Summit Bancshares, Inc.

BUILT ON A FRAMEWORK OF STRENGTH

2010 ANNUAL REPORT

Financial Highlights

FOR THE YEAR ENDED	2010	2009	2008	2007	2006
Net Income	$983,660	$517,425	$2,088,279	$3,685,311	$3,740,612
Earnings per common share	$0.76	$0.40	$1.58	$2.37	$2.32
Earnings per common share– assuming dilution	$0.76	$0.40	$1.58	$2.37	$2.32
Cash Dividends per Share, declared	-	-	$0.375	$1.375	$0.375
AT YEAR END (in thousands)					
Deposits	$163,264	$158,166	$161,696	$160,158	$175,038
Loans (Net)	123,124	119,769	120,436	118,506	125,523
Assets	184,934	179,311	182,168	183,926	198,997
Shareholders' Equity	19,396	18,413	17,895	21,182	21,533
Non-performing Loans to Total Loans	6.33%	4.27%	2.70%	-	0.20%
Allowance to Non-performing Loans	34.08%	52.15%	58.00%	-	11.06%
Tier 1 Capital	13.06%	13.17%	12.62%	14.45%	14.03%
Total Capital	14.32%	14.43%	13.87%	15.60%	15.29%
Leverage Ratio	9.96%	10.36%	9.58%	11.28%	10.86%

MARKET PRICE OF THE COMPANY'S STOCK AND DIVIDENDS

The stock of the Company is not listed on any stock exchange but is traded in limited and infrequent transactions in the "over the counter" market. According to information made available to the Company by the Market Maker, Wedbush Morgan Securities, the range of high and low bids for such common stock for each calendar quarter since January 2010 is contained below. The following prices reflect retail mark-up and may not represent actual transactions.

	HIGH	LOW
2010		
First Quarter	$9.50	$8.00
Second Quarter	11.00	8.50
Third Quarter	9.15	8.50
Fourth Quarter	8.63	8.10
Total		
2009		
First Quarter	$12.00	$7.00
Second Quarter	10.01	7.26
Third Quarter	8.80	7.95
Fourth Quarter	8.50	8.00
Total		

The Company presently intends to continue the policy of not 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

We are extremely pleased to report that Summit Bancshares, Inc. finished 2010 by posting a profit that almost doubled our 2009 profit number and continued our history of 29 years of annual profitability. Summit Bank has been profitable since its second month of operation when it opened in July 1982. It is a record that few, if any, banks in this state can compete with.

Our rich history of profitability, of doing business locally, building core deposits and maintaining our strong credit values with our very worthy local clients are the primary reasons we have been able to perform so well through the decades, and in this very challenging environment.

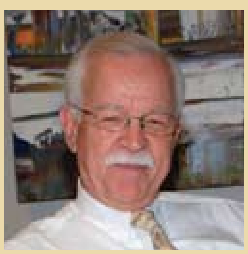
While we have met these challenges and continue to be profitable, the Fed Funds Rate, the interest rate at which banks loan funds to each other overnight, continues to be in a range of 0 to 25 basis points. These rates are the lowest short term interest rates in history and, as a result, have put downward pressure on our interest margins which, of course, puts pressure on our profitability. Our ability to contain expenses, while we are in this historically low interest rate environment, is just one of the many reasons why we have been able to remain profitable.

Despite the current economic conditions we have been able to expand our asset base to $184,934,124 from $179,310,766 in 2009. Our deposits have grown to $163,263,846 from $158,166,007 and our loans from $119,769,262 to $123,124,108. Our capital remains strong at 13.06%, and well above the regulatory requirement of 10%. In 2010, the Return on Assets was 0.53% and the Return on Equity was 5.07% for your company as compared to the average return from 191 state banks of an ROA of 0.30 and ROE of 2.29%.

As we go forward, we will continue to recognize that our success will be determined by our relationships with our clients. We will continue to be prudent with all our lending activities, as we emphasize to you the quality and core values of our client base as a primary reason for our success in the past, as it will be in the future. As always, we strive to provide an ever increasing value to you, by maintaining the quality of our performance.

On behalf of the management, staff and Board of Directors of Summit Bank and Summit Bancshares, Inc. we thank you for your continued support.

Shirley W. Nelson
Chairman and Chief Executive Officer



C. Michael Ziemann
President and Chief Financial Officer

Steven P. Nelson
Executive Vice President, Chief Operating Officer and Chief Information Officer

George Hollidge

George Hollidge has spent his entire life in the Bay Area. At the age of 15, he began working for his father's transmission company where his love of cars evolved from a mere passion to a successful career. George eventually took over the company in 1969 and ran it successfully for twenty-nine years before selling the business in 1998.

As one of Summit Bank's founders and directors, George recognizes the value of a well managed organization and champions Summit's ability to make each customer feel confident and in control of their finances. "In business, there is a comfort level in knowing who the big players are. As a customer of Summit Bank, I know there are a number of people I can call who have a direct effect on what's going on. The senior officers and directors are accessible, Mike and Shirley are accessible. If I have a problem or a question about one of my accounts, it is dealt with right away. If I need money tomorrow, I can get it. Summit offers a fast-action philosophy that provides customers with efficient, top-notch quality service in an intimate family environment."

Summit's smart conservative approach to lending is another area George sees as a defining quality that has allowed Summit the ability to sustain so many long term clients. "Summit doesn't evaluate a prospective loan opportunity simply based on an application. They take the time to visit a customers' property, kick the tires, evaluate the inventory and get to know the business in order to make the best decision that will benefit the customer and the bank at the same time. If you have a viable deal, Summit will make it happen. You don't see that kind of dedication at other banks."

As a member of the Loan Committee, George represents "a different perspective that keeps the board healthy." He also supports the board with his technological expertise and serves as the Chairman for the Strategic Planning and IT Committees and is a member of the Audit and Compliance Committee, Loan Committee, 401K Profit Sharing Committee, Director's Personnel Committee and the Investment & Funds Management Committee.

Kikuo Nakahara, *H&R Block Tax & Business Services*

Kikuo Nakahara is the Director of H&R Block Tax & Business Services in Walnut Creek. Prior to this position he was a partner for Greene, Nakahara and Lew, an accounting firm that was named one of the Top 10 in the Bay Area before merging with American Express Tax & Business Services in 1994. In 2005, the Tax & Business Services sector of American Express was sold to H&R Block where Kikuo continues to supervise audit and accounting practices and offers support for his prior practices' relationships.

Over the years Kikuo's expertise in the accounting field coupled with his experiences as a minority business owner have helped him develop an extensive relationship with Summit Bank. "Summit Bank is unique. They are proactive in getting new business and creative with their loans. They make deals where other banks fail to bend and stretch in order to structure something that works with their

For Kikuo, Summit's focus on small businesses and women-owned businesses is a trademark that separates them from other small community banks. "Summit Bank represents the total service package. At Summit, they are not just selling a piece of business; they are selling as much as they can provide for each of their customers. They know the customers' needs and as a team, the employees at Summit Bank work hard to accommodate those needs."

Kikuo is one of the bank's founding directors and he currently serves as the Chairman for the Audit & Compliance Committee and serves on the 401K Profit Sharing Committee, Investment & Funds Management Committee and the Loan Committee. He is also a member of the American Institute of CPAs, Hawaii Society of CPAs and the California Society of CPAs.

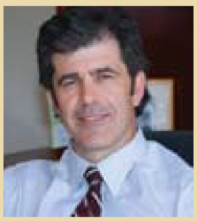
John Nohr

John Nohr is a native of Oakland, California. He received a B.S. degree in Business Management from San Jose State University. He has over 40 years of experience in the Real Estate industry and brings a wealth of knowledge on loans and loan structuring to our board.

John was a member of the Founders Group and Board of Directors at the former Bank of Walnut Creek. While serving there, he took Directors' College courses in Risk Management, Internal Control and Compliance & Technology.

John joined Summit Bank in February 2010. "I consider it an honor and a privilege to serve on the Board of Directors of Summit Bank. I value my relationship with the other board members, the staff and the clients of the bank."

Mr. Nohr serves as the Chairman of the Investment Funds Management Committee and is a member of the Audit and Compliance Committee, the Director's Personnel Committee and the Strategic Planning Committee. John strongly believes in "a conservative approach to the bank's investment portfolio, with ongoing monitoring and oversight." He currently sits on the boards of many civic organizations. He is the Chairman of the Investment and Funds Management Committee and a member of the Directors' Personnel Committee as well as the Audit and Compliance Committee.

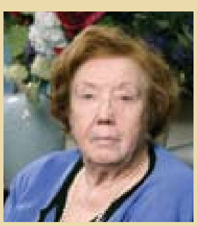


John Protopappas, *Madison Park Financial Corporation*

John Protopappas happened upon the real estate industry rather by accident when he and his partner purchased an apartment building from a probate sale over twenty years ago. The knowledge John gained was enough to inspire a new career path and the development of a new company, Madison Park Financial Corporation. As a result, John's innovative approach has lead to the transformation of over forty neglected properties (including the historic Tribune Tower to the Telegraph Lofts at the site of the former Sears Roebuck store in Oakland) into mixed-use live/work spaces.

At Summit Bank, John knows his finances will be handled with the same level of attention and care that he gives to his buildings. "Even though I came on board as a director prior to being a customer, it was not long before I realized how customer oriented we are at Summit Bank. When you understand the service provided by the Summit Bank team, you realize the value the team adds to your business. Their quick decisions, professional service and competitive terms are priceless." At a recent business event, John's commitment was once again validated. "I mentioned to one of the bank's Senior Relationship Officers that I was looking for a loan for one of my new projects. The next day he called me to get the specifics of the loan and within days Summit had figured out a way to get it done!"

John actively assists the board of directors in determining the development strategy for the bank's growth, building on its foundation as a small community bank. "It is important for the bank to grow as our customers grow." John is the Chairman of the Directors' Personnel Committee and serves on the Loan Committee, Investment & Funds Committee and the Strategic Planning Committee.



Mary Warren, *HMS Associates*

Mary Warren has worked as a government relations consultant since 1980 and is currently an associate of HMS Associates. She has held various management positions with the United States Postal Office over a 30-year period and has worked on the staffs of several state and federal elected officials. She also acted as the Vice President of Labor and Business for Alameda, Costa and Solano Counties.

Shirley Nelson's extraordinary display of hands-on leadership is one of the many reasons Mary confidently recommends Summit Bank to new clients. "There is an inherent security with having Shirley at the helm of the Summit Bank operation. She is deeply committed to the Oakland community and is focused on the needs of the small business owner. It is not often you see a CEO or a President that have been around as long as they have at Summit nor do you see as much pride and ownership as Shirley and Mike have. It is this demonstration of leadership from the top-down that has attributed to Summit's growth and their ability to maintain so many long-lasting client relationships. It is the reason I have remained a customer for so long, and why I will continue to be a customer with Summit Bank."

As a board member, Mary values Summit's "careful selection of board members to help provide guidance for the bank's continued growth and expansion." In addition to being part of the Audit & Compliance Committee and the Investment & Funds Management Committee, Mary also participates on the Summit Bank Foundation Board of Directors. She is also involved on the Boards of the Oakland-Alameda Coliseum Authority, the One Hundred Club of Alameda County and is an Alameda County Honorary Deputy Sheriff.

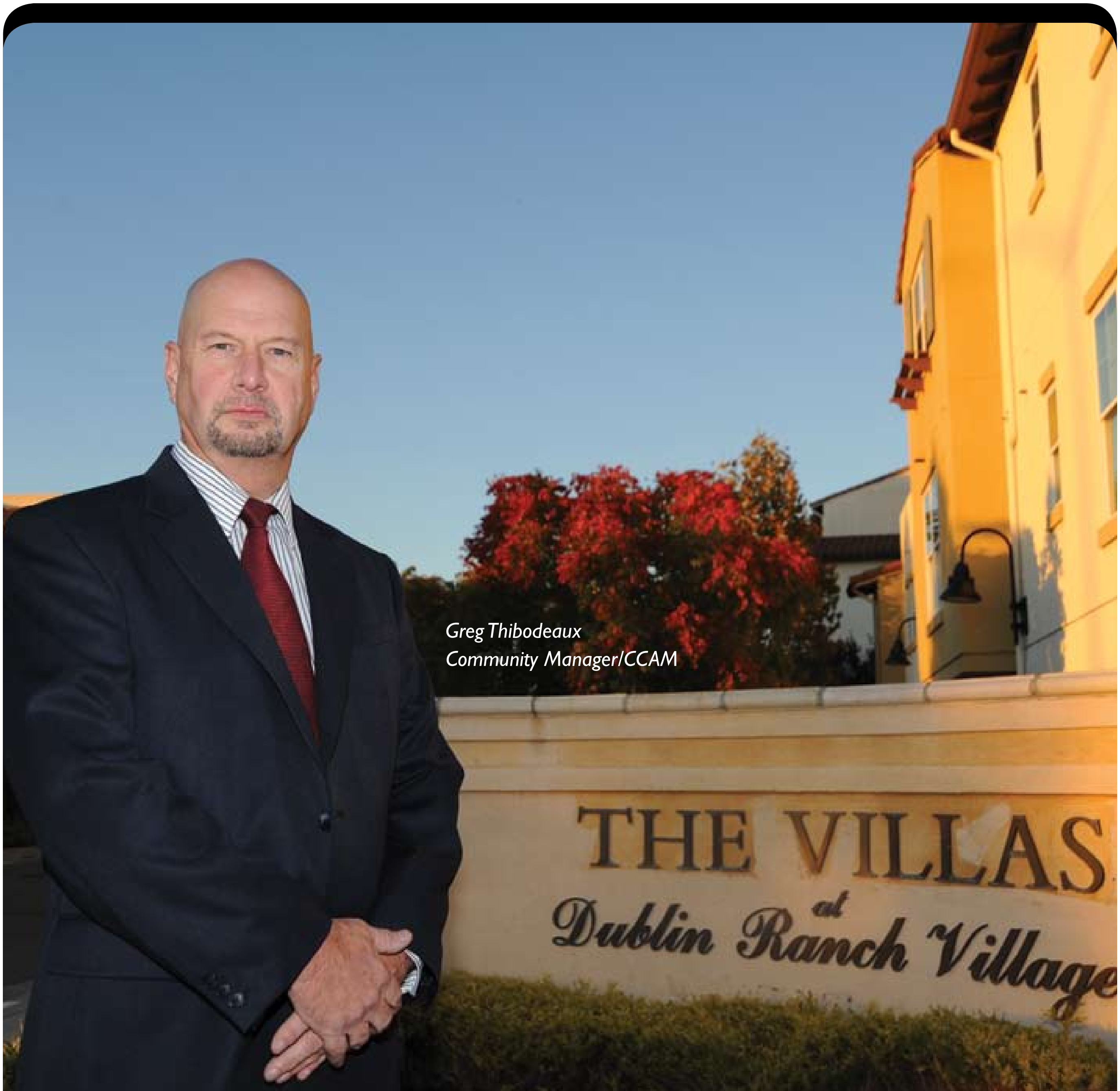
Our Clients Say it Best

Joe Rainero, CEO

IN THESE ECONOMIC TIMES, it seems that running a small business has become more directed at survival than growth. Relationships with bankers continue to change, and many banks appear to have turned away from small business and the entrepreneur. Fortunately, we were introduced to Summit Bank. Summit's staff worked with us to evaluate, strategize and finance our aggressive growth plan. Our personal relationships with senior Summit bankers have greatly helped our organization. In our first full year working together, Summit helped Kinder's revenue grow 147%. Today, we are poised to expand throughout the west coast, and Summit is still right there with us. Simply put, Summit Bank has provided us with the very best in community banking. We are a proud and committed client. *– Joe Rainero, CEO, P.K. Kinder Co., Inc.*

P.K. Kinder Co., Inc. is a subsidiary of JBJ Holding Inc., a wholesale distributor of specialty meats and sauces. Kinder's products have become a popular artisan brand at Costco, Safeway, Lucky's and Save Mart locations throughout Northern California.

Clients



Greg Thibodeaux
Community Manager/CCAM

WE LOVE SUMMIT BANK BECAUSE THEY ARE LOCAL, and seem to attract thriving clients even in this economy–they are seemingly the "insider's choice" for banking locally. The Bank's demonstrated skill in handling the needs of Home Owner's Association members makes me very happy that we chose Summit Bank. – *Greg Thibodeaux, Community Manager/CCAM, Massingham & Associates Management*

Massingham & Associates provides community association management and developer services in California. Since 1985, their sole focus has been to deliver performance that enriches residential communities and enhances the lives of the people they serve. Massingham is a member of Associa®, the nation's leader in community association management.

I'VE BANKED WITH SUMMIT since the late 1980s. As a Trust and Estate attorney, I often serve in a fiduciary capacity and am entrusted with the job of making sure funds are safe. Promptly responding to questions about transactions, wiring funds when needed, or setting up new accounts with unique legal ownerships are all extremely important for me in order to provide the best overall service for my clients. Summit has been able to accommodate my needs every time. I appreciate the bank's rating for safety and would recommend the bank to anyone who agrees that these qualities are important. – *Janet Dobrovolny, Principle, Law Offices of Janet L. Dobrovolny*

Janet L. Dobrovolny, Principle

Janet L. Dobrovolny is an attorney specializing in the law of trust and estates. She is a private trustee and co-author of the Suze Orman Trust and Will Kit software.

Mike McDonald, CEO

SUMMIT BANK IS THE EPITOME of what works and what is great about community banking. Summit is a bank that applies as much emphasis on personal relationships as it does on personal financial statements. The banking industry could and should take a lesson or two from Summit Bank CEO Shirley Nelson and her team. – *Mike McDonald, CEO, McDonald-Remick Architecture and Construction*

McDonald-Remick has designed and built some of the most publicized and award-winning green homes in the country. Their work on the Margarido House was the first LEED® Platinum custom home in Northern California, and has become known internationally as a model for luxury green design.

R.G. HILL & COMPANY CHOSE SUMMIT BANK for its community focus and dedication to personal customer service. Our relationship has given us the confidence to know our needs will be understood and met as business evolves and continues to grow. We are proud to be associated with Summit Bank and share the same values of local knowledge, competence and unmatched customer service. – *Jason Hill, President, R.G. Hill & Company*

Jason Hill, President

Established in 1968, R.G. Hill & Company is a premier property management firm specializing in multi-unit residential investment properties. An Accredited Management Organization® (AMO®) focused on the San Francisco East Bay, R.G. Hill has approximately $200 million in real estate assets under management.

I STARTED MY BANKING RELATIONSHIP with Summit after numerous business discussions with loan officer Sung W. Hong. Unlike other community banks who apply rigid and overly protective credit procedures focusing on form over substance, Summit Bank's lending team is prudent, pragmatic and trustworthy, and provides creative lending solutions based on a thorough understanding of the business itself. I offer high praise indeed. *–Byong Ju Yu, Owner, Koreana Plaza*

Koreana Plaza Market is one of the largest Korean grocery stores in California and provides a wide variety of products in service to shoppers and the community at large.

WHEN WE WERE LOOKING FOR A BANK to help launch production of our products, we gave Summit Bank a close look. Shirley and her team met with me to discuss our concept and agreed to provide us with the banking support we knew we needed. Over the years I've learned the importance of creating strong relationships, and Summit provides us with a focused banking team that cares about our business and our customers. *–Art Simon, Co-Founder, Molly Mutt*

From left: Molly Mundt, Founder; Bella; Art Simon, Co-Founder

Molly Mutt makes custom dog bed duvets that are paired with a stuff sack, allowing users to recycle old clothes, pillows and blankets. The company has helped to keep more than 200 tons of textiles out of local landfills. Molly Mutt duvets are now available in more than 500 stores and online retailers in the US, Canada and around the world.

Sandra Moore, CEO

SOON AFTER CABLE MOORE BEGAN our banking relationship with Summit, we immediately noticed improvements from our prior banking relationship. Summit is very personable. All the tellers seemed to know us right away, and we feel like part of a real team. They even provide us with a daily courier, so we don't even need to leave our offices to get our banking done. In our experience, it's rare to find a bank with the level of service Summit provides. The personal care they put into our business is both unexpected and appreciated. They are indeed a stand-out in today's business banking industry. – *Sandra Moore, CEO, Cable Moore, Inc.*

Cable Moore, Inc. is a rigging and machinery provider, headquartered in Oakland, CA. Cable Moore is a WBE, MBE & DBE/CCR company and is CALTRANS certified.

SUMMIT BANK BELIEVED IN OUR BUSINESS from the start, and provided us with a generous credit line in less than a week, one of the most crucial things a sales and leasing company such as our requires for operational fluidity. For other small businesses out there, I cannot recommend a banking institution with a higher level of client service than Summit Bank. We're sure that no matter how big or small your business is, you will feel as valued as we do banking with Summit. *– Joe Newcomer, Owner, eLeaseReturns.com*


Joe Newcomer, Owner

eLeaseReturns.com is a luxury car dealership in San Ramon, California, specializing in low mileage, and late model lease returns.

Ted Lempert, President

CHILDREN NOW HAS BEEN WORKING with Summit Bank for over 18 years. We appreciate Summit Bank's commitment to customer service and their involvement in the local community. It's important to us knowing that the money we rely on to execute our mission is well cared for. Summit staffers are very friendly and responsive to our questions, and take the time to ensure we understand our options. Summit Bank has become an important partner in our efforts to improve the lives of children every day. – *Ted Lempert, President, Children Now*

Children Now's mission is to find common ground among influential opinion leaders, interest groups, and policy makers who can develop and drive innovative approaches to help all children achieve their potential.

WE ENJOY WORKING WITH THE SUMMIT BANK TEAM. They are able to provide a personal touch that is very hard to find at larger banks. Our operation has continued to grow since we opened our doors in 1998, and Summit Bank has provided us with customer service we simply have not experienced before. We look forward to a long relationship and the same high level of customer service we have come to expect from Summit. – *Rommel Medina, CEO, Lucky Chances, Inc*.

Ruell Medina, Vice Chairman
Rommel Medina, CEO

Lucky Chances first opened its doors to the public on June 28, 1998 in Colma, CA. Today, it is a 60-table card room that prides itself in a friendly staff of over 650 employees who expertly service every customer's gaming needs.

AFTER YEARS OF BANKING WITH large institutions and working with many different loan officers, we decided to move our accounts to a local institution. After checking with some like-minded business owners, we came to the conclusion that Summit Bank would be our best resource. To date, this has certainly been true. We no longer have the revolving loan officer, and even have access to the CEO of the bank, Shirley Nelson. Our relationship with Summit has freed our time to focus on our core business. Everything that was missing in our previous banking relationships has been fulfilled by Summit. – *Andrew Fisher, Managing Partner, Arkitektura In-Situ*

Arkitektura In-Situ features the latest and greatest in European and American commercial and residential furniture design. Within a museum-like setting, the showroom is 15,000 square feet divided into individual sleek studios.

BANKING WITH SUMMIT HAS GIVEN ME the flexibility and support I need to build my business and grow my revenue. As a young entrepreneur, I am faced with many issues and problems every day that require my full measure of attention. When I need an answer to a question or help with strategic planning, I can just pick up the phone and speak with someone at Summit who understands my business and sees the big picture, not just my account. From their President to the tellers at my local branch office, Summit has been there to support my business from day one. Thank you, Summit Bank.
– Cody Thomas, Director of Operations, GlassRenu, LLC.

Cody Thomas,
Director of Operations

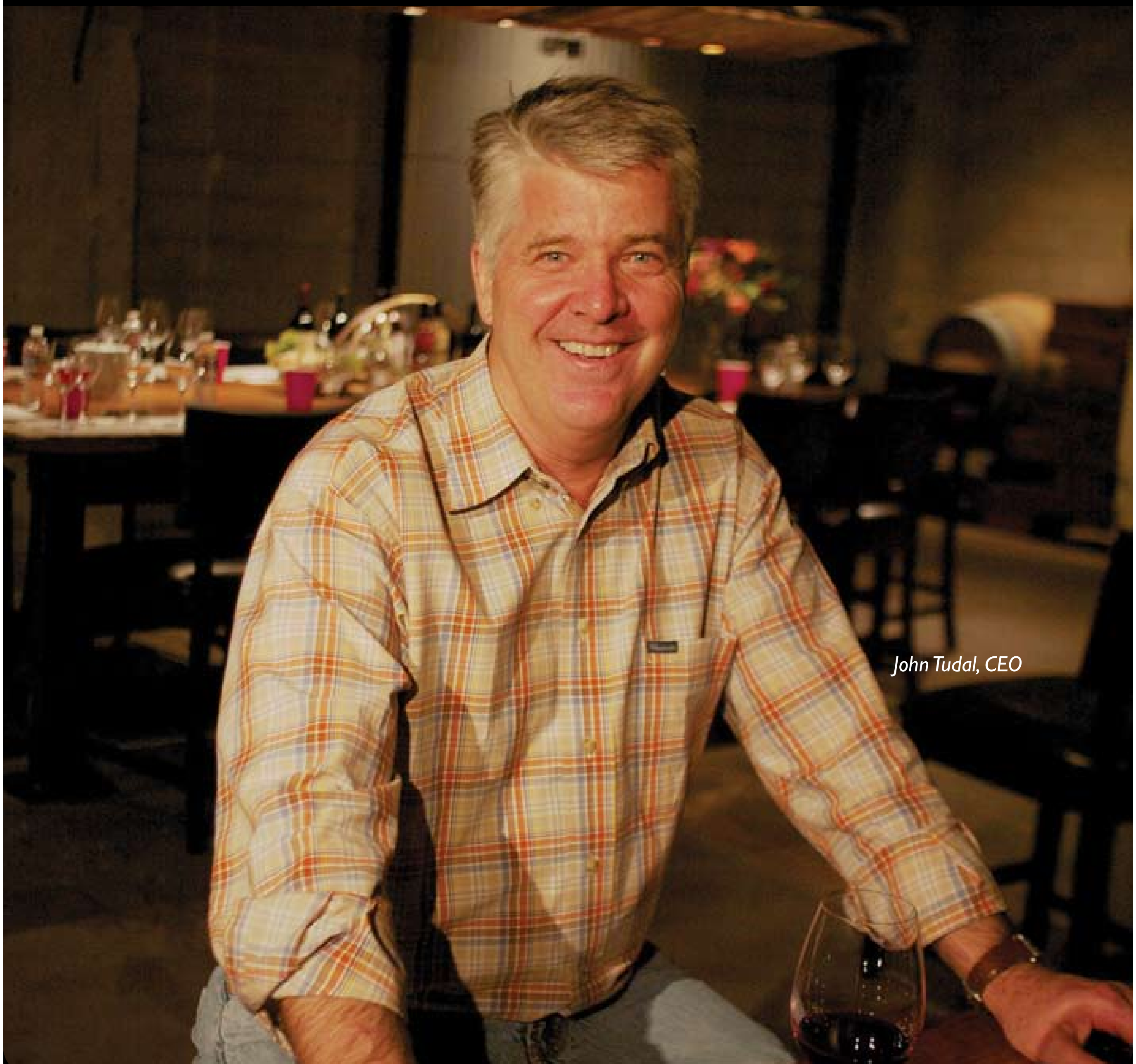
GlassRenu manufactures specialty tools designed to restore and remove surface damage from glass. With operations throughout the United States, Europe and Australia, GlassRenu is fast becoming the global leader in glass restoration products. Currently in their fourth year, GlassRenu is preparing to open distribution centers throughout the Middle East and South East Asia.

Tom Warner
President

WE HAVE BEEN BANKING WITH SUMMIT for over 20 years. As our business has evolved and grown, Summit has been there every step of the way. I've come to know Shirley and Steve Nelson, who have always been available with advice and direction concerning my banking needs. With three branches perfectly located for my custom building business, Summit's staff has always been helpful and very thorough. In short, it is a pleasure to continue banking with such a personable and professional group of people. I sincerely thank Summit Bank.*–Tom Warner, President, Thomas E. Warner Wine Cellars*

Thomas E. Warner has designed and built custom wine cellars and display systems for over 25 years. His work has been sought out by casual wine collectors, as well as impassioned vinofiles.

MY FATHER CONSTANTLY REMINDED ME that "the best things are found closest to home." We have certainly found this to be true with Summit Bank. Money Center banks do not take the time to understand our business practices or how we deliver our products to the marketplace. We are very pleased to call Summit Bank our primary business bank. We appreciate their community banking spirit and commitment to Oakland/East Bay Area based businesses. *– John Tudal, CEO, Cerruti Cellars*



John Tudal, CEO

Located in the heart of Jack London Square, Cerruti Cellars has become a leader in California's urban winery movement and bottles over 10,000 cases of wine annually, including the very popular Tractor Shed Red.

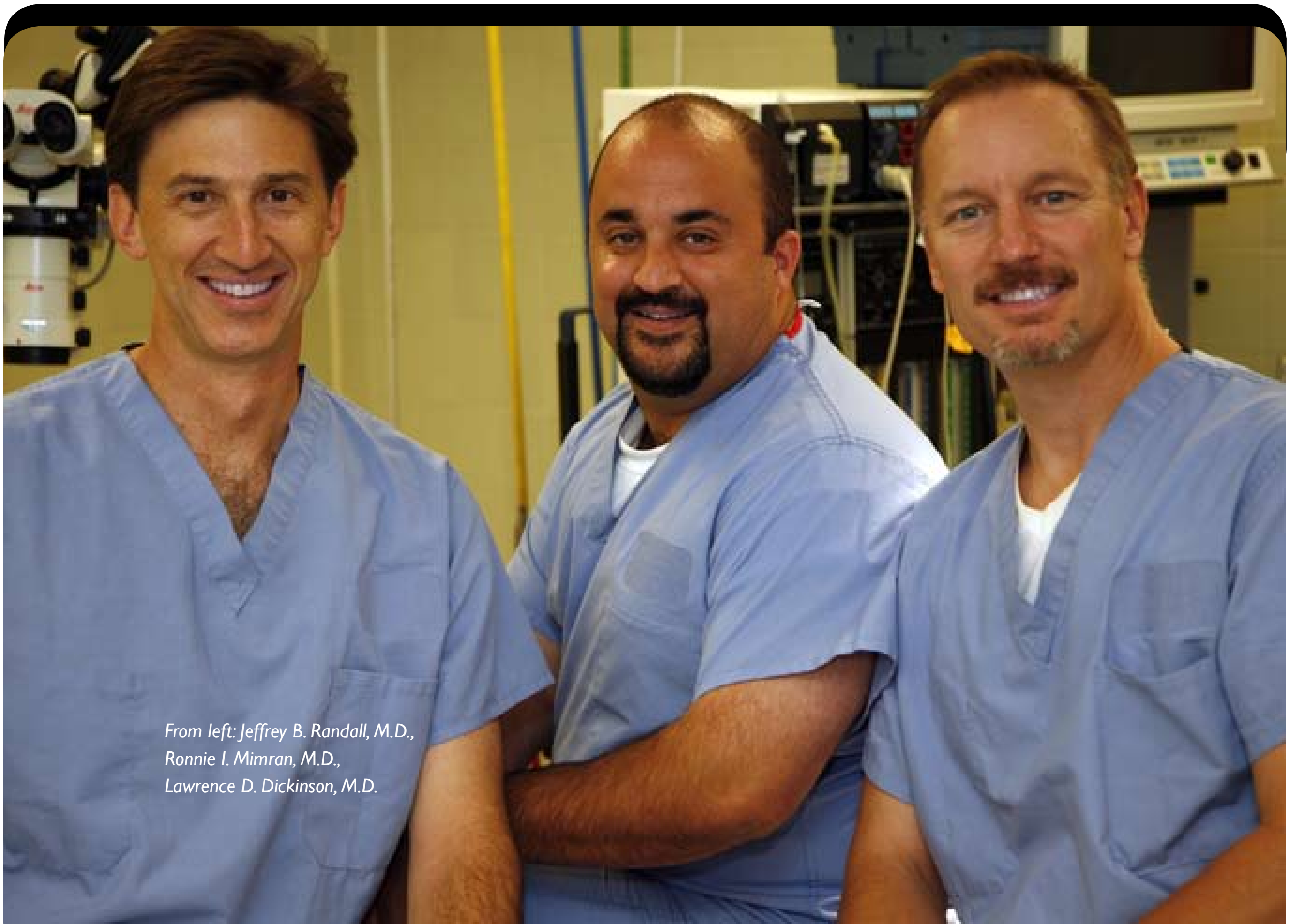
SUMMIT BANK IS ALL ABOUT RELATIONSHIPS; making them and working hard to keep them. The fact that I can talk to the people that make the decisions speaks volumes to the way Summit Bank conducts business.*–Luis Allende, Vice President, ABSL Construction*

Established in 1991, ABSL contracts its heavy-duty operational equipment and crews for street and road construction projects. They also specialize in providing asphalt grinding services.

SUMMIT BANK HAS BEEN OUR BANKING PARTNER for more than 20 years. Throughout our association with Summit, they have provided us with personalized banking solutions and the financial services to help us become the Bay Area's leading cardiovascular medical practice. Summit Bank is a respected member of the local financial community and they have never let us down when help was needed.– *Marcia Phoenix Gibbs, Administrator, Cardiovascular Consultants*

Names appear vertically from back to front, L to R row: 1) Ryan A. Brown, M.D.; Eric L. Johnson, M.D.; Andrew J. Benn, M.D.; John R. Krouse, M.D.; Anurag Gupta, M.D.; Paul L. Ludmer, M.D.; 2) Steven Kang, M.D.; Christopher W. Wulff, M.D.; Bahman J. Nouri, M.D.; John D. Vu, M.D.; Robert C. Feldman, M.D.; Neal W. White, M.D.; 3) Michael A. Lee, M.D.; David J. Anderson, M.D.; Richard W. Terry, M.D.; John H. Chiu, M.D.; 4) Gary R. Woodworth, M.D.; Matthew S. DeVane, D.O.; Pramodh S. Sidhu, M.D.; Jeffrey A. West, M.D.; 5) Kristine W. Batten, M.D.; Mark D. Nathan, M.D.

Cardiovascular Consultants Medical Group provides complete cardiovascular diagnostic and therapeutic services in the East Bay. For more than 50 years, they have provided state-of-the-art cardiovascular medical treatment.



From left: Jeffrey B. Randall, M.D., Ronnie I. Mimran, M.D., Lawrence D. Dickinson, M.D.

SUMMIT BANK OFFERS A SUPERIOR level of personalized service. They have been incredibly responsive and proactive in serving the needs of our busy neurosurgical practice over the past 10 years. Their staff is courteous and always ready to help. We are known and greeted by name on the phone or when we visit the branch. Summit's banking solutions have vastly simplified office operations and their financial services enable us to meet our personal business goals. We value our relationship with Summit Bank. – *Martha Matthews, Administrator, Pacific Brain and Spine Medical Group*

The neurosurgeons of Pacific Brain and Spine provide personal care to patients and families for conditions involving the neck, lower back, and brain.

AS A LOCAL, FAST-GROWING MEDICAL PRACTICE, our banking relationship is tremendously important. Our relationship with Summit Bank has been very positive. The respect shown to our staff from every level at the bank is remarkable and appreciated. Our doctors and staff have come to think of Summit as an active partner in our business. Choosing to bank with Summit was one of the smartest business moves our company has made to date. – *Sheila Kisor, CEO, Webster Orthopedics*

Clockwise from left: Dr. J. Theodore Schwartz, Dr. Aaron Salyapongse, Dr. Robert Rovner, Dr. Stephen Viess, Dr. John Frazier, Dr. Thomas Peatman, Dr. Kendrick Lee, Dr. Vikram Talwar, Dr. Joseph Donnelly, Dr. Michael Tseng, Dr. Lucille Andersen, Dr. Peter Slabaugh, Dr. Joshua Richards, Dr. Jerrald Goldman

Webster Orthopedics has offices in Oakland, Livermore, San Ramon and Pleasanton, CA. The practice features top physicians and medical specialists working together to provide the highest-quality orthopedic care available in the Bay Area.

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 2010 was $984,000 compared to $517,000 in 2009, and $2,088,000 in 2008. The increase in the year 2010's net income from the year 2009 was caused by an increase in the interest income from the loans and also a decrease in loan loss provision. The net income of $984,000 for 2010 represents diluted earnings per share of $0.76 compared to diluted earnings per share of $0.40 in 2009, and diluted earnings per share of $1.58 per share in 2008.

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 44% of the loans outstanding mature within one year, while the longest maturity is twelve 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 4% matures after one year while 48% 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 2010 was $7,470,000, a decrease from $7,642,000 posted in 2009 and as compared to $8,088,000 in 2008.

The decrease in 2010 was primarily the result of an increase in the non performing loans and the reversal of collected interest income in the amount of $685,000 relating to two loans that were placed in non-accrual status at the direction of regulatory agencies, compared to $0 and $0 in 2009 and 2008 respectively. Average earning assets decreased 3.20% from $173,159,000 in 2009 to $167,614,000 in 2010 and as compared to $178,914,000 in 2008. Average total deposits increased 3.30% from $159,499,000 in 2009 to $164,755,000 in 2010 and decreased 0.51% as compared to $165,600,000 in 2008.

Average loans outstanding decreased by 0.80% in 2010 to $119,788,000 as compared to $120,748,000 in 2009 and $122,119,000 in 2008. Average outstanding investments decreased 8.75% to $47,826,000 in 2010 as compared to $52,411,000 in 2009 and $56,795,000 in 2008. The yield on average earning assets was 4.72% in 2010 as compared to 4.85% in 2009 and 5.6% in 2008. The decrease in 2010 was due to reversal of interest income and an increase in the non performing loans.

Interest expense decreased 19.99% to $1,221,000 in 2010 from $1,526,000 in 2009 and as compared to $2,676,000 in 2008. The decrease in 2010 was primarily centered in the average rates paid on deposits. Average interest-bearing deposits increased 2.62% to $104,373,000 compared to $101,709,000 in 2009 and $111,438,000 in 2008. Average non-interest bearing deposits increased 4.49% in 2010 to $60,383,000 as compared to $57,790,000 in 2009 and $54,162,000 in 2008. Overall cost of funds in 2010 was 1.17% as compared to 1.50% in 2009 and 3.05% in 2008. The decrease in the overall cost of funds was a direct result of the changes in the deposit rates.

Non-Interest Income and Expense

Non-interest income, consisting primarily of service charges on deposit accounts, and other customer fees and charges, was $675,000 in 2010, a decrease of 1.89% from $688,000 in 2009, and $2,178,000 in 2008. Total service charge income from deposit accounts decreased 3.93% to $465,000 in 2010 from $484,000 in 2009 and $584,000 in 2008, while total income from other charges increased 2.94% to $210,000 in 2010 from $204,000 in 2009 and $1,594,000 in 2008. The increase in 2010 was due to the rent received from the OREO property.

Non-interest expenses increased 9.13% to $5,573,000 in 2010 from $5,107,000 in 2009, and $5,081,000 in 2008. Salary expense increased 9.40% to $2,899,000 in 2010 from $2,650,000 in 2009 and $3,147,000 in 2008. Legal fees increased to $150,000 in 2010 from $90,000 in 2009 and $93,000 in 2008. FDIC assessment expense decreased to $457,000 in 2010 from $492,000 in 2009 and $21,000 in 2008, primarily due to an increase in non interest bearing deposits.

The Company's allowance for loan losses as a percent of loans was 2.17% as of December 31, 2010 as compared to 2.24% as of December 31, 2009 and 1.6% as of December 31, 2008. The provision of $973,000 for the year 2010 was directly related to the past due and charged off loans in 2010. This compares to the provision of $2,303,000 in 2009. At this time management has determined that the allowance is appropriate. Loans charged off in 2010 amounted to $1,466,000 compared to $1,538,000 in 2009.

Provision for Income Taxes

The provision for income taxes reflects a combined Federal and California effective tax rate of 38.5% in 2010, compared to 43.8% in 2009 and 37.4% in 2008, 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 Company'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, 2010, the Company had $18,694,000 in cash and cash equivalents compared to $15,038,000 as of December 31, 2009 and $18,815,000 as of December 31, 2008. The increase in 2010 was primarily due to an increase in federal funds sold and balances with correspondent bank accounts. The ratio of net loans to deposits as of December 31, 2010 was 75.4% compared to 75.7% as of December 31, 2009 and 74.8% as of December 31, 2008.

The Company 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 $105,516,000 at December 31, 2010 as compared to $79,089,000 at December 31, 2009, and $89,016,000 at December 31, 2008. This is equivalent to 57.0%, 44.1%, and 48.9% of total assets at the corresponding year-ends, respectively. The decrease was mainly due to the amount of loans maturing in one year.

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 it's underwriting of loans to healthcare professionals.

Non-Performing Assets

As of December 31, 2010, the Company had $10,954,420 in non-performing assets including other real estate owned of $2,940,123. As of December 31, 2009, total non performing assets were $6,039,290, including other real estate owned of $786,404.

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 its 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
AS OF DECEMBER 31, 2010 AND 2009

ASSETS		2010		2009
Cash and due from banks		$ 6,694,168		$ 7,037,915
Federal funds sold		12,000,000		8,000,000
Cash and cash equivalents		18,694,168		15,037,915
Time deposits with other financial institutions		30,505,000		33,582,000
Investment securities held to maturity, at cost (fair value of $770,651 at December 31, 2010 and $722,932 at December 31, 2009)		771,621		721,849
Loans	125,855,060		122,508,633	
Less: allowance for loan losses	2,730,952		2,739,371	
Net loans		123,124,108		119,769,262
Premises and equipment, net		427,865		441,951
Interest receivable and other assets		11,411,362		9,757,789
Total Assets		$ 184,934,124		$ 179,310,766

LIABILITIES AND SHAREHOLDERS' EQUITY	2010	2009
Deposits:		
Demand	$ 60,135,083	$ 60,577,263
Interest-bearing transaction accounts	60,206,717	50,614,686
Savings	3,175,486	2,120,272
Time certificates $100,000 and over	34,164,371	37,909,678
Other time certificates	5,582,189	6,944,108
Total deposits	163,263,846	158,166,007
Interest payable and other liabilities	2,273,988	2,732,129
Total Liabilities	165,537,834	160,898,136
Commitments and contingent liabilities (Note 13)	-	-
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;		
1,300,178 shares outstanding at December 31, 2010	3,387,558	3,387,558
Retained Earnings	16,008,732	15,025,072
Total Shareholders' Equity	19,396,290	18,412,630
Total Liabilities & Shareholders' Equity	$ 184,934,124	$ 179,310,766

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

SUMMIT BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

	2010	2009	2008
INTEREST INCOME:			
Interest and fees on loans	$8,177,098	$8,208,059	$9,142,749
Interest on time deposits with other financial institutions	465,452	913,967	1,212,504
Interest on U.S. government agency securities	3,250	13,659	53,039
Interest on federal funds sold	45,349	32,001	355,466
Total interest income	8,691,149	9,167,686	10,763,758
INTEREST EXPENSE:			
Interest on savings deposits	9,736	4,624	4,333
Interest on interest-bearing transaction accounts	556,067	546,884	757,403
Interest on time deposits	655,403	974,350	1,914,027
Interest on federal funds purchased	2	-	5
Total interest expense	1,221,208	1,525,858	2,675,768
Net interest income	7,469,941	7,641,828	8,087,990
Provision for loan losses	973,239	2,303,000	1,848,000
Net interest income after provision for loan losses	6,469,702	5,338,828	6,239,990
NON-INTEREST INCOME:			
Service charges on deposit accounts	465,073	483,740	583,945
Sale of real estate	-	-	1,419,777
Other customer fees and charges	209,814	204,566	174,497
Total non-interest income	674,887	688,306	2,178,219
NON-INTEREST EXPENSE:			
Salaries and employee benefits	2,899,171	2,649,814	3,146,861
Occupancy expense	453,953	513,553	509,087
Equipment expense	412,203	435,065	441,833
FDIC assessment	457,252	491,692	20,678
Legal expense	150,181	89,639	93,000
Insurance expense	72,092	69,907	60,945
Other	1,127,701	857,085	808,327
Total non-interest expense	5,572,553	5,106,755	5,080,731
Income before income taxes	1,599,036	920,379	3,337,478
Provision for income taxes	615,376	402,955	1,249,199
Net Income	$983,660	$517,424	$2,088,279
EARNINGS PER SHARE			
Earnings per common share (Basic)	$0.76	$0.40	$1.58
Earnings per common share (Diluted)	$0.76	$0.40	$1.58

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

SUMMIT BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

	NUMBER OF SHARES OUTSTANDING	COMMON STOCK	RETAINED EARNINGS	TOTAL
Balance at January 1, 2008	1,517,635	$3,931,201	$17,250,504	$21,181,705
Issuance of Cash Dividends,				
$.375 per share	-	-	(494,206)	(494,206)
Repurchase of Common Stock	(217,457)	(543,643)	(4,336,930)	(4,880,572)
Net Income	-	-	2,088,279	2,088,279
Balance at December 31, 2008	1,300,178	3,387,558	14,507,648	17,895,206
Net Income	-	-	517,424	517,424
Balance at December 31, 2009	1,300,178	3,387,558	15,025,072	18,412,630
Net Income	-	-	983,660	983,660
Balance at December 31, 2010	1,300,178	$3,387,558	$16,008,732	$19,396,290

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

SUMMIT BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received	$8,860,285	$8,649,525	$9,909,772
Fees received	567,814	1,316,970	1,443,968
Cash received from the sale of land	-	-	500,000
Interest paid	(1,238,381)	(1,697,282)	(2,741,767)
Cash paid to suppliers and employees	(5,087,671)	(5,005,277)	(4,804,147)
Income taxes paid	(812,642)	(433,163)	(1,009,755)
Net cash provided by operating activities	2,289,405	2,830,773	3,298,071
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Increase) decrease in time deposits with other financial institutions	3,077,000	(901,000)	(8,230,000)
Maturity of investment securities	1,396,000	2,104,000	1,597,947
Purchase of investment securities	(1,445,772)	(1,227,377)	(1,624,853)
Net (increase) decrease in loans to customers	(7,795,002)	(2,970,968)	(3,705,534)
Recoveries on loans previously charged-off	483,852	-	19,508
(Increase) in premises and equipment	(141,495)	(82,521)	(188,579)
Proceeds from sale of OREO	694,426	-	-
Net cash provided by (used in) investing activities	(3,730,991)	(3,077,866)	(12,131,511)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in demand, interest bearing transaction, and savings deposits	10,205,065	12,179	3,010,067
Net increase (decrease) in time deposits	(5,107,226)	(3,542,038)	(1,472,342)
Repurchase of common stock	-	-	(4,880,572)
Dividends paid	-	-	(494,206)
Net cash provided by (used in) financing activities	5,097,839	(3,529,859)	(3,837,053)
Net cash provided by (used in) investing activities	3,656,253	(3,776,952)	(12,670,493)
Cash and cash equivalents at the beginning of the year	15,037,915	18,814,867	31,485,360
Cash and cash equivalents at the end of the year	$18,694,168	$15,037,915	$18,814,867
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net Income	$983,660	$517,424	$2,088,279
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of land less cash received	-	-	(919,777)
Depreciation and amortization	155,581	240,866	275,138
Provision for loan losses	973,239	2,303,000	1,848,000
Deferred Income Tax Expense (benefit)	(413,000)	(593,000)	711,000
(Increase) in other assets	607,218	(226,078)	(496,537)
OREO write off	2,000	572,228	-
Loss on sale of OREO	21,286	-	-
BOLI Income	(107,073)	(114,220)	(107,823)
Increase in unearned loan fees	111,635	(24,410)	(91,351)
Increase in other liabilities	(45,141)	154,963	(8,858)
Total adjustments	1,305,745	2,313,349	1,209,792
Net cash provided by operating activities	$2,289,405	$2,830,773	$3,298,071
Supplemental Cash Flow Disclosures			
Net noncash transfers to foreclosed property	$3,401,430	$786,404	-

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010

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 three 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.

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 Company 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 365 days. The Bank does not invest more than $250,000 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 loans, 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 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. As of December 31, 2010 and 2009, the Bank had $2,940,123 and $786,404 in other real estate owned, respectively.

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. The Bank has adopted guidance issued by the Financial Accounting Standards Board ("FASB") that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

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, 2010, 2009 and 2008. Accordingly, total comprehensive income was equal to net income for each of those periods.

Stock Based Compensation

The Bank recognizes the cost of employee services received in exchange for awards of stock options, or other equity instruments, based on the grant-date fair value of those awards. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally the vesting period. See Note 11 for additional information on the Bank's stock option plan.

Reclassifications

Certain reclassifications have been made in the 2009 and 2008 financial statements to conform to the presentation used in 2010. These reclassifications had no impact of the Bank's previously reported financial statements.

Subsequent events

The Company has evaluated subsequent events for recognition and disclosure through April 4, 2011, which is the date the financial statements were available to be issued.

Adoption of New Accounting Standards

In June 2009, accounting standards were amended to clarify when a transferor has surrendered control over transferred financial assets and thus is entitled to account for the transfer as a sale. The amendments establish specific conditions for accounting for the transfer of a financial asset, or a portion of a financial asset, as a sale. This guidance was effective for transfers occurring on or after January 1, 2010 and impacted when a loan participation or SBA loan sale could be accounted for as a sale and the related transferred asset derecognized by the Bank. Adoption of the standard by the Bank in 2010 did not have a material impact on its balance sheet or statement of operations since the Bank is not participating in SBA loan sales at this time.

In July 2010, accounting standards were amended to require significantly more information about the credit quality of the Bank's loan portfolio. Although this statement addresses only disclosure and does not seek to change recognition or measurement, the disclosure represents a meaningful change in practice. The Bank is required to adopt the new disclosure rules in the 2011 fiscal year.

2. Investment Securities

The amortized cost and estimated fair values of investments in debt securities held to maturity as of December 31, 2010 and 2009 are as follows:

December 31, 2010	*Amortized Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Estimated Fair Value*
U.S. agencies	*$771,621*	*$970*	*$1,940*	*$770,651*

December 31, 2009	*Amortized Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Estimated Fair Value*
U.S. agencies	*$721,849*	*$1,083*	-	*$722,932*

At December 31, 2010, the debt securities with amortized cost have increased 6.90% from the Bank's amortized cost basis from December 31, 2009 due to an increase in the amount of investment in securities. These securities are guaranteed by the government agencies. These unrealized losses in 2010 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 losses are deemed to be other-than-temporary.

The amortized cost and estimated fair value of debt securities at December 31, 2010, by contractual maturities are shown below.

	Amortized Cost	*Estimated Fair Value*
Due in one year or less	*$771,621*	*$770, 651*
Total	*$771,621*	*$770, 651*

There were no sales of investments in debt securities during 2010 or 2009. At December 31, 2010, securities carried at $771,621 were pledged to secure public deposits, as required by law.

Investment securities with unrealized losses at December 31, 2010, are summarized and classified according to duration of the loss period as follows:

	Less than 12 months		12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Held-to-maturity:						
U.S. agencies	$97,950	($1,940)	-	-	$97,950	($1,940)
	$97,950	($1,940)	-	-	$97,950	($1,940)

As of December 31, 2010, the Bank held 1 investment security which was in a loss position for less than 12 months.

Management periodically evaluates each investment security for other than temporary impairment, relying primarily on industry analyst reports and observation of market conditions and interest rate fluctuations. Management believes it will be able to collect all amounts due according to the contractual terms of the underlying investment securities and that the noted decline in fair value is considered temporary and due only to interest rate fluctuations.

3. Loans and Allowance for Loan Losses

A summary of loans as of December 31, 2010, and 2009 (net of unearned loan fees of $723,000 and $611,000, respectively), is as follows:

	2010	2009
Commercial loans	$37,123,197	$34,650,195
Real estate loans	67,978,121	62,109,778
Real estate construction loans	3,298,977	10,674,316
Installment loans	17,454,766	15,074,344
	125,855,060	122,508,633
Less: Allowance for loan losses	(2,730,952)	(2,739,371)
	$123,124,108	$119,769,262

The changes in the allowance for loan losses for the years ended December 31, 2010, 2009, and 2008 are as follows:

	2010	2009	2008
Balance, beginning of period	$2,739,371	$1,899,183	$2,344,344
Provision for loan losses	973,239	2,303,000	1,848,000
Recoveries	483,852	75,513	19,509
Loans charged-off	(1,465,510)	(1,538,325)	(2,312,670)
Balance, end of period	$2,730,952	$2,739,371	$1,899,183

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

	December 31, 2010	December 31, 2009
Loans 90 days or more past due and still accruing:		
Commercial	$559,759	$297,911
Real Estate	-	-
Non-accrual loans:		
Commercial	529,815	-
Real Estate	7,484,482	5,252,886
Consumer	-	-
	$8,574,056	$5,550,797

The Company had thirteen impaired loans at December 31, 2010, in the amount of $14,644,180 compared to $7,015,386 as of December 31, 2009 and compared to $3,272,000 as of December 31, 2008. The total valuation allowance related to these loans was $0 at December 31, 2010, $216,840 at December 31, 2009 and $200,000 at December 31, 2008. The average recorded investment in impaired loans during 2010, 2009 and 2008 was $9,260,000, $6,306,000 and $200,000, respectively. Interest income recognized on impaired loans for the years ended December 31, 2010, 2009 and 2008, was $918,000, $96,000, $13,000, respectively. The Company has allocated $0 of specific reserves on one non-accrual loan with a recorded investment of $2,808,053 whose terms have been modified to qualify as a troubled debt restructuring as of December 31, 2010.

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, 2010, and 2009, loans outstanding to directors, officers, and principal shareholders and their known associates were $4,414,142 and $4,496,420 respectively. In 2010, advances on current directors' loans were $0, and collections were $82,278. In 2009, advances on such loans were $2,270,000, and collections were $343,883. As of December 31, 2010 and 2009 total deposits of directors, officers and principal shareholders and their known associates totaled $2,827,030 and $2,199,360 respectively.

5. Premises and Equipment

Premises and equipment consisted of the following:

	Cost	*Accumulated Depreciation*	*Net Book Value*
December 31, 2010			
Leasehold improvements	*$1,200,099*	*$1,117,148*	*$82,951*
Furniture and equipment	*2,688,562*	*2,343,648*	*344,914*
Total	*$3,888,661*	*$3,460,796*	*$427,865*
December 31, 2009			
Leasehold improvements	*$1,200,099*	*$1,096,456*	*$103,643*
Furniture and equipment	*2,547,067*	*2,208,759*	*338,308*
Total	*$3,747,166*	*$3,305,215*	*$441,951*

Depreciation and amortization included in occupancy and equipment expenses was $155,581, $240,866, and $275,138 for the years ended December 31, 2010, 2009, and 2008, respectively.

6. Income Taxes

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

	2010	*2009*	*2008*
Current:			
Federal	*$776,000*	*$687,000*	*$412,000*
State	*252,000*	*309,000*	*126,000*
Total current	*1,028,000*	*996,000*	*538,000*
Deferred:			
Federal	*(313,000)*	*(448,000)*	*577,000*
State	*(100,000)*	*(145,000)*	*134,000*
Total deferred	*(413,000)*	*(593,000)*	*711,000*
Total tax expense	*$615,000*	*$403,000*	*$1,249,000*

The components of the net deferred tax asset of the Company as of December 31, 2010, 2009 and 2008, were as follows:

	2010	2009	2008
Allowance for loan losses	*$864,000*	*$933,000*	*$644,000*
State taxes	*74,000*	*105,000*	*45,000*
Installment sale	*(417,000)*	*(417,000)*	*(417,000)*
Depreciation	*167,000*	*176,000*	*189,000*
Other real estate owned	*448,000*	*273,000*	-
Deferred Salary	*770,000*	*714,000*	*657,000*
Non Accrual Interest	*282,000*	-	-
Other	*58,000*	*49,000*	*122,000*
Net Deferred Tax Asset	*2,246,000*	*$1,833,000*	*$1,240,000*

The provision 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:

	2010 Amount / Percent	2009 Amount / Percent	2008 Amount / Percent
Federal income tax expense, based on the statutory federal income tax rate	*$544,000 / 34.00%*	*$313,000 / 34.00%*	*$1,135,000 / 34.00%*
State franchise taxes, net of federal income tax benefit	*115,000 / 7.20%*	*66,000 / 7.20%*	*239,000 / 7.20%*
Other, net	*(44,000) / (2.30%)*	*24,000 / 2.60%*	*(125,000) / (3.80%)*
Tax provision	*$615,000 / 38.50%*	*$403,000 / 43.80%*	*$1,249,000 / 37.40%*

We record interest and penalties related to uncertain tax positions as part of operating expense. There was no penalty or interest expense recorded as of December 31, 2010. We do not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

The Bank is subject to federal income tax and income tax in the state of California. Our federal income tax returns for the years ended December 31, 2009, 2008 and 2007 are open to audit by the federal authorities and our California state tax returns for the years ended December 31, 2009, 2008, 2007 and 2006, are open to audit by state authorities.

7. Time Deposits

Time deposits issued as of December 31, 2010, had $38,235,421 maturing in the year 2011, $1,212,662 maturing in 2012, $145,836 maturing in 2013 and the remaining $152,641 maturing in 2015.

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 $12,500,000 at December 31, 2010. There were no borrowings outstanding under these agreements at December 31, 2010 and December 31, 2009.

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, 2010, this line provided for a maximum borrowing capacity of $6,671,474. There was no outstanding balance as of December 31, 2010. At December 31, 2010, this borrowing line was collateralized by mortgage loans with a book value of $14,155,736. Interest expense related to FHLB borrowings totaled $0 in 2010, $0 in 2009 and $0 in 2008, respectively.

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, 2010, 2009, and 2008.

	December 31, 2010			December 31, 2009			December 31, 2008		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net Income	$983,660			$517,424			$2,088,279		
Basic EPS Income Available to Common Stockholders	983,660	1,300,178	$0.76	517,425	1,300,178	$0.40	2,088,279	1,319,971	$1.58
Effect of Dilutive Securities									
Stock Options									
Diluted EPS Income Available to Common Stockholders & Assumed Conversion	$983,660	1,300,178	$0.76	$517,425	1,300,178	$0.40	$2,088,279	1,319,971	$1.58

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.

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, 2010, that the Company and the Bank have met all capital adequacy requirements.

As of December 31, 2010, 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 also presented in the 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, 2010						
Total Capital (to Risk Weighted Assets)						
Consolidated	*$20,893,000*	*14.32%*	*$11,673,680*	*8.00%*	*$14,592,100*	*10.00%*
Bank	*19,875,000*	*13.64%*	*11,656,720*	*8.00%*	*14,570,900*	*10.00%*
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	*19,057,000*	*13.06%*	*5,836,840*	*4.00%*	*8,755,260*	*6.00%*
Bank	*18,042,000*	*12.38%*	*5,828,360*	*4.00%*	*8,742,540*	*6.00%*
Tier 1 Capital (to Average Assets)						
Consolidated	*19,057,000*	*9.96%*	*7,656,965*	*4.00%*	*9,571,206*	*5.00%*
Bank	*18,042,000*	*9.47%*	*7,618,723*	*4.00%*	*9,523,404*	*5.00%*
As of December 31, 2009						
Total Capital (to Risk Weighted Assets)						
Consolidated	*20,172,000*	*14.43%*	*11,181,280*	*8.00%*	*13,976,600*	*10.00%*
Bank	*19,269,000*	*13.80%*	*11,171,120*	*8.00%*	*13,963,900*	*10.00%*
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	*18,413,000*	*13.17%*	*5,590,640*	*4.00%*	*8,385,960*	*6.00%*
Bank	*17,513,000*	*12.54%*	*5,585,560*	*4.00%*	*8,378,340*	*6.00%*
Tier 1 Capital (to Average Assets)						
Consolidated	*18,413,000*	*10.36%*	*7,108,079*	*4.00%*	*8,885,099*	*5.00%*
Bank	*17,513,000*	*9.96%*	*7,031,375*	*4.00%*	*8,789,219*	*5.00%*

11. Stock Option Plan

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.

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 for awards granted after the adoption date is based on the grant date fair value estimated in accordance with guidance issued by the FASB. There was no compensation cost recorded during the year ended December 31, 2010, since the amount was not material.

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

	Vested Shares	Weighted - Average Grant Date Fair Value
Vested, January 1, 2010	*3,702*	*$ 12.23*
Granted	*-*	*-*
Exercised	*-*	*-*
Vested	*1,039*	*-*
Forfeited	*-*	*-*
Expired	*-*	*-*
Vested, December 31, 2010	*4,741*	*$ 12.23*

As of December 31, 2010, there was no unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan, which will vest over the next 0.75 years.

The total intrinsic value of options exercised during the year ended December 31, 2010, 2009 and 2008, was $0, $0, and $0 respectively. Cash received from options exercised under the Plan for the years ended December 31, 2010, 2009 and 2008 was $0, $0, and $0 respectively.

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, 2010, the Bank could pay dividends to the Company of up to approximately $401,964 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, 2010, were $2,449,000.

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 $349,220, $398,317 and $387,367, for the years ended December 31, 2010, 2009, and 2008.

At December 31, 2010, the approximate future minimum payments for non-cancelable leases with initial or remaining terms in excess of one year were as follows:

2011	*$337,954*
2012	*272,340*
2013	*277,161*
2014	*170,466*
2015	*175,580*
2016-2017	*288,165*
Total	*$1,521,666*

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

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 4% of the employee's total annual compensation. Under this part of the plan, $25,764 was contributed in 2010, $45,184 in 2009 and $41,341 in 2008.

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 $0 in 2010, $0 in 2009, and $0 in 2008. 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 $136,860 in 2010, $136,860 in 2009, and $172,000 in 2008.

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, 2010 and 2009, financial instruments whose contract amounts represent credit risk are as follows:

	2010	*2009*
Commitments to extend credit in the future	*$28,130,441*	*$28,909,710*
Standby letters of credit	*1,945,751*	*1,262,318*
Total	*$30,076,192*	*$30,172,027*

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.

16. Fair Value of Financial Instruments

The Bank adopted guidance issued by the FASB regarding fair value measurement on January 1, 2008. Such guidance defines fair value, establishes a framework for measuring fair value under U.S. GAAP and expands disclosures about fair value measurements. The guidance applies whenever other accounting pronouncements require or permit assets or liabilities to be measured at fair value. The guidance does not expand the use of fair value in any new circumstances.

Under the guidance issued by the FASB, fair value is a market-based measurement and defined as the price that would be received for selling an asset or paid for transferring a liability in an orderly transaction between market participants at the measurement date. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. In general, the transaction price will equal the exit price and, therefore, represent the fair value of the asset or liability at initial recognition. In determining whether a transaction price represents the fair value of the asset or liability at initial recognition, each reporting entity is required to consider factors specific to the asset or liability, the principal or most advantageous market for the asset or liability, and market participants with whom the entity would transact in the market.

Fair Value Hierarchy

FASB guidance established a fair value hierarchy to prioritize the inputs of the valuation techniques used to measure fair value. The inputs are evaluated and an overall level for the measurement is determined. This overall level is an indication of how market observable the fair value measurement is and defines the level of disclosure. The guidance clarifies fair value in terms of the price in an orderly transaction between market participants to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability. The objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price). In order to determine the fair value, entities must determine the unit of account, highest and best use, principal market, and market participants. These determinations allow the reporting entity to define the inputs for fair value and level of hierarchy.

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

To increase consistency and comparability in fair value measures, the fair value measures, the fair value hierarchy prioritizes the inputs used in valuation techniques to measure fair value into three broad levels:

- *Level 1 - quoted prices in active markets for identical assets or liabilities*
- *Level 2 - directly or indirectly observable inputs other than quoted prices, and*
- *Level 3 - unobservable inputs.*

A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Fair Value on a Recurring Basis

The Bank doesn't have any assets measured at fair value on a recurring basis as of December 31, 2010 or 2009.

Fair Value on a Nonrecurring Basis

Assets measured at fair value on a non-recurring basis include certain impaired loans and other real estate owned (OREO). The following table presents the hierarchy and fair value of financial assets and liabilities that are measured at fair value on a non-recurring basis as of December 31, 2010 and 2009.

	As of December 31, 2010			
Fair Value Hierarchy	*Total*	*Level 1*	*Level 2*	*Level 3*
Impaired loans net of related allowance for loan loss	*$9,305,154*	-	-	*$9,305,154*
Other real estate owned	*2,940,123*	-	-	*$2,940,123*
Total assets at fair value	*$12,245,277*	-	-	*$12,245,277*

	As of December 31, 2009			
Fair Value Hierarchy	*Total*	*Level 1*	*Level 2*	*Level 3*
Impaired loans net of related allowance for loan loss	*$6,798,546*	-	-	*$6,798,546*
Other real estate owned	*786,404*	-	-	*786,404*
Total assets at fair value	*$7,584,950*	-	-	*$7,584,950*

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral-dependent loans, totalled of $9,305,154 and $6,798,546, as of December 31, 2010 and 2009, net of related valuation allowances of $0 and $216,840 for 2010 and 2009, respectively.

Other real estate owned (OREO) had carrying amounts of $2,940,123 and $786,404 as of December 31, 2010 and 2009 respectively. Writedowns of OREO were $2,000 and $572,000 for the years ended December 31, 2010 and 2009, respectively.

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, 2010, and December 31, 2009, and the methods and assumptions used to evaluate them.

2010	Carrying Value	Estimated Fair Value
Cash and due from banks and Fed funds sold	$18,694,168	$18,694,168
Investment securities	771,621	770,651
Time deposits with other financial institutions	30,505,000	30,575,947
Loans	123,124,108	122,725,694
Bank owned life insurance	2,847,839	2,847,839
Accrued interest receivable	428,892	428,892
Deposits		
Demand	60,135,083	55,293,717
Interest bearing transaction accounts	60,206,717	58,375,748
Savings	3,175,486	2,983,626
Time certificates	39,746,560	39,789,146
Accrued interest payable	131,310	131,310

2009	Carrying Value	Estimated Fair Value
Cash and due from banks	$15,037,915	$15,037,915
Investment securities	721,849	722,932
Time deposits with other financial institutions	33,582,000	33,780,274
Loans	119,769,262	120,260,316
Bank owned life insurance	2,740,766	2,740,766
Accrued interest receivable	485,590	485,590
Deposit		
Demand	60,577,263	60,577,263
Interest bearing transaction accounts	50,614,686	50,614,686
Savings	2,120,272	2,120,272
Time certificates	44,853,786	45,153,291
Accrued interest payable	148, 483	148, 483

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 fair value of loans is shown net of the related allowance for loan losses. The fair value of non-interest-bearing, interest-bearing transaction accounts and savings deposits is equal to their carrying value. 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 $1,945,751 and $28,130,441 respectively. The fair value of these off-balance-sheet commitments is not material.

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

The following are the balance sheets as of December 31, 2010, and 2009, and the related statements of income and cash flows for the years ended December 31, 2010, 2009, and 2008, for Summit Bancshares, Inc. (parent company only)

BALANCE SHEET	2010	2009
ASSETS:		
Cash	$972,339	$967,078
Loan participation with subsidiary (net of allowance for loss reserve of $0 at December 31, 2010 and $136,000 at December 31, 2009)	100,000	21,423
Investment in subsidiary	18,448,070	17,513,637
Other assets	119,578	112,854
Total Assets	$19,639,987	$18,614,992
LIABILITIES:		
Income taxes payable	$177,464	$202,362
Total Liabilities	177,464	202,362
Shareholders' Equity:		
Common Stock	3,387,558	3,387,558
Retained Earnings	16,074,965	15,025,072
Total Shareholders' Equity	19,462,523	18,412,630
Total Liabilities and Shareholders' Equity	$19,639,987	$18,614,992

STATEMENTS OF INCOME (year ended December 31)	2010	2009	2008
INCOME:			
Interest on short-term investments and loans	$4,526	$87,897	$65,605
Gain on sale of Real Estate	-	-	1,419,777
Rental and other income	256	2,847	21,171
Total Income	4,782	90,744	1,506,553
EXPENSE:			
Miscellaneous expense	39,946	56,504	44,182
Total Expense	39,946	56,504	44,182
Income (loss) before income tax and equity in earnings of subsidiary	(35,164)	34,240	1,462,371
Provision for income taxes	(14,624)	14,240	608,199
Income (loss) before equity in earnings of subsidiary	(20,540)	20,000	854,172
Equity in earnings of subsidiary			
Distributed	-	-	2,400,000
Undistributed	1,004,200	497,424	(1,165,893)
Net Income	$983,660	$517,424	$2,088,279

SUMMIT BANCSHARES, INC. STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2010, 2009, AND 2008

	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received	$3,723	$95,969	$78,330
Rental income	-	-	7,000
Fees Received	256	2,847	-
Cash received from sale of land	-	-	500,000
Notes Receivable charged off	-	20,000	-
Other income (expense)	-	-	(1,416)
Cash paid to suppliers	(39,946)	(47,504)	(37,439)
Income taxes paid	(16,195)	(151,637)	(98,763)
Net cash provided by (used in) operating activities	(52,162)	(80,325)	447,712
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net decrease (increase) in loans	57,423	295,830	1,276,458
Dividend received from subsidiary	-	-	2,400,000
Net cash provided by (used in) investing activities	57,423	295,830	3,676,458
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repurchase of common stock	-	-	(4,880,572)
Dividends paid	-	-	(494,206)
Net cash (used in) financing activities	0	0	(5,374,778)
Net increase (decrease) in cash and cash equivalents	5,261	215,505	(1,250,608)
Cash at the beginning of the year	967,078	751,573	2,002,181
Cash at the end of the year	$972,339	$967,078	$751,573
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net Income	$983,660	$517,424	$2,088,279
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sale of land net of cash received	-	-	(919,777)
Provision for loan losses	-	9,000	4,000
Non-cash earnings from subsidiary	(1,004,200)	(497,424)	(1,234,107)
(Increase) Decrease in other assets	(6,725)	3,011	198,120
Increase in other liabilities	(24,897)	(112,336)	311,197
Total adjustments	(1,035,822)	(597,749)	(1,640,567)
Net cash provided by (used in) operating activities	($52,162)	($80,325)	$447,712

Independent Auditor’s 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, 2010 and 2009, and the related consolidated statements of income, change in shareholders’ equity and cash flows for each of the years in the three year period ended December 31, 2010. 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. 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 consolidated financial position of Summit Bancshares, Inc. and subsidiary as of December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the years in the three year period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
April 4, 2011

Corporate Directory

Directors of Summit Bancshares, Inc. and Summit Bank

Robert A. Ellsworth[*]
President
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Berkeley

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

George Hollidge
Retired
Oakland

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

John Nohr
Retired
Moraga

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

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Chairman and CEO

C. Michael Ziemann
President, CFO

Steve P. Nelson
Executive Vice President, COO, Chief Information Officer

Mani Ganesamurthy
Assistant Vice President
Controller

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Independent Auditors

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