



2012 Annual Report



Commitment to Community

MISSION STATEMENT

Established in 1890, Exchange Bank's mission is to serve the broad financial services needs of our local communities as a conservatively managed, socially responsible and locally involved organization that benefits people in our communities by providing the foundation for our mutual growth and financial success, while enhancing our shareholder value.

VISION STATEMENT

With a community focus, the people of Exchange Bank will continue to enhance our legacy as one of the premier community banks in California based upon strong financial performance, excellent customer service and a commitment to our communities and our employees.

CORE VALUES

Commitment

Exchange Bank's legacy is one of financial leadership and community support, which we will continue through responsiveness to the needs of our customers and communities. As a public company, we provide an attractive long-term return for our shareholders, act as a responsible community citizen and demonstrate leadership in local business and community circles. We support our communities with our money, time and talent.

Respect

We value the diversity of our customers, employees and communities. We believe that everyone is entitled to be treated with fairness and respect. Our employees are empowered to think independently, act resourcefully, and are charged with the responsibility of representing our values within the organization and in the community.

Integrity

Our business is grounded in trust. We are committed to acting with the highest standards of personal, professional and organizational integrity and character.

Teamwork

Together, we are stronger and wiser than any of us individually. We foster a spirit of enthusiasm, professionalism, engagement and fun while working together in pursuit of common goals. We are known as people who care about our customers, our company, our communities and one another.

Dear Shareholders:

We are pleased to report that these pages reflect a net income that met our projections for the year, and we achieved a modest increase over net income in 2011. Additionally, we accomplished many important milestones in 2012:

- Continued improvement in credit quality
- Release of the Treasury Department's investment in Exchange Bank
- Substantial reduction in preferred shares outstanding issued under the Capital Repurchase Program that the U.S. Government put in place in 2008
- Reinstatement of a common shareholder cash dividend, which benefited our largest shareholder, the Doyle Trust, and their ability to reinstate the Doyle Scholarships at Santa Rosa Junior College
- The introduction of a full mobile banking suite of products for our customers

Net income in 2012 was \$12.26 million, compared to \$12.18 million in 2011. A major factor in our performance was the continued low rate environment. Throughout the year, modest economic growth was reflected in continued weak consumer spending and business investment. In an effort to push for stronger activity, the Federal Reserve again drove interest rates even lower. With continued weak loan demand, this action continues to put revenue pressure on banks as we expect to see a further reduction in net interest margin; consequently, our net interest income declined by \$2.5 million. This decline was favorably offset, however, by improved loan quality, which enabled the Bank to reduce monthly expenditures for its provision for loan losses by an aggregate \$2.6 million.

As to a positive development in our capital and the reinstatement of our dividend, you will

recall that in the fall of 2008, the U.S. Government launched a variety of programs to address the financial crisis. This included the Capital Repurchase Program (CPP), under which investments were made in healthy banks to maintain lending in their communities. Exchange Bank received an investment under the CPP of \$43 million in preferred stock and issued \$2 million in associated warrants. Wanting to free themselves of the administrative burden of managing the residual parts of this program, in the summer of 2012 the Treasury Department successfully auctioned their investment in Exchange Bank and other banks to the private sector. Because of the aforementioned strong improvement in our earnings, capital levels and non-performing loans, we were able to successfully bid and retire \$20 million of our preferred stock. The auction by Treasury also cleared the way for us to reinstate a common shareholder cash dividend in the third and fourth quarters of 2012. We plan to retire the remaining preferred stock, subject to regulatory approval, as soon as practical and in a manner that considers the interests of all of our constituencies, including our shareholders.

As we prepare our Bank for the future, we recognize that some individuals have speculated that technology is a threat to community banking and that a branch system is not relevant. We do not agree. True, technology is rapidly reinventing and changing our industry, but we continue to change as well.

We continue to make the important investments in technology that strive to accommodate each customer's unique financial needs and empowers them to transact their banking business with us virtually any time and in any way they wish without sacrificing the one-on-one personal banking profile that has been the defining part of our service culture since our inception in 1890.

True to these objectives, in the fourth quarter of 2012 we introduced mobile banking to our customer base that enables our customers to bank



wherever they go. This new offering has been well received and is a testament to how mobile devices have impacted the delivery of services in banking as well as other industries. The branch system we have will continue to be an important part of this new delivery system. The configuration of the branches may change and we will upgrade the knowledge of our employees to meet the needs of new and emerging technologies.

The Fed is determined to keep rates low until unemployment figures improve. This low rate environment is very difficult on all banks as we mentioned earlier with margins continuing to decline. We believe our strengths in traditional community-based lending and deposit-taking activities, along with our strong customer service, position us very well to compete and succeed in the future. We believe that we will see an acceleration of bank consolidations as many

smaller institutions decide that regulatory and compliance costs prevent them from achieving desired levels of returns. This consolidation will create opportunities for us to grow our customer base as we believe our local value proposition will be an attractive alternative to banking with one of the larger national banks.

We continued our commitment to the nonprofit community in Sonoma County through our charitable giving. Last year over 300 local nonprofits were the beneficiary of our financial support and countless volunteer hours by Bank employees. Like you, we live and work in this community and care about the welfare of both its resources and people.

On behalf of all of us, we thank you for the confidence you have placed in us.

Sincerely,

C. WILLIAM REINKING
Chairman

WILLIAM R. SCHRADER
President and Chief Executive Officer



WILLIAM R. SCHRADER

*President and
Chief Executive Officer
Exchange Bank*



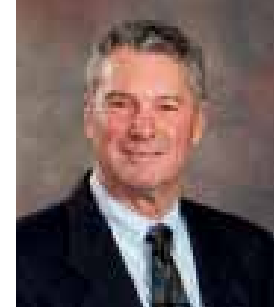
C. WILLIAM REINKING

*Chairman of the Board
Exchange Bank
Trustee, Frank P. Doyle Trust*



RICHARD W. ABBEY, ESQ.

*Partner
Abbey, Weitzenberg, Warren
& Emery*



DANTE B. BENEDETTI

*Chairman of the Board
Clover Stornetta Farms, Inc.
Trustee, Frank P. Doyle Trust*



DANIEL G. LIBARLE

*President
Lace House Linen Company*



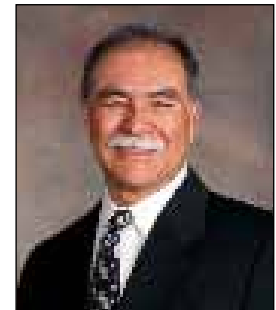
JAMES M. RYAN

*President
Ryan Mortgage Company
Vice Chairman of the Board,
Exchange Bank
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*

YOUR EXECUTIVE TEAM



From left to right: **Howard Daulton**, SVP/Corporate & Business Development Manager. **Tony Ghisla**, SVP/Senior Lending Officer. **C. William Reinking**, Chairman of the Board. **Gary Hartwick**, EVP/Chief Credit Officer. **William R. Schrader**, President & Chief Executive Officer. **Brad Hunter**, SVP. **Bruce DeCrona**, EVP/Chief Operating Officer. **Greg Jahn**, SVP/Chief Financial Officer.

CONSOLIDATED BALANCE SHEETS EXCHANGE BANK AND SUBSIDIARIES

– Unaudited –

December 31, 2012 and 2011

(In Thousands, except share and par value amounts)

ASSETS	2012	2011
Cash and due from banks	\$ 139,322	\$ 94,122
Short-term investments	226	226
Total cash and cash equivalents	139,548	94,348
Interest-bearing deposits in other financial institutions	16,000	-
Available-for-sale investment securities	395,495	344,930
Loans and leases	1,044,869	1,052,754
Less allowance for loan and lease losses	(35,631)	(31,751)
Net loans and leases	1,009,238	1,021,003
Federal Home Loan Bank stock	6,401	7,068
Bank premises and equipment, net	16,485	17,772
Bank owned life insurance	35,041	33,907
Other real estate owned	12,154	8,781
Accrued interest receivable and other assets	68,494	72,594
Total assets	\$ 1,698,857	\$ 1,600,403
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 516,757	\$ 466,937
Interest bearing	943,000	883,947
Total deposits	1,459,757	1,350,883
Federal Home Loan Bank advances and other long-term debt	38,000	41,000
Accrued interest payable and other liabilities	44,676	45,501
Total liabilities	1,542,433	1,437,384
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, 1,000,000 shares authorized:		
Series A, noncumulative, \$1,000 per share liquidation preference; 23,000 shares issued and outstanding	22,570	42,140
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	84,937	73,561
Accumulated other comprehensive income (loss), net of taxes	(3,545)	(5,144)
Total stockholders' equity	156,424	163,019
Total liabilities and stockholders' equity	\$ 1,698,857	\$ 1,600,403

CONSOLIDATED STATEMENT OF OPERATIONS
EXCHANGE BANK AND SUBSIDIARIES

– Unaudited –

For the years ended December 31, 2012 and 2011

(In Thousands, except per share amounts)

	2012	2011
Interest income:		
Interest and fees on loans and leases	\$ 59,247	\$ 61,896
Interest on investment securities:		
Taxable	5,043	5,294
Exempt from Federal income taxes	3,012	3,661
Total interest income	67,302	70,851
Interest expense:		
Interest on deposits	2,313	3,162
Interest on borrowings	1,518	1,684
Total interest expense	3,831	4,846
Net interest income before provision for loan and lease losses	63,471	66,005
Provision for loan and lease losses	9,150	12,550
Net interest income after provision for loan and lease losses	54,321	53,455
Non-interest income:		
Service charges and fees	8,060	7,453
Trust income	4,924	4,685
Merchant discount and interchange fees	4,044	3,719
Income from bank owned life insurance	1,402	1,418
Other income	3,359	3,547
Total non-interest income	21,789	20,822
Non-interest expense:		
Salaries and employee benefits	31,283	28,813
Occupancy and equipment	6,689	7,345
Professional fees	6,235	6,656
Loss on sale of other real estate owned	812	551
FDIC assessments	1,478	2,907
Other expenses	11,222	10,392
Total non-interest expense	57,719	56,664
Income before provision for income taxes	18,391	17,613
Provision for income taxes	6,129	5,435
Net income	\$ 12,262	\$ 12,178
Basic and diluted earnings per common share¹	5.93	5.74
Simple earnings per share²	7.15	7.10

¹ Earnings per share is computed by dividing net income, less preferred stock dividends, by the weighted average number of shares outstanding during the year.

² Simple earnings per share is computed by dividing net income by the weighted average of shares outstanding during the year.

Total average shares outstanding for both 2012 and 2011 was 1,714,344.

Commitment • Conn

We continued our commitment to the nonprofit community in Sonoma County through our charitable giving.

In 2012, over 300 local nonprofits were the beneficiary of our financial support and countless volunteer hours by Bank employees. Like you, we live and work in this community and care about the welfare of both its resources and people of our local community.



1. Sonoma 4th of July Parade 2. Day of Caring, Catholic Charities 3. Check presentation, Redwood Empire Food Bank 4. United Way employee fundraising campaign 5. Day of Caring, August 6. Santa Rosa — Wednesday Night Market volunteers 7. Check presentation, Family Life Center

ection • Community



Thanks to our incredible employees for participating and volunteering countless hours in support of their community.

EXCHANGE BANK OFFICERS

EXECUTIVE OFFICERS

C. William Reinking

Chairman of the Board

William R. Schrader

President and Chief Executive Officer

Bruce DeCrona (Retired Jan 2013)

Executive Vice President and Chief Operating Officer

Gary Hartwick

Executive Vice President and Chief Operating Officer

Mark Crawford

Executive Vice President and Chief Credit Officer

Howard Daulton

Senior Vice President and Corporate and Business Development Manager

V. Anthony Ghisla

Senior Vice President and Senior Lending Officer

Brad Hunter

Senior Vice President

Greg Jahn

Senior Vice President and Chief Financial Officer

Accounting

Shauna R. Lorenzen

Vice President and Controller

Stacy McKee

Senior Accounting Specialist

Application Support

Linda G. Wilson

Assistant Vice President and Application Support Manager

Diane Bogges

Assistant Vice President and Application Support Analyst II

Scott Shusda

Application Support Analyst II

Robert J. Wright

Application Support Analyst

Branch Banking

Rolf Nelson

Senior Vice President and Retail Banking Manager

Beth Ryan

Vice President and Retail Banking Officer

Business Banking

Jim Cooney

Vice President and Business Banking Manager

Joseph Carbonaro

Vice President and Business Banking Officer

Paul Garayalde

Vice President and Business Banking Supervisor

William A. Deedy

Assistant Vice President and Business Banking Officer

Rachel Brogdon

Credit Analyst

Terrie King

Credit Analyst- SBA

Antonio Uribe

Credit Analyst- SBA

Collections

Gerry Savela

Operations Supervisor

Commercial Banking

Steve Herron

Senior Vice President and Commercial Banking Manager

Kristina T. Armstrong

Vice President and Commercial Loan Officer

Sarah Davies

Vice President and Commercial Loan Officer

Cody L. Radelfinger

Vice President and Commercial Loan Officer

Tina Sheldon

Vice President and Commercial Loan Officer

Travis Moncada

Commercial Loan Officer

Construction and Mortgage Lending

Louise Mason

Senior Vice President and Real Estate Loan Administrator

Douglas Angelo

Vice President and Real Estate Loan Officer II

Colleen Oller

Vice President and Real Estate Underwriter

Wynn Spain

Vice President and Real Estate Loan Officer

Marianne Powers

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

Glenna D. Davidson

Assistant Vice President and Commercial Credit Risk Officer

Jeffrey M. Demers

Real Estate Credit Risk Officer

Megan Edwards

Senior Commercial Real Estate Appraiser

Maria C. Hamilton

Commercial Credit Risk Officer

Mary Kilmer

Commercial Credit Risk Officer

Electronic Banking

Byron D. Webb

Vice President and Electronic Banking Manager

Mary Beseda

Assistant Vice President and Merchant Sales Officer

Dona Vercelli-Godwin

Merchant and ATM Services Operations Manager

Exchange Bank Leasing

Kenneth G. Taylor

Vice President and Leasing General Manager

Timothy Taylor

Leasing Assistant Manager

Archie W. Julian

Broker Relations Officer

Facilities and Purchasing

Sue Maddigan

Assistant Vice President and Facilities and Purchasing Manager

Help Desk

Bren Boddy

Help Desk Manager

Human Resources

Lori Zaret

Senior Vice President and Chief Human Resources Officer

Elizabeth Huang

Assistant Vice President and Compensation and Benefits Manager

Robyn Hettrich

Senior HR Business Partner

Information Services

Sherri Tregaskis

Assistant Vice President and Central Services Manager

Nicole Werstler

Central Services Operations Manager

Loan Service Center

Jennifer Robb

Vice President and Loan Service Center Manager

Donna Smith

Assistant Vice President and RE Closing and Disbursement Specialist

Carie A. Fletcher

Loan Service Center Assistant Manager

Sylvie G. Beers

Loan Documentation Supervisor

Marketing

Kitty Ruppert

Vice President and Product and Sales Manager

Sally J. Traugher

Assistant Vice President and Marketing Services Manager

Sales and Business Development

John Meislahn

Vice President and Sales and Business Development Manager

David Voss

Senior Vice President and Executive Emeritus

Michael Arendt

Vice President and Business Development Officer

Ron Malnati

Vice President and Business Development Officer

Gus Wolter

Vice President and Business Development Officer

Kenn Cunningham

Assistant Vice President and Sales Officer

Steven Shira

Regional Business Development Officer

Risk Management/Auditing

Peggy Betchley

Senior Vice President and Risk Management Officer

Carolyn M. Fulton
Vice President and Credit Compliance Manager

Michael J. Leonard
Vice President and BSA and Security Officer

Cyndi Perez
Vice President and Deposit Compliance and Operational Risk Manager

Peter Tomaszewski
Assistant Vice President and Information Security Officer

Hellen Ciudad-Real
Fraud Risk Analyst

Roseville Commercial Banking

Andrew T. Ware
Senior Vice President and Commercial Banking Regional Manager

Terrance Flynn
Vice President and Real Estate Loan Officer

Geofry Fong
Assistant Vice President and Commercial Loan Officer

Small Business Administration

Sherrill J. Stockton
Senior Vice President and Small Business Administration Manager

Bradley Abel
Vice President and Small Business Administration Business Development Officer

Richard Carlson
Vice President and Small Business Administration Business Development Officer

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

Jerry Gamboa
Vice President and Special Assets Manager

Jeffrey Owen
Vice President and Special Assets Officer

Audrey Norman
Vice President and Special Assets Officer

Christy Somers
Assistant Vice President and Special Assets Officer

Technical Services

Richard Lewis
Senior Vice President and Chief Information Officer

Jane Daniel
Assistant Vice President and Project Portfolio Manager

Brian Davidson
Assistant Vice President and Core System Support Manager

Daniel Seletzky
IT Manager

Telephone Customer Service Center

Lori Tonelli
Assistant Vice President and Telephone Customer Service Center Manager

Denise Bridgman
Assistant Vice President and Telephone Customer Service Center Operations Manager

Training

Trudy Jamieson
Assistant Vice President and Training Director

Erin Williams
Learning and Development Manager

Trust and Investment Management

Steve Jenkins
Senior Vice President and Managing Director of Investment and Fiduciary Services

Debbie Kelley
Vice President and Senior Fiduciary Manager

Diana Angell
Vice President and Personal Trust Officer

Linda Burille
Vice President and Personal Trust Officer

David S. Rapoport
Vice President and Employee Benefit Trust Officer

Matthew Kelman
Vice President and Retirement Plans Fiduciary Manager

Timothy Admire
Assistant Vice President and Trust Investment and Compliance Manager

Emily Menjou
Assistant Vice President and Personal Trust Officer

Denise J. Palmer
Assistant Vice President and Investment Officer

Elisabeth Pellegrini
Assistant Vice President and Trust Operations Officer

Susan Preston
Assistant Vice President and Employee Benefit Trust Officer

Toni Elordi
Personal Trust Officer

BRANCH MANAGERS AND OFFICERS

Santa Rosa Main Office

John Matli
Vice President and Branch Manager

LeAnn Chamberlin
Assistant Vice President and Customer Service Manager

Bennett Valley

James O. Ruppert
Vice President and Regional Branch Manager

Andrea Lifto
Branch Service Manager

Cloverdale

Patti Mannatt
Assistant Vice President and Branch Service Manager

Coddingtontown

Lynda M. Adams
Vice President and Branch Manager

College

Lynda M. Adams
Vice President and Branch Manager

Cotati

Jim Curry
Vice President and Branch Manager

Tracy Berg
Branch Service Manager

Dutton

Carmen R. Garcia
Vice President and Branch Manager

Golden Eagle

Rick Mossi
Vice President and Regional Branch Manager

Allison Kalpakoff
Assistant Vice President and Regional Customer Service Manager

Healdsburg

Mark L. Decker
Vice President and Regional Branch Manager

Cassandra Zorn
Assistant Vice President and Regional Customer Service Manager

Cody Baker
Premier Banker

Larkfield

Eugene Patterson
Assistant Vice President and Branch Manager

Montgomery Village

James O. Ruppert
Vice President and Regional Branch Manager

Stacy Small
Assistant Vice President and Regional Customer Service Manager

Khamfone Sisavath
Customer Service Manager

Madelyn DuMelle
Premier Banker

Parkway Plaza

Edie M. Cheda
Vice President and Branch Manager

Rohnert Park

Jim Curry
Vice President and Branch Manager

Kelly Dibblee
Assistant Vice President and Customer Service Manager

Sebastopol

Dorothy Rodella
Vice President and Branch Manager

Sonoma

Becky Elster
Vice President and Branch Manager

St. Francis

Amy McClintock
Branch Manager

Linda Vale
Personal Banker

Stony Point

Dana O'Halloran
Assistant Vice President and Branch Manager

Windsor

Laura Buhner
Vice President and Branch Manager

Exchange Bank

EXCHANGE BANK MARKET MAKERS:

Fred Ptucha
Andy Schnexnaydre
Tom Ray

Financial West Group
575 West College Ave., Suite 105
Santa Rosa, CA 95401
707.575.9680



Member
FDIC

EQUAL OPPORTUNITY EMPLOYER