009 and 2008

(in thousands, except share and par value amounts)

ASSETS	2009	2008
Cash and due from banks	\$ 32,613	39,411
Short-term investments	6,218	88
Total cash and cash equivalents	38,831	39,499
Available-for-sale investment securities	304,032	332,611
Loans and leases, net of deferred loan and lease origination fees and costs	1,091,527	1,161,850
Less allowance for loan and lease losses	(28,781)	(27,180)
Net loans and leases	1,062,746	1,134,670
Federal Home Loan Bank stock	9,494	9,494
Bank premises and equipment, net	19,170	20,956
Bank owned life insurance	31,518	30,424
Other real estate	14,315	9,052
Accrued interest receivable and other assets	71,960	56,233
Total assets	\$ 1,552,066	1,632,939
LIABILITIES AND STOCKHOLDER'S EQUITY		
Deposits:		
Non-interest bearing	\$ 427,850	381,002
Interest bearing	888,998	907,039
Total deposits	1,316,848	1,288,041
Federal Home Loan Bank advances and other long-term debt	51,000	151,000
Accrued interest payable and other liabilities	34,068	40,125
Total liabilities	1,401,916	1,479,166
COMMITMENTS AND CONTINGENCIES		
Stockholders' equity:		
Preferred stock, 1,000,000 shares authorized:		-
Series A, noncumulative, \$1,000 per share liquidation preference; 43,000 shares issued and outstanding	41,280	40,850
Series B, noncumulative, \$1,000 per share liquidation preference; 2,150 shares issued and outstanding	2,150	2,150
Common stock, \$2.50 par value; 3,000,000 shares authorized; 1,714,344 shares issued and outstanding	4,286	4,286
Additional paid-in capital	46,026	46,026
Retained earnings	56,088	62,503
Accumulated other comprehensive income (loss), net of taxes	320	(2,042)
Total stockholders' equity	150,150	153,773
Total liabilities and stockholders' equity	\$ 1,552,066	1,632,939

CONSOLIDATED STATEMENT OF OPERATIONS

EXCHANGE BANK AND SUBSIDIARY
– Unaudited –

For the Years Ended December 31, 2009 and 2008

(in thousands, except per share amounts)

	2009	2008
Interest income:		
Interest and fees on loans and leases	\$ 69,199	76,240
Interest on investment securities:		
Taxable	8,317	10,505
Exempt from Federal income taxes	4,563	4,733
Total interest income	82,079	91,478
Interest expense:		
Interest on deposits	12,002	20,420
Interest on borrowings	3,858	4,852
Total interest expense	15,860	25,272
Net interest income before provision for loan and lease losses	66,218	66,206
Provision for loan and lease losses	41,000	61,800
Net interest income after provision for loan and lease losses	25,219	4,406
Non-interest income:		
Service charges and fees	8,884	8,914
Trust income	4,170	4,677
Merchant discount and interchange fees	3,110	3,019
Gain (loss) on sale of investment securities	1,112	320
Income from bank owned life insurance	1,382	1,024
Other income	1,950	1,830
Total non-interest income	20,608	19,784
Non-interest expense:		
Salaries and employee benefits	28,585	28,608
Occupancy and equipment	6,407	9,771
Professional fees	6,716	8,369
Loss on sale of other real estate	3,652	1,844
FDIC assessments	2,571	1,437
Other expenses	8,820	10,330
Total non-interest expense	56,751	60,359
Loss before benefit from income taxes	(10,924)	(36,169)
Benefit from income taxes	(7,061)	(17,665)
Net loss	\$ (3,863)	(18,504)
Basic and diluted loss per common share	\$ (3.49)	(10.79)

Exchange Bank Officers

Executive Officers

C. William Reinking

Chairman of the Board

William R. Schrader

President and Chief Executive Officer

Bruce DeCrona

Executive Vice President and Chief Operating Officer

V. Anthony Ghisla

Senior Vice President and Senior Lending Officer

Nina Drake

Senior Vice President and Chief Human Resources Officer

Gary Hartwick

Senior Vice President and Chief Credit Officer

Greg Jahn

Senior Vice President and Chief Financial Officer

Administrative Officers

Samuel Brown

Senior Vice President and Business Retention & Acquisition Officer

Jim Galaudet

Vice President and Consumer Loan Administrator

Kenn Cunningham

Assistant Vice President and Sales Officer

Accounting

Shauna R. Lorenzen

Vice President and Controller

Application Support

Linda G. Wilson

Application Support Manager

Judy P. Rutledge

Vice President and Loan Information Systems Manager

Jane Daniel

Assistant Vice President and Project Manager

Diane Bogges

Application Support Analyst

Robert J. Wright

Application Support Analyst

Auditing

Bruce W. Robinson

Vice President and Auditor

Branch Banking

Rolf Nelson

Senior Vice President and Retail Banking Manager

Kitty Ruppert

Vice President and Sales & Service Manager

Beth Ryan

Assistant Vice President and Retail Banking Officer

Business Banking

Jim Cooney

Vice President and Business Banking Manager

Bill Espindola

Vice President and Business Banking Officer

Paul Garayalde

Vice President and Business Banking Officer

William A. Deedy

Assistant Vice President and Business Banking Officer

Mary Kilmer

Commercial Loan Financial Analyst

Cash Management

Byron D. Webb

Assistant Vice President and Electronic Banking Manager

Commercial Banking

Steve Herron

Senior Vice President and Commercial Banking Manager

Kristina T. Armstrong

Vice President and Commercial Loan Officer

Kim P. August

Vice President and Commercial Loan Officer

Gregory S. Durbin

Vice President and Commercial Loan Officer

Cody L. Radelfinger

Vice President and Commercial Loan Officer

Tina Sheldon

Vice President and Commercial Loan Officer

Construction and Mortgage Lending

Louise Mason

Senior Vice President and Real Estate Loan Administrator

Colleen Oller

Vice President and Real Estate Underwriter

Wynn Spain

Vice President and Real Estate Loan Officer

Consumer Loans

Lori DeCosta

Vice President and Consumer Loan Manager

Patty Brookins

Assistant Vice President and Consumer Loan Officer

Denise Tait

Consumer Loan Officer

Credit Administration

Ed Gomez

Senior Vice President and Credit Administrator

Pamela L. Cashane

Vice President and Loan Portfolio Manager

Carolyn M. Fulton

Vice President and Credit Risk Manager

Glenna D. Davidson

Assistant Vice President and Commercial Credit Risk Officer

Robert F. Borgognoni

Senior Commercial Real Estate Appraiser

Jeffrey M. Demers

Real Estate Credit Risk Officer

Gerry Savela

Collections Operations Manager

Dumac Leasing

Kenneth G. Taylor

Vice President and Dumac General Manager

Timothy Taylor

Dumac Assistant Manager

Archie W. Julian

Leasing Manager

Michael T. Barrett

Leasing Officer

Facilities and Purchasing

Sue Maddigan

Facilities and Purchasing Manager

Help Desk

Bren Boddy-Thomas

Help Desk Manager

Human Resources

Lori T. Zaret

Assistant Vice President and Human Resources Manager

Elizabeth Randolph

Compensation and Benefits Manager

Information Services

Gary Searby

Senior Vice President and Chief Information Officer

Teresa Lopez

Assistant Vice President and Central Services Manager

Brian K. Davidson

Core Systems Support Manager

Scott Persons

Network Manager

David Russell

Telecommunications Manager

Sherri Tregaskis

Central Services Operations Manager

Loan Service Center

Amy Darling

Assistant Vice President and Loan Service Center Manager

Carie A. Fletcher

Loan Service Center Assistant Manager

Sylvie G. Beers

Loan Documentation Supervisor

Marketing

Sally J. Traugher

Assistant Vice President and Marketing Services Manager

Merchant Services

Mary Beseda

Assistant Vice President and Merchant Sales Officer

Dona Vercelli-Godwin

Merchant & ATM Services Operations Manager

Risk Management

Brad Hunter

Senior Vice President and Chief Risk Officer

Michael J. Leonard

Assistant Vice President and BSA & Security Officer

Exchange Bank Officers

Cyndi Perez

Assistant Vice President and Deposit
Compliance & Operational Risk Manager

Peter Tomaszewski

Information Security Officer

Roseville Commercial Banking

Andrew T. Ware

Senior Vice President and Commercial
Banking Regional Manager

Jerry Gamboa

Vice President and Real Estate Loan Officer

Teresa Hofhenke

Vice President and Business Services Manager

Geofry Fong

Assistant Vice President and Commercial
Loan Officer

Donna J. Smith

Assistant Vice President and
Real Estate Loan Administrative Specialist

Small Business Administration

Sherrill J. Stockton

Senior Vice President and Small Business
Administration Manager

Scott A. Dykstra

Vice President and Small Business Administration
Business Development Officer

Rebecca K. Roberts

Vice President and Small Business Administration
Business Development Officer

Special Assets

Jeffrey A. Owen

Vice President and Special Assets Manager

Audrey Norman

Vice President and Real Estate Loan Officer

Telephone Customer Service Center

Denise Bridgman

Assistant Vice President and Telephone
Customer Service Center Manager

Training

Trudy Jamieson

Assistant Vice President and Training Director

Erin Williams

Learning & Development Manager

Wealth Management

Steve Jenkins

Senior Vice President and Managing Director of
Investments & Fiduciary Services

Linda Burille

Vice President and Personal Trust Officer

Cynthia D. Cannam

Vice President and Personal Trust Officer

Debbie Kelley

Vice President and Senior Fiduciary Manager

Michael Morgan

Vice President and Business Development Officer

David S. Rapoport

Vice President and Employee Benefit Trust Officer

Diana Angell

Assistant Vice President and Personal Trust Officer

Matthew Kelman

Assistant Vice President and Investment Officer

Elisabeth Pellegrini

Assistant Vice President and Trust Operations
& Compliance Manager

Timothy M. Admire

Portfolio Manager

Kimberly Delasantos

Investment Officer

Emily Menjou

Personal Trust Officer

Denise J. Palmer

Investment Officer

Susan Preston

Employee Benefit Trust Officer

BRANCH MANAGERS AND OFFICERS

Santa Rosa Main Office

John Meislahn

Vice President and Branch Manager

LeAnn Chamberlin

Assistant Vice President and Customer
Service Manager

Tiffany Griffith

Premier Banking Officer

Bennett Valley

Kelly Dibblee

Assistant Vice President and Branch Manager

Cloverdale

Patti Mannatt

Vice President and Branch Manager

Coddington

Eugene Patterson

Assistant Vice President and Branch Manager

Tina Vassar

Assistant Vice President and Customer
Service Manager

College

Stoney Newton

Vice President and Branch Manager

Cotati

Nadine Wolford

Assistant Vice President and Branch Manager

Dutton

Carmen R. Garcia

Vice President and Branch Manager

Golden Eagle

Rick Mossi

Vice President and Regional Branch Manager

Ron Malnati

Vice President and Regional Business
Development Officer

Allison Kalpakoff

Assistant Vice President and Regional
Customer Service Manager

Dana O'Halloran

Premier Banking Officer

Healdsburg

Mark L. Decker

Vice President and Regional Branch Manager

Dana S. Anderson

Vice President and Regional Business
Development Officer

Cassandra R. Zorn

Regional Customer Service Manager

Larkfield

Laura Buhner

Vice President and Branch Manager

Montgomery Village

James O. Ruppert

Vice President and Regional Branch Manager

Joe Scaramella

Vice President and Regional Business
Development Officer

Barbara Singer

Assistant Vice President and Branch Manager

Stacy Small

Assistant Vice President and Regional
Customer Service Manager

Khamfone Sisavath

Customer Service Manager

Madelyn DuMelle

Premier Banking Officer

Parkway Plaza

Edie M. Cheda

Vice President and Branch Manager

Rohnert Park

Rick Marraffino

Vice President and Branch Manager

Dorothy Sturdevant

Assistant Vice President and Customer
Service Manager

Sebastopol

Dorothy Rodella

Vice President and Branch Manager

Linda Vale

Premier Banking Officer

Sonoma

John Paul Matli

Vice President and Branch Manager

Catherine Harrison

Premier Banking Officer

St. Francis

Lynda M. Adams

Vice President and Branch Manager

Stony Point

Karen Householder

Branch Manager

Windsor

Gus Wolter

Vice President and Branch Manager

Forward Looking Statements

This report contains forward-looking statements that are subject to risks and uncertainties. Words such as “expects,” “anticipates,” and “believes,” and similar expressions are intended to identify forward-looking statements, which include, but are not limited to, projections of our profitability, our ability to pay dividends and the quality and valuation of our loans and other assets. Such risks and uncertainties may include, but are not necessarily limited to, our ability to foreclose on collateral, the value of collateral, fluctuations in interest rates, monetary policy established by the Federal Reserve, inflation, government regulations, and general economic conditions. These risks and uncertainties could cause results for subsequent interim periods or for the entire year to differ materially from those indicated. Readers should not place undue reliance on the forward-looking statements, which reflect management’s view only as of the date of this release.

Exchange Bank common shares are majority held by the Doyle Trust.

Exchange Bank Market Maker

Fred F. Ptucha

Financial Advisor

Progressive Asset Management

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Santa Rosa, CA 95401

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Securities offered through Financial West Group, member FINRA/SIPC

For a copy of the audited Financial Statements for Exchange Bank, please contact the Executive Offices at **707.524.3121**



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