Summit Bank

Summit Bancshares, Inc.

www.summitbanking.com

Oakland Office	Walnut Creek Office	Emeryville Office	Hayward Office
2969 Broadway	710 No. Broadway	2000 Powell Street	1149 "A" Street
Oakland, CA 94611	Walnut Creek, CA 94596	Emeryville, CA 94608	Hayward, CA 94541
(510) 839-8800	(925) 935-9220	(510) 428-1868	(510) 576-0991

Summit Bancshares, Inc.

2006

2006 Annual Report

Summit Bank

FINANCIAL HIGHLIGHTS

FOR THE YEAR ENDED	2006	2005	2004	2003	2002
Net Income	$3,740,612	$2,503,240	$1,624,358	$1,727,552	$1,712,363
Earnings per common share	$2.32	$1.47	$0.89	$0.94	$0.93
Earnings per common share - assuming dilution	$2.32	$1.47	$0.89	$0.94	$0.92
Cash Dividends per Share, declared	$0.375	$0.375	$0.375	$0.375	$0.375
AT YEAR END (in thousands)					
Deposits	$175,038	$145,422	$149,220	$134,715	$127,345
Loans (Net)	125,523	111,964	118,449	99,791	103,441
Assets	198,997	169,813	173,873	158,815	147,236
Shareholders' Equity	21,533	19,189	20,087	19,739	18,952
Non-performing Loans to Total Loans	0.20%	–	1.51%	0.32%	0.49%
Allowance to Non-performing Loans	11.06%	–	96.78%	513.50%	319.41%
Tier 1 Capital	14.03%	14.65%	14.34%	15.50%	14.09%
Total Capital	15.29%	15.91%	15.59%	16.79%	15.25%
Leverage Ratio	10.86%	11.02%	11.84%	12.31%	12.11%

MARKET PRICE OF THE COMPANY'S STOCK AND DIVIDENDS

The stock of the Company is not listed on any stock exchange but is publicly traded in limited and infrequent transactions in the "over the counter" market. According to information made available to the Company by the Market Maker, American Blue Chip, the range of high and low bids for such common stock for each calendar quarter since January 2005 is contained below. The following prices reflect retail mark-up and may not represent actual transactions

	HIGH	LOW	DIVIDENDS DECLARED
2006			
First Quarter	$17.45	$17.25	$ –
Second Quarter	18.50	18.00	.1875
Third Quarter	17.10	17.10	–
Fourth Quarter	17.25	17.25	.1875
Total			$ .375
2005			
First Quarter	$18.00	$17.50	$ –
Second Quarter	18.05	17.60	.1875
Third Quarter	18.25	17.52	–
Fourth Quarter	17.75	17.25	.1875
Total			$ .375

The Company presently intends to continue the policy of paying regular semi-annual cash dividends. Future dividends will depend upon the earnings of the Company, management's assessment of the future needs for funds, and the regulatory limitations outlined in Footnote #12.

Letter to Our Shareholders

Against the backdrop of an increasing economy and an upturn in the interest rate environment Summit Bank continued the positive momentum from 2005 by outperforming its peers by most measures and has once again set records with its net profit performance of $3,741,000. Our return on equity (ROE) of 19.49% exceeded the average ROE of 9.82% for banks in the state of California. In addition we are also very proud of our return on average assets (ROA) of 2.01%, which is the highest ROA we have achieved over the past 25 years. We are also extremely pleased with our growth as total assets grew 17% to $198,997,000, total loans grew 12% to $127,783,000 and total deposits grew 20% to $175,038,000 over the prior year.

Our strategy is the same now as it has been for many years and that is simply to focus on our core business of banking. We believe this is the right forward strategy and by staying with it we will continue to win in the marketplace.

Our industry continues to experience unprecedented consolidation and our challenges continue at a rapid pace. Staying current with the ongoing advances in technology is a major challenge for us as well as keeping a staff of well-trained people. We expect this challenge to continue in the years ahead as big banks continue to specialize and small banks like us continue to focus on true relationship banking. This requires our people to possess a much higher level of intellectual capabilities in order to understand the needs of our clients as well as their businesses. Finally of course we must execute extraordinarily well on the delivery of service that has become the hallmark of this bank.

As in all our previous years, we believe the success of Summit Bank is a direct result of the relationships we have with our clients and employees. Our focus continues to be our uncompromising attention to our clients and the community at large. The bank is a true asset and we hope a genuine source of pride to you, its owners. We thank our directors and employees whose dedicated efforts set greater standards of excellence for us all.

Shirley W. Nelson
Chairman and Chief Executive Officer

C. Michael Ziemann
President and Chief Operating Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The matters addressed in this Annual Report, with the exception of the historical information presented, may incorporate certain forward-looking statements involving risks and uncertainties, including the risks discussed under the heading "Certain Factors That May Affect Future Results" and elsewhere in this Report.

This section is a review of Summit Bancshares, Inc.'s (the "Company") results as reflected in the Consolidated Financial Statements. It discusses the principal items of income and expense and the factors affecting the Company's financial position. This discussion should be read together with the Selected Financial Data and Consolidated Financial Statements included elsewhere in the Annual Report.

The Company's wholly owned subsidiary; Summit Bank (the "Bank") has conducted the business of a commercial bank since 1982. It provides commercial credit and various checking and savings account products for small and mid-sized businesses and for professionals as well as individual consumers.

Summary of Earnings

The Company's net income for 2006 was $3,741,000 compared to $2,503,000 in 2005, and $1,624,000 in 2004. The increase in the year 2006's net income from the year 2005 was caused by an increase in the average prime rate and the growth in assets. The increase in 2005 was caused by an increase in the average prime rate. The net income of $3,741,000 for 2006 represents diluted earnings per share of $2.32 compared to diluted earnings per share of $1.47 in 2005, and diluted earnings per share of $0.89 per share in 2004.

Net Interest Income

The primary source of income for the Company is Net Interest Income or "Gross Margin" which is the difference between interest earned on loans and investments and interest paid on deposits and other liabilities. In general, net interest income is affected by a change in interest rates. As interest rates rise or fall, so will the Company's net interest income, excluding changes in total assets. The primary reason for this is that the Company's investment portfolio earns income on a fixed interest rate basis while a majority of the lending portfolio earns income on a floating interest rate basis because loans are tied to the prime-lending rate. In addition, investments are held to maturity while 100% of the federal agency investments mature within one year. Regarding loans, approximately 53% of the loans outstanding mature within one year, while the longest maturity is ten years. In a rising interest rate environment, interest income on loans will generally rise faster than the investment income and vice versa. To offset any decline in interest income due to a declining interest rate environment, the Company monitors closely its interest expense on deposits. Of the total time certificates of deposit outstanding at year-end, approximately 1% matures after one year while 65% matures within 90 days. Thus the Company is able to minimize the effects of a declining interest rate environment by repricing these instruments on a more frequent basis than if the average maturity were longer than one year.

Net interest income for 2006 was $11,437,000, an increase from $9,509,000 posted in 2005 and as compared to $7,859,000 in 2004.

The increase in 2006 was primarily the result of an increase in the average prime rate of 177 basis points. As a comparison, the average prime rate has moved from 4.34% in 2004, to 6.19% in 2005 and to 7.96% in 2006. Average earning assets increased 8.7% from $155,937,000 in 2005 to $169,544,000 in 2006 and as compared to $141,289,000 in 2004. Average total deposits increased 10.0% from $146,843,000 in 2005 to $161,545,000 in 2006 and as compared to $141,289,000 in 2004, primarily due to the increase in high cost interest bearing deposits.

Average loans outstanding increased by 6.7% in 2006 to $123,142,000 as compared to $115,407,000 in 2005 and $114,791,000 in 2004. The increase in 2006 was centered in commercial loans. Average outstanding investments increased 14.5% to $46,402,000 in 2006 as compared to $40,530,000 in 2005 and $26,294,000 in 2004. This was due to a decrease in the average loan to deposit ratio, which declined in 2006 to 76.2% as compared to 78.6% in 2005 and 81.2% in 2004. The yield on average earning assets was 7.9% in 2006 as compared to 7.2% in 2005 and 6.5% in 2004. The increase in 2006 was due to the increase in the prime-lending rate.

Interest expense increased 75.9% to $2,945,000 in 2006 from $1,674,000 in 2005 and as compared to $879,000 in 2004. The increase in 2006 was primarily centered in certificate of deposits accounts. Average interest-bearing deposits increased 15.8% to $105,142,000 in 2006 compared to $90,779,000 in 2005 and $82,291,000 in 2004. Average non-interest bearing deposits increased .60% in 2006 to $56,401,000 as compared to $56,065,000 in 2005 and $51,493,000 in 2004. This increase was primarily due to the establishment of new clients during the year. Overall cost of funds in 2006 was 2.45% as compared to 1.77% in 2005 and 1.03% in 2004. The increase in the overall cost of funds was a direct result of the increase in the prime-lending rate.

Non-Interest Income and Expense

Non-interest income, consisting primarily of service charges on deposit accounts, and other customer fees and charges, was $511,000 in 2006, a decrease of 4.3% from $534,000 in 2005, and $573,000 in 2004. Total service charge income from deposit accounts increased 8.7% to $299,000 in 2006 from $275,000 in 2005 and $269,000 in 2004, while total income from other charges decreased 18.4% to $212,000 in 2006 from $260,000 in 2005 and $304,000 in 2004.

Corporate Directory

Directors of Summit Bancshares, Inc. and Summit Bank

*Robert A. Ellsworth
President
Rue-Ell Enterprises, Inc.
Berkeley

*Jerrald R. Goldman, M.D.
Orthopaedic Surgeon
Oakland

George Hollidge
Retired
Oakland

Eric Rudney
Rudney Associates
San Ramon

Kikuo Nakahara
Managing Director
H & R Block Small Business Resources
Walnut Creek

Shirley W. Nelson
Chairman and CEO
Summit Bancshares, Inc. and Summit Bank
Oakland

John Protopappas
President and CEO
Madison Park Real Estate Investment Trust
Oakland

Mary C. Warren
Associate
H.M.S. Associates
Oakland

**Emeritus*

Summit Equities, Inc Directors

Robert A. Ellsworth

George Hollidge

Kikuo Nakahara

Shirley W. Nelson

David C. Ruegg

Summit Bank Administration

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Shirley W. Nelson
Chairman and CEO

C. Michael Ziemann
President, COO, CFO

Steve P. Nelson
Executive Vice President
Chief Information Officer

Mark McDonald
Senior Vice President
Chief Lending Officer

Norma Jean Rogers
Vice President
Operations Administration

Mani Ganesamurthy
Assistant Vice President
Assistant Controller

Oakland Office

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David Davis
Vice President
Loan Officer

Ann Carter
Vice President
Loan Officer

Yong Bai
Assistant Vice President
Relationship Manager

Carlos Nagatani
Assistant Vice President
Commercial Lending Specialist

Joanne Cleary
Assistant Vice President
Note Department Manager

Todd Jackson
IT Administrator

Susan Siw
Assistant Vice President
Branch Service Manager

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Edrene Case
Vice President
Branch Manager

Cheryl Novo
Branch Service Manager

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Catherine Lane
Branch Service Manager

Hayward Office

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Michelle Vargas
Assistant Vice President
Branch Service Manager

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Independent Auditors

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Registrar & Transfer Co.
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Market Makers

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(415) 461-1981

Lisa Gallo
Wedbush Morgan Sec.
Lafayette, California
(866) 491-7828

Advisory Board Members

Oakland Advisory Board

Robert Berry, *President*
Berry Brothers Towing & Transport Inc.

John Bohannon, *Chairman & CEO*
Builders Control, Inc.

Susan Casper, *President*
Account Development Manager
Herman Miller, Inc.

Ana Chretien, *Chairman & CEO*
ABC Security

Clem Daniels
Former Oakland Raider
Entrepeneur and Community Representative

Steve Lathrop
Developer

Joel Ritch, *President*
Transportation Agent Grid

Hayward Advisory Board

Bruce Bauer, *President*
West Coast Vending, Inc.

Julie McKillop, *CPA*
McKillop Accountancy

Steve Miller, *CEO*
Stonebrae Country Club

Charlie Plummer
Retired
Sheriff of Alameda County

Brian Schott, *President*
AdMail Express

Francisco Zermeno
Professor, Calif. State East Bay
Planning Commissioner
City of Hayward

Walnut Creek Advisory Board

John Caputo, *President*
Heritage Square, Inc.

Shawn Lober
Home Improvement Contractor

Cherie McCammon
LPGA Golf Professional
Owner, MC2 Golf Pro, Inc.

David Shahvar, *President*
DSMG, Inc.

Sam Wright, *Account Executive*
First Cal

Ralph Yanello, *President*
Lawroom, Inc.

Summit Bank Foundation

Board of Directors

Shirley W. Nelson, Chairman
Chairman & CEO, Summit Bank

Susan Casper, President
Account Development Manager
Herman Miller, Inc.

Kathy Moon, Esquire, Secretary
Attorney

John Bohannon
Chairman & CEO
Builders Control, Inc.

Donna Coit
Community Representative

Clem Daniels
Former Oakland Raider
Entrepreneur and Community Representative

James Falaschi, Past Board President
President Jack London Square Partners
and Transbay Holding Company

Susan Jue
Manager, Office Planning and Design
Safeway Inc.

Albert P. Knoll, Esquire
Attorney

Maury McFadden
Manager, Prudential California Realty

David Ruegg
President, Rue-Ell Enterprises, Inc.

Andrea Stamps
Oakland Raiders

Tiffany Stuart
President, Dynamic Office & Accounting Solutions

Keith Thomas
President, KRT Marketing

Mary Warren
Associate, HMS Associates

Honorary Advisors

Joe Morgan, Advisors Chairman
Sports Analyst & ESPN Broadcaster
Baseball Hall of Famer

William Bacigalupi, Sales Manager
Vice President, General Sales Manager
KGO-TV

Ron Darling
Broadcaster, Fox Sports

Robert Ellsworth, Esquire
Chairman, Rue-Ell Enterprises, Inc.

The Honorable Dianne Feinstein
United States Senator

James Ghielmetti
Chairman, Signature Properties, Inc.

Steven Kay, Esquire
Attorney, Kay & Merkle

Stuart Kahn
President, HQ Global Workplaces, Inc.

Tony La Russa, Manager
St. Louis Cardinals

Neil McDaniel, President
McDaniel and Associates

Kikuo Nakahara
Accounting, H & R Block Small Business Resources

Eddie Orton
President, Orton Development, Inc.

William Russell
NBA Hall of Fame Legend

Sandy Seeno
Albert D. Seeno Construction

Leigh Steinberg
Principal, Steinberg & Moorad

The Honorable Ellen Tauscher
United States House Congresswoman

Jim Wunderman
President and CEO, Bay Area Council

Martin Wyatt
Sports Director, KGO-TV – Channel 7

Non-interest expenses decreased 1.2% to $5,606,000 in 2006, from $5,674,000 in 2005 and $5,530,000 in 2004. Salary expense decreased 0.4% to $3,732,000 in 2006 from $3,746,000 in 2005 and $3,582,000 in 2004. The salary decrease was centered in a decrease in staff. Legal fees increased to $68,000 in 2006 from $47,000 in 2005 and $73,000 in 2004. Insurance expense decreased to $49,000 in 2006 from $86,000 in 2005 and $96,000 in 2004 primarily due to a decrease in worker's compensation insurance.

The Company's allowance for loan losses as a percent of loans was 1.8% as of December 31, 2006 as compared to 1.8% as of December 31, 2005 and 1.5% as of December 31, 2004. The provision of $198,000 for the year 2006 was directly related to the anticipated growth in loans in 2006.This compares to the provision of $295,000 in 2005. At this time management has determined that the allowance is appropriate. There were no gross loans charged off in 2006, which compares favorably to $60,000 in 2005 and $141,000 in 2004.

Provision for Income Taxes

The provision for income taxes reflects a combined Federal and California effective tax rate of 39.1% in 2006, compared to 38.5% in 2005, and 40.5% in 2004, as described in Note 6 to the Financial Statements.

Liquidity and Capital

Liquidity is defined as the ability to meet present and future obligations either through the sale or maturity of existing assets or by the acquisition of funds through liability management. Additionally, the Bank's investment portfolio is managed to provide liquidity as well as appropriate rates of return. It is the Company's practice to hold securities until maturity rather than actively trade its portfolio. As of December 31, 2006 the Company had $39,343,000 in cash and cash equivalents compared to $22,954,000 as of December 31, 2005, and $30,144,000 as of December 31, 2004. The increase in 2006 was primarily due to the increase in federal funds sold which was partially offset by a slight decrease in deposits with other financial institutions. The ratio of net loans to deposits as of December 31, 2006 was 71.7% compared to 77.0% as of December 31, 2005, and 79.4% as of December 31, 2004.

The Bank maintains a portion of its assets in loans, time deposits with other financial institutions and investments with short-term maturities. More specifically, loans, time deposits with other financial institutions and investments due within one year totaled $87,410,000 at December 31, 2006 as compared to $81,785,000 at December 31, 2005 and $69,232,000 at December 31, 2004. This is equivalent to 43.9%, 48.1%, and 39.8% of total assets at the corresponding year-ends, respectively.The increase was due to amount of loans maturing in one year.

During 2006, the Company repurchased 44,250 shares of its common stock at an average price of $17.80.The Company plans to continue its repurchase program as an additional option for liquidity for its shareholders as long as it is economically appropriate to do so. The program has not affected the Company's liquidity or capital positions or its ability to operate. In addition, the Company's subsidiary Bank remains more than well-capitalized under current regulatory requirements.

Credit and Deposit Concentration

A part of the subsidiary Bank's marketing strategy is to offer quality financial services to physicians, other professionals and small business communities.The Company has been especially successful in targeting health care professionals. This segment has traditionally provided high levels of deposits and low loan losses. Over the past few years, the doctors and health care providers in the Company's communities have been adjusting to certain emerging trends in this industry. This includes higher percentages of patients on Medicare, closer scrutiny from insurance carriers, and movement to managed care and "capitation" contracts. Through this process, the Company has not experienced any noticeable deterioration in credit quality. The Company cannot predict the ultimate outcome of health care reform. However, the Company closely monitors the status of reform and considers the potential impact of any reform on its current customers and its underwriting of loans to healthcare professionals.

Non-Performing Assets

As of December 31, 2006, the Company had $250,000 in non-performing assets compared to no non-performing assets as of December 31, 2005.

Certain Factors that May Affect Results

The primary factor, which may affect future results, is the fluctuation of interest rates in the market place more commonly referred to as interest rate risk. Interest rate risk is the exposure of a bank's current and future earnings and equity capital arising from adverse movements in interest rates. It results from the possibility that changes in interest rates may have an adverse effect on a bank's earnings and it's underlying economic value. Changes in interest rates affect a bank's earnings by changing its net interest income and the level of other interest-sensitive income and operating expenses. As mentioned previously, the potential decrease in a declining interest rate environment would be minimized by an increase in assets as an increase in assets generally provides additional interest income. In addition, earnings and growth of the Company are and will be affected by general economic conditions, both domestic and international, and by monetary and fiscal policies of the United States Government, particularly the Federal Reserve Bank.

SUMMIT BANCSHARES, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2006 AND 2005

ASSETS		**2006**		**2005**
Cash and due from banks		$11,713,223		$11,958,815
Federal funds sold		27,630,000		10,995,000
Cash and cash equivalents		39,343,223		22,953,815
Time deposits with other financial institutions		25,145,000		26,723,000
Investment securities held to maturity, at cost (fair value of $1,536,832 at December 31, 2006 and $1,553,669 at December 31, 2005)		1,535,392		1,554,604
Loans	127,782,919		113,987,367	
Less: allowance for loan losses	2,260,344		2,023,172	
Net loans		125,522,575		111,964,195
Premises and equipment, net		980,641		964,293
Interest receivable and other assets		6,469,821		5,652,610
Total Assets		$198,996,652		$169,812,517
LIABILITIES AND SHAREHOLDERS' EQUITY				
Deposits:				
Demand		$60,211,353		$57,193,185
Interest-bearing transaction accounts		56,454,146		44,667,068
Savings		2,769,265		2,971,881
Time certificates $100,000 and over		47,228,173		34,248,246
Other time certificates		8,374,582		6,342,041
Total deposits		175,037,519		145,422,421
Federal Home Loan Bank advance		–		3,000,000
Interest payable and other liabilities		2,426,160		2,201,020
Total Liabilities		177,463,679		150,623,441
Commitments and contingent liabilities				
Shareholders' Equity:				
Preferred Stock, no par value:				
2,000,000 shares authorized, no shares outstanding		–		–
Common Stock, no par value:				
3,000,000 shares authorized;				
1,597,325 shares outstanding at December 31, 2006 and				
1,641,575 shares outstanding at December 31, 2005		3,800,951		4,243,451
Retained Earnings		17,732,022		14,945,625
Total Shareholders' Equity		21,532,973		19,189,076
Total Liabilities and Shareholders' Equity		$198,996,652		$169,812,517

The accompanying notes are an integral part of these consolidated financial statements.

Independent Auditors' Report

The Board of Directors and Shareholders
Summit Bancshares, Inc.

We have audited the accompanying consolidated statements of financial position of Summit Bancshares, Inc. (a California corporation) and subsidiary as of December 31, 2006 and 2005, and the related consolidated statements of income, change in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Summit Bancshares, Inc. and subsidiary as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co., LLP

Vavrinek, Trine, Day & Co., LLP
March 16, 2007

SUMMIT BANCSHARES, INC. STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2006, 2005, AND 2004

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received	$243,231	$186,009	$232,290
Rental income	–	–	–
Other income	7,446	7,949	1,264
Cash paid to suppliers	(37,439)	(93,071)	(36,095)
Income taxes paid	(101,854)	(37,258)	(35,617)
Net cash provided by operating activities	111,384	63,629	161,842
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Increase) decrease in investments	(50,790)	–	–
Net (increase) decrease in loans	241,560	998,320	(788,569)
(Increase) decrease in land and building	–	59,752	(42,772)
Dividend received from subsidiary	1,800,000	1,700,000	1,200,000
Net cash provided by (used in) investing activities	1,990,770	2,758,072	368,659
CASH FLOWS FROM FINANCING ACTIVITIES:			
Stock options exercised	–	–	54,864
Repurchase of common stock	(787,799)	(2,768,226)	(650,892)
Dividends paid	(608,917)	(632,486)	(680,496)
Net cash (used in) financing activities	(1,396,716)	(3,400,712)	(1,276,524)
Net increase (decrease) in cash and cash equivalents	705,438	(579,011)	(746,023)
Cash at the beginning of the year	1,086,894	1,665,905	2,411,928
Cash at the end of the year	$1,792,332	$1,086,894	$1,665,905
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net Income	$3,740,612	$2,503,240	$1,624,358
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	–	3,280	7,269
Provision for loan losses	18,000	15,000	17,000
Non-cash earnings from subsidiary	(3,624,975)	(2,454,990)	(1,620,422)
(Increase) decrease in other assets	(22,253)	(2,901)	133,637
Total adjustments	(3,629,228)	(2,439,611)	(1,462,516)
Net cash provided by operating activities	$111,384	$63,629	$161,842

SUMMIT BANCSHARES, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 2006, 2005, AND 2004

	2006	2005	2004
INTEREST INCOME:			
Interest and fees on loans	$12,110,537	$9,877,332	$8,241,115
Interest on time deposits with other financial institutions	1,066,504	825,015	371,100
Interest on U.S. government agency securities	72,783	41,760	20,322
Interest on federal funds sold	1,131,695	439,199	105,743
Total interest income	14,381,519	11,183,306	8,738,280
INTEREST EXPENSE:			
Interest on savings deposits	7,900	11,216	8,257
Interest on interest-bearing transaction accounts	838,364	642,350	356,951
Interest on time deposits	2,081,356	950,075	438,496
Interest on federal funds purchased	17,230	70,282	75,585
Total interest expense	2,944,850	1,673,923	879,289
Net interest income	11,436,669	9,509,383	7,858,991
Provision for loan losses	198,000	295,000	172,000
Net interest income after provision for loan losses	11,238,669	9,214,383	7,686,991
NON-INTEREST INCOME:			
Service charges on deposit accounts	298,641	274,649	268,514
Other customer fees and charges	212,144	259,824	304,464
Total non-interest income	510,785	534,473	572,978
NON-INTEREST EXPENSE:			
Salaries and employee benefits	3,732,333	3,746,014	3,582,011
Occupancy expense	458,817	427,009	394,662
Equipment expense	452,217	398,817	346,755
FDIC assessment	11,199	19,713	18,309
Legal expense	68,425	47,295	73,114
Insurance expense	48,503	85,625	96,169
Loss on investment	–	–	100,000
Other	834,013	949,609	918,584
Total non-interest expense	5,605,507	5,674,082	5,529,604
Income before income taxes	6,143,947	4,074,774	2,730,365
Provision for income taxes	2,403,335	1,571,534	1,106,007
Net Income	$3,740,612	$2,503,240	$1,624,358
EARNINGS PER SHARE			
Earnings per common share (Basic)	$2.32	$1.47	$0.89
Earnings per common share (Diluted)	$2.32	$1.47	$0.89

The accompanying notes are an integral part of these consolidated financial statements.

SUMMIT BANCSHARES, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2006, 2005, AND 2004

	NUMBER OF SHARES OUTSTANDING	COMMON STOCK	RETAINED EARNINGS	TOTAL
Balance at December 31, 2003	1,824,193	$4,682,924	$15,055,790	$20,086,548
Issuance of Cash Dividends,				
$.375 per share	–	–	(680,496)	(680,496)
Stock Options Exercised	9,928	54,864	–	54,864
Repurchase of Common Stock	(38,162)	(95,405)	(555,487)	(650,892)
Net Income	–	–	1,624,358	1,624,358
Balance at December 31, 2004	1,795,959	4,642,383	15,444,165	20,086,548
Issuance of Cash Dividends,				
$.375 per share	–	–	(632,486)	(632,486)
Stock Options Exercised	–	–	–	0
Repurchase of Common Stock	(154,384)	(398,932)	(2,369,294)	(2,768,226)
Net Income	–	–	2,503,240	2,503,240
Balance at December 31, 2005	1,641,575	4,243,451	14,945,625	19,189,076
Issuance of Cash Dividends,				
$.375 per share	–	–	(608,916)	(608,916)
Stock Options Exercised	–	–	–	–
Repurchase of Common Stock	(44,250)	(442,500)	(345,299)	(787,799)
Net Income	–	–	3,740,612	3,740,612
Balance at December 31, 2006	1,597,325	$3,800,951	$17,732,022	$21,532,973

The accompanying notes are an integral part of these consolidated financial statements.

17. Summit Bancshares, Inc. (parent company only)

The following are the balance sheets as of December 31, 2006, and 2005, and the related statements of income and cash flows for the years ended December 31, 2006, 2005, and 2004, for Summit Bancshares, Inc. (parent company only).

BALANCE SHEET	**2006**	**2005**
ASSETS:		
Cash	$1,792,332	$1,086,894
Loan participation with subsidiary (net of allowance for loss reserve of $134,000 at December 31, 2006 and $116,000 at December 31, 2005)	2,711,990	2,971,550
Land and building	330,223	330,223
Investment in subsidiary	16,339,467	14,514,491
Other assets	358,961	285,918
Total Assets	$21,532,973	$19,189,076
LIABILITIES:		
Accounts payable	$ –	$ –
Income taxes payable	–	–
Total Liabilities	–	–
Shareholders' Equity:		
Common Stock	3,800,951	4,243,451
Retained Earnings	17,732,022	14,945,625
Total Shareholders' Equity	21,532,973	19,189,076
Total Liabilities and Shareholders' Equity	$21,532,973	$19,189,076

STATEMENTS OF INCOME (year ended December 31)	**2006**	**2005**	**2004**
INCOME:			
Interest on short-term investments and loans	$245,965	$186,009	$237,042
Rental and other income	7,447	4,074	1,264
Total income	253,412	190,083	238,306
EXPENSE:			
Miscellaneous expense	55,440	107,476	60,363
Total expense	55,440	107,476	60,363
Income before income tax and equity in earnings of subsidiary	197,972	82,607	177,943
Provision for income taxes	82,335	34,357	74,007
Loss from investment	–	–	100,000
Income before equity in earnings of subsidiary	115,637	48,250	3,936
Equity in earnings of subsidiary			
Distributed	1,800,000	1,700,000	1,200,000
Undistributed	1,824,975	754,990	420,422
Net Income	$3,740,612	$2,503,240	$1,624,358

16. Fair Value of Financial Instruments

The Company is required to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the balance sheet, for which it is practical to estimate fair value. Following is a summary of the estimated fair value for each class of financial instrument as of December 31, 2006, and December 31, 2005 and the methods and assumptions used to evaluate them:

2006	Carrying Value	Estimated Fair Value
Cash and due from banks	$11,713,223	$11,713,223
Federal funds sold	27,630,000	27,630,000
Investment securities	1,535,392	1,536,832
Time deposits with other financial institutions	25,145,000	25,180,595
Loans	127,782,919	127,265,297
Deposits		
Demand	60,211,353	50,182,411
Interest bearing transaction accounts	56,454,146	49,795,556
Savings	2,769,265	2,375,075
Time certificates	55,602,755	55,693,006

2005	Carrying Value	Estimated Fair Value
Cash and due from banks	$11,958,815	$11,958,815
Federal funds sold	10,995,000	10,995,000
Investment securities	1,554,604	1,553,669
Time deposits with other financial institutions	26,723,000	26,703,692
Loans	113,987,367	113,762,407
Deposits		
Demand	57,193,185	48,252,954
Interest bearing transaction accounts	44,667,068	43,084,983
Savings	2,971,881	2,577,474
Time certificates	40,590,287	40,653,079
Federal Home Loan Bank advance	3,000,000	3,000,000

Cash and due from banks have a relatively short period of time between their origination and their expected realization and are valued at their carrying amounts. The fair value of investment securities and time deposits with other financial institutions were estimated using quoted market prices or dealer quotes. For certain variable rate loans, fair value is estimated at carrying value, as these loans reprice to market frequently. The fair value of other types of loans is estimated by discounting the future cash flows, using the current rates at which similar loans would be made to similar borrowers with similar credit ratings and for the same remaining maturities. The allowance for loan losses and overdrafts are valued at the carrying amount.The fair value of non-interest-bearing, interest-bearing transaction accounts and savings deposits is the amount payable on demand as of December 31, 2006, and 2005. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.The Bank has off-balance-sheet commitments comprising letters of credit and loan commitments with a contract amount of $1,475,607 and $45,403,941 respectively. The fair value of these off-balance-sheet commitments is not material.

SUMMIT BANCSHARES, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2006, 2005, AND 2004

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received	$13,092,617	$10,119,815	$7,809,139
Fees received	1,434,905	1,379,606	1,512,575
Interest paid	(3,057,250)	(1,583,952)	(900,097)
Cash paid to suppliers and employees	(5,022,231)	(4,687,088)	(4,713,733)
Income taxes paid	(2,945,000)	(1,725,382)	(1,175,000)
Net cash provided by operating activities	3,503,041	3,502,999	2,532,884
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Increase) decrease in time deposits with other financial institutions	1,578,000	(9,396,000)	4,804,310
Maturity of investment securities	3,146,000	1,490,175	504,285
Purchase of investment securities	(3,055,365)	(1,539,378)	(502,425)
Net (increase) decrease in loans to customers	(13,732,358)	6,146,567	(18,959,128)
Recoveries on loans previously charged-off	57,716	34,607	36,035
(Increase) in cash surrender value of life Insurance	(90,372)	(86,597)	(68,829)
(Increase) in premises and equipment	(235,637)	(144,239)	(337,254)
Net cash used in investing activities	(12,332,016)	(3,494,865)	(14,523,006)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in demand, interest bearing transaction, and savings deposits	14,602,630	(7,309,552)	5,199,620
Net increase (decrease) in time deposits	15,012,468	3,512,381	9,304,922
Federal Home Loan advance repayment	(3,000,000)	–	–
Exercise of stock options	–	–	54,864
Repurchase of common stock	(787,799)	(2,768,226)	(650,892)
Dividends paid	(608,916)	(632,486)	(680,496)
Net cash provided by (used in) financing activities	25,218,383	(7,197,883)	13,228,018
Net increase (decrease) in cash and cash equivalents	16,389,408	(7,189,749)	1,237,896
Cash and cash equivalents at the beginning of the year	22,953,815	30,143,564	28,905,668
Cash and cash equivalents at the end of the year	$39,343,223	$22,953,815	$30,143,564
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net Income	$3,740,612	$2,503,240	$1,624,358
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	147,866	243,934	218,576
Provision for loan losses	198,000	295,000	172,000
Decrease (increase) in other assets	(726,839)	(181,400)	218,340
Increase in unearned loan fees	(81,738)	8,344	93,422
Increase in other liabilities	225,140	633,881	206,188
Total adjustments	(237,571)	999,759	908,526
Net cash provided by operating activities	$3,503,041	$3,502,999	$2,532,884

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

1. Summary of Significant Accounting Policies

The accounting and reporting policies of Summit Bancshares, Inc. (the Company), and its wholly owned subsidiary, Summit Bank (the Bank), a California state-chartered bank, conform with accounting principles generally accepted in the United States of America and general practice within the banking industry. The following are descriptions of the more significant of these policies.

Nature of Operations

The Bank has conducted the business of a commercial bank since July 1, 1982. The Bank operates four branches and provides commercial credit and other banking services to small and mid-sized businesses and professionals, including professional firms of physicians, attorneys, accountants, real estate developers, retailers, and service firms, wholesalers, and distributors.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and the Bank. Significant inter-company transactions have been eliminated in consolidation. Certain prior years' amounts have been reclassified to conform to current year presentation.

Investment Securities

All investment securities are classified as held to maturity and are carried at cost, adjusted for amortization of premium and accretion of discount using a method that approximates the effective interest method. Gains and losses on sale or redemption of securities are determined using the specific identification method. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The Company's policy of classifying investment securities as held to maturity is based upon its ability and intent to hold such securities to maturity.

Time Deposits with Other Financial Institutions

Time deposits with other financial institutions are carried at cost and have maturities at origination ranging from 30 days to 920 days. The bank does not invest more than $100,000 in one institution in order to maintain Federal Deposit Insurance Corporation (FDIC) insurance on deposits in financial institutions.

Premises and Equipment

Premises and equipment are carried at cost, net of accumulated depreciation and amortization. Depreciation on furniture and equipment is calculated on a straight-line basis over the estimated useful life of the property, generally seven years for furniture and three to fifteen years for equipment. Leasehold improvements are amortized over the life of the related lease or the estimated life of the improvements, whichever is shorter.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of any deferred fees or costs on originated loan, or unamortized premiums or discounts on purchased loans.

Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loans.

Loans on which the accrual of interest has been discontinued are designated as nonaccural loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days or when, in the opinion of management, there is a reasonable doubt as to collectibility. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment

14. Pension Plan and Salary Continuation Program

Pension Plan

The Company provides pension benefits for all its eligible employees through a 401(k) Profit Sharing Program, which was adopted in 1984. Under the terms of the plan, eligible employees are allowed to contribute, under the 401(k) portion of the plan, up to 15% of their salaries. The Company in turn will match the employee's contribution up to a maximum of 3% of the employee's total annual compensation. Under this part of the plan, $30,839 was contributed in 2006, $34,425 in 2005, and $28,389 in 2004

In addition, the Company may contribute up to 15% of eligible employees' annual compensation to the profit sharing portion of this plan. Such contributions were $53,008 in 2006, $75,480 in 2005, and $57,577 in 2004. Employees' interest in the contributions made by the Company on their behalf becomes 100% vested in accordance with the seven-year program. Any forfeited amounts are redistributed among the remaining participants in the plan.

Salary Continuation Plan

The Company has established a salary continuation plan and a deferred compensation plan for certain executives. Benefits under the salary continuation plan are payable for a period of 15 years upon retirement or death. The Company expenses annually an amount sufficient to accrue the present value of the benefit to be paid to the executives upon their retirement. Additionally, the key executives' beneficiaries are entitled to certain death benefits under the plan in the event the executive dies while employed by the Company.

In accordance with the provisions of the deferred compensation plan, participants may choose to defer a portion of their annual compensation. The Company expenses the compensation annually regardless of whether or not the officer has chosen to defer compensation. Benefits under the plan are payable over a fifteen year period. In the event of death, while an employee, the beneficiary will receive an amount that would have been paid to the employee. Death benefits payable under both plans is funded by life insurance policies purchased by the Company. Compensation expense associated with the plans was approximately $253,109 in 2006, $273,407 in 2005, and $174,250 in 2004.

15. Financial Instruments with Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statement of financial position. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies and procedures in making commitments and conditional obligations as it does for on-balance-sheet instruments. At December 31, 2006, financial instruments whose contract amounts represent credit risk:

	Contract Amount 2006	2005
Commitments to extend credit in the future	$45,403,941	$40,891,210
Standby letters of credit	1,475,607	1,263,100
Total	$46,879,548	$42,154,310

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the counter-party. Collateral held varies but may include accounts receivable, inventory, property, plant, and equipment, and income-producing commercial properties. Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. All guarantees expire within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

11. Stock Option Plan

On January 1, 2006, the Company adopted the provisions of SFAS No. 123R Share Based Payment (SFAS No. 123R) requiring the measurement and recognition of all share-based compensation under the fair value method. Prior to January 1, 2006, the Company accounted for share-based awards under APB No. 25. The Company adopted SFAS No. 123R using the modified prospective transition method, therefore, prior period results are not restated and do not reflect the recognition of share-based compensation.

Under the modified prospective transition method, share-based compensation expense is recorded for all awards granted after the adoption date and for the unvested portion of previously granted awards outstanding on the adoption date. Compensation cost related to the unvested portion of previously granted awards is based on the grant date fair value estimated in accordance with the original provision so of SFAS No. 123. Compensation cost for awards granted after the adoption date is based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. There was no compensation cost recorded during the year ended December 31, 2006, since the amount was not material.

In 1992, the shareholders approved the 1992 Employee and Consultant Stock Option Plan (the "1992 Plan"), which was designed to replace the 1982 Incentive Stock Option Plan that expired on February 28, 1992, after which no new unallocated stock options may be granted. The 1992 Plan was designed to carry forward the remaining 329,340 options reserved but not granted under the 1982 Incentive Plan at the then current market price. No new additional shares of the Company have been reserved for issuance under the 1992 Plan although some shares have been forfeited and subsequently granted to other individuals.

A summary of option activity of the Company's stock option plan is presented below.

	Non-vested Shares	Weighted - Average Grant Date Fair Value
Nonvested, January 1, 2006	4,367	$ 2.45
Granted	–	–
Vested	(723)	2.45
Forfeited	(30)	0.25
Expired	–	–
Nonvested, December 31, 2006	3,614	$ 7.69

As of December 31, 2006, there was approximately $5,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan, which will vest over the next 4.54 years.

12. Restrictions

The Bank is regulated by the Federal Deposit Insurance Corporation, whose regulations do not specifically limit payment of dividends, and the State of California Department of Financial Institutions. California banking laws limit dividends that the Bank may transfer to the Company, to the lesser of retained earnings or net income less dividends paid for the last three years. Under these restrictions, at December 31, 2006, the Bank could pay dividends to the Company of up to approximately $3,000,387 without prior regulatory approval.

The Bank is required by federal regulations to maintain certain minimum average balances with the Federal Reserve. Required deposits held with the Federal Reserve at December 31, 2006 were $2,005,000.

13. Commitments and Contingent Liabilities

The Company is obligated for rental payments under certain operating lease and contract agreements. Total rental expense for all leases included in occupancy and equipment expenses was $311,339, $307,447, and $267,826 for the years ended December 31, 2006, 2005, and 2004.

At December 31, 2006, the approximate future minimum payments for non-cancelable leases with initial or remaining terms in excess of one year were as follows:

2007	$ 325,107
2008	373,794
2009	381,950
2010	390,385
2011	399,078
Total	$1,870,314

The Company is subject to various pending and threatened legal actions, which arose out of the normal course of business. There are currently no claims currently pending.

of management, the loans are estimated to be fully collectible as to all principal and interest.

The Bank considers a loan to be impaired when it is probable that the Bank will be unable to collect all amounts due (Principal and interest) according to the contractual terms of the loan agreement. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Bank selects the measurement method on a loan-by-loan basis except those collateral-dependent loans for which foreclosures are probable are measured at the fair value of the collateral. The Bank recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans.

Allowance for Loan Losses

The allowance for credit losses is increased by charges to income and decreased by charge-offs (net of recoveries). Reviews are performed to identify the risks inherent in the loan portfolio, assess the overall quality of the loan portfolio and to determine the adequacy of the allowance for credit losses and the related provision for loan losses to be charged to expense. Loans identified as less than "acceptable" are reviewed individually to estimate the amount of probable losses that need to be included in the allowance. These reviews include analysis of financial information as well as evaluation of collateral securing the credit. Additionally, the Company considers the inherent risk present in the "acceptable" portion of the loan portfolio taking into consideration historical losses on pools of similar loans, adjusted for trends, conditions and other relevant factors that may affect repayment of the loans in these pools.

Other Real Estate Owned

Other real estate owned is comprised of properties acquired through foreclosure. These properties are carried at the lower of the recorded loan balance or their estimated fair value net of disposal costs. When the recorded loan balance exceeds the fair value of the property, the difference is charged to the allowance for loan losses at the time of acquisition. Subsequent declines in value from the recorded amount, if any, and gains or losses upon disposition are included in non-interest expense or income as appropriate. Operating expenses related to other real estate owned are charged to non-interest expense in the period incurred.

Income Taxes

Income taxes reported in the statements of income are computed at current tax rates, including deferred taxes resulting from temporary differences between the recognition of items for tax and financial reporting purposes.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds sold are purchased and sold for one-day periods.

Comprehensive Income

The Company had no items of other comprehensive income for the twelve months ended December 31, 2006, 2005 and 2004. Accordingly, total comprehensive income was equal to net income for each of those periods.

Segment Reporting

The Company is principally engaged in community banking activities through the four banking offices of its subsidiary bank. The community banking activities include accepting deposits, providing loans and lines of credit to local individuals and businesses, and investing in investment securities and money market instruments. The four banking offices have been aggregated into a single reportable segment. Because the Company's financial information is internally evaluated as a single operating segment, no separate segment information is presented. The combined results are reflected in these financial statements.

Financial Statement Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

Stock Based Compensation

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123R Share Based Payment (SFAS No. 123R) under the modified prospective method. Accordingly, compensation expense for stock options is measured at grant date fair value and amortized over the requisite services period of the award. There was no impact on the Company's operations as a result of implementing SFAS No. 123R. For the years ended December 31, 2005 and 2004, the Company used the intrinsic method to recognize compensation cost to the extent of the difference between the quoted market price of the stock at the date of grant and the amount an employee must pay to acquire the stock.The Company grants stock options to employees with an exercise price greater than or equal to the quoted market price of the stock at the date of grant.Accordingly, no compensation cost was recognized for stock option grants.

Had compensation cost for the plan been determined based on the fair value of the options at the grant dates consistent with the method of SFAS No. 123, Accounting for Stock-Based Compensation, the Company's net income per share would have been changed to the pro forma amounts indicated below. For those options that are nonqualified stock options for income tax purposes, the pro forma net income reflects the Company's estimated future tax deduction upon exercise of the options.

	2005	2004
Net income		
As Reported	$2,503,240	$1,624,358
Less:	–	–
Stock based employee compensation, net of related tax effects, not included in net income	(1,374)	(2,233)
Pro Forma	$2,501,866	$1,622,125
Earnings per share		
As Reported	$1.47	$0.89
Pro Forma	$1.47	$0.89
Diluted earnings per share		
As Reported	$1.47	$0.89
Pro Forma	$1.47	$0.89

Recently Issued Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections (SFAS No. 154). SFAS No. 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154, effective January 1, 2006, did not have a material impact on our financial condition or operating results.

In February 2006, the Financial Accounting standards Board (FASB) released Statement of Financial Accounting Standard (SFAS) No. 155, Accounting for Certain Hybrid Financial Instruments (SFAS No. 155). SFAS No. 155 is an amendment of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities. SFAS No. 155 establishes, among other items, the accounting for certain derivative instruments embedded within other types of financial instruments; and eliminates a restriction on the passive derivative instruments that a qualifying special-purpose entity may hold. Effective for the Company for January 1, 2007, SFAS No. 155 is not expected to have any impact on the financial position, results of operations or cash flows.

In March 2006, the FASB released SFAS No. 156, Accounting for Servicing of Financial Assets, an amendment of SFAS Statement No. 140, (SFAS No. 156). SFAS No. 156 amends SFAS No. 140 to require that all separately recognized servicing assets and liabilities in accordance with SFAS No. 140 be initially measured at fair value, if practicable. Furthermore, this standard permits, but does not require fair value measurement for separately recognized servicing assets and liabilities in subsequent reporting periods. SFAS No. 156 is also effective for the Company beginning January 1, 2007; however, the standard is not expected to have an impact on the Company's financial position, results of operations or cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN No. 48). This interpretation clarifies the accounting for uncertainty in income taxes in a company's financial statements, in accordance with FASB Statement No. 109, Accounting for Income Taxes by prescribing the minimum recognition threshold a tax position must meet before being recognized in the financial statements. FIN No. 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We do not expect FIN No. 48, which is effective for fiscal years beginning after December 15, 2006, to have a material impact on our financial condition or operating results.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurement a standard that provides enhanced guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. Under the standard, fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts. The standard clarifies that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, the standard establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, the reporting entity's own data. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. We will adopt SFAS No. 157 on January 1, 2008, and we do not expect the adoption of SFAS No. 157 to have a material impact on our financial condition or operating results.

10. Regulatory Capital

The Company and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2006, that the Company and the Bank have met all capital adequacy requirements.

As of December 31, 2006, the most recent notification from Federal Deposit Insurance Corporation categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The consolidated and Bank's actual capital amounts and ratios are presented in the following table:

	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2006						
Total Capital						
(to Risk Weighted Assets)						
Consolidated	$23,455,000	15.29%	$12,275,600	8.00%	$15,344,500	10.00%
Bank	18,209,000	12.19%	11,946,480	8.00%	14,933,100	10.00%
Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	21,533,000	14.03%	6,137,800	4.00%	9,206,700	6.00%
Bank	16,339,000	10.94%	5,973,240	4.00%	8,959,860	6.00%
Tier 1 Capital						
(to Average Assets)						
Consolidated	21,533,000	10.86%	7,928,520	4.00%	9,910,650	5.00%
Bank	16,339,000	8.42%	7,760,802	4.00%	9,701,003	5.00%
As of December 31, 2005						
Total Capital						
(to Risk Weighted Assets)						
Consolidated	20,831,000	15.91%	10,476,800	8.00%	13,096,000	10.00%
Bank	16,102,000	12.71%	10,152,320	8.00%	12,690,400	10.00%
Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	19,189,000	14.65%	5,238,400	4.00%	7,857,600	6.00%
Bank	14,514,000	11.46%	5,076,160	4.00%	7,614,240	6.00%
Tier 1 Capital						
(to Average Assets)						
Consolidated	19,189,000	11.02%	6,964,680	4.00%	8,705,850	5.00%
Bank	14,514,000	8.63%	6,725,531	4.00%	8,406,913	5.00%

9. Shareholders' Equity and Earnings per Share

Basic Earnings Per Share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted Earnings Per Share is computed by dividing net income available to shareholders by the weighted average number of common shares outstanding and potential common shares, which include dilutive stock options.

The computation of potential common stock equivalent shares is based on the weighted average market price of the Company's common stock throughout the period. The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the years ended December 31, 2006, 2005, and 2004.

FOR THE YEAR ENDED

	December 31, 2006			December 31, 2005			December 31, 2004		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net Income	$3,740,612			$2,503,240			$1,624,358		
Basic EPS Income Available to Common Stockholders	3,740,612	1,610,710	$2.32	2,503,240	1,700,643	$1.47	1,624,358	1,815,679	$0.89
Effect of Dilutive Securities									
Stock Options		2,358			2,176			5,929	
Diluted EPS Income Available to Common Stockholders and Assumed Conversion	$3,740,612	1,613,068	$2.32	$2,503,240	1,702,819	$1.47	$1,624,358	1,821,608	$0.89

For the periods reported, the Company had no reconciling items between net income and income available to common shareholders. The last of the options expire in 2011.

In September 2006, the FASB issued SFAS No. 158 Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, which will require employers to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements.The standard will make it easier for investors, employees, retirees and others to understand and assess an employer's financial position and its ability to fulfill the obligations under its benefit plans. Specifically, SFAS No. 158 requires an employer to (a) recognize in its balance sheet an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur.Those changes will be reported in comprehensive income of a business entity. The adoption of SFAS No. 158 did not have a material impact on our financial condition or operating results. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of December 31, 2006.

2. Investment Securities

The amortized cost and estimated fair values of investments in debt securities held to maturity as of December 31, 2006 and 2005 are as follows:

December 31, 2006	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. agencies	$1,535,392	$1,440	–	$1,536,832

December 31, 2005	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. agencies	$1,554,604	–	$935	$1,553,669

At December 31, 2006, the debt securities with unrealized gains have appreciated 0.09% from the Bank's amortized cost basis. These securities are guaranteed by the government agencies. These unrealized gains relate principally to current interest rates for similar types of securities. In analyzing an insurer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, no gains are deemed to be other-than-temporary.

The amortized cost and estimated fair value of debt securities at December 31, 2006 by contractual maturities are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$1,535,392	$1,536,832
Total	$1,535,392	$1,536,832

There were no sales of investments in debt securities during 2006 or 2005. At December 31, 2006, securities carried at $1,535,000 were pledged to secure public deposits, as required by law.

3. Loans and Allowance for Loan Losses

A summary of loans as of December 31, 2006, and 2005 (net of unearned loan fees of $671,000 and $753,000, respectively), is as follows:

	2006	2005
Commercial loans	$51,799,749	$40,105,907
Real estate loans	60,390,618	50,925,423
Real estate construction loans	9,302,667	15,832,659
Installment loans	6,289,885	7,123,379
	127,782,919	113,987,367
Less: Allowance for loan losses	(2,260,344)	(2,023,172)
	$125,522,575	$111,964,195

The changes in the allowance for loan losses for the years ended December 31, 2006, 2005, and 2004 are as follows:

	2006	2005	2004
Balance, beginning of period	$2,023,172	$1,753,069	$1,685,688
Provision for loan losses	198,000	295,000	172,000
Recoveries	39,172	34,607	36,135
Loans charged-off	–	(59,504)	(140,754)
Balance, end of period	$2,260,344	$2,023,172	$1,753,069

The following table provides information with respect to the company's past due loans and components for non-performing assets at the dates indicated.

	Non-Performing Assets December 31, 2006	2005
Loans 90 days or more past due and still accruing:		
Commercial	$250,000	$ –
Real Estate	–	–
Non-accrual loans:		
Commercial	–	–
Real Estate	–	–
Consumer	–	–
Total Non-Performing Loans	$250,000	$ –

The Company had no impaired loans at December 31, 2006 and December 31, 2005, and $184,000 at December 31, 2004. The total valuation allowance related to these loans was $0 at December 31, 2006, $0 at December 31, 2005 and $92,000 at December 31, 2004.The average recorded investment in impaired loans during 2006, 2005 and 2004 was $386,000, $144,000 and $184,000, respectively. There was no interest income recognized on impaired loans the years ended December 31, 2006, 2005 and 2004, respectively.

The Bank grants commercial, construction, real estate, and installment loans to customers mainly in the California counties of Alameda and Contra Costa.Although the Bank has a diversified loan portfolio, a substantial portion of its loan portfolio is concentrated in real estate related loans.

4. Related Party Transactions

The Bank has, and expects to have in the future, banking transactions in the ordinary course of its business with directors, officers, and principal shareholders and their associates. In management's opinion and as required by federal law, loans to related parties are granted on the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with others, and do not involve more than normal risk of collectibility or present other unfavorable features. As of December 31, 2006, and 2005, loans outstanding to directors, officers, and principal shareholders and their known associates were $576,573 and $240,917, respectively. The December 31, 2006 figure does not include $579,443 in loans outstanding to a director that resigned during 2006. In 2006, advances on current directors' loans were $1,025,200, and collections were $1,429,357. In 2005, advances on such loans were $395,500, and collections were $863,501. As of December 31, 2006 total deposits of directors, officers and principal shareholders and their known associates totaled $3,277,769.

5. Premises and Equipment

Premises and equipment consisted of the following:

	Cost	Accumulated Depreciation	Net Book Value
December 31, 2006			
Land	$330,223	$ –	$330,223
Leasehold improvements	1,145,439	1,029,242	116,197
Furniture and equipment	2,065,136	1,530,915	534,221
Total	$3,540,798	$2,560,157	$980,641
December 31, 2005			
Land	$330,223	$ –	$330,223
Leasehold improvements	1,141,349	1,002,583	138,766
Furniture and equipment	1,833,588	1,338,284	495,304
Total	$3,305,160	$2,340,867	$964,293

Depreciation and amortization included in occupancy and equipment expenses were $219,289, $243,934 and $218,576, for the years ended December 31, 2006, 2005, and 2004, respectively.

6. Income Taxes

The provision (benefit) for income taxes consists of the following

	2006	2005	2004
Current:			
Federal	$2,048,000	$1,435,000	$994,000
State	582,000	427,000	298,000
Total current	2,630,000	1,862,000	1,292,000
Deferred:			
Federal	(192,000)	(209,000)	(119,000)
State	(35,000)	(81,000)	(67,000)
Total deferred	(227,000)	(290,000)	(186,000)
Total taxes	$2,403,000	$1,572,000	$1,106,000

The components of the net deferred tax asset of the Company as of December 31, 2006, and 2005, were as follows:

	2006	2005
Deferred Tax Assets:		
Allowance for loan losses	$882,000	$801,000
State taxes	195,000	147,000
Depreciation	158,000	161,000
Other	617,000	516,000
Net Deferred Tax Asset	$1,852,000	$1,625,000

The provisions for income taxes applicable to operating income differ from the amount computed by applying the statutory federal tax rate to operating income before taxes. The reasons for these differences are as follows:

	2006		2005		2004	
	Amount	Percent	Amount	Percent	Amount	Percent
Federal income tax expense, based on the statutory federal income tax rate	$2,089,000	34.00%	$1,385,000	34.00%	$928,000	34.00%
State franchise taxes, net of federal income tax benefit	440,000	7.20%	292,000	7.20%	153,000	5.60%
Other, net	(126,000)	(2.10%)	(105,000)	(2.70%)	25,000	.90%
Tax provision	$2,403,000	39.10%	$1,572,000	38.50%	$1,106,000	40.50%

7. Time Deposits

Time deposits issued as of December 31, 2006 had $54,994,790 maturing in the year 2007, $605,657 maturing in 2008, and the remaining $2,308 maturing in 2010.

8. Borrowings

The Bank has available or unused federal funds lines of credit agreements with other banks. The maximum borrowings available under these lines totaled $8,500,000 at December 31, 2006. There were no borrowings outstanding under the agreements at December 31, 2006 and December 31, 2005.

The Bank maintains a secured line of credit with the Federal Home Loan Bank of San Francisco (FHLB). Based on the FHLB stock requirement at December 31, 2006, this line provided for a maximum of $6,470,000. There was no outstanding balance as of December 31, 2006. At December 31, 2006 this borrowing line was collateralized by mortgage loans with a book value of $16,548,000. Interest expense related to FHLB borrowings totaled $17,230 in 2006, $70,282 in 2005 and $75,585 in 2004, respectively.

The $3,000,000 outstanding at December 31, 2005 was a 36-month term advance that matured on April 2, 2006 and had an interest rate of 2.34%.