



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

The Exchange Bank

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| Person to be contacted regarding this report: | Gregory Jahn |
| UST Sequence Number: | 177 |
| CPP Funds Received: | 43,000,000 |
| CPP Funds Repaid to Date: | 0 |
| Date Funded (first funding): | Dec 19, 2008 |
| Date Repaid ¹ : | N/A |

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| RSSD: (For Bank Holding Companies) | |
| Holding Company Docket Number: (For Thrift Holding Companies) | |
| FDIC Certificate Number: (For Depository Institutions) | 8468 |
| City: | Santa Rosa |
| State: | California |

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

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| <input checked="" type="checkbox"/> | Increase lending or reduce lending less than otherwise would have occurred. | The addition of TARP capital in December of 2008 was instrumental to Exchange Bank's (The Bank) mission of providing financing to support the local communities in which we serve. The Bank funded new loans totaling approximately \$160MM during the year ended 12/31/09. |
| <input checked="" type="checkbox"/> | To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.). | The Bank Funded new loans in excess of \$160MM during the year ending 12/31/09 as follow: residential mortgage loans - \$50MM, Commercial and small business loans - \$53.2MM, Commercial Real Estate loans - \$44MM, and Consumer loans - \$14.8MM. |
| <input checked="" type="checkbox"/> | Increase securities purchased (ABS, MBS, etc.). | The Bank supported the housing markets and credit markets through the purchase of investment securities as follow: Agency MBS - \$15.7MM, Agency senior debt - \$70.7MM, Municipal bonds - \$6.2MM, Senior debt of financial institutions - \$5.4MM. |

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| <input checked="" type="checkbox"/> | Make other investments | The South West redevelopment agency of the City of Santa Rosa could not access the municipal bond market for funds to purchase land to develop for low income housing in this district. The Bank provided \$13MM of funding to this redevelopment district to support low income housing. |
| <input checked="" type="checkbox"/> | Increase reserves for non-performing assets | The Bank was able to increase its reserve for loan loss by approximately \$1.6MM as well as write downs the value of non-performing assets by approximately \$2.1MM. |
| <input checked="" type="checkbox"/> | Reduce borrowings | The Bank was able to reduce high cost brokered deposits by approximately \$75MM and Borrowings from the Federal Home Loan Bank by \$100MM for the year ending 12/31/09. |
| <input checked="" type="checkbox"/> | Increase charge-offs | TARP capital allowed the Bank to accelerate the clean up of problem construction and land development loans, helping the market eliminate excess inventory by charging off and disposing of \$40MM in problem assets. |
| <input type="checkbox"/> | Purchase another financial institution or purchase assets from another financial institution | |
| <input checked="" type="checkbox"/> | Held as non-leveraged increase to total capital | The injection of \$43MM allowed the Bank to achieve a Tier I capital to assets ration (leverage ratio of 8.44%) as of 12/31/09. Without the \$43MM of TARP capital the Bank's leverage ratio would have been 5.65%. |

What actions were you able to avoid because of the capital infusion of CPP funds?

Without the access to TARP capital the Bank would not have been in a position to extend new loans in excess of \$160MM during the year ending 2009 and the portfolio would have declined by \$230MM.

TARP capital allowed the Bank to continue as one of the largest private employers in Sonoma County. While the Bank right-sized its' employee base to align with the reduced business activity, we remain committed to supporting the community through the employment of over 400 individuals. Without the access to TARP capital the Bank would have been forced to shrink the Bank aggressively. The Bank was able to avoid further staff reductions which would have contributed to the further loss of jobs in our market area.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

The addition of TARP capital in December of 2008 was instrumental to Exchange Bank's mission of providing financing to support the local communities in which we serve. The following are some of the more noteworthy efforts undertaken by the Bank with the use of TARP capital designed at helping our community emerge from this recession:

1. TARP capital allowed the Bank to meet its goal of making consumer and small business loans under the "Sonoma County Loan Program" of \$75MM in 2009. The following is an excerpt from the Bank's press release relating to this unique extension of credit to it's community:

March 10, 2009 -- Exchange Bank, Sonoma County's oldest and largest community bank, today announced a \$75 million commitment to new consumer and small business loans for customers in Sonoma County. The Sonoma County Loan Program includes newly reduced rates for residential mortgages, home equity loans, auto loans and loans to small business. "Lending has been referred to as the grease for the wheels of commerce," commented bank president Bill Schrader, "and we hope to provide more of that grease to get the Sonoma County economy moving again, quickly." Included in the program are new, competitively priced fixed-rate mortgages, jumbo mortgages, home equity loans and lines of credit, and small business loans with no application fees. "As Sonoma County's local bank, we want to do everything we can to make credit available to our qualified customers - and we're committed to doing just that," continued Craig Van Selow, executive vice president for retail banking. "While good credit standards are still required, these are some of the most attractive rates we've offered in years." As a result of the Sonoma County Loan initiative the Bank achieved its goal of adding \$75 million in consumer and small business loans to the Banks portfolio with approximately \$50MM being added in 1-4 residential mortgage loans.

2. TARP capital allowed the Bank to accelerate the clean up of problem construction and land development loans helping the market eliminate excess inventory by charging off and disposing of \$40MM in problem assets.

3. TARP capital allowed the Bank to continue as one of the largest private employers in Sonoma County. While the Bank right-sized its' employee base to align with the reduced business activity, we remain committed to supporting the community through the employment of over 400 individuals.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

One unique example of the Bank's constructive use of TARP capital occurred early in 2009 when the credit markets became frozen. Th