# Summit Bank

# SUMMIT BANCSHARES INC.
# 2016 ANNUAL REPORT

# FINANCIAL HIGHLIGHTS

| FOR THE YEAR ENDED | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Net Income | $2,037,603 | $2,333,654 | $2,915,310 | $1,361,719 | $906,092 |
| Earnings per common share | $1.58 | $1.79 | $2.24 | $1.05 | $0.70 |
| Earnings per common share - assuming dilution | $1.58 | $1.79 | $2.24 | $1.05 | $0.70 |

| AT YEAR END (in thousands) | | | | | |
|---|---|---|---|---|---|
| Deposits | $210,007 | $198,696 | $188,985 | $165,674 | $168,549 |
| Loans (Net) | 115,973 | 133,804 | 120,278 | 113,863 | 100,957 |
| Assets | 241,125 | 229,598 | 218,314 | 191,338 | 191,957 |
| Shareholders' Equity | 27,325 | 27,532 | 25,485 | 22,569 | 21,208 |
| Non-performing Loans to Total Loans | 0.00% | 0.00% | 0.00% | 5.22% | 8.34% |
| Allowance to Non-performing Loans | 0.00% | 0.00% | 0.00% | 52.96% | 35.92% |
| Common Equity Tier 1 Capital | 17.21% | 16.60% | 16.68% | 16.71% | 15.97% |
| Tier 1 Capital | 17.21% | 16.60% | 16.68% | 16.71% | 15.97% |
| Total Capital | 18.47% | 17.86% | 17.94% | 18.01% | 17.24% |
| Leverage Ratio | 11.08% | 11.69% | 10.48% | 11.41% | 10.55% |

## 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 2015 is contained below. The following prices reflect retail mark-up and may not represent actual transactions.

| **2016** | **High** | **Low** | **Dividends Declared** |
|---|---|---|---|
| First Quarter | $17.11 | $17.09 | $0.11 |
| Second Quarter | 18.69 | 18.67 | -- |
| Third Quarter | 21.52 | 21.47 | 0.13 |
| Fourth Quarter | 20.57 | 20.56 | -- |
| **Total** | | | **$0.24** |

| **2015** | | | |
|---|---|---|---|
| First Quarter | $15.58 | $15.57 | $ -- |
| Second Quarter | 15.66 | 15.65 | -- |
| Third Quarter | 15.78 | 15.76 | 0.22 |
| Fourth Quarter | 17.21 | 17.18 | -- |
| **Total** | | | **$0.22** |

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

The year of 2016 was another successful one for Summit Bank and extended what is now our 34 year legacy of continuous annual and monthly profitability since we opened the doors in 1982. Our after tax profit was $2,038,000 or $1.58 per share.

We are very proud of this long history of profitability and stability and we consider it a tribute to the trust and confidence you placed in us when you became a shareholder.

In 2016, our total assets grew from $229,598,000 to $241,125,000 representing 5.02% in total growth. Our Return on Assets was 0.86% compared to 1.07% last year and Return on Equity was 7.46% compared to 9.15% in 2015. Our earnings in 2015 included some recoveries which were a part of the increased returns for that year.

Our stock's book value increased 7.1% from $21.18 to $22.69 and our Risk Based Capital Ratio of 18.47% which is well in excess of the Regulatory standard of 10% for a Well Capitalized Bank.

It appears that interest rates will increase significantly in the near future as expected which will help improving the interest margins. There will be an immediate effect on interest income from loans whereas the interest rates on deposits will be increasing at a slower pace.

In September of 2016, we looked to the future and hired Thomas Duryea as the CEO of Summit Bank. Tom is only the second person to serve in this role. He comes to us with great experience in community banking and we feel very fortunate to have him join us. I am confident that he will not deviate from the style and philosophy of banking that has served us so well.

I will continue my work in an executive capacity as Chairman of the Bank and Chairman and CEO of the Company. Steve Nelson remains in his capacity as President and COO of Summit Bank.

On behalf of the Board of Directors of Summit Bank I am saddened to say that Director Mary C. Warren passed away in 2016. Mary joined the Board of Directors in 1998 and that same year also joined the Board of Directors for the Summit Bank Foundation. She was not only a good friend but a dedicated and valued member of both Boards and worked diligently to promote the causes of each organization.

We will continue to apply our conservative views to all aspects of banking fundamentals with a strong focus on prudent lending. We look forward to celebrating our 35th anniversary and having yet another successful year in 2017 under the leadership of Thomas Duryea.

**SHIRLEY W. NELSON**
*Chairman and CEO*

# 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 2016 was $2,038,000 compared to $2,334,000 in 2015, and $2,915,000 in 2014. The decrease in the year 2016's net income from the year 2015 was caused primarily due to the recognition of interest income and legal fees from the pay off on a non-accrual loan in 2015. The net income of $2,038,000 for 2016 represents diluted earnings per share of $1.58 which compared to diluted earnings per share of $1.79 in 2015, and diluted earnings per share of $2.24 per share in 2014.

**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 41% of the loans outstanding mature within one year, while the longest maturity is ten years. In a rising interest rate environment, interest income on loans will generally rise faster than the investment income and vice versa. To offset any decline in interest income due to a declining interest rate environment, the Company monitors closely its interest expense on deposits. Of the total time certificates of deposit outstanding at year-end, approximately 5% 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 2016 was $8,626,000, an increase from $8,434,000 posted in 2015 and decrease as compared to $9,605,000 in 2014. The increase in 2014 was primarily the result of interest income recognized from pay down on a non-accrual loan in the amount of $2,167,000 and payoff of non-accrual loans in the amount of $527,000. Average earning assets increased by 9.22% in 2016 to $229,293,000 from $209,941,000 in 2015 and as compared to $190,056,000 in 2014. Average total deposits were increased by 9.52% to $210,158,000 in 2016 from $191,883,000 in 2015 and increased 9.37% as compared to $175,436,000 in 2014.

Average loans outstanding increased by 5.44% in 2016 to $135,780,000 as compared to $128,780,000 in 2015 and $117,095,000 in 2014. Average outstanding investments increased 15.22% to $93,512,000 in 2016 as compared to $81,161,000 in 2015 and $72,960,000 in 2014. The yield on average earning assets was 3.55% in 2016 as compared to 4.02% in 2015 and 5.05% in 2014. The decrease in 2016 was due to loans paid off with high interest rates and the new loans booked at lower interest rates due to market conditions.

Interest expense increased 0.36% to $494,000 in 2016 from $492,000 in 2015 and as compared to $430,000 in 2014. The increase in 2016 was primarily centered in the average rates paid on deposits. Average interest-bearing deposits increased 7.05% to $117,894,000 in 2016 compared to $110,131,000 in 2015 and $101,495,000 in 2014. Average non-interest bearing deposits increased 12.86% in 2016 to $92,264,000 as compared to $81,751,000 in 2015 and $73,941,000 in 2014. Overall cost of funds in 2016 was 0.42% as compared to 0.45% in 2015 and 0.42% in 2014. The decrease in the overall cost of funds was a direct result of a decrease in customers' time deposits interest rates.

**Non-Interest Income and Expense**

Non-interest income, consisting primarily of service charges on deposit accounts and other income, was $776,000 in 2016, a decrease of 40.62% from $1,307,000 in 2015, and $1,067,000 in 2014. Total service charge income from deposit accounts decreased 14.24% to $499,000 in 2016 from $582,000 in 2015 and $523,000 in 2014 and total income from other charges decreased 61.81% to $277,000 in 2016 from $725,000 in 2015 and $544,000 in 2014. The increase of Non-interest income in 2015 was primarily due to income recognized from the payoff of non-accrual loan and other income received from miscellaneous services.

Non-interest expenses increased 2.76% to $6,017,000 in 2015 from $5,855,000 in 2015, and $5,792,000 in 2014. Salary expense increased 5.66% to $3,595,000 in 2016 from $3,402,000 in 2015 and $3,323,000 in 2014. Legal expenses decreased by $45,000 in 2016 over 2015 and decreased by $20,000 in 2015 over 2014. Legal expenses related primarily to services rendered in connection with securing the satisfactory payoffs of non-accrual loans, including previously unrecognized interest income on those loans, in both 2015 and 2016. FDIC assessment expense increased to $106,000 in 2016 from $100,000 in 2015 and $141,000 in 2014, primarily due to an increase in total assets.

The Company's allowance for loan losses as a percent of loans was 3.09% as of December 31, 2016 as compared to 2.66% as of December 31, 2015 and 2.97% as of December 31, 2014. There were no accrual for loan loss provision in 2016 and 2015 as there were recoveries from the charged off loans. At this time management has determined that the allowance is appropriate. There were no charge offs in 2016 compared to $83,000 in 2015.

**Provision for Income Taxes**

The provision for income taxes reflects a combined Federal and California effective tax rate of 40.0% in 2016, compared to 40.0% in 2015 and 40.0% in 2014, 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, 2016, the Company had $35,257,000 in cash and cash equivalents compared to $8,596,000 as of December 31, 2015 and $19,423,000 as of December 31, 2014. The increase in 2016 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, 2016 was 55.2% compared to 67.3% as of December 31, 2015 and 63.6% as of December 31, 2014.

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 $154,780,000 at December 31, 2016 as compared to $128,915,000 at December 31, 2015, and $125,869,000 at December 31, 2014. This is equivalent to 64.0%, 56.1%, and 57.7% 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 it's underwriting of loans to healthcare professionals.

**Non-Performing Assets**

As of December 31, 2016 and 2015, the Company's only non-performing assets consisted of other real estate owned of $576,500 respectively.

**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, 2016 AND 2015

| ASSETS | | 2016 | | 2015 |
|---|---|---|---|---|
| Cash and due from banks | | $ 4,756,997 | | $ 4,095,812 |
| Federal funds sold | | 30,500,000 | | 4,500,000 |
| Cash and cash equivalents | | 35,256,997 | | 8,595,812 |
| Time deposits with other financial institutions | | 79,816,000 | | 77,357,000 |
| Investment securities held to maturity, at cost (fair value of $399,523 at December 31, 2016 and $399,831 at December 31, 2015) | | 399,353 | | 399,649 |
| Loans (Net of related deferred loan fees) | 119,667,842 | | 137,455,147 | |
| Less: allowance for loan losses | 3,694,781 | | 3,650,818 | |
| Net loans | | 115,973,061 | | 133,804,329 |
| Premises and equipment, net | | 56,964 | | 100,954 |
| Bank Owned Life Insurance | | 4,647,950 | | 4,508,118 |
| Deferred Tax Assets | | 3,097,000 | | 2,516,000 |
| Other Real Estate Owned | | 576,500 | | 576,500 |
| Interest receivable and other assets | | 1,300,990 | | 1,740,093 |
| **Total Assets** | | **$ 241,124,815** | | **$229,598,455** |

| LIABILITIES AND SHAREHOLDERS' EQUITY | 2016 | 2015 |
|---|---|---|
| Deposits: | | |
| Demand | $ 96,721,600 | $ 83,635,761 |
| Interest-bearing transaction accounts | 77,881,346 | 79,331,330 |
| Savings | 8,339,757 | 5,034,541 |
| Time certificates $250,000 and over | 14,303,947 | 18,194,625 |
| Other time certificates | 12,760,516 | 12,499,958 |
| Total deposits | 210,007,166 | 198,696,215 |
| Interest payable and other liabilities | 3,792,196 | 3,370,032 |
| **Total Liabilities** | **213,799,362** | **202,066,247** |
| | | |
| Commitments and contingent liabilities | - | - |
| Shareholders' Equity: | | |
| Preferred Stock, no par value: | | |
| 2,000,000 shares authorized, no shares outstanding | - | - |
| Common Stock, no par value: | | |
| 3,000,000 shares authorized; | | |
| 1,204,990 shares outstanding at December 31, 2016 and | | |
| 1,300,178 shares outstanding at December 31, 2015 | 2,435,678 | 3,387,558 |
| Retained Earnings | 24,889,775 | 24,144,650 |
| **Total Shareholders' Equity** | **27,325,453** | **27,532,208** |
| | | |
| **Total Liabilities and Shareholders' Equity** | **$ 241,124,815** | **$229,598,455** |

*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, 2016, 2015 AND 2014

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| **INTEREST INCOME:** | | | |
| Interest and fees on loans | $8,278,641 | $8,389,877 | $9,667,151 |
| Interest on time deposits with other financial institutions | 757,233 | 499,605 | 331,006 |
| Interest on U.S. government agency securities | 2,292 | 846 | 440 |
| Interest on federal funds sold | 82,046 | 35,948 | 36,684 |
| **Total interest income** | **9,120,212** | **8,926,276** | **10,035,281** |
| **INTEREST EXPENSE:** | | | |
| Interest on savings deposits | 10,873 | 8,922 | 8,554 |
| Interest on interest-bearing transaction accounts | 241,803 | 218,995 | 216,600 |
| Interest on time deposits | 241,103 | 264,086 | 205,270 |
| **Total interest expense** | **493,778** | **492,003** | **430,424** |
| **Net interest income** | **8,626,434** | **8,434,273** | **9,604,857** |
| Provision for loan losses | - | - | - |
| **Net interest income after provision for loan losses** | **8,626,434** | **8,434,273** | **9,604,857** |
| **NON-INTEREST INCOME:** | | | |
| Service charges on deposit accounts | 499,415 | 582,372 | 523,253 |
| Other Income | 276,810 | 724,834 | 544,072 |
| **Total non-interest income** | **776,226** | **1,307,206** | **1,067,325** |
| **NON-INTEREST EXPENSE:** | | | |
| Salaries and employee benefits | 3,595,062 | 3,402,456 | 3,322,834 |
| Occupancy expense | 553,829 | 541,956 | 526,003 |
| Equipment expense | 482,684 | 600,580 | 552,507 |
| FDIC assessment | 105,750 | 99,500 | 141,200 |
| Legal expense | 75,000 | 120,000 | 140,000 |
| Insurance expense | 86,103 | 102,052 | 98,145 |
| Other | 1,118,226 | 988,383 | 1,011,606 |
| **Total non-interest expense** | **6,016,654** | **5,854,927** | **5,792,295** |
| **Income before income taxes** | **3,386,006** | **3,886,552** | **4,879,887** |
| Provision for income taxes | 1,348,403 | 1,552,898 | 1,964,577 |
| **Net Income** | **$2,037,603** | **$2,333,654** | **$2,915,310** |
| **EARNINGS PER SHARE** | | | |
| Earnings per common share (Basic) | $1.58 | $1.79 | $2.24 |
| **Earnings per common share (Diluted)** | **$1.58** | **$1.79** | **$2.24** |

*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, 2016, 2015 AND 2014

| | NUMBER OF SHARES OUTSTANDING | COMMON STOCK | RETAINED EARNINGS | TOTAL |
|---|---|---|---|---|
| **Balance at January 1, 2014** | **1,300,178** | **$3,387,558** | **$19,181,725** | **$22,569,283** |
| Net Income | - | - | 2,915,310 | 2,915,310 |
| **Balance at December 31, 2014** | **1,300,178** | **3,387,558** | **22,097,035** | **25,484,593** |
| Issuance of Cash Dividends, | | | | |
| $.22 per share | - | - | (286,039) | (286,039) |
| Net Income | - | - | 2,333,654 | 2,333,654 |
| **Balance at December 31, 2015** | **1,300,178** | **3,387,558** | **24,144,650** | **27,532,208** |
| Issuance of Cash Dividends, | | | | |
| $.24 per share | - | - | (312,043) | (312,043) |
| Repurchase of Common Stock | (95,188) | (951,880) | (980,435) | (1,932,315) |
| Net Income | - | - | 2,037,603 | 2,037,603 |
| **Balance at December 31, 2016** | **1,204,990** | **$2,435,678** | **$24,889,775** | **$27,325,453** |

*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, 2016, 2015, AND 2014

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| **NET CASH PROVIDED BY OPERATING ACTIVITIES:** | | | |
| Net Income | $2,037,603 | $2,333,654 | $2,915,310 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation, amortization and accretion | 46,641 | 81,345 | 91,446 |
| Provision for loan losses | - | - | - |
| Deferred Income Tax Expense (benefit) | (581,000) | 158,000 | (288,000) |
| (Increase) decrease in other assets | 403,203 | (324,777) | 139,469 |
| Loss/(Gain) on sale of OREO | - | (18,536) | (206,265) |
| BOLI Income | (139,832) | (161,506) | (154,245) |
| Increase (decrease) in other liabilities | 422,164 | (468,749) | 1,037,802 |
| **Net cash provided by operating activities** | **2,188,779** | **1,599,431** | **3,535,516** |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| (Increase) decrease in time deposits with other financial institutions | (2,459,000) | (9,022,000) | (9,645,000) |
| Purchase of FHLB stock | 2,588 | 1,800 | 80,800 |
| Purchase of bank owned life insurance | 35,900 | - | - |
| Net (increase) decrease in loans to customers | 17,875,231 | (13,472,379) | (7,083,891) |
| Recoveries on loans previously charged-off | (43,963) | (53,205) | 494,548 |
| (Increase) in premises and equipment | (4,943) | (24,533) | (20,454) |
| Proceeds from sale of OREO | - | 718,020 | 1,536,264 |
| **Net cash provided by (used in) investing activities** | **15,405,813** | **(21,852,297)** | **(14,637,733)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Increase (decrease) in demand, interest bearing transaction, and savings deposits | 14,941,071 | 11,375,561 | 21,096,108 |
| Net increase (decrease) in time deposits | (3,630,120) | (1,664,090) | 2,214,824 |
| Repurchase of Common Stock | (1,932,315) | - | - |
| Dividends Paid | (312,043) | (286,039) | - |
| **Net cash provided by (used in) financing activities** | **9,066,593** | **9,425,432** | **23,310,932** |
| **Net increase (decrease) in cash and cash equivalents** | **26,661,185** | **(10,827,434)** | **12,208,715** |
| Cash and cash equivalents at the beginning of the year | 8,595,812 | 19,423,246 | 7,214,531 |
| **Cash and cash equivalents at the end of the year** | **$35,256,997** | **$8,595,812** | **$19,423,246** |
| **Supplemental Cash Flow Disclosure** | | | |
| Net noncash transfers to foreclosed property | - | - | 175,001 |
| Income Taxes paid | 1,681,000 | 1,610,000 | 1,340,000 |
| Interest Paid | 514,358 | 465,696 | 441,014 |

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

# SUMMIT BANCSHARES, INC AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016

## 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 90 days to 549 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.

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, 2016 and 2015, the Bank had $576,500 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, 2016, 2015 and 2014. Accordingly, total comprehensive income was equal to net income for each of those periods.

**Reclassifications**

Certain reclassifications have been made in the 2015 and 2014 financial statements to conform to the presentation used in 2016. 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 7, 2017, which is the date the financial statements were available to be issued.

**Recent Accounting Guidance Not Yet Effective**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). This Update requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. These amendments are effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period and one year later for nonpublic business entities. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that period. The Bank is currently evaluating the effects of ASU 2014-09 on its financial statements and disclosures.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10). Changes made to the current measurement model primarily affect the accounting for equity securities and readily determinable fair values, where changes in fair value will impact earnings instead of other comprehensive income. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The Update also changes the presentation and disclosure requirements for financial instruments including a requirement that public business entities use exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes. This Update is generally effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and one year later for nonpublic business entities. The Bank is currently evaluating the effects of ASU 2016-01 on its financial statements and disclosures.

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, Leases (Topic 842). The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, which is generally defined as a lease term of less than 12 months. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under current lease accounting guidance. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2018 for public business entities and one year later for all other entities. The Bank is currently evaluating the effects of ASU 2016-02 on its financial statements and disclosures.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718.) ASU 2016-09 includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Under ASU 2016-09, excess tax benefits and certain tax deficiencies will no longer be recorded in additional paid-in capital ("APIC"). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be eliminated. In addition, the guidance requires excess tax benefits be presented as an operating activity on the statement of cash flows rather than as a financing activity. ASU 2016-09 also permits an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. This guidance is effective for public business entities for interim and annual reporting periods beginning after December 15, 2016 and for nonpublic business entities annual reporting periods beginning after December 15, 2017 and interim periods within the reporting periods beginning after December 15, 2018. Early adoption is permitted, but all of the guidance must be adopted in the same period. The Bank is currently evaluating the effects of ASU 2016-09 on its financial statements and disclosures.

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326). This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, public business entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019 for SEC filers, one year later for non SEC filing public business entities and annual reporting periods beginning after December 15, 2020 for nonpublic business entities and interim periods within the reporting periods beginning after December 15, 2021. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Bank is currently evaluating the provisions of ASU No. 2016-13 for potential impact on its financial statements and disclosures.

## 2. INVESTMENT SECURITIES

The amortized cost and estimated fair values of investments in debt securities held to maturity as of December 31, 2016 and 2015 are as follows:

| **December 31, 2016** | **Amortized Cost** | **Gross Unrealized Gains** | **Gross Unrealized Losses** | **Estimated Fair Value** |
|---|---|---|---|---|
| U.S. Treasury Securities | $399,353 | $170 | $ - | $399,523 |

| December 31, 2015 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| U.S. Treasury Securities | $399,649 | $182 | $ - | $399,831 |

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, 2016, by contractual maturities are shown below.

| | Amortized Cost | Estimated Fair Value |
|---|---|---|
| Due in one year or less | $399,353 | $399,523 |
| Total | $399,353 | $399,523 |

There were no sales of investments in debt securities during 2016 or 2015. At December 31, 2016, securities carried at $399,353 were pledged to secure public deposits, as required by law.

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.

## 3. LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans as of December 31, 2016, and 2015 (net of unearned loan fees of $657,000 and $686,000, respectively), is as follows:

| | 2016 | 2015 |
|---|---|---|
| Commercial loans | $45,011,993 | $41,260,845 |
| Real estate loans | 57,449,068 | 77,801,052 |
| Real estate construction loans | 15,691,454 | 14,474,550 |
| Consumer loans | 1,515,327 | 3,918,700 |
| | 119,667,842 | 137,455,147 |
| Less: Allowance for loan losses | (3,694,781) | (3,650,818) |
| | $115,973,061 | $133,804,329 |

The changes in the allowance for loan losses for the years ended December 31, 2016, 2015, and 2014 are as follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Balance, beginning of period | $3,650,818 | $3,679,541 | $3,238,103 |
| Provision for loan losses | - | - | - |
| Recoveries | 43,963 | 54,257 | 494,112 |
| Loans charged-off | - | (82,980) | (52,674) |
| Balance, end of period | $3,694,781 | $3,650,818 | $3,679,541 |

The following table presents the activity in the allowance for loan losses for the year 2016 and 2015 and the recorded investment in loans and impairment method as of December 31, 2016 and 2015 by portfolio segment:

| December 31, 2016 | Real Estate and Construction | Commercial | Consumer | Total |
|---|---|---|---|---|
| Allowance for Loan Losses: | | | | |
| Beginning of Year | $ 2,487,778 | $ 1,058,328 | $ 104,711 | $ 3,650,818 |
| Provisions | - | - | - | - |
| Charge-offs | - | - | - | - |
| Recoveries | 20,000 | - | 23,963 | 43,963 |
| End of Year | $ 2,507,778 | $ 1,058,328 | $ 128,674 | $ 3,694,781 |
| Reserves: | | | | |
| Specific | $ - | $ 11,724 | $ - | $ 11,724 |
| General | 2,258,235 | 1,378,035 | 46,787 | 3,683,057 |
| | $ 2,258,235 | $ 1,389,759 | $ 46,787 | $ 3,694,781 |
| Loans Evaluated for Impairment: | | | | |
| Individually | $ - | $ 234,472 | $ - | $ 234,472 |
| Collectively | 73,140,522 | 44,777,521 | 1,515,327 | 119,433,370 |
| | $ 73,140,522 | $ 45,011,993 | $ 1,515,327 | $ 119,667,842 |

| December 31, 2015 | Real Estate and Construction | Commercial | Consumer | Total |
|---|---|---|---|---|
| Allowance for Loan Losses: | | | | |
| Beginning of Year | $ 2,030,903 | $ 1,294,562 | $ 354,076 | $ 3,679,541 |
| Provisions | - | - | - | - |
| Charge-offs | - | (82,980) | - | (82,980) |
| Recoveries | 45,000 | 8,173 | 1,084 | 54,257 |
| End of Year | $ 2,075,903 | $ 1,219,756 | $ 355,160 | $ 3,650,818 |
| Reserves: | | | | |
| Specific | $ - | $ - | $ - | $ - |
| General | 2,487,778 | 1,058,328 | 104,711 | 3,650,818 |
| | $ 2,487,778 | $ 1,058,328 | $ 104,711 | $ 3,650,818 |
| Loans Evaluated for Impairment: | | | | |
| Individually | $ - | $ - | $ - | $ - |
| Collectively | 92,275,602 | 41,260,845 | 3,918,700 | 137,455,147 |
| | $ 92,275,602 | $ 41,260,845 | $ 3,918,700 | $ 137,455,147 |

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:

**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, 2016 and 2015.

| **December 31, 2016** | **Pass** | **Special Mention** | **Substandard** | **Impaired** | **Total** |
|---|---|---|---|---|---|
| Commercial Real Estate: | | | | | |
| Construction and Land | | | | | |
| Development | $ 15,691,454 | $ - | $ - | $ - | $ 15,691,454 |
| Other | 54,949,665 | 1,950,000 | 549,403 | - | 57,449,068 |
| Commercial | 42,160,784 | 223,675 | 2,627,534 | - | 45,011,993 |
| Consumer | 1,155,766 | 235,130 | 124,431 | - | 1,515,327 |
| | $ 113,957,669 | $ 2,408,805 | $ 3,301,368 | $ - | $ 119,667,842 |

| **December 31, 2015** | **Pass** | **Special Mention** | **Substandard** | **Impaired** | **Total** |
|---|---|---|---|---|---|
| Commercial Real Estate: | | | | | |
| Construction and Land | | | | | |
| Development | $ 14,474,550 | $ - | $ - | $ - | $ 14,474,550 |
| Other | 68,853,723 | 6,269,829 | 2,677,500 | - | 77,801,052 |
| Commercial | 37,833,501 | 2,258,673 | 1,168,671 | - | 41,260,845 |
| Consumer | 3,318,748 | 446,198 | 153,754 | - | 3,918,700 |
| | $ 124,480,522 | $ 8,974,700 | $ 3,999,925 | $ - | $ 137,455,147 |

There were no past due and nonaccrual loans as of December 31, 2016 and 2015.

There was an impaired loan shown below as of December 31, 2016 and there were no impaired loans during the period ended December 31, 2015.

| | 2016 | 2015 |
|---|---|---|
| Recorded Investment in Impaired Loans: | | |
| With an Allowance | $ 234,472 | $ - |
| Without an Allowance | $ - | $ - |
| Related Allowance for Loan Losses | $ 11,724 | $ - |
| Average Recorded Investment in Impaired Loans | $ 235,362 | $ - |
| Interest Income Recognized During Impairment | $ - | $ - |
| Interest Income Included Above Recognized on a Cash Basis | $ - | $ - |
| Past Due Over 90 Days Still on Accrual | $ - | $ - |
| Nonaccrual Loans | $ - | $ - |

There were no new loans modified as TDR's that occurred during the period ended December 31, 2015 and shown below are TDR loans as of December 31, 2016:

| | Number of Loans | Pre-Modification Recorded Investment | Post-Modification Recorded Investment |
|---|---|---|---|
| Commercial Real Estate: | | | |
| Construction and Land | | | |
| Development | - | $ - | $ - |
| Multifamily | - | - | - |
| Other | - | - | - |
| Residential Real Estate | - | - | - |
| Commercial | 1 | 234,472 | 234,472 |
| Consumer | - | - | - |
| | 1 | $ 234,472 | $ 234,472 |

| | Number of Loans | Recorded Investment at Date of Default |
|---|---|---|
| Commercial Real Estate: | | |
| Construction and Land | | |
| Development | - | $ - |
| Multifamily | - | - |
| Other | - | - |
| Residential Real Estate | - | - |
| Commercial | 1 | 234,472 |
| Consumer | - | - |
| | 1 | $ 234,472 |

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, 2016, and 2015, loans outstanding to directors, officers, and principal shareholders and their known associates were $1,153,500 and $2,434,230 respectively. In 2016, advances on current directors' loans were $3,177,696 and collections were $4,458,426. In 2015, advances on current directors' loans were $2,434,230 and collections were $0. As of December 31, 2016 and 2015 total deposits of directors, officers and principal shareholders and their known associates totaled $14,089,429 and $8,174,952 respectively.

## 5. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

| **December 31, 2016** | **Cost** | **Accumulated Depreciation** | **Net Book Value** |
|---|---|---|---|
| Leasehold improvements | $1,200,098 | $1,175,457 | $24,641 |
| Furniture and equipment | 2,342,017 | 2,309,695 | 32,323 |
| Total | $3,542,116 | $3,485,152 | $56,964 |
| | | | |
| **December 31, 2015** | | | |
| Leasehold improvements | $1,209,698 | $1,174,876 | $34,823 |
| Furniture and equipment | 2,908,528 | 2,842,398 | 66,131 |
| Total | $4,118,227 | $4,017,273 | $100,954 |

Depreciation and amortization included in occupancy and equipment expenses was $48,933, $82,191, and $91,877 for the years ended December 31, 2016, 2015, and 2014, respectively.

## 6. INCOME TAXES

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

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Current: | | | |
| Federal | $1,430,000 | $1,018,000 | $1,694,000 |
| State | 499,000 | 377,000 | 559,000 |
| Total current | 1,929,000 | 1,395,000 | 2,253,000 |
| Deferred: | | | |
| Federal | (437,000) | 126,000 | (245,000) |
| State | (144,000) | 32,000 | (43,000) |
| Total deferred | (581,000) | 158,000 | (288,000) |
| Total taxes | $1,348,000 | $1,553,000 | $1,965,000 |

The components of the net deferred tax asset of the Company as of December 31, 2016, 2015 and 2014, were as follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Deferred Tax Assets: | | | |
| Allowance for loan losses | $1,441,000 | $1,337,000 | $1,302,000 |
| State taxes | 174,000 | 130,000 | 190,000 |
| Installment sale | - | (417,000) | (417,000) |
| Depreciation | 82,000 | 78,000 | 80,000 |
| Other real estate owned | 155,000 | 108,000 | 169,000 |
| Deferred Salary | 1,262,000 | 1,131,000 | 1,088,000 |
| Other | (17,000) | 149,000 | 262,000 |
| Net Deferred Tax Asset | $3,097,000 | $2,516,000 | $2,674,000 |

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

| | 2016 | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| Federal income tax expense, based on the statutory federal income tax rate | $1,151,000 | 34.00% | $1,321,000 | 34.00% | $1,659,000 | 34.00% |
| State franchise taxes, net of federal income tax benefit | 242,000 | 7.10% | 278,000 | 7.15% | 349,000 | 7.20% |
| Other, net | (46,000) | (1.10%) | (46,000) | (1.15%) | (43,000) | (1.20%) |
| Tax provision | $1,347,000 | 40.00% | $1,553,000 | 40.00% | $1,965,000 | 40.00% |

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, 2016. 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, 2015, 2014 and 2013 are open to audit by the federal authorities and our California state tax returns for the years ended December 31, 2015, 2014, 2013 and 2012, are open to audit by state authorities.

## 7. TIME DEPOSITS

Time deposits issued as of December 31, 2016, had $25,715,667 maturing in the year 2017, $1,227,090 maturing in 2018, $50,419 maturing in 2019, $54,009 maturing in 2020 and the remaining $17,278 maturing in 2021.

## 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 $13,400,000 at December 31, 2016. There were no borrowings outstanding under these agreements at December 31, 2016 and December 31, 2015.

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, 2016, this line provided for a maximum borrowing capacity of $13,109,915. There was no outstanding balance as of December 31, 2016. At December 31, 2016, this borrowing line was collateralized by mortgage loans with a book value of $17,329,083.

## 9. 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, 2016, that the Company and the Bank have met all capital adequacy requirements.

As of December 31, 2016, 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.

In July, 2013, the federal bank regulatory agencies approved the final rules implementing the Basel Committee on

Banking Supervision's capital guidelines for U.S. banks (Basel III rules). The new rules, Basel III, became effective on January 1, 2015, with certain of the requirements phased-in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% in 2015 to 2.5% by 2019. The capital conservation buffer for 2016 is 0.625%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 and CET1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2016, that the Bank meets all capital adequacy requirements to which it is subject.

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, 2016 | | | | | | |
| Total Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Consolidated | $29,332,000 | 18.46% | $12,712,080 | 8.00% | $15,890,100 | 10.00% |
| Bank | 27,710,000 | 17.51% | 12,657,520 | 8.00% | 15,821,900 | 10.00% |
| Common Equity Tier 1 Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Consolidated | 27,325,000 | 17.20% | 7,150,545 | 4.50% | 10,328,565 | 6.50% |
| Bank | 25,711,000 | 16.25% | 7,119,855 | 4.50% | 10,284,235 | 6.50% |
| Tier 1 Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Consolidated | 27,325,000 | 17.20% | 9,534,060 | 6.00% | 12,712,080 | 8.00% |
| Bank | 25,711,000 | 16.25% | 9,493,140 | 6.00% | 12,657,520 | 8.00% |
| Tier 1 Capital | | | | | | . |
| (to Average Assets) | | | | | | |
| Consolidated | 27,325,000 | 11.07% | 9,870,640 | 4.00% | 12,338,300 | 5.00% |
| Bank | 25,711,000 | 10.55% | 9,746,840 | 4.00% | 12,183,550 | 5.00% |
| As of December 31, 2015 | | | | | | |
| Total Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Consolidated | $29,625,000 | 17.86% | $13,270,800 | 8.00% | $16,588,500 | 10.00% |
| Bank | 27,761,000 | 16.92% | 13,129,440 | 8.00% | 16,411,800 | 10.00% |
| Common Equity Tier 1 Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Consolidated | 27,532,000 | 16.60% | 7,464,825 | 4.50% | 10,782,525 | 6.50% |
| Bank | 25,689,000 | 15.65% | 7,385,310 | 4.50% | 10,667,670 | 6.50% |
| Tier 1 Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Consolidated | 27,532,000 | 16.60% | 9,953,100 | 6.00% | 13,270,800 | 8.00% |
| Bank | 25,689,000 | 15.65% | 9,847,080 | 6.00% | 13,129,440 | 8.00% |
| Tier 1 Capital | | | | | | . |
| (to Average Assets) | | | | | | |
| Consolidated | 27,532,000 | 11.69% | 9,417,560 | 4.00% | 11,771,950 | 5.00% |
| Bank | 25,689,000 | 10.97% | 9,370,680 | 4.00% | 11,713,350 | 5.00% |

## 10. 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, 2016, the Bank could pay dividends to the Company of up to approximately $4,219,806 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, 2016, were $1,843,000.

## 11. 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 $456,055, $442,095 and $422,087, for the years ended December 31, 2016, 2015, and 2014.

At December 31, 2016, the approximate future minimum payments for non-cancelable leases with initial or remaining terms in excess of one year were as follows:

| | |
|---|---|
| 2017 | $ 383,082 |
| 2018 | 213,083 |
| 2019 | 102,697 |
| 2020 | 61,162 |
| | $ 760,024 |

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.

## 12. 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, 85% of compensation up to $18,000 with a Catch Up contribution of $6,000 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, $70,309 was contributed in 2016, $62,348 in 2015 and $59,938 in 2014.

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 2016, $0 in 2015, and $0 in 2014. 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 $374,565 in 2016, $225,942 in 2015, and $216,573 in 2014.

## 13. 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, 2016 and 2015, financial instruments whose contract amounts represent credit risk are as follows:

| | **Contract Amount** | |
|---|---|---|
| | **2016** | **2015** |
| Commitments to extend credit in the future | $42,623,628 | $35,603,167 |
| Standby letters of credit | 132,413 | 413,290 |
| **Total** | $42,756,040 | $36,016,457 |

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.

## 14. 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, 2016 or 2015.

**Fair Value on a Nonrecurring Basis**

Assets measured at fair value on a non-recurring basis consists solely other real estate owned (OREO). 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, 2016 and 2015.

| | As of December 31, 2016 | | | |
|---|---|---|---|---|
| Fair Value Hierarchy | Total | Level 1 | Level 2 | Level 3 |
| Other real estate owned | $576,500 | $ - | $576,500 | $ - |

| | As of December 31, 2015 | | | |
|---|---|---|---|---|
| Fair Value Hierarchy | Total | Level 1 | Level 2 | Level 3 |
| Other real estate owned | $576,500 | $ - | $576,500 | $ - |

Write-downs of OREO were $0 and $0 for the years ended December 31, 2016 and 2015, respectively.

## 15. SUMMIT BANCSHARES, INC. (PARENT COMPANY ONLY)

The following are the balance sheets as of December 31, 2016, and 2015, and the related statements of income and cash flows for the years ended December 31, 2016, 2015, and 2014, for Summit Bancshares, Inc. (parent company only)

| BALANCE SHEET | | 2016 | | 2015 |
|---|---|---|---|---|
| **ASSETS:** | | | | |
| Cash | $ | 1,399,804 | $ | 881,948 |
| Loan participation with subsidiary (net of allowance for loss reserve of $0 at December 31, 2016 and $0 at December 31, 2015) | | - | | 900,000 |
| Investment in subsidiary | | 25,695,875 | | 25,689,472 |
| Other assets | | 229,774 | | 60,788 |
| **Total Assets** | $ | 27,325,453 | $ | 27,532,208 |
| | | | | |
| **LIABILITIES:** | | | | |
| Income taxes payable | $ | - | $ | - |
| **Total Liabilities** | | - | | - |
| Shareholders' Equity: | | | | |
| Common Stock | | 2,435,678 | | 3,387,558 |
| Retained Earnings | | 24,889,775 | | 24,144,650 |
| **Total Shareholders' Equity** | | 27,325,453 | | 27,532,208 |
| | | | | |
| **Total Liabilities and Shareholders' Equity** | $ | 27,325,453 | $ | 27,532,208 |

| STATEMENTS OF INCOME | | 2016 | | 2015 | | 2014 |
|---|---|---|---|---|---|---|
| **INCOME:** | | | | | | |
| Interest on short-term investments and loans | $ | 46,933 | $ | 53,729 | $ | 12,720 |
| Rental and other income | | 8,200 | | 15,355 | | 9,416 |
| **Total income** | | 55,133 | | 69,084 | | 22,136 |
| **EXPENSE:** | | | | | | |
| Miscellaneous expense | | 1,702 | | 1,967 | | 1,517 |
| **Total expense** | | 1,702 | | 1,967 | | 1,517 |
| Income (loss) before income tax and equity in earnings of subsidiary | | 53,431 | | 67,117 | | 20,619 |
| Provision for income taxes | | 22,203 | | 27,898 | | 8,577 |
| Income (loss) before equity in earnings of subsidiary | | 31,228 | | 39,219 | | 12,042 |
| Equity in earnings of subsidiary | | | | | | |
| Distributed | | 2,000,000 | | 1,000,000 | | - |
| Undistributed | | 6,375 | | 1,294,435 | | 2,903,268 |
| **Net Income** | $ | 2,037,603 | $ | 2,333,654 | $ | 2,915,310 |

## SUMMIT BANCSHARES, INC. STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016, 2015, AND 2014

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Interest received | $49,545 | $52,024 | $10,757 |
| Fees Received | 8,200 | 15,356 | - |
| Cash paid to suppliers | (1,704) | (1,967) | (1,517) |
| Income taxes paid | (193,827) | (27,898) | - |
| **Net cash provided by (used in) operating activities** | **(137,786)** | **37,515** | **10,861** |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Net decrease (increase) in loans | $900,000 | $ - | ($525,000) |
| Dividend received from subsidiary | 2,000,000 | 1,000,000 | - |
| **Net cash provided by (used in) investing activities** | **2,900,000** | **1,000,000** | **(525,000)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Repurchase of Common Stock | ($1,932,316) | $ - | $ - |
| Dividends paid | (312,043) | ($286,039) | - |
| **Net cash (used in) financing activities** | **(2,244,359)** | **(286,039)** | **-** |
| Net increase (decrease) in cash and cash equivalents | 517,855 | 751,476 | (514,139) |
| Cash at the beginning of the year | 881,947 | 130,471 | 644,610 |
| **Cash at the end of the year** | **$1,399,802** | **$881,947** | **$130,471** |
| **RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:** | | | |
| Net Income | $2,037,603 | $2,333,654 | $2,915,310 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Provision for loan losses | - | - | - |
| Non-cash earnings from subsidiary | (2,006,375) | (1,294,434) | (2,903,268) |
| (Increase) Decrease in other assets | (169,014) | (1,705) | (1,181) |
| Total adjustments | (2,175,389) | (1,296,139) | (2,904,449) |
| **Net cash provided by (used in) operating activities** | **($137,786)** | **$1,037,515** | **$10,861** |

# 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 position as of December 31, 2016 and 2015, 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, 2016, 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 of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
April 7, 2017

# CORPORATE DIRECTORY

### Directors of Summit Bancshares, Inc. and Summit Bank

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*Rue-Ell Enterprises, Inc.*
*Berkeley*

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

Jason Hill
*President*
*R.G. Hill and Company*
*Walnut Creek*

George Hollidge
*Retired*
*Oakland*

Kikuo Nakahara
*CPA – Retired*
*Walnut Creek*

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*President*
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*Chairman and CEO*
*Summit Bancshares, Inc.*
*Executive Chairman*
*Summit Bank*
*Oakland*

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*Madison Park Financial Corp.*
*Oakland*

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

Robert Dillon
*Owner*
*Brooker & Co –CPAs*
*San Ramon*

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*Executive Chairman*

Tom Duryea
*CEO*

Steven P. Nelson
*President and COO*

Denise Dodini
*Executive Vice President*
*Chief Credit Officer*

Mani Ganesamurthy
*Vice President*
*Chief Financial Officer*

Yong Bai
*Senior Vice President*
*Major Relationship Manager*

Marcia Gerg
*Vice President*
*Senior Relationship Manager*

George Yang
*Assistant Vice President*
*Relationship Manager*

Mark Leyva
*Assistant Vice President*
*Relationship Officer*

Anna Sukhovnin
*Assistant Vice President*
*Relationship Manager*

Vlatko Stamenkov
*Credit Analyst*

Krystle Johnson
*Vice President*
*Compliance Officer/*
*Operations Administrator*

*C. Michael Ziemann
*President, CFO*
*Summit Bank*
*Retired*

Kelly Coday
*BSA Officer and Branch Services Manager*

Zack Noman
*Branch Services Manager*

Tatiana Thompson
*Branch Services Manager*

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*Executive Director*

Shirley W. Nelson
*Chairman*

Joe Rainero
*President*

Susan Casper
*Herman Miller, Inc.*

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*Coit Financial Group*

James Falaschi
*Managing Partner,*
*Vista Real Estate Partners*

Maria Falaschi
*BluPoint Marketing*

Alfred P. Knoll, Esq.
*Law Offices Al Knoll*

David Ruegg
*President, Rue-Ell Enterprises*

Anne Marie Taylor
*John F. Kennedy University*

Mary Warren
*HMS Associates*

Bill Wheeler
*President, Black Tie Transportation*

Sam Williams
*Oakland Raiders*

Mike Ziemann
*President Emeritus, Summit Bank*

### 2016 Summit Bank Foundation Medical Advisory Council

Wei Z. Ai, M.D.
*Oncologist, UCSF*

Eddie C. Cheung, M.D.,
*FACG, FIAP*
*Gastroenterologist, UC Davis*

John A. Linfoot, M.D.
*Endocrinologist*

Stuart S. London, M.D.
*Radiologist*

Frank McCormick, PhD,
*FRS Director, UCSF*

Mark Moasser, M.D.
*Oncologist, UCSF*

Robert Nelson, M.D.
*Obstetrician & Gynecologist*

Elliott N. Schwartz, M.D.,
*CCD, CPD*
*Nephrologist*

Wade S. Smith, PhD, M.D.
*Neurovascular Services Director, UCSF*

Warren J. Strudwick, M.D.
*Orthopedist*

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Emeryville, CA 94608
(510) 428-1868

### Corporate Counsel

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*Suite 1050*
*Oakland, CA 94612*

### Independent Auditors

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*260 Sheridan Ave., Suite 440*
*Palo Alto, CA 94306*

### Registrar & Transfer Agent

Jordan Chisholm
*Computershare Shareholder Services*
*P.O. Box 30170M*
*College Station, TX 77842-3170*
*(800) 368-5948*

***Emeritus**

In 2013, Summit Bank Foundation added the funding of research at UCSF Helen Diller Cancer Research Center to its already impressive funding portfolio of providing scholarships to students at Castlemont High School and McClymonds High School.

Summit Bank made a three year commitment to fund a Summit Bank Fellow, Dr. Yen-Chen Yang. He joined the lymphoma research team in 2013 and has made significant contributions to the project which greatly accelerated the work of Dr. Ai and her team. His research has focused on building a drug discovery platform using clinically relevant animal models which is built using malignant cells directly from patients. It is called the PDX model for patient-derived xenograft models. Dr. Ai's group established the very first PDX models for skin lymphoma in the field.

Summit Bank Foundation has funded clinical trials for lymphoma, breast cancer, acute myeloid leukemia, and multiple myeloma. These trials have been led by Wei Ai, MD, PhD, Oncologist, Clinical Associate Professor; Mark Moasser, MD, Oncologist, Professor, Gabriel Mannis, MD, Hematologist/Oncologist, Assistant Professor; and Thomas Martin, MD, Clinical Professor of Medicine, Adult Leukemia and Bone Marrow Transplantation Program, and Associate Director, Myeloma Program at UCSF Helen Diller Cancer Research Center.

Our mission is to raise funds in support of research at UCSF, aid doctors in pursuing a cure, and to provide a channel for innovation and progressive research.

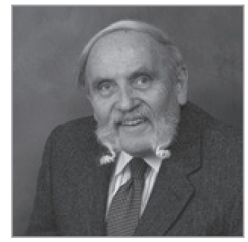
We are deeply grateful to each of you – past, present and future – who has extended your support to help make a difference for so many lives. Funding research allows us to provide these wonderful doctors with invaluable support. Our support allows them to dedicate more of their resources and time to identifying new treatment protocols, publish their findings, and share these with doctors all over the world.

# SUMMIT BANK FOUNDATION MEDICAL ADVISORY COUNCIL

The Medical Advisory Council represents different specialties in the field of medicine. Members are chosen based on their expertise and experience and are considered outstanding in their field.

**Wei Ai, M.D.**
*Oncologist, Clinical Associate Professor of Medicine, UCSF Helen Diller Family Cancer Center*

**Eddie C. Cheung, M.D., FACG., FIAP**
*Hepatology/ Gastroenterologist*



**John A. Linfoot, M.D.**
*Endocrinologist, Diabetes and Endocrine Institute*

**Stuart S. London, M.D.**
Radiologist, Retired

**Frank McCormick, PhD, FRS**
*Professor Emeritus, UCSF Helen Diller Family Cancer Center*

**Mark Moasser, M.D.**
*Oncologist, Professor, UCSF Helen Diller Family Cancer Center*

**Robert Nelson, M.D.**
*Obstetrician Gynecologist, OB/GYN Partners for Health*

**Elliott N. Schwartz, M.D., CCD, CPD**
*Nephrologist, Northern CA Institute for Bone Health*

**Wade Smith, PhD, M.D.**
*Neurointensivist, Professor of Neurology, Daryl R. Gress Endowed Chair of Neurocritical Care and Stroke; Director, UCSF Neurovascular Services*

Summit Bank

SUMMIT BANCSHARES INC.

# 2016 ANNUAL REPORT

Member FDIC

EQUAL HOUSING OPPORTUNITY