

ANNUAL REPORT
2013



*The hour glass, that instrument of old.
Past and Future are symbolized in its two glass bulbs,
between which the present flows.*

MISSION STATEMENT

Exchange Bank's mission is to provide for the broad financial service needs of the communities that we serve, in a socially responsible manner that creates the foundation for the mutual growth and financial success of our clients, shareholders, employees and community.

VISION STATEMENT

With a community focus, the employees 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 strive for 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. We encourage our employees 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 2013 was a very positive year for our Bank. Virtually every important part of our Bank showed improvement from earnings to capital, growth in the balance sheet, asset quality, and our customer service. The following highlights some of our accomplishments for the year:

- Increased profitability
- Strong growth in core deposits and loans
- Dramatic decline in loan losses
- Expanded investments in both electronic services and branch design
- Substantial reduction in preferred shares

Net income for 2013 was \$15.7 million, representing a 28% increase over the \$12.2 million we achieved in 2012. The improvement in earnings was attributable to reduced loan loss provisioning of \$6.6 million, loan growth of \$86 million, and deposit growth of \$117 million.

We ended the year with \$1.1 billion in loans and \$1.6 billion in deposits, up 8.2 and 8.0 percent, respectively, over the prior year end. We are pleased with our growth and view it as an endorsement of the relevance and importance of local community banking. 2013 also marked the first year since the economic downturn that we produced meaningful loan growth.

As it has impacted virtually all banks, our performance was again significantly influenced by prevailing historical low interest rates. Particular to us, our results were positively impacted by gains from the sale of foreclosed properties of \$2 million and proceeds from investments of \$1.4 million, with this experience somewhat offset by our election to fully fund all post retirement accruals of \$1 million.

The most significant reduction in expenses last year was a by-product of our successful work to substantially improve loan quality. Our level of criticized loans and non-performing assets was reduced by 25% and 8% respectively. As we have resolved problem credits or prudently reserved for residual exposure on those remaining in a workout status, it has allowed us to systematically reduce the monthly expenditures that are directed to our loan loss reserve. Foundational to this improvement, in this last year we reduced net losses to

\$1.2 million versus \$5.3 million in 2012. This experience was complemented by a marked slowdown of loans migrating to a criticized status and a generally improved outlook for the economy. In all, the reserve ended the year at 3.4% of loans. Our position supported our decision in August to suspend our monthly loan loss provision. For all of 2013 the provision expense was \$2.5 million versus \$9.1 million in 2012.

Improved operating performance and loan quality provided strength to our capital and our \$117 million in deposit growth provided the liquidity to support our ability to retire \$16 million in preferred stock in 2013. What began as a \$45 million obligation from the government as part of the Capital Purchase Program was reduced down to \$9.15 million in preferred shares held by private investors as of December 31, 2013. We are pleased to report that as of February 14, 2014, we retired the remaining balance of the preferred shares, completing our obligation to pay back the capital we received to help us weather the economic downturn. Even with the clearing of all preferred shares, our capital levels remain strong and above current regulatory requirements and those proposed in the phase in of the BASEL III capital standards.

We are pleased with the outcome of 2013 and look forward to prospects of future success in 2014 and beyond. Throughout our history we have taken pride in the fact that we have maintained a special relationship with all parts of our community and we remain committed to finding practical, innovative solutions to the everyday financial challenges faced by our households and businesses. This year we launched an advertising campaign that captures this intention in a new tagline. "Let's make it happen" is our new tagline and it will be reinforced in all of our communication as well as being the heart of our corporate brand. In every respect, we intend to back up our commitment with expanded investments in technology, plans to upgrade the look of our branches and, most importantly, a continued investment in the training of our people.

We continue to invest in electronic products and services that best meet consumers' expectations of being able to bank with us anytime and anywhere. Today we have over 25,000 customers who bank on-line with us and our new mobile banking suite of products has been adopted by 31% of our active on-line customers. All of our branches have been configured with internet café connections and capabilities with this



serving as a foundation of delivering access to more of our expertise and quicker information to our customers.

Our investments in technology also help us lower our expenses. Virtual desktop technology has been deployed in all branches. This technology shifts programming from the hundreds of individual computers to one centralized location in our Operations Center. It means less expensive future hardware requirements, lower maintenance costs and better security. Complementing this project, we expanded our storage network and its capacity should serve us for another five years.

While managing risk has been a responsible part of banking since its inception, we are all, however, frequently reminded that today's technology has created new risk challenges for us manifesting itself in the form of cyber-crime. Defending our confidential records from computer hackers has become a complex, around the clock activity for us. In the hope of illegally transferring funds, revealing confidential information or simply trying to wreak havoc by slowing down the ability of our customers to get into our sites (denial of service attacks), hackers are constantly looking for the weakest links in a network chain. Each year we dedicate an ever expanding amount of human resources and technology to protect our customers and ourselves. To continue to do it right, this investment will likely grow in 2014 and beyond.

Every bit of the pride, hope and aspirations we have for this Bank are intimately tied to the health and vitality of our community and we recognize the future will require the special leadership and sustaining energy from our local non profit organizations.

We are proud to support their important work and we will continue to invest heavily in our communities through charitable contributions and with the expenditure of time in an effort to make a difference where we work and live. Last year over 300 local non-profits were the beneficiary of our support. This commitment will continue. In addition, with the reinstatement of our cash dividend, the Doyle Trust is once again able to provide funding for scholarships to local students attending Santa Rosa Junior College.

The positive outlook that we have for our Bank is unquestionably tied to the confidence and trust we have with our employees. We have an exceptional bank because we have exceptional men and women who are dedicated to keeping this organization safe and sound every day. Each understands the importance of teamwork and each is committed to superior service. As recognition of their great work, we were again pleased to have been recognized as one of Sonoma County's "Best Places to Work" and it's "Best Business Bank".

At the Board level, we are also grateful to have a stellar team of dedicated professionals that are committed to the Bank's long-term mission. In January, we added two new members to the Board. Bruce DeCrona and Steve Dutton each reflect the values and leadership so important in setting the course of our future. Each has a long history with our Bank and each understands the important work we do significantly makes a difference in the community. We are pleased to welcome them both.

On behalf of all of us, we deeply appreciate the commitment and confidence you have steadily maintained in this Bank and with us personally.

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*



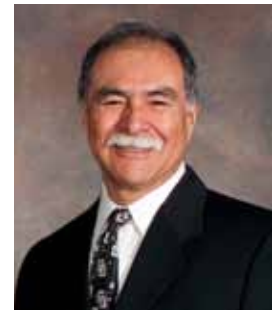
JAMES M. RYAN

*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

*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 Operating Officer. **William R. Schrader**, President & Chief Executive Officer. **Brad Hunter**, SVP/Chief Risk Officer. **Mark Crawford**, EVP/Chief Credit Officer. **Greg Jahn**, SVP/Chief Financial Officer.

CONSOLIDATED BALANCE SHEETS

EXCHANGE BANK AND SUBSIDIARIES

– Unaudited –

December 31, 2013 and 2012

(In Thousands, except share and par value amounts)

ASSETS	2013	2012
Cash and due from banks	\$ 86,732	\$ 139,322
Short-term investments	227	226
Total cash and cash equivalents	86,959	139,548
Interest-bearing deposits in other financial institutions	23,500	16,000
Available-for-sale investment securities	460,374	395,495
Loans and leases	1,130,550	1,044,869
Less allowance for loan and lease losses	(36,946)	(35,631)
Net loans and leases	1,093,604	1,009,238
Federal Home Loan Bank stock	7,490	6,401
Bank premises and equipment, net	16,071	16,485
Bank owned life insurance	35,057	35,041
Other real estate owned	6,523	12,154
Accrued interest receivable and other assets	53,825	68,495
Total assets	\$ 1,783,403	\$ 1,698,857
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	\$ 567,877	\$ 516,757
Interest bearing	1,009,104	943,000
Total deposits	1,576,981	1,459,757
Federal Home Loan Bank advances and other long-term debt	24,000	38,000
Accrued interest payable and other liabilities	27,412	44,676
Total liabilities	1,628,393	1,542,433
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, 1,000,000 shares authorized:		
Series A, noncumulative, \$1,000 per share liquidation preference; 7,000 shares and 23,000 shares issued and outstanding as of December 31, 2013 and 2012	7,000	22,570
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	97,617	84,937
Accumulated other comprehensive loss, net of taxes	(2,069)	(3,545)
Total stockholders' equity	155,010	156,424
Total liabilities and stockholders' equity	\$ 1,783,403	\$ 1,698,857

CONSOLIDATED STATEMENT OF OPERATIONS

EXCHANGE BANK AND SUBSIDIARIES

– Unaudited –

For the years ended December 31, 2013 and 2012

(In Thousands, except per share amounts)

	2013	2012
Interest income:		
Interest and fees on loans and leases	\$ 54,669	\$ 59,247
Interest on investment securities:		
Taxable	6,043	5,043
Exempt from Federal income taxes	2,304	3,012
Total interest income	63,016	67,302
Interest expense:		
Interest on deposits	1,771	2,313
Interest on borrowings	1,692	1,518
Total interest expense	3,463	3,831
Net interest income before provision for loan and lease losses	59,553	63,471
Provision for loan and lease losses	2,500	9,150
Net interest income after provision for loan and lease losses	57,053	54,321
Non-interest income:		
Service charges and fees	7,117	8,060
Trust income	5,153	4,924
Merchant discount and interchange fees	4,119	4,044
Income from bank owned life insurance	2,778	1,402
Other income	3,715	3,359
Total non-interest income	22,882	21,789
Non-interest expense:		
Salaries and employee benefits	31,348	31,283
Occupancy and equipment	6,586	6,689
Professional fees	6,819	6,235
(Gain) Loss on sale of other real estate owned	(2,006)	812
FDIC assessments	1,350	1,478
Other expenses	11,890	11,222
Total non-interest expense	55,987	57,719
Income before provision for income taxes	23,948	18,391
Provision for income taxes	8,219	6,129
Net income	\$ 15,729	\$ 12,262
Basic and diluted earnings per common share¹	8.60	5.93
Simple earnings per share²	9.18	7.15

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 2013 and 2012 was 1,714,344.

Technology Bar

Branch Technology Bar



We continually listen and respond to customer needs, reviewing and implementing new technology opportunities for improved banking services and delivery channels.

From multiple online banking channels for our consumers, to streamlining internal processes with an emphasis on consumer security as our top priority.

We are excited about the future with even more innovation and proactive solutions planned to improve our customer's access and safety along with our bank's efficiency.

Go Green!

17.42% enrolled in *i-Statements*

CONSUMER SECURITY

24/7
Debitcard Fraud Monitoring

WWW.EXCHANGEBANK.COM

1.5 Million visits in 2013



40%
of Customers enrolled in On-Line Banking



11,000 customers downloaded the EB App

EXECUTIVE OFFICERS

C. William Reinking
Chairman of the Board

William R. Schrader
President and Chief Executive 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 and Chief Risk Officer

Greg Jahn
Senior Vice President and Chief Financial Officer

ACCOUNTING

Shauna R. Lorenzen
Vice President and Controller

Stacy McKee
Accounting Operations Supervisor

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

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

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

Justin Hubbs
Vice President and Credit Risk Manager

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

Randy Ferino
HR Business Partner

CENTRAL SERVICES

Sherri Tregaskis
Assistant Vice President and Central Services Manager

Nicole Werstler
Central Services Operations Manager

Robert J. Wright
Application Support Analyst

LOAN SERVICE CENTER

Jennifer Robb
Vice President and Loan Service Center Manager

Carie A. Fletcher
Assistant Vice President and Loan Service Center Assistant Manager

Donna Smith
Assistant Vice President and RE Closing and Disbursement Specialist

Sylvie G. Beers
Loan Documentation Supervisor

MARKETING

Sally J. Traughber
Assistant Vice President and Marketing Services Manager

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

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
Vice President and Commercial Loan Officer

SALES AND BUSINESS DEVELOPMENT

John Meislahn
Vice President and Sales and Business Development Manager

David Voss
Executive Emeritus

Michael Arendt
Vice President and Business Development Officer

Brian Kilkenny
Vice President and Business Development Officer

Ron Malnati
Vice President and Business Development Officer

Kenn Cunningham
Assistant Vice President and Sales Officer

Steven Shira
Regional Business Development 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
President and Special Assets Manager

Jeffrey Owen
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
Assistant Vice President and 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

Erin Williams
Learning and Development Manager

TRUST AND INVESTMENT MANAGEMENT

Steven T. Jenkins, CTFA
Senior Vice President and Managing Director of Investment and Fiduciary Services

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

Andrea Lifto
Branch Service Manager

Cloverdale

Patti Mannatt
Assistant Vice President and Branch Service Manager

Coddington

Joseph Huang
Vice President and Branch Manager

College

Joseph Huang
Vice President and Branch Manager

Cotati

Tracy Berg
Branch Service Manager

Dutton

Carmen R. Garcia
Vice President and Branch Manager

Healdsburg

Mark L. Decker
Vice President and Regional 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 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

Petaluma Main

Rick Mossi
Vice President and Regional Manager

Allison Kalpakoff
Assistant Vice President and Regional Customer Service Manager

Cherie Chipman
Premier Banker

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 Bravin
Branch Manager

Stony Point

Dana O'Halloran
Assistant Vice President and Branch Manager

Windsor

Laura Buhrer
Vice President and Branch Manager



EXCHANGE BANK MARKET MAKERS:

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Financial West Group
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707.575.6932

Tom Ray
Financial West Group
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Santa Rosa, CA 95401
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EQUAL OPPORTUNITY EMPLOYER