

SUMMIT BANCSHARES, INC.

Annual Report
2012

Summit Bank

FINANCIAL HIGHLIGHTS

| For The Year Ended | 2012 | 2011 | 2010 | 2009 | 2008 |
|--|-----------|-----------|-----------|-----------|-------------|
| Net Income | \$906,092 | \$905,182 | \$983,660 | \$517,424 | \$2,088,279 |
| Earnings per common share | \$0.70 | \$0.70 | \$0.76 | \$0.40 | \$1.58 |
| Earnings per common share - assuming dilution | \$0.70 | \$0.70 | \$0.76 | \$0.40 | \$1.58 |
| Cash Dividends per Share, declared | - | - | - | - | \$0.375 |
| At Year End (in thousands) | | | | | |
| Deposits | \$168,549 | \$163,446 | \$163,264 | \$158,166 | \$161,696 |
| Loans (Net) | 100,957 | 112,271 | 123,124 | 119,769 | 120,436 |
| Assets | 191,957 | 186,256 | 184,934 | 179,311 | 182,168 |
| Shareholders' Equity | 21,208 | 20,301 | 19,396 | 18,413 | 17,895 |
| Non-performing Loans to Total Loans | 8.34% | 7.68% | 6.33% | 4.27% | 2.70% |
| Allowance to Non-performing Loans | 35.92% | 29.72% | 34.08% | 52.15% | 58.00% |
| Tier 1 Capital | 16.20% | 14.69% | 13.06% | 13.17% | 12.62% |
| Total Capital | 17.47% | 15.94% | 14.32% | 14.43% | 13.87% |
| Leverage Ratio | 10.70% | 10.44% | 9.96% | 10.36% | 9.58% |

Market Price of the Company's Stock and Dividends

The stock of the Company is not listed on any stock exchange but is publicly traded in limited and infrequent transactions in the "over the counter" market. According to information made available to the Company by the Market Maker, American Blue Chip, the range of high and low bids for such common stock for each calendar quarter since January 2011 is contained below. The following prices reflect retail mark-up and may not represent actual transactions.

| | High | Low | Dividends Declared |
|----------------|--------|--------|-----------------------|
| 2012 | | | |
| First Quarter | \$6.35 | \$6.35 | \$ -- |
| Second Quarter | 6.82 | 6.82 | -- |
| Third Quarter | 6.77 | 6.77 | -- |
| Fourth Quarter | 7.26 | 7.25 | -- |
| Total | | | \$ -- |
| 2011 | | | |
| First Quarter | \$8.78 | \$8.76 | \$ -- |
| Second Quarter | 9.27 | 9.26 | -- |
| Third Quarter | 8.26 | 8.24 | -- |
| Fourth Quarter | 6.94 | 6.92 | -- |
| 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 #10.

This annual report is furnished to shareholders and customers of the bank pursuant to the requirements of the Federal Deposit Insurance Corporation (FDIC) to provide an annual disclosure statement. This annual report has not been reviewed or confirmed for the accuracy or relevance by the FDIC.

Letter to Our Shareholders

In the year 2012, Summit Bank reached major milestones after having celebrated its 30th year in business. We said goodbye to President Mike Ziemann who retired after 28 years with the bank and, at the same time, we congratulated his successor, Steve Nelson as President and Chief Operating Officer. Mr. Nelson has been with the bank for 20 years and has worked in every position within the bank. He is extremely qualified and is happy to assume the responsibilities of this very important position.

We are also extraordinarily happy to announce that Ms. Denise Dodini is now our Executive Vice President and Chief Credit Officer. Ms. Dodini has spent seventeen years of her career in banking with us and is one of the most qualified lenders in banking. We are truly fortunate to have her at Summit Bank.

Secondly, we are pleased to have promoted Mani Ganesamurthy to CFO. He worked as our Controller for the past 12 years. Congratulations Mani.

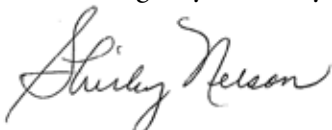
We have ended the most critical five years in our history since the financial meltdown in 2008. We have just completed our *30th consecutive year of profitability* and have achieved *360 consecutive months of profitability*. We are extremely proud of this record and are sure that there are few, if any, banks in California who can compete with this record.

It appears that the industry has shown some resilience and continues to slowly progress during what is still a very uncertain economy. Still, external challenges continue to be the same. The Federal Reserve's position of maintaining low interest rates continues the squeeze our net interest margins. Loan growth has been a major challenge for us in this increasingly competitive market but we are hopeful that we see a major improvement in 2013.

Despite these challenges, we were able to earn net taxable income of \$906,092, which translates to a Return on Equity of 4.27% and a Return on Assets of 0.472%. Total Assets increased to \$191,957,475 and deposits grew to \$168,549,173 while loans decreased to \$100,956,913.

We have been extremely diligent in managing our credit quality and we are taking steps to position the bank for anticipated growth. We will devote significant resources to increasing the size of our lending staff and will aggressively pursue growth in our loan portfolio in order to increase our bottom line.

Once again we ask that you, our shareholders, support us by doing business with us and by referring us to your friends. We thank our wonderful employees and our hard working Directors, who are working very hard on your behalf.



Shirley W. Nelson
Chairman and CEO



Steven P. Nelson
President and COO

BOARD OF DIRECTORS



Shirley Nelson
Summit Bank
Chairman: *Loan Committee, 401(k) Profit Sharing Committee*
Member: *Directors' Personnel Committee, Strategic Planning Committee, Investment & Funds Management Committee*



John Nohr
Chairman: *Investment and Funds Management Committee*
Member: *Directors' Personnel Committee, Audit and Compliance Committee, 401(k) Profit Sharing Committee, Loan Committee, E-Technology & Security Committee, Strategic Planning Committee*



Jason Hill
R.G. Hill and Company
Member: *Audit & Compliance Committee, Loan Committee, E-Technology & Security Committee, Strategic Planning Committee*



John Protopappas
Madison Park Financial Corporation
Chairman: *Directors' Personnel Committee*
Member: *Loan Committee, Investment & Funds Committee, Strategic Planning Committee*



George Hollidge
Chairman: *Strategic Planning Committee, E-Technology & Security Committee*
Member: *Audit and Compliance Committee, Loan Committee, 401(k) Profit Sharing Committee, Director's Personnel Committee, Investment & Funds Management Committee*



Mary Warren
HMS Associates
Member: *Audit & Compliance Committee, Investment & Funds Management Committee, Summit Bank Foundation Board of Directors*



Kikuo Nakahara
Chairman: *Audit & Compliance Committee*
Member: *401(k) Profit Sharing Committee, Investment & Funds Management Committee, Loan Committee*

OFFICERS



Shirley W. Nelson
Chairman and CEO



Steven P. Nelson
President and COO



Denise Dodini
Executive Vice President, CCO



Mani Ganesamurthy
Vice President, CFO



Marcia Gerg
VP, Senior Relationship Manager



Alan Lozito
VP, Senior Relationship Manager



Fereba Ashufta *AVP, Compliance Officer/Operations Administrator*



Maria Fuentes *AVP, Special Projects Manager/Credit Analyst*



Tom Henning
AVP, Credit Analyst



Leah Johnson
AVP, Note Department Manager



George Yang
AVP, Relationship Manager

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 2012 was \$906,000 compared to \$905,000 in 2011, and \$984,000 in 2010. The marginal increase in the year 2012's net income from the year 2011 was caused by a decrease in the loan loss provision which was offset by an increase in other expenses related to OREO and legal. The net income of \$906,000 for 2012 represents diluted earnings per share of \$0.70 which compared to diluted earnings per share of \$0.70 in 2011, and diluted earnings per share of \$0.76 per share in 2010.

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 33% of the loans outstanding mature within one year, while the longest maturity is eleven 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 9% matures after one year while 39% 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 2012 was \$7,093,000, an increase from \$7,604,000 posted in 2011 and as compared to \$7,470,000 in 2010. The decrease in 2012 was primarily the result of decrease in the average yield on average earning assets due to decrease in the average loans compared to the year 2011. Average earning assets increased by 2.34% in 2012 to \$176,806,000 from \$172,758,000 in 2011 and as compared to \$167,614,000 in 2010. Average total deposits increased by 1.48% to \$169,799,000 in 2012 from \$167,319,000 in 2011 and increased 3.06% as compared to \$164,755,000 in 2010.

SUMMIT BANCSHARES, INC.

Average loans outstanding decreased by 10.39% in 2012 to \$109,401,000 as compared to \$122,086,000 in 2011 and \$119,788,000 in 2010. Average outstanding investments increased 33.02% to \$67,405,000 in 2012 as compared to \$50,672,000 in 2011 and \$47,826,000 in 2010. The yield on average earning assets was 3.91% in 2012 as compared to 4.43% in 2011 and 4.72% in 2010. The decrease in 2012 was due to loans paid off with high interest rates.

Interest expense decreased 28.62% to \$640,000 in 2012 from \$897,000 in 2011 and as compared to \$1,221,000 in 2010. The decrease in 2012 was primarily centered in the average rates paid on deposits. Average interest-bearing deposits increased 0.71% to \$105,623,000 in 2012 compared to \$104,880,000 in 2011 and \$104,373,000 in 2010. Average non-interest bearing deposits increased 2.78% in 2012 to \$64,176,000 as compared to \$62,438,000 in 2011 and \$60,383,000 in 2010. Overall cost of funds in 2012 was 0.61% as compared to 0.85% in 2011 and 1.17% in 2010. 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 \$907,000 in 2012, an increase of 29.59% from \$700,000 in 2011, and \$675,000 in 2010. Total service charge income from deposit accounts increased 28.86% to \$640,000 in 2012 from \$497,000 in 2011 and \$465,000 in 2010 and total income from other charges increased 31.37% to \$267,000 in 2012 from \$203,000 in 2011 and \$210,000 in 2010. The increase in 2012 was due to rent received from one of the OREO properties.

Non-interest expenses increased 10.63% to \$5,864,000 in 2012 from \$5,301,000 in 2011, and \$5,573,000 in 2010. Salary expense increased 6.41% to \$3,016,000 in 2012 from \$2,834,000 in 2011 and \$2,899,000 in 2010. Legal fees increased to \$349,000 in 2012 from \$124,000 in 2011 and \$150,000 in 2010. FDIC assessment expense increased to \$258,000 in 2012 from \$217,000 in 2011 and \$457,000 in 2010, primarily due to change in the method of calculation of assessment charges from total deposits to total average assets.

The Company's allowance for loan losses as a percent of loans was 3.00% as of December 31, 2012 as compared to 2.28% as of December 31, 2011 and 2.17% as of December 31, 2010. The provision of \$650,000 for the year 2012 was directly related to the past due and charged off loans in 2012. This compares to the provision of \$1,520,000 in 2011. At this time management has determined that the allowance is appropriate. Loans charged off in 2012 amounted to \$306,000 compared to \$1,939,000 in 2011.

Provision for Income Taxes

The provision for income taxes reflects a combined Federal and California effective tax rate of 39.0% in 2012, compared to 38.9% in 2011 and 38.9% in 2010, 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, 2012, the Company had \$22,540,000 in cash and cash equivalents compared to \$12,576,000 as of December 31, 2011 and \$18,694,000 as of December 31, 2010. The increase in 2012 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, 2012 was 59.9% compared to 68.7% as of December 31, 2011 and 75.4% as of December 31, 2010.

SUMMIT BANCSHARES, INC.

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 \$104,614,000 at December 31, 2012 as compared to \$84,670,000 at December 31, 2011, and \$105,516,000 at December 31, 2010. This is equivalent to 54.5%, 43.6%, and 57.0% of total assets at the corresponding year-ends, respectively. The increase was mainly due to the fed funds sold and due from time deposits 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 its underwriting of loans to healthcare professionals.

Non-Performing Assets

As of December 31, 2012, the Company had \$11,377,019 in non-performing assets including other real estate owned of \$2,701,084. As of December 31, 2011, total non-performing assets were \$11,490,026, including other real estate owned of \$2,668,535.

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.

Summit Bancshares, Inc. and Subsidiary Consolidated Statements of Financial Position as of December 31, 2012 and 2011

| Assets | 2012 | 2011 |
|---|----------------------|----------------------|
| Cash and due from banks | \$5,540,290 | \$6,575,713 |
| Federal funds sold | 17,000,000 | 6,000,000 |
| Cash and cash equivalents | 22,540,290 | 12,575,713 |
| Time deposits with other financial institutions | 56,111,000 | 49,214,000 |
| Investment securities held to maturity, at cost (fair value of \$399,880 at December 31, 2012 and \$399,960 at December 31, 2011) | 399,739 | 399,714 |
| Loans | 104,075,856 | 114,893,446 |
| Less: allowance for loan losses | <u>3,118,943</u> | <u>2,622,593</u> |
| Net loans | 100,956,913 | 112,270,853 |
| Premises and equipment, net | 310,255 | 316,035 |
| Bank Owned Life Insurance | 3,063,714 | 2,954,501 |
| Deferred Tax Assets | 2,416,000 | 1,884,000 |
| Other Real Estate Owned | 2,701,084 | 2,668,535 |
| Interest receivable and other assets | 3,458,479 | 3,972,278 |
| Total Assets | \$191,957,474 | \$186,255,629 |

Liabilities And Shareholders' Equity

| | | |
|--|----------------------|----------------------|
| Deposits: | | |
| Demand | \$69,023,968 | \$58,564,130 |
| Interest-bearing transaction accounts | 65,894,261 | 67,892,623 |
| Savings | 2,079,769 | 3,185,880 |
| Time certificates \$100,000 and over | 27,585,915 | 29,094,475 |
| Other time certificates | 3,965,262 | 4,708,690 |
| Total deposits | 168,549,175 | 163,445,798 |
| Interest payable and other liabilities | 2,200,735 | 2,508,359 |
| Total Liabilities | 170,749,910 | 165,954,157 |
| Commitments and contingent liabilities | - | - |
| Shareholders' Equity: | | |
| Preferred Stock, no par value: | | |
| 2,000,000 shares authorized, no shares outstanding | - | - |
| Common Stock, no par value: | | |
| 3,000,000 shares authorized; | | |
| 1,300,178 shares outstanding at December 31, 2012 and 2011 | 3,387,558 | 3,387,558 |
| Retained Earnings | 17,820,006 | 16,913,914 |
| Total Shareholders' Equity | 21,207,564 | 20,301,472 |
| Total Liabilities and Shareholders' Equity | \$191,957,474 | \$186,255,629 |

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

SUMMIT BANCSHARES, INC.

Summit Bancshares, Inc. and Subsidiary Consolidated Statements of Income for the Years ended December 31, 2012, 2011 and 2010

| | 2012 | 2011 | 2010 |
|---|------------------|------------------|------------------|
| Interest Income: | | | |
| Interest and fees on loans | \$7,423,043 | \$8,185,791 | \$8,177,098 |
| Interest on time deposits with other financial institutions | 266,517 | 270,389 | 465,452 |
| Interest on U.S. government agency securities | 652 | 1,780 | 3,250 |
| Interest on federal funds sold | 42,571 | 42,733 | 45,349 |
| Total interest income | 7,732,783 | 8,500,693 | 8,691,149 |
| Interest Expense: | | | |
| Interest on savings deposits | 5,641 | 11,433 | 9,736 |
| Interest on interest-bearing transaction accounts | 332,717 | 459,738 | 556,067 |
| Interest on time deposits | 301,692 | 425,520 | 655,403 |
| Interest on federal funds purchased | 1 | 1 | 2 |
| Total interest expense | 640,051 | 896,692 | 1,221,208 |
| Net interest income | 7,092,732 | 7,604,001 | 7,469,941 |
| Provision for loan losses | 650,000 | 1,520,000 | 973,239 |
| Net interest income after provision for loan losses | 6,442,732 | 6,084,001 | 6,496,702 |
| Non-Interest Income: | | | |
| Service charges on deposit accounts | 640,056 | 496,711 | 465,073 |
| Other customer fees and charges | 267,291 | 203,459 | 209,814 |
| Total non-interest income | 907,347 | 700,170 | 674,887 |
| Non-Interest Expense: | | | |
| Salaries and employee benefits | 3,015,873 | 2,834,159 | 2,899,171 |
| Occupancy expense | 423,907 | 441,456 | 453,953 |
| Equipment expense | 495,657 | 545,560 | 412,203 |
| FDIC assessment | 258,152 | 216,792 | 457,252 |
| Legal expense | 349,125 | 123,500 | 150,181 |
| Insurance expense | 93,389 | 84,163 | 72,092 |
| Other | 1,228,279 | 1,055,464 | 1,127,701 |
| Total non-interest expense | 5,864,382 | 5,301,094 | 5,572,553 |
| Income before income taxes | 1,485,697 | 1,483,077 | 1,599,036 |
| Provision for income taxes | 579,605 | 577,895 | 615,376 |
| Net Income | \$906,092 | \$905,182 | \$983,660 |
| Earnings Per Share | | | |
| Earnings per common share (Basic) | \$0.70 | \$0.70 | \$0.76 |
| Earnings per common share (Diluted) | \$0.70 | \$0.70 | \$0.76 |

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

SUMMIT BANCSHARES, INC.

Summit Bancshares, Inc. and Subsidiary Consolidated Statement of Changes in Shareholders' Equity for the Years ended December 31, 2012, 2011 and 2010

| | Number Of Shares Outstanding | Common Stock | Retained Earnings | Total |
|------------------------------|------------------------------------|-----------------|----------------------|--------------|
| Balance at January 1, 2010 | 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 |
| Net Income | - | - | 905,182 | 905,182 |
| Balance at December 31, 2011 | 1,300,178 | 3,387,558 | 16,913,914 | 20,301,472 |
| Net Income | - | - | 906,092 | 906,092 |
| Balance at December 31, 2012 | 1,300,178 | \$3,387,558 | \$17,820,006 | \$21,207,564 |

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

SUMMIT BANCSHARES, INC.

Summit Bancshares, Inc. and Subsidiary Consolidated Statements of Cash Flows for the Years ended December 31, 2012, 2011 and 2010

| | 2012 | 2011 | 2010 |
|---|---------------------|---------------------|---------------------|
| Net Cash Provided By Operating Activities: | | | |
| Net Income | \$906,092 | \$905,182 | \$983,660 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation, amortization and accretion | 121,825 | 150,737 | 155,581 |
| Provision for loan losses | 650,000 | 1,520,000 | 973,239 |
| Deferred Income Tax Expense (benefit) | (532,000) | 34,000 | (413,000) |
| (Increase) decrease in other assets | (77,601) | (246,078) | 718,853 |
| OREO expense | 232,549 | 242,255 | 23,286 |
| BOLI Income | (109,213) | (106,662) | (107,073) |
| Increase (decrease) in other liabilities | 220,376 | 234,371 | (45,141) |
| Net cash provided by operating activities | 1,412,028 | 2,733,805 | 2,289,405 |
| Cash Flows From Investing Activities: | | | |
| (Increase) decrease in time deposits with other financial institutions | (6,897,000) | (18,709,000) | 3,077,000 |
| Maturity of investment securities | 400,000 | 773,000 | 1,396,000 |
| Purchase of FHLB stock | 63,400 | (20,800) | - |
| Purchase of investment securities | (399,373) | (399,312) | (1,445,772) |
| Net (increase) decrease in loans to customers | 9,811,921 | 8,490,885 | (7,795,002) |
| Recoveries on loans previously charged-off | 152,535 | 311,246 | 483,852 |
| (Increase) in premises and equipment | (116,697) | (40,688) | (141,495) |
| Proceeds from sale of OREO | 434,386 | 560,457 | 694,426 |
| Net cash provided by (used in) investing activities | 3,449,173 | (9,034,212) | (3,730,991) |
| Cash Flows From Financing Activities: | | | |
| Increase (decrease) in demand, interest bearing transaction, and savings deposits | 7,355,365 | 6,125,347 | 10,205,065 |
| Net increase (decrease) in time deposits | (2,251,988) | (5,943,395) | (5,107,226) |
| Net cash provided by (used in) financing activities | 5,103,377 | 181,952 | 5,097,839 |
| Net increase (decrease) in cash and cash equivalents | 9,964,577 | (6,118,455) | 3,656,253 |
| Cash and cash equivalents at the beginning of the year | 12,575,713 | 18,694,168 | 15,037,915 |
| Cash and cash equivalents at the end of the year | \$22,540,290 | \$12,575,713 | \$18,694,168 |
| Supplemental Cash Flow Disclosures | | | |
| Net noncash transfers to foreclosed property | \$699,484 | \$423,736 | \$3,401,430 |
| Income Taxes paid | \$650,000 | \$220,980 | \$812,642 |
| Interest paid | \$676,915 | \$949,436 | \$1,238,381 |

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

Notes to Consolidated Financial Statements December 31, 2012

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 730 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 nonaccrual 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.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Amounts are charged-off when available information confirms that specific loans or portions thereof, are uncollectible. This methodology for determining charge-offs is consistently applied to each portfolio segment.

The allowance consists of specific and general reserves. Specific reserves relate to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered in determining impairment include payment status, collateral value and the probability of collecting all amounts when due. 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 that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral.

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The Bank recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired with measurement of impairment as described above.

If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Smaller balance, homogeneous loans are collectively evaluated for impairment.

General reserves cover non-impaired loans and are based on historical loss rates for each portfolio segment, adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions, changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

Portfolio segments identified by the Bank include commercial, real estate and construction, and consumer loans. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans and credit scores, debt-to income, collateral type and loan-to-value ratios for consumer loans.

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, 2012 and 2011, the Bank had \$2,701,084 and \$2,668,535 in other real estate owned, respectively. The bank has chosen to hold these properties for the past two years as opposed to selling in a down market. We plan to market these for sale in 2013.

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, 2012, 2011 and 2010. 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.

Reclassifications

Certain reclassifications have been made in the 2011 and 2010 financial statements to conform to the presentation used in 2012. 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 12th, 2013, which is the date the financial statements were available to be issued.

Adoption of New Accounting Standards

In April 2011, the Financial Accounting Standard Board ("FASB") amended existing guidance for assisting a creditor in determining whether a restructuring is a troubled debt restructuring ("TDR"). The amendments clarify the guidance for a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. This guidance was effective for annual reporting periods ending after December 15, 2012, and was applied retrospectively to restructurings that occurred after January 1, 2012. The adoption of this standard in 2012 did not materially impact the Bank's accounting for TDR's.

In May, 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendments in this guidance are effective for annual periods beginning after December 15, 2011. New fair value related disclosures required by the new standard have been included in these financial statements.

In September 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in a two separate consecutive statement approach. The adoption of this amendment changed the presentation of the components of comprehensive income for the Bank as part of the consolidated statement of shareholders' equity. This statement has no impact on the company's financial statements.

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2. Investment Securities

The amortized cost and estimated fair values of investments in debt securities held to maturity as of December 31, 2012 and 2011 are as follows:

December 31, 2012

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|--------------------------|-------------------|------------------------------|-------------------------------|----------------------------|
| U.S. Treasury Securities | <u>\$399,739</u> | <u>\$141</u> | <u>\$ -</u> | <u>\$399,880</u> |

December 31, 2011

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|--------------------------|-------------------|------------------------------|-------------------------------|----------------------------|
| U.S. Treasury Securities | <u>\$399,714</u> | <u>\$246</u> | <u>\$ -</u> | <u>\$399,960</u> |

In analyzing an issuer'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, 2012, by contractual maturities are shown below.

| | Amortized Cost | Estimated Fair Value |
|-------------------------|-------------------|----------------------------|
| Due in one year or less | <u>\$399,739</u> | <u>\$399,880</u> |
| Total | <u>\$399,739</u> | <u>\$399,880</u> |

There were no sales of investments in debt securities during 2012 or 2011. At December 31, 2012, securities carried at \$399,739 were pledged to secure public deposits, as required by law.

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 there is only an increase in fair value.

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3. Loans and Allowance for Loan Losses

A summary of loans as of December 31, 2012, and 2011 (net of unearned loan fees of \$530,000 and \$572,000, respectively), is as follows:

| | <u>2012</u> | <u>2011</u> |
|---------------------------------|----------------------|----------------------|
| Commercial loans | \$24,791,191 | \$33,658,785 |
| Real estate loans | 63,993,957 | 57,603,056 |
| Real estate construction loans | 3,419,750 | 7,162,312 |
| Consumer loans | <u>11,870,958</u> | <u>16,469,293</u> |
| | 104,075,856 | 114,893,446 |
| Less: Allowance for loan losses | <u>(3,118,943)</u> | <u>(2,622,593)</u> |
| | <u>\$100,956,913</u> | <u>\$112,270,853</u> |

The changes in the allowance for loan losses for the years ended December 31, 2012, 2011, and 2010 are as follows:

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|------------------------------|--------------------|--------------------|--------------------|
| Balance, beginning of period | \$2,622,593 | \$2,730,952 | \$2,739,371 |
| Provision for loan losses | 650,000 | 1,520,000 | 973,239 |
| Recoveries | 152,535 | 311,246 | 483,852 |
| Loans charged-off | <u>(306,185)</u> | <u>(1,939,605)</u> | <u>(1,465,510)</u> |
| Balance, end of period | <u>\$3,118,943</u> | <u>\$2,622,593</u> | <u>\$2,730,952</u> |

The following table presents the activity in the allowance for loan losses for the year 2012 and 2011 and the recorded investment in loans and impairment method as of December 31, 2012 and 2011 by portfolio segment:

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| <u>December 31, 2012</u> | <u>Real Estate and Construction</u> | <u>Commercial</u> | <u>Consumer</u> | <u>Total</u> |
|---------------------------------|---|---------------------|---------------------|----------------------|
| Allowance for Loan Losses: | | | | |
| Beginning of Year | \$1,266,258 | \$965,252 | \$391,083 | \$2,622,593 |
| Provisions | 422,500 | 195,000 | 32,50 | 650,000 |
| Charge-offs | (121,137) | (153,640) | (31,408) | (306,185) |
| Recoveries | 89,434 | 63,101 | - | 152,535 |
| End of Year | <u>\$1,657,055</u> | <u>\$1,069,712</u> | <u>\$392,176</u> | <u>\$3,118,943</u> |
| Reserves: | | | | |
| Specific | \$455,669 | \$58,984 | \$31,010 | \$545,663 |
| General | 1,201,386 | 1,010,728 | 361,166 | 2,573,280 |
| | <u>\$1,657,055</u> | <u>\$1,069,712</u> | <u>\$392,176</u> | <u>\$3,118,943</u> |
| Loans Evaluated for Impairment: | | | | |
| Individually | \$7,758,235 | \$543,629 | \$374,071 | \$8,675,935 |
| Collectively | 59,655,472 | 24,247,562 | 11,496,887 | 95,399,921 |
| | <u>\$67,413,707</u> | <u>\$24,791,191</u> | <u>\$11,870,958</u> | <u>\$104,075,856</u> |
| <u>December 31, 2011</u> | | | | |
| Reserves: | | | | |
| Specific | \$ - | \$ - | \$ - | \$ - |
| General | 1,770,047 | 584,135 | 268,411 | 2,622,593 |
| | <u>\$1,770,047</u> | <u>\$ 584,135</u> | <u>\$ 268,411</u> | <u>\$2,622,593</u> |
| Loans Evaluated for Impairment: | | | | |
| Individually | \$8,657,561 | \$ - | \$ - | \$8,657,561 |
| Collectively | 56,107,807 | 33,658,785 | 16,469,293 | 106,235,885 |
| | <u>\$64,765,368</u> | <u>\$33,658,785</u> | <u>\$16,469,293</u> | <u>\$114,893,446</u> |

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on an ongoing basis as new information is obtained. The Bank uses the following definitions for risk ratings:

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Pass – Loans classified as pass include loans not meeting the risk ratings defined below.

Special Mention – Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard – Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Impaired – A loan is considered impaired, when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Additionally, all loans classified as troubled debt restructurings are considered impaired.

The risk category of loans by class of loans was as follows as of December 31, 2012 and 2011.

| <u>December 31, 2012</u> | <u>Pass</u> | <u>Special Mention</u> | <u>Substandard</u> | <u>Impaired</u> | <u>Total</u> |
|--------------------------|---------------------|----------------------------|--------------------|--------------------|----------------------|
| Commercial Real Estate: | | | | | |
| Construction and Land | | | | | |
| Development | \$1,726,292 | \$ - | \$ - | \$2,094,957 | \$3,821,249 |
| Other | 57,929,180 | - | - | 5,663,278 | 63,592,458 |
| Commercial | 21,652,802 | 1,786,678 | 808,082 | 543,629 | 24,791,191 |
| Consumer | 10,160,213 | 938,505 | 398,169 | 374,071 | 11,870,958 |
| | <u>\$91,468,487</u> | <u>\$2,725,183</u> | <u>\$1,206,251</u> | <u>\$8,675,935</u> | <u>\$104,075,856</u> |

| <u>December 31, 2011</u> | <u>Pass</u> | <u>Special Mention</u> | <u>Substandard</u> | <u>Impaired</u> | <u>Total</u> |
|--------------------------|---------------------|----------------------------|--------------------|--------------------|----------------------|
| Commercial Real Estate: | | | | | |
| Construction and Land | | | | | |
| Development | \$4,643,739 | \$681,179 | \$ - | \$1,837,394 | \$7,162,312 |
| Other | 47,658,160 | 3,034,012 | 90,717 | 6,820,167 | 57,603,056 |
| Commercial | 32,729,838 | 431,866 | 497,081 | - | 33,658,785 |
| Consumer | 14,781,183 | 276,719 | 1,411,391 | - | 16,469,293 |
| | <u>\$99,812,920</u> | <u>\$4,423,776</u> | <u>\$1,999,189</u> | <u>\$8,657,561</u> | <u>\$114,893,446</u> |

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2012:

| <u>December 31, 2012</u> | <u>Still Accruing</u> | | <u>Nonaccrual</u> |
|--------------------------|--------------------------------|----------------------------------|--------------------|
| | <u>30-89 Days Past Due</u> | <u>Over 90 Days Past Due</u> | |
| Commercial Real Estate: | | | |
| Construction and Land | | | |
| Development | \$ - | \$ - | \$2,094,957 |
| Other | - | - | 5,663,278 |
| Commercial/Consumer | 40,143 | - | 917,700 |
| | <u>\$40,143</u> | <u>\$ -</u> | <u>\$8,675,935</u> |

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| <u>December 31, 2011</u> | <u>Still Accruing</u> | | <u>Nonaccrual</u> |
|--------------------------|--------------------------------|----------------------------------|--------------------|
| | <u>30-89 Days Past Due</u> | <u>Over 90 Days Past Due</u> | |
| Commercial Real Estate: | | | |
| Construction and Land | | | |
| Development | \$ - | \$ - | \$1,837,394 |
| Multifamily | - | - | - |
| Other | - | - | 6,820,167 |
| Residential Real Estate | | | |
| Commercial/Consumer | <u>103,135</u> | <u>-</u> | <u>-</u> |
| | <u>\$103,135</u> | <u>\$ -</u> | <u>\$8,657,561</u> |

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2012 and 2011:

| <u>December 31, 2012</u> | <u>Unpaid Principal Balance</u> | <u>Recorded Investment</u> | <u>Related Allowance</u> | <u>Average Recorded Investment</u> | <u>Interest Income Recognized</u> |
|---|---|--------------------------------|------------------------------|--|---|
| With No Related Allowance Recorded | | | | | |
| Commercial Real Estate: | | | | | |
| Construction and Land | | | | | |
| Development | \$ - | \$ - | \$ - | \$ - | \$ - |
| Multifamily | - | - | - | - | - |
| Other | 4,606,964 | 3,201,544 | - | 3,152,691 | - |
| Residential Real Estate | - | - | - | - | - |
| Commercial | - | - | - | - | - |
| Consumer | - | - | - | - | - |
| | <u>\$4,606,964</u> | <u>\$3,201,544</u> | <u>\$ -</u> | <u>\$3,152,691</u> | <u>\$ -</u> |

| | <u>Unpaid Principal Balance</u> | <u>Recorded Investment</u> | <u>Related Allowance</u> | <u>Average Recorded Investment</u> | <u>Interest Income Recognized</u> |
|-----------------------------------|---|--------------------------------|------------------------------|--|---|
| With an Allowance Recorded | | | | | |
| Commercial Real Estate: | | | | | |
| Construction and Land | | | | | |
| Development | \$2,330,289 | \$2,094,957 | \$209,496 | \$2,169,676 | \$ - |
| Multifamily | - | - | - | - | - |
| Other | 2,820,108 | 2,461,734 | 246,173 | 2,513,257 | - |
| Residential Real Estate | - | - | - | - | - |
| Commercial | 1,021,340 | 543,629 | 58,984 | 580,266 | - |
| Consumer | <u>477,711</u> | <u>374,071</u> | <u>31,010</u> | <u>428,925</u> | <u>-</u> |
| | <u>\$6,649,448</u> | <u>\$5,474,391</u> | <u>\$545,663</u> | <u>\$5,692,124</u> | <u>\$ -</u> |

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| <u>December 31, 2011</u> | <u>Unpaid Principal Balance</u> | <u>Recorded Investment</u> | <u>Related Allowance</u> | <u>Average Recorded Investment</u> | <u>Interest Income Recognized</u> |
|---|---|--------------------------------|------------------------------|--|---|
| With No Related Allowance Recorded | | | | | |
| Commercial Real Estate: | | | | | |
| Construction and Land | | | | | |
| Development | \$2,072,726 | \$1,837,394 | \$ - | \$1,970,211 | \$18,136 |
| Multifamily | - | - | - | - | - |
| Other | 8,181,559 | 6,820,167 | - | 8,739,053 | 77,178 |
| Residential Real Estate | - | - | - | - | - |
| Commercial | - | - | - | - | - |
| Consumer | - | - | - | - | - |
| | <u>\$10,254,285</u> | <u>\$8,657,561</u> | <u>\$ -</u> | <u>\$10,709,264</u> | <u>\$95,314</u> |

The Bank has allocated \$0 and \$0 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2012 and 2011. The Bank has committed to lend no additional amounts to customers with outstanding loans that are classified as troubled debt restructurings (TDR's) as of December 31, 2012 and 2011.

There were 2 loans modified as TDR's that occurred during the period ended December 31, 2012. The concessions given were a reduction in ongoing monthly debt service on both loans and the forgiveness of accrued interest on one of the loans. There were no defaults on loans classified as TDR's.

| | <u>Number of Loans</u> | <u>Pre- Modification Recorded Investment</u> | <u>Post- Modification Recorded Investment</u> |
|-------------------------|----------------------------|--|---|
| Commercial Real Estate: | | | |
| Construction and Land | | | |
| Development | 1 | \$1,693,457 | \$1,693,457 |
| Multifamily | - | - | - |
| Other | - | - | - |
| Residential Real Estate | - | - | - |
| Commercial | 1 | 374,071 | 374,071 |
| Consumer | - | - | - |
| | <u>2</u> | <u>\$2,067,528</u> | <u>\$2,067,528</u> |

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

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, 2012, and 2011, loans outstanding to directors, officers, and principal shareholders and their known associates were \$4,220,875 and \$4,212,335 respectively. In 2012, advances on current directors' loans were \$1,060,673 and collections were \$1,052,133. In 2011, advances on such loans were \$1,272,055, and collections were \$1,473,862. As of December 31, 2012 and 2011 total deposits of directors, officers and principal shareholders and their known associates totaled \$3,751,394 and \$2,773,587 respectively.

5. Premises and Equipment

Premises and equipment consisted of the following:

| | <u>Cost</u> | <u>Accumulated Depreciation</u> | <u>Net Book Value</u> |
|--------------------------|--------------------|-------------------------------------|---------------------------|
| December 31, 2012 | | | |
| Leasehold improvements | \$1,200,099 | \$1,157,943 | \$42,156 |
| Furniture and equipment | 2,845,648 | 2,577,549 | 268,099 |
| Total | <u>\$4,045,747</u> | <u>\$3,735,492</u> | <u>\$310,255</u> |
| December 31, 2011 | | | |
| Leasehold improvements | \$1,200,099 | \$1,137,660 | \$62,439 |
| Furniture and equipment | 2,728,952 | 2,475,356 | 253,596 |
| Total | <u>\$3,929,051</u> | <u>\$3,613,016</u> | <u>\$316,035</u> |

Depreciation and amortization included in occupancy and equipment expenses was \$122,477, \$152,219, and \$155,581 for the years ended December 31, 2012, 2011, and 2010, respectively.

6. Income Taxes

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

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|----------------|------------------|------------------|------------------|
| Current: | | | |
| Federal | \$837,000 | \$438,000 | \$776,000 |
| State | 275,000 | 106,000 | 252,000 |
| Total current | <u>1,112,000</u> | <u>544,000</u> | <u>1,028,000</u> |
| Deferred: | | | |
| Federal | (406,000) | 39,000 | (313,000) |
| State | (126,000) | (5,000) | (100,000) |
| Total deferred | <u>(532,000)</u> | <u>34,000</u> | <u>(413,000)</u> |
| Total taxes | <u>\$580,000</u> | <u>\$578,000</u> | <u>\$615,000</u> |

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The components of the net deferred tax asset of the Company as of December 31, 2012, 2011 and 2010, were as follows:

| | <u>2012</u> | <u>2011</u> | <u>2010</u> |
|---------------------------|--------------------|--------------------|--------------------|
| Deferred Tax Assets: | | | |
| Allowance for loan losses | \$956,000 | \$749,000 | \$864,000 |
| State taxes | 95,000 | 36,000 | 49,000 |
| Installment sale | (417,000) | (368,000) | (368,000) |
| Depreciation | 111,000 | 117,000 | 167,000 |
| Other real estate owned | 681,000 | 518,000 | 448,000 |
| Deferred Salary | 956,000 | 870,000 | 770,000 |
| Other | 34,000 | (38,000) | (12,000) |
| Net Deferred Tax Asset | <u>\$2,416,000</u> | <u>\$1,884,000</u> | <u>\$1,918,000</u> |

The deferred tax asset at December 31, 2012 has been restated to reflect final tax return adjustments to existing temporary differences. This has no impact on recorded net income as the adjustments are equally offset by changes to previously reported current tax expense.

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

| | <u>2012</u> | | <u>2011</u> | | <u>2010</u> | |
|--|------------------|----------------|------------------|----------------|------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Federal income tax expense, based on the statutory federal income tax rate | \$505,000 | 34.00% | \$504,000 | 34.00% | \$544,000 | 34.00% |
| State franchise taxes, net of federal income tax benefit | 72,000 | 4.90% | 72,000 | 4.90% | 115,000 | 7.20% |
| Other, net | 3,000 | 0.10% | 3,000 | 0.10% | (44,000) | (2.30%) |
| Tax provision | <u>\$580,000</u> | <u>39.00%</u> | <u>\$579,000</u> | <u>38.90%</u> | <u>\$615,000</u> | <u>38.90%</u> |

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, 2012. 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 of the state of California. Our federal income tax returns for the years ended December 31, 2011, 2010 and 2009 are open to audit by the federal authorities and our California state tax returns for the years ended December 31, 2011, 2010, 2009 and 2008, are open to audit by state authorities.

7. Time Deposits

Time deposits issued as of December 31, 2012, had \$28,688,827 maturing in the year 2013, \$1,336,906 maturing in 2014, \$159,376 maturing in 2015, \$101,860 maturing in 2016 and the remaining \$1,264,207 maturing in 2017.

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, 2012. There were no borrowings outstanding under these agreements at December 31, 2012 and December 31, 2011.

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, 2012, this line provided for a maximum borrowing capacity of \$7,561,372. There was no outstanding balance as of December 31, 2012. At December 31, 2012, this borrowing line was collateralized by mortgage loans with a book value of \$11,781,857. Interest expense related to FHLB borrowings totaled \$0 in 2012, \$0 in 2011 and \$0 in 2010, 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, 2012, 2011, and 2010.

| | FOR THE YEAR ENDED | | | | | | | | |
|--------------------------------------|-----------------------|-------------------------|---------------------|-----------------------|-------------------------|---------------------|-----------------------|-------------------------|---------------------|
| | December 31, 2012 | | | December 31, 2011 | | | December 31, 2010 | | |
| | Income (Numerator) | Shares (Denominator) | Per Share Amount | Income (Numerator) | Shares (Denominator) | Per Share Amount | Income (Numerator) | Shares (Denominator) | Per Share Amount |
| Net Income | \$906,092 | | | \$905,182 | | | \$983,660 | | |
| Basic EPS Income Available to | | | | | | | | | |
| Common Stockholders | 906,092 | 1,300,178 | \$0.70 | 905,182 | 1,300,178 | \$0.70 | 983,660 | 1,300,178 | \$0.76 |
| <u>Effect of Dilutive Securities</u> | | | | | | | | | |
| Stock Options | | | | | | | | | |
| Diluted EPS | | | | | | | | | |
| Income Available to | | | | | | | | | |
| Common Stockholders | | | | | | | | | |
| and Assumed Conversion | \$906,092 | 1,300,178 | \$0.70 | \$905,182 | 1,300,178 | \$0.70 | \$983,660 | 1,300,178 | \$0.76 |

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

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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, 2012, that the Company and the Bank have met all capital adequacy requirements.

As of December 31, 2012, 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, 2012 | | | | | | |
| Total Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Consolidated | \$22,562,000 | 17.24% | \$10,470,800 | 8.00% | \$13,088,500 | 10.00% |
| Bank | 21,494,000 | 16.43% | 10,465,600 | 8.00% | 13,082,000 | 10.00% |
| Tier 1 Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Consolidated | 20,908,000 | 15.97% | 5,235,400 | 4.00% | 7,853,100 | 6.00% |
| Bank | 19,840,000 | 15.17% | 5,232,800 | 4.00% | 7,849,200 | 6.00% |
| Tier 1 Capital | | | | | | |
| (to Average Assets) | | | | | | |
| Consolidated | 20,908,000 | 10.55% | 7,929,462 | 4.00% | 9,911,828 | 5.00% |
| Bank | 19,840,000 | 10.05% | 7,895,998 | 4.00% | 9,869,998 | 5.00% |
| As of December 31, 2011 | | | | | | |
| Total Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Consolidated | 21,715,000 | 15.94% | 10,895,360 | 8.00% | 13,619,200 | 10.00% |
| Bank | 20,646,000 | 15.18% | 10,882,000 | 8.00% | 13,602,500 | 10.00% |
| Tier 1 Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Consolidated | 20,001,000 | 14.69% | 5,447,680 | 4.00% | 8,171,520 | 6.00% |
| Bank | 18,934,000 | 13.92% | 5,441,000 | 4.00% | 8,161,500 | 6.00% |
| Tier 1 Capital | | | | | | |
| (to Average Assets) | | | | | | |
| Consolidated | 20,001,000 | 10.44% | 7,662,501 | 4.00% | 9,578,126 | 5.00% |
| Bank | 18,934,000 | 9.92% | 7,631,481 | 4.00% | 9,539,351 | 5.00% |

11. 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

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paid for the last three years. Under these restrictions, at December 31, 2012, the Bank could pay dividends to the Company of up to approximately \$2,810,558 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, 2012, were \$878,000.

12. 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 \$316,137, \$333,733 and \$349,220, for the years ended December 31, 2012, 2011, and 2010.

At December 31, 2012, the approximate future minimum payments for non-cancelable leases with initial or remaining terms in excess of one year were as follows:

| | |
|----------------|--------------------|
| 2013 | \$342,645 |
| 2014 | 348,115 |
| 2015 | 355,214 |
| 2016 | 362,461 |
| 2017 and after | <u>388,934</u> |
| Total | <u>\$1,797,369</u> |

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.

13. 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, \$36,380 was contributed in 2012, \$32,926 in 2011 and \$25,764 in 2010.

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 2012, \$0 in 2011, and \$0 in 2010. 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.

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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 \$207,894 in 2012, \$242,753 in 2011, and \$136,860 in 2010.

14. 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, 2012 and 2011, financial instruments whose contract amounts represent credit risk are as follows:

| | <u>2012</u> | <u>2011</u> |
|--|---------------------|---------------------|
| Commitments to extend credit in the future | \$24,944,259 | \$22,972,099 |
| Standby letters of credit | 119,689 | 1,244,689 |
| Total | <u>\$25,063,948</u> | <u>\$24,216,788</u> |

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.

15. 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, 2012 or 2011.

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Fair Value on a Nonrecurring Basis

The following is a description of valuation methodologies used for assets recorded at fair value on a non-recurring basis:

Impaired Loans: The Bank does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect partial write-downs, through charge-offs or specific reserve allowances, that are based on fair value estimates of the underlying collateral. The fair value estimates for collateral-dependent impaired loans are generally based on recent real estate appraisals or broker opinions, obtained from independent third parties, which are frequently adjusted by management to reflect current conditions and estimated selling costs.

Other Real Estate Owned: Nonrecurring adjustments to certain real estate properties classified as other real estate owned are measured at the lower of carrying amount or fair value, less costs to sell. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized. Fair values are generally based on third party appraisals of the property which are commonly adjusted by management to reflect current conditions and selling costs.

The following table presents the hierarchy and fair value of financial assets that are measured at fair value on a non-recurring basis as of December 31, 2012 and 2011.

| Fair Value Hierarchy | As of December 31, 2012 | | | |
|----------------------------|-------------------------|---------|---------------------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Impaired loans | \$8,675,935 | - | \$8,675,935 | - |
| Other real estate owned | 2,701,084 | - | 2,701,084 | - |
| Total assets at fair value | <u>\$11,377,019</u> | - | <u>\$11,377,019</u> | - |

| Fair Value Hierarchy | As of December 31, 2011 | | | |
|----------------------------|-------------------------|---------|---------------------|---------|
| | Total | Level 1 | Level 2 | Level 3 |
| Impaired loans | \$8,657,561 | - | \$8,657,561 | - |
| Other real estate owned | 2,668,535 | - | \$2,668,535 | - |
| Total assets at fair value | <u>\$11,326,096</u> | - | <u>\$11,326,096</u> | - |

Other real estate owned had carrying amounts of \$2,701,084 and \$2,668,535 as of December 31, 2012 and 2011 respectively. Write-downs of OREO were \$243,200 and \$241,330 for the years ended December 31, 2012 and 2011, 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, 2012, and December 31, 2011, and the methods and assumptions used to evaluate them.

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| | <u>Carrying Value</u> | <u>Estimated Fair Value</u> |
|---|---------------------------|---------------------------------|
| 2012 | | |
| Cash and due from banks and Fed funds sold | \$22,540,290 | \$22,540,290 |
| Investment securities | 399,739 | 399,880 |
| Time deposits with other financial institutions | 56,111,000 | 56,063,538 |
| Loans | 100,956,913 | 100,236,893 |
| Bank owned life insurance | 3,063,714 | 3,063,714 |
| Accrued interest receivable | 323,297 | 323,297 |
| Deposits | | |
| Demand | 69,023,968 | 69,023,968 |
| Interest bearing transaction accounts | 65,894,261 | 65,894,261 |
| Savings | 2,079,769 | 2,079,769 |
| Time certificates | 31,551,177 | 31,669,228 |
| Accrued interest payable | 41,703 | 41,703 |
| | <u>Carrying Value</u> | <u>Estimated Fair Value</u> |
| 2011 | | |
| Cash and due from banks | \$12,575,713 | \$12,575,713 |
| Investment securities | 399,714 | 399,960 |
| Time deposits with other financial institutions | 49,214,000 | 49,263,060 |
| Loans | 112,270,853 | 112,365,143 |
| Bank owned life insurance | 2,954,501 | 2,954,501 |
| Accrued interest receivable | 403,976 | 403,976 |
| Deposits | | |
| Demand | 58,564,130 | 58,564,130 |
| Interest bearing transaction accounts | 67,892,623 | 67,892,623 |
| Savings | 3,185,880 | 3,185,880 |
| Time certificates | 33,803,165 | 33,929,290 |
| Accrued interest payable | 78,566 | 78,566 |

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 \$119,689 and \$24,944,259 respectively. The fair value of these off balance sheet commitments is not material.

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

The following are the balance sheets as of December 31, 2012, and 2011, and the related statements of income and cash flows for the years ended December 31, 2012, 2011, and 2010, for Summit Bancshares, Inc. (parent company only)

| <u>Balance Sheet</u> | <u>2012</u> | <u>2011</u> | |
|---|---------------------|---------------------|------------------|
| Assets: | | | |
| Cash | \$1,002,883 | \$903,129 | |
| Loan participation with subsidiary (net of allowance for loss reserve of \$0 at December 31, 2012 and \$0 at December 31, 2011) | - | 100,000 | |
| Investment in subsidiary | 20,140,201 | 19,233,556 | |
| Other assets | 64,480 | 64,787 | |
| Total Assets | \$21,207,564 | \$20,301,472 | |
| Liabilities: | | | |
| Income taxes payable | \$- | \$- | |
| Total Liabilities | - | - | |
| Shareholders' Equity: | | | |
| Common Stock | 3,387,558 | 3,387,558 | |
| Retained Earnings | 17,820,006 | 16,913,914 | |
| Total Shareholders' Equity | 21,207,564 | 20,301,472 | |
| Total Liabilities and Shareholders' Equity | \$21,207,564 | \$20,301,472 | |
| Statements of Income (year ended December 31) | | | |
| | 2012 | 2011 | 2010 |
| Income: | | | |
| Interest on short-term investments and loans | \$469 | \$6,594 | \$4,526 |
| Rental and other income | 25 | 6,778 | 256 |
| Total income | 494 | 13,372 | 4,782 |
| Expense: | | | |
| Miscellaneous expense | 1,444 | 4,007 | 39,946 |
| Total expense | 1,444 | 4,007 | 39,946 |
| Income (loss) before income tax and equity in earnings of subsidiary | (950) | 9,365 | (35,164) |
| Provision for income taxes | (395) | 3,895 | (14,624) |
| Income (loss) before equity in earnings of subsidiary | (555) | 5,470 | (20,540) |
| Equity in earnings of subsidiary | | | |
| Distributed | - | - | - |
| Undistributed | 906,647 | 899,712 | 1,004,200 |
| Net Income | \$906,092 | \$905,182 | \$983,660 |

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Summit Bancshares, Inc. Statements of Cash Flows for the Years ended December 31, 2012, 2011 and 2010

| | 2012 | 2011 | 2010 |
|---|--------------------|------------------|------------------|
| Cash Flows from Operating Activities: | | | |
| Interest received | \$1,172 | \$6,053 | \$3,723 |
| Rental income | - | - | - |
| Fees Received | 25 | 6,778 | 256 |
| Cash received from sale of land | - | - | - |
| Notes Receivable charged off | - | - | - |
| Other income (expense) | - | - | - |
| Cash paid to suppliers | (1,444) | (4,007) | (39,946) |
| Income taxes paid | 0 | (126,028) | (16,195) |
| Net cash provided by (used in) operating activities | (247) | (117,204) | (52,162) |
| Cash Flows from Investing Activities: | | | |
| Net decrease (increase) in loans | \$100,000 | - | 57,423 |
| Transfer of tax reserves | 0 | 47,128 | - |
| Interest received from subsidiary | 0 | 866 | - |
| Net cash provided by (used in) investing activities | 100,000 | 47,994 | 57,423 |
| Cash Flows from Financing Activities: | | | |
| Stock options exercised | - | - | - |
| Repurchase of common stock | - | - | - |
| Dividends paid | - | - | - |
| Net cash (used in) financing activities | - | - | - |
| Net increase (decrease) in cash and cash equivalents | 99,753 | (69,210) | 5,261 |
| Cash at the beginning of the year | 903,129 | 972,339 | 967,078 |
| Cash at the end of the year | \$1,002,882 | \$903,129 | \$972,339 |
| Reconciliation of Net Income to Net Cash Provided by Operating Activities: | | | |
| Net Income | \$906,092 | \$905,182 | \$983,660 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for loan losses | - | - | - |
| Non-cash earnings from subsidiary | (906,647) | (899,712) | (1,004,200) |
| (Increase) Decrease in other assets | 308 | 54,790 | (6,725) |
| Increase (Decrease) in other liabilities | 0 | (177,464) | (24,897) |
| Total adjustments | (906,339) | (1,022,386) | (1,035,822) |
| Net cash provided by (used in) operating activities | (247) | (117,204) | (52,162) |

Independent Auditor's Report

The Board of Directors and Shareholders Summit Bancshares, Inc.

We have audited the accompanying consolidated financial statements of Summit Bancshares, Inc. (a California corporation) and subsidiary, which are comprised of the consolidated statements of financial condition as of December 31, 2012 and 2011, and the related consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2012, and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Summit Bancshares Inc. and subsidiary as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2012, in accordance with accounting principles generally accepted in the United States of America.

Varinck Time Day + Co. LLP

Palo Alto, California
April 12, 2013

CORPORATE DIRECTORY

Directors of Summit Bancshares, Inc. and Summit Bank

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Berkeley

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M.D.
Orthopaedic Surgeon
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Kikuo Nakahara
CPA - Retired
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Realtors
Moraga

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

John Protopappas
President and CEO
Madison Park Real Estate
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Steven P. Nelson
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Chief Credit Officer

Mani Ganesamurthy
Vice President
Chief Financial Officer

Marcia Gerg
Vice President
Senior Relationship
Manager

Alan Lozito
Vice President
Senior Relationship
Manager

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Assistant Vice President
Compliance Officer/
Operations Administrator

Maria Fuentes
Assistant Vice President
Special Projects Manager/
Credit Analyst

Tom Henning
Assistant Vice President
Credit Analyst

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Summit Bank Foundation

Summit Bank Foundation
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