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# Summit Bancshares Inc.

2017 Annual Report

*Summit Bank*

## FINANCIAL HIGHLIGHTS

FOR THE YEAR ENDED	2017	2016	2015	2014	2013
Net Income	\$1,847,759	\$2,037,603	\$2,333,654	\$2,915,310	\$1,361,719
Earnings per common share	\$1.54	\$1.58	\$1.79	\$2.24	\$1.05
Earnings per common share - assuming dilution	\$1.54	\$1.58	\$1.79	\$2.24	\$1.05
AT YEAR END (in thousands)					
Deposits	\$230,128	\$210,007	\$198,696	\$188,985	\$165,674
Loans (Net)	150,371	115,973	133,804	120,278	113,863
Assets	263,318	241,125	229,598	218,314	191,338
Shareholders' Equity	28,562	27,325	27,532	25,485	22,569
Non-performing Loans to Total Loans	0.07%	0.00%	0.00%	0.00%	5.22%
Allowance to Non-performing Loans	33.96	-	-	-	52.96
Common Equity Tier 1 Capital	15.12%	17.20%	16.60%	16.68%	16.71%
Tier 1 Capital	15.12%	17.20%	16.60%	16.68%	16.71%
Total Capital	16.38%	18.46%	17.86%	17.94%	18.01%
Leverage Ratio	11.01%	11.07%	11.69%	10.48%	11.41%

## 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 2016 is contained below. The following prices reflect retail mark-up and may not represent actual transactions.

2017	High	Low	Dividends Declared
First Quarter	\$23.10	\$23.03	\$0.14
Second Quarter	24.71	24.65	--
Third Quarter	26.38	26.34	0.14
Fourth Quarter	28.68	28.67	--
Total			\$0.28
<b>2016</b>			
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	--
<b>Total</b>			<b>\$0.24</b>

The Company presently intends to continue the policy of paying regular semi-annual cash dividends. Future dividends will depend upon the earnings of the Company, management's assessment of the future needs for funds, and the regulatory limitations outlined in Footnote #10.

## DEAR FELLOW SHAREHOLDERS

**2017** was another successful one for Summit Bank and extended what is now our 35 year legacy of continuous annual and monthly profitability since we opened the doors in 1982. Our after tax profit was \$1,848,000 or \$1.54 per share. We are very proud of this long history of profitability and stability and consider it a tribute to the trust and confidence you placed in us when you became a shareholder.

**2017 was a year where Summit Bank received the following recognition.**

- » 'Super Premier Performing Bank' by the Findley Reports
- » 'Five Stars' ranking as one of the strongest financial institutions in the country by Bauer Financial
- » 'Top 200 Community Banks in the U.S.' by American Banker magazine
- » 'Top 100 Corporate Philanthropist in the Bay Area' with our donations as percentage of profits ranked in the top 10 by San Francisco Business Times
- » 'Excellence in Network Security' award placing us in the top 2% of Digital Defense Clients in the country
- » Most Influential Women in Bay Area Business' awarded to our Chairman by the San Francisco Business Times

**2017** saw our total assets grew from \$241,125,000 to \$263,318,000 representing 9.20% in total growth. Our Return on Assets was 0.74% compared to 0.86% last year and Return on Equity was 6.71% compared to 7.46% in 2016. In 2017, there was a one-time adjustment of \$750,000 to the Deferred Tax Asset due to change in tax laws which caused a decrease in our net income compared to previous year. We are aware that the new tax laws will have an impact on our financial performance in the future.

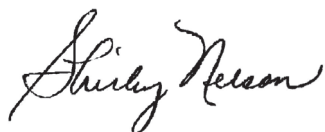
Our stock's book value increased 5.5% from \$22.69 to \$23.93 and our Risk Based Capital Ratio of 16.38% which is well in excess of the Regulatory standard of 10% for a Well Capitalized Bank.

In **2017**, the Company's subsidiary Summit Bank purchased a building at 1701 N. California Boulevard in downtown Walnut Creek where our branch will be relocated in 2018.

It appears that interest rates will continue to increase in the near future which will help to improve the interest margins and should have an immediate effect on interest income from loans. We expect that the interest rates on deposits will be increasing at a slower pace.

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 continuing to celebrate our 35th anniversary as we look to another successful year in 2018, with the full recognition that the new tax laws will impact our financial performance.

I want to thank our Board members who provide oversight and direction of our policies and goals that further the success we have enjoyed for so many years. Our Board has the right mix of background perspectives and can counsel on what is necessary with the daily challenges we face. Our Board is complemented with the best management group in the Bay Area. They have a wealth of knowledge about the bank and our clients. They are passionate about customer service and creating shareholder value. I sincerely thank all our employees for their hard work and dedication.



**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 2017 was \$1,848,000 compared to \$2,038,000 in 2016, and \$2,334,000 in 2015. The decrease in the year 2017's net income from the year 2016 was caused primarily due to the change in tax laws which caused an adjustment of \$750,000 to the Deferred Tax Asset. The net income of \$1,848,000 for 2017 represents diluted earnings per share of \$1.54 which compared to diluted earnings per share of \$1.58 in 2016, and diluted earnings per share of \$1.79 per share in 2015.

### 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 31% 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 12% matures after one year while 41% 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 2017 was \$9,402,000, an increase from \$8,626,000 posted in 2016 and an increase as compared to \$8,434,000 in 2015. The increase in 2017 was primarily the result of three increases in prime rate. Average earning assets increased by 4.13% in 2017 to \$238,763,000 from \$229,293,000 in 2016 and as compared to \$209,941,000 in 2015. Average total deposits were increased by 6.08% to \$222,933,000 in 2017 from \$210,158,000 in 2016 and increased 9.52% as compared to \$191,883,000 in 2015.

Average loans outstanding decreased by 1% in 2017 to \$134,422,000 as compared to \$135,780,000 in 2016 and \$128,780,000 in 2015. Average outstanding investments increased 11.58% to \$104,341,000 in 2017 as compared to \$93,512,000 in 2016 and \$81,161,000 in 2015. The yield on average earning assets was 3.82% in 2017 as compared to

3.55% in 2016 and 4.02% in 2015. The increase in 2017 was due to an increase in prime rate as well as an increase in interest rates on Due from Time deposits.

Interest expense decreased 18.22% to \$404,000 in 2017 from \$494,000 in 2016 and as compared to \$492,000 in 2015. The decrease in 2017 was primarily centered in the average rates paid on deposits. Average interest-bearing deposits decreased 5.91% to \$110,925,000 in 2017 compared to \$117,894,000 in 2016 and \$110,131,000 in 2015. Average non-interest bearing deposits increased 21.40% in 2017 to \$112,008,000 as compared to \$92,264,000 in 2016 and \$81,751,000 in 2015. Overall cost of funds in 2017 was 0.36% as compared to 0.42% in 2016 and 0.45% in 2015. The decrease in the overall cost of funds was a direct result of a decrease in customers' time deposits and savings accounts interest rates.

### **Non-Interest Income and Expense**

Non-interest income, consisting primarily of service charges on deposit accounts and other income, was \$1,605,000 in 2017, an increase of 106.78% from \$776,000 in 2016, and \$1,307,000 in 2015. Total service charge income from deposit accounts increased 14.59% to \$572,000 in 2017 from \$499,000 in 2016 and \$582,000 in 2015 and total income from other charges increased 273.11% to \$1,033,000 in 2017 from \$277,000 in 2016 and \$725,000 in 2015. The increase of Non-interest income in 2017 was primarily due to income recognized from the sale of OREO properties and other income received from miscellaneous services.

Non-interest expenses increased 15.98% to \$6,978,000 in 2017 from \$6,017,000 in 2016, and \$5,855,000 in 2015. Salary expense increased 25.35% to \$4,507,000 in 2017 from \$3,595,000 in 2016 and \$3,402,000 in 2015. Legal expenses decreased by \$23,000 in 2017 over 2016 and decreased by \$45,000 in 2016 over 2015. 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 2016 and 2017. FDIC assessment expense decreased to \$75,000 in 2017 from \$106,000 in 2016 and \$100,000 in 2015, primarily due to decrease in factors in estimating the assessment.

The Company's allowance for loan losses as a percent of loans was 2.18% as of December 31, 2017 as compared to 3.09% as of December 31, 2016 and 2.66% as of December 31, 2015. There were no accrual for loan loss provision in 2017 and 2016 as there were recoveries in 2016 from the charged off loans. At this time management has determined that the allowance is appropriate. There were no charge offs in 2017 and 2016.

### **Provision for Income Taxes**

The provision for income taxes reflects a combined Federal and California effective tax rate of 57.80% in 2017, compared to 40.0% in 2016 and 40.0% in 2015, 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, 2017, the Company had \$23,673,000 in cash and cash equivalents compared to \$35,257,000 as of December 31, 2016 and \$8,596,000 as of December 31, 2015. The decrease in 2017 was primarily due to a decrease in balances with correspondent bank accounts. The ratio of net loans to deposits as of December 31, 2017 was 65.3% compared to 55.2% as of December 31, 2016 and 67.3% as of December 31, 2015.

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 \$117,281,000 at December 31, 2017 as compared to \$154,780,000 at December 31, 2016, and \$128,915,000 at December 31, 2015. This is equivalent to 45.0%, 64.0%, and 56.1% of total assets at the corresponding year-ends, respectively. The decrease was mainly due to the fed funds sold, loans and due from time deposits maturing in one year.

In 2017, the Company's subsidiary Bank purchased a building at 1701 N. California in Walnut Creek. The Bank's Walnut Creek Branch will relocate there in 2018 and will occupy the bottom floor of the building while continuing to lease the upper floors to the existing tenants.

Management believes that the combination of owning the building which will result in the elimination of that Branch's rent expense while at the same time generating a new source of income will increase the franchise value of the Bank.

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, 2017 the Company had one non-performing asset of \$98,500 and as of December 31, 2016, the Company's only non-performing assets consisted of other real estate owned of \$576,500.

### **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, 2017 AND 2016

ASSETS	2017	2016
Cash and due from banks	\$11,923,112	\$4,756,997
Federal funds sold	11,750,000	30,500,000
Cash and cash equivalents	23,673,112	35,256,997
Time deposits with other financial institutions	75,365,000	79,816,000
Investment securities held to maturity, at cost (fair value of \$398,692 at December 31, 2017 and \$399,523 at December 31, 2016)	399,009	399,353
Loans (Net of related deferred loan fees)	153,715,511	119,667,842
Less: allowance for loan losses	<u>3,344,781</u>	<u>3,694,781</u>
Net loans	150,370,730	115,973,061
Premises and equipment, net	4,364,014	56,964
Bank Owned Life Insurance	4,792,955	4,647,950
Deferred Tax Assets	1,849,000	3,097,000
Other Real Estate Owned	-	576,500
Interest receivable and other assets	2,504,049	1,300,990
<b>Total Assets</b>	<b>\$263,317,869</b>	<b>\$241,124,815</b>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand	\$109,907,805	\$96,721,600
Interest-bearing transaction accounts	88,958,810	77,881,346
Savings	9,686,887	8,339,757
Time certificates \$250,000 and over	10,855,573	14,303,947
Other time certificates	10,719,085	12,760,516
Total deposits	230,128,160	210,007,166
Interest payable and other liabilities	4,627,518	3,792,196
<b>Total Liabilities</b>	<b>234,755,678</b>	<b>213,799,362</b>
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;		
1,193,641 shares outstanding at December 31, 2017 and		
1,204,990 shares outstanding at December 31, 2016	2,322,188	2,435,678
Retained Earnings	26,240,003	24,889,775
<b>Total Shareholders' Equity</b>	<b>28,562,191</b>	<b>27,325,453</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$263,317,869</b>	<b>\$241,124,815</b>

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, 2017, 2016 AND 2015

	2017	2016	2015
<b>INTEREST INCOME:</b>			
Interest and fees on loans	\$8,518,332	\$8,278,641	\$8,389,877
Interest on time deposits with other financial institutions	998,068	757,233	499,605
Interest on U.S. government agency securities	3,620	2,292	846
Interest on federal funds sold	286,166	82,046	35,948
<b>Total interest income</b>	<b>9,806,186</b>	<b>9,120,212</b>	<b>8,926,276</b>
<b>INTEREST EXPENSE:</b>			
Interest on savings deposits	7,963	10,873	8,922
Interest on interest-bearing transaction accounts	222,088	241,803	218,995
Interest on time deposits	173,966	241,103	264,086
<b>Total interest expense</b>	<b>404,016</b>	<b>493,778</b>	<b>492,003</b>
<b>Net interest income</b>	<b>9,402,170</b>	<b>8,626,434</b>	<b>8,434,273</b>
Provision (benefit) for loan losses	(350,000)	-	-
<b>Net interest income after provision for loan losses</b>	<b>9,752,170</b>	<b>8,626,434</b>	<b>8,434,273</b>
<b>NON-INTEREST INCOME:</b>			
Service charges on deposit accounts	572,270	499,415	582,372
Other Income	1,032,808	276,810	724,834
<b>Total non-interest income</b>	<b>1,605,078</b>	<b>776,226</b>	<b>1,307,206</b>
<b>NON-INTEREST EXPENSE:</b>			
Salaries and employee benefits	4,506,500	3,595,062	3,402,456
Occupancy expense	630,380	553,829	541,956
Equipment expense	472,527	482,684	600,580
FDIC assessment	75,000	105,750	99,500
Legal expense	52,000	75,000	120,000
Insurance expense	86,807	86,103	102,052
Other	1,155,105	1,118,226	988,383
<b>Total non-interest expense</b>	<b>6,978,319</b>	<b>6,016,654</b>	<b>5,854,927</b>
<b>Income before income taxes</b>	<b>4,378,929</b>	<b>3,386,006</b>	<b>3,886,552</b>
Provision for income taxes	2,531,170	1,348,403	1,552,898
<b>Net Income</b>	<b>\$1,847,759</b>	<b>\$2,037,603</b>	<b>\$2,333,654</b>
<b>EARNINGS PER SHARE</b>			
Earnings per common share (Basic)	\$1.54	\$1.58	\$1.79
<b>Earnings per common share (Diluted)</b>	<b>\$1.54</b>	<b>\$1.58</b>	<b>\$1.79</b>

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, 2017,  
2016 AND 2015

	NUMBER OF SHARES OUTSTANDING	COMMON STOCK	RETAINED EARNINGS	TOTAL
Balance at January 1, 2015	1,300,178	\$3,387,558	\$22,097,035	\$22,569,283
Issuance of Cash Dividends, <b>\$.22 per share</b>	-	-	<b>(286,039)</b>	<b>(286,039)</b>
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, <b>\$.24 per share</b>	-	-	<b>(312,043)</b>	<b>(312,043)</b>
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
Issuance of Cash Dividends, <b>\$.28 per share</b>	-	-	<b>(335,808)</b>	<b>(335,808)</b>
Repurchase of Common Stock	(11,349)	(113,490)	(161,723)	(275,213)
Net Income	-	-	1,847,759	1,847,759
Balance at December 31, 2017	1,193,641	\$2,322,188	\$26,240,003	\$28,562,191

*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, 2017, 2016, AND 2015

	2017	2016	2015
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Net Income	\$1,847,759	\$2,037,603	\$2,333,654
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	44,440	46,641	81,345
Provision for loan losses	(350,000)	-	-
Deferred Income Tax Expense (benefit)	1,248,000	-	307,000
(Increase) decrease in other assets	(1,179,159)	(177,797)	(473,777)
Loss/(Gain) on sale of OREO	(823,590)	-	(18,536)
BOLI Income	(145,005)	(139,832)	(161,506)
Increase (decrease) in other liabilities	1,144,126	422,164	(468,749)
<b>Net cash provided by operating activities</b>	<b>1,786,571</b>	<b>2,188,779</b>	<b>1,599,431</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
(Increase) decrease in time deposits with other financial institutions	4,451,000	(2,459,000)	(9,022,000)
Maturity of investment securities	3,964	2,588	1,800
Purchase of FHLB stock	(23,900)	35,900	-
Net (increase) decrease in loans to customers	(34,356,473)	17,875,231	(13,472,379)
Recoveries on loans previously charged-off	-	(43,963)	(53,205)
(Increase) in premises and equipment	(5,812)	(4,943)	(24,533)
Proceeds from sale of OREO	1,400,090	-	718,020
Purchase of Land & Building	(4,349,298)	-	-
<b>Net cash provided by (used in) investing activities</b>	<b>(32,880,429)</b>	<b>15,405,813</b>	<b>(21,852,297)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Increase (decrease) in demand, interest bearing transaction, and savings deposits	25,610,799	14,941,071	11,375,561
Net increase (decrease) in time deposits	(5,489,805)	(3,630,120)	(1,664,090)
Repurchase of Common Stock	(275,213)	(1,932,315)	-
Dividends Paid	(335,808)	(312,043)	(286,039)
<b>Net cash provided by (used in) financing activities</b>	<b>19,509,973</b>	<b>9,066,593</b>	<b>9,425,432</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(11,583,885)</b>	<b>26,661,185</b>	<b>(10,827,434)</b>
Cash and cash equivalents at the beginning of the year	35,256,997	8,595,812	19,423,246
<b>Cash and cash equivalents at the end of the year</b>	<b>\$23,673,112</b>	<b>\$35,256,997</b>	<b>\$8,595,812</b>
<b>Supplemental Cash Flow Disclosure</b>			
Income Taxes paid	2,089,153	1,060,949	1,952,747
Interest Paid	417,743	514,358	465,696
Loan to facilitate sale of other real estate	475,000	-	-

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

## SUMMIT BANCSHARES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2017

### 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 premises, furniture and equipment is calculated on a straight line basis over the estimated useful life of the property, generally thirty three years for premises, 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, 2017, there were no OREO properties and as of December 31, 2016 the Bank had \$576,500 in other real estate owned.

### **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.

### **Fair Value of Financial Instruments**

The fair value of financial instruments approximate carrying value as of December 31, 2017 and 2016.

### **Comprehensive Income**

The Company had no items of other comprehensive income for the twelve months ended December 31, 2017, 2016 and 2015. Accordingly, total comprehensive income was equal to net income for each of those periods.

### Reclassifications

Certain reclassifications have been made in the 2016 and 2015 financial statements to conform to the presentation used in 2017. 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 March 30, 2018, 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 Company does not expect ASU 2014-09 to have a material impact on its consolidated 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 Company does not expect ASU 2016-01 to have a material impact on its consolidated 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 Company is currently evaluating the effects of ASU 2016-02 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 Company 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, 2017 and 2016 are as follows:

<b>December 31, 2017</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
U.S. Treasury Securities	\$399,009	\$ -	(\$317)	\$398,692
<b>December 31, 2016</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
U.S. Treasury Securities	\$399,353	\$170	\$ -	\$399,523

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, 2017, by contractual maturities are shown below.

	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
Due in one year or less	\$399,009	\$398,692
Total	\$399,009	\$398,692

There were no sales of investments in debt securities during 2017 or 2016. At December 31, 2017, securities carried at \$399,009 were pledged to secure public deposits, as required by law.

### 3. LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loans as of December 31, 2017, and 2016 (net of unearned loan fees of \$966,000 and \$657,000, respectively), is as follows:

	<b>2017</b>	<b>2016</b>
Real estate construction loans	\$9,963,781	\$15,691,454
Real estate loans	95,196,303	57,449,068
Commercial loans	47,438,243	45,011,993
Consumer loans	1,117,183	1,515,327
	<u>153,715,511</u>	<u>119,667,842</u>
Less: Allowance for loan losses	<u>(3,344,781)</u>	<u>(3,694,781)</u>
	<u>\$150,370,730</u>	<u>\$115,973,061</u>

The changes in the allowance for loan losses for the years ended December 31, 2017, 2016, and 2015 are as follows:

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Balance, beginning of period	\$3,694,781	\$3,650,818	\$3,679,541
Provision for loan losses	(350,000)	-	-
Recoveries	-	43,963	54,257
Loans charged-off	-	-	(82,980)
Balance, end of period	<u>\$3,344,781</u>	<u>\$3,694,781</u>	<u>\$3,650,818</u>

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The following table presents the activity in the allowance for loan losses for the year 2017 and 2016 and the recorded investment in loans and impairment method as of December 31, 2017 and 2016 by portfolio segment:

December 31, 2017	Real Estate and Construction	Commercial	Consumer	Total
Allowance for Loan Losses:				
Beginning of Year	\$ 2,507,778	\$ 1,058,328	\$ 128,675	\$ 3,694,781
Provisions	(280,006)	34,696	(104,690)	(350,000)
Charge-offs	-	-	-	-
Recoveries	-	-	-	-
End of Year	<u>\$ 2,227,772</u>	<u>\$ 1,093,024</u>	<u>\$ 23,985</u>	<u>\$ 3,344,781</u>
Reserves:				
Specific	\$ -	\$ 16,502	\$ -	\$ 16,502
General	<u>2,227,772</u>	<u>1,076,522</u>	<u>23,985</u>	<u>3,328,279</u>
	<u>\$ 2,227,772</u>	<u>\$ 1,093,024</u>	<u>\$ 23,985</u>	<u>\$ 3,344,781</u>
Loans Evaluated for Impairment:				
Individually	\$ -	\$ 333,048	\$ -	\$ 333,048
Collectively	<u>105,160,085</u>	<u>47,105,196</u>	<u>1,117,182</u>	<u>153,382,463</u>
	<u>\$ 105,160,085</u>	<u>\$ 47,438,244</u>	<u>\$ 1,117,182</u>	<u>\$ 153,715,511</u>
December 31, 2016	Real Estate and Construction	Commercial	Consumer	Total
Allowance for Loan Losses:				
Beginning of Year	\$ 2,487,778	\$ 1,058,328	\$ 104,712	\$ 3,650,818
Provisions	-	-	-	-
Charge-offs	-	-	-	-
Recoveries	<u>20,000</u>	<u>-</u>	<u>23,963</u>	<u>43,963</u>
End of Year	<u>\$ 2,507,778</u>	<u>\$ 1,058,328</u>	<u>\$ 128,675</u>	<u>\$ 3,694,781</u>
Reserves:				
Specific	\$ -	\$ 11,724	\$ -	\$ 11,724
General	<u>2,507,778</u>	<u>1,046,604</u>	<u>128,675</u>	<u>3,683,057</u>
	<u>\$ 2,507,778</u>	<u>\$ 1,058,328</u>	<u>\$ 128,675</u>	<u>\$ 3,694,781</u>
Loans Evaluated for Impairment:				
Individually	\$ -	\$ 234,472	\$ -	\$ 234,472
Collectively	<u>73,140,522</u>	<u>44,777,521</u>	<u>1,515,327</u>	<u>119,433,370</u>
	<u>\$ 73,140,522</u>	<u>\$ 45,011,993</u>	<u>\$ 1,515,327</u>	<u>\$ 119,667,842</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:

**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, 2017 and 2016.

December 31, 2017	Pass	Special Mention	Substandard	Impaired	Total
Commercial Real Estate:					
Construction and Land					
Development	\$ 10,438,781	\$ -	\$ -	\$ -	\$ 10,438,781
Other	94,184,047	-	537,257	-	94,721,304
Commercial	45,034,168	544,906	1,529,121	330,048	47,438,243
Consumer	1,117,183	-	-	-	1,117,183
	<u>\$ 150,774,179</u>	<u>\$ 544,906</u>	<u>\$ 2,066,378</u>	<u>\$ 330,048</u>	<u>\$ 153,715,511</u>

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
	<u>\$ 113,957,669</u>	<u>\$ 2,408,805</u>	<u>\$ 3,301,368</u>	<u>\$ -</u>	<u>\$ 119,667,842</u>

Impaired, past due and nonaccrual loans were as follows as of December 31, 2017 and 2016.

	2017	2016
Recorded Investment in Impaired Loans:		
With an Allowance	\$ 330,048	\$ 234,472
Without an Allowance	\$ -	\$ -
Related Allowance for Loan Losses	\$ 16,502	\$ 11,724
Average Recorded Investment in Impaired Loans	\$ 423,583	\$ 235,362
Interest Income Recognized During Impairment	\$ -	\$ -
Interest Income Included Above Recognized on a Cash Basis	\$ -	\$ -
Past Due Over 30-89 Days Still on Accrual (Commercial)	\$ 1,831,472	\$ -
Nonaccrual Loans (Commercial)	\$ 98,576	\$ -

There were two loans modified as TDR's in 2017 with a carrying value of \$330,048 as of December 31, 2017. No loans were modified as TDR's in 2016.

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, 2017 and 2016, loans outstanding to directors, officers, and principal shareholders and their known associates were \$2,463,993 and \$1,153,500 respectively. In 2017, advances on current directors' loans were \$45,000 and collections were \$0. In 2016, advances on current directors' loans were \$3,177,696 and collections were \$4,458,426. As of December 31, 2017 and 2016 total deposits of directors, officers and principal shareholders and their known associates totaled \$13,946,902 and \$14,089,429 respectively.

#### 5. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
<b>December 31, 2017</b>			
Land	\$2,650,000	\$ -	\$2,650,000
Building	1,699,298	24,823	1,674,475
Leasehold improvements	1,200,098	1,176,359	23,740
Furniture and equipment	2,347,830	2,332,030	15,799
<b>Total</b>	<b>\$7,897,226</b>	<b>\$ 3,533,212</b>	<b>\$4,364,014</b>
<b>December 31, 2016</b>			
Leasehold improvements	\$1,200,098	\$1,175,457	\$24,641
Furniture and equipment	2,342,017	2,309,695	32,323
<b>Total</b>	<b>\$3,542,116</b>	<b>\$3,485,152</b>	<b>\$56,964</b>

Depreciation and amortization included in occupancy and equipment expenses was \$48,060, \$48,933 and \$82,191 for the years ended December 31, 2017, 2016, and 2015 respectively.

## 6. INCOME TAXES

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

	2017	2016	2015
Current:			
Federal	\$948,034	\$1,430,000	\$1,018,000
State	335,136	499,000	377,000
Total current	1,283,170	1,929,000	1,395,000
Deferred:			
Federal	369,000	(437,000)	126,000
State	129,000	(144,000)	32,000
Deferred Tax Asset Adjustment for Enacted Change in Tax Rates	750,000	-	-
Total deferred	1,248,000	(581,000)	158,000
Total taxes	\$2,531,170	\$1,348,000	\$1,553,000

Income tax expense for 2017 includes a downward adjustment of net deferred tax assets in the amount \$750,000, recorded as a result of the enactment of H.R.1, the Tax Cuts and Jobs Act on December 22, 2017. The Act reduced corporate Federal tax rates from 34% to 21% effective January 1, 2018.

The components of the net deferred tax asset of the Company as of December 31, 2017, 2016 and 2015, were as follows:

	2017	2016	2015
Deferred Tax Assets:			
Allowance for loan losses	\$576,000	\$1,441,000	\$1,337,000
State taxes	98,000	174,000	130,000
Installment sale	-	-	(417,000)
Depreciation	56,000	82,000	78,000
Other real estate owned	-	155,000	108,000
Deferred Salary	1,004,000	1,262,000	1,131,000
Other	115,000	(17,000)	149,000
Net Deferred Tax Asset	\$1,849,000	\$3,097,000	\$2,516,000

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:

	2017		2016		2015	
	Amount	Percent	Amount	Percent	Amount	Percent
Federal income tax expense, based on the statutory federal income tax rate	\$1,489,000	34.00%	\$1,151,000	34.00%	\$1,321,000	34.00%
State franchise taxes, net of federal income tax benefit	305,000	7.00%	242,000	7.10%	278,000	7.15%
Deferred tax asset adjustment	750,000	17.10%	-	-	-	-
Other, net	(12,830)	(.30%)	(46,000)	(1.10%)	(46,000)	(1.15%)
Tax provision	\$2,531,170	57.80%	\$1,347,000	40.00%	\$1,553,000	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, 2017. 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, 2016, 2015 and 2014 are open to audit by the federal authorities and our California state tax returns for the years ended December 31, 2016, 2015, 2014 and 2013, are open to audit by state authorities.

## 7. TIME DEPOSITS

Time deposits issued as of December 31, 2017, had \$19,025,465 maturing in the year 2018, \$150,273 maturing in 2019, \$54,497 maturing in 2020, \$6,390 maturing in 2021 and the remaining \$2,338,032 maturing in 2022.

## 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, 2017. There were no borrowings outstanding under these agreements at December 31, 2017 and December 31, 2016.

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, 2017, this line provided for a maximum borrowing capacity of \$13,057,738. There was no outstanding balance as of December 31, 2017. At December 31, 2017, this borrowing line was collateralized by mortgage loans with a book value of \$16,757,315.

## 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, 2017, that the Company and the Bank have met all capital adequacy requirements.

As of December 31, 2017, 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-

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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 2017 is 1.25%. 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, 2017, 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, 2017						
Total Capital						
(to Risk Weighted Assets)						
Consolidated	\$30,935,000	16.38%	\$15,108,480	8.00%	\$18,885,600	10.00%
Bank	29,919,000	15.83%	15,121,520	8.00%	18,901,900	10.00%
Common Equity Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	28,562,000	15.12%	8,498,520	4.50%	12,275,640	6.50%
Bank	27,544,000	14.57%	8,505,855	4.50%	12,286,235	6.50%
Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	28,562,000	15.12%	11,331,360	6.00%	15,108,480	8.00%
Bank	27,544,000	14.57%	11,341,140	6.00%	15,121,520	8.00%
Tier 1 Capital						
(to Average Assets)						
Consolidated	28,562,000	11.01%	10,379,080	4.00%	12,973,850	5.00%
Bank	27,544,000	10.62%	10,379,080	4.00%	12,973,850	5.00%
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%

## 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, 2017, the Bank could pay dividends to the Company of up to approximately \$3,165,077 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, 2017 were \$2,514,000.

## 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 \$489,316, \$456,055 and \$442,095, for the years ended December 31, 2017, 2016, and 2015.

At December 31, 2017, the approximate future minimum payments for non-cancelable leases with initial or remaining terms in excess of one year were as follows:

2018	\$ 424,110
2019	318,569
2020	283,507
2021	229,013
2022 and beyond	1,409,890
	<u>\$ 2,665,089</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.

## 12. EMPLOYEE PLANS

### 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, \$99,456 was contributed in 2017, \$70,309 in 2016 and \$62,348 in 2015.

### Stock Appreciation Plan

The Company adopted the 2017 Stock Appreciation Plan ("Plan") effective January 1, 2017 for the purpose of encouraging staff to see Summit as a place where long term commitment is rewarded by providing additional incentive compensation to employees contributing to the successful operation of the Company. The Plan provides for a base of 50

phantom shares to be issued for the first year of service with that base increased at each employment anniversary date by 5 additional shares. Phantom shares vest 5 years after the date of hire and the Plan provided that shares granted to employees with 5 years or more of employment at the Company are subject to immediate vesting.

The base value of each phantom share issued is the fair market value of the stock on the date of grant, which was \$20.30 at the inception of the Plan.

A summary of the status of the phantom shares issued under the Plan as of December 31, 2017, and changes during the year then ended, follows:

	2017	
	Unvested Shares	Weighted- Average Grant Date Value
Balance, Beginning of Year	-	\$ -
Granted	28,595	20.69
Vested	(23,110)	20.69
Exercised	(4,450)	20.30
Balance, End of Year	1,035	\$ 20.69

### 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 \$387,150 in 2017, \$374,565 in 2016, and \$225,942 in 2015.

### 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, 2017 and 2016, financial instruments whose contract amounts represent credit risk are as follows:

	Contract Amount	
	2017	2016
Commitments to extend credit in the future	\$32,879,470	\$42,623,628
Standby letters of credit	67,500	132,413
<b>Total</b>	<b>\$32,946,970</b>	<b>\$42,756,040</b>

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 MEASUREMENTS

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, 2017 or 2016.

#### **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.

	<b>As of December 31, 2016</b>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fair Value Hierarchy				
Other real estate owned	<u>\$576,500</u>	<u>\$ -</u>	<u>\$576,500</u>	<u>\$ -</u>

Write-downs of OREO were \$0 and \$0 for the years ended December 31, 2017 and 2016, respectively.

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

The following are the balance sheets as of December 31, 2017 and 2016 and the related statements of income and cash flows for the years ended December 31, 2017, 2016 and 2015 for Summit Bancshares, Inc. (parent company only)

SUMMIT BANCSHARES, INC.

<b>BALANCE SHEET</b>	<b>2017</b>	<b>2016</b>
<b>ASSETS:</b>		
Cash	\$549,077	\$1,399,804
Loan participation with subsidiary (net of allowance for loss reserve of \$0 at December 31, 2017 and \$0 at December 31, 2016)	250,000	-
Investment in subsidiary	27,544,387	25,695,875
Other assets	218,727	229,774
<b>Total Assets</b>	<b>\$28,562,191</b>	<b>\$27,325,453</b>
<b>LIABILITIES:</b>		
Income taxes payable	\$ -	\$ -
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>
Shareholders' Equity:		
Common Stock	2,322,188	2,435,678
Retained Earnings	26,240,003	24,889,775
<b>Total Shareholders' Equity</b>	<b>28,562,191</b>	<b>27,325,453</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$28,562,191</b>	<b>\$27,325,453</b>

<b>STATEMENTS OF INCOME</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>INCOME:</b>			
Interest on short-term investments and loans	\$7,711	\$46,933	\$53,729
Rental and other income	2,614	8,200	15,355
<b>Total income</b>	<b>10,325</b>	<b>55,133</b>	<b>69,084</b>
<b>EXPENSE:</b>			
Miscellaneous expense	11,662	1,702	1,967
<b>Total expense</b>	<b>11,662</b>	<b>1,702</b>	<b>1,967</b>
Income (loss) before income tax and equity in earnings of subsidiary	(1,337)	53,431	67,117
Provision for income taxes	(557)	22,203	27,898
Income (loss) before equity in earnings of subsidiary	(780)	31,228	39,219
Equity in earnings of subsidiary			
Distributed	-	2,000,000	1,000,000
Undistributed	1,848,539	6,375	1,294,435
<b>Net Income</b>	<b>\$1,847,759</b>	<b>\$2,037,603</b>	<b>\$2,333,654</b>

SUMMIT BANCSHARES, INC. STATEMENTS OF CASH FLOWS FOR THE YEARS  
ENDED DECEMBER 31, 2017, 2016, AND 2015

	2017	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Interest received	\$8,340	\$49,545	\$52,024
Fees Received	2,614	8,200	15,356
Cash paid to suppliers	(1,217)	(1,704)	(1,967)
Income taxes paid	557	(193,827)	(27,398)
<b>Net cash provided by (used in) operating activities</b>	<b>10,294</b>	<b>(137,786)</b>	<b>37,515</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Net decrease (increase) in loans	(\$250,000)	\$900,000	\$0
Dividend received from subsidiary	-	2,000,000	1,000,000
<b>Net cash provided by (used in) investing activities</b>	<b>(250,000)</b>	<b>2,900,000</b>	<b>1,000,000</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Repurchase of Common Stock	(\$275,212)	(\$1,932,316)	\$0
Dividends paid	(335,807)	(312,043)	(286,039)
<b>Net cash (used in) financing activities</b>	<b>(611,019)</b>	<b>(2,244,359)</b>	<b>(286,039)</b>
Net increase (decrease) in cash and cash equivalents	(850,725)	517,855	751,476
Cash at the beginning of the year	1,399,802	881,947	130,471
<b>Cash at the end of the year</b>	<b>\$549,077</b>	<b>\$1,399,802</b>	<b>\$881,947</b>
<b>RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>			
Net Income	\$1,847,759	\$2,037,603	\$2,333,654
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	-	-	-
Non-cash earnings from subsidiary	(1,848,539)	(2,006,375)	(2,294,434)
(Increase) Decrease in other assets	11,074	(169,014)	(1,705)
Total adjustments	(1,837,465)	(2,175,389)	(1,296,139)
<b>Net cash provided by (used in) operating activities</b>	<b>\$10,294</b>	<b>(137,786)</b>	<b>\$37,515</b>

## INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS AND SHAREHOLDERS OF  
SUMMIT BANCSHARES, INC.



We have audited the accompanying consolidated financial statements of Summit Bancshares Inc. and Subsidiary (the "Company"), which are comprised of the consolidated statements of financial position as of December 31, 2017 and 2016, 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, 2017, 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, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

*Vavrinek, Trine, Day & Co., LLP*

Laguna Hills, California  
March 30, 2018

## CORPORATE DIRECTORY

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

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

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

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

**George Hollidge**  
*Retired*  
*Oakland*

**Kikuo Nakahara**  
*CPA – Retired*  
*Walnut Creek*

**John F. Nohr**  
*President*  
*Woodminster Co., Inc.*  
*Realtors*  
*Moraga*

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

**John Protopappas**  
*President and CEO*  
*Madison Park Financial Corp.*  
*Oakland*

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

### Market Makers

**Justin Mazzon**  
*American Blue Chip*  
*700 Larkspur Landing #199*  
*Larkspur, CA 94939*  
*(415) 464-4822*

### Summit Bank Officers

**Shirley W. Nelson**  
*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*

**Mark Rapier**  
*Chief Administrative Officer*

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

**Helen Shipp**  
*Vice President*  
*Loan Operations Manager*

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

**Marcia Gerg**  
*Vice President*  
*Senior Relationship Manager*

**George Yang**  
*Vice President*  
*Relationship Manager*

**Mark Leyva**  
*Assistant Vice President*  
*Relationship Officer*

**Anna Sukhovnin**  
*Assistant Vice President*  
*Relationship Manager*

**Vlatko Stamenkov**  
*Credit Analyst*

**Kelly Coday**  
*BSA Officer and Branch Services*  
*Manager*

**Sherry Glover**  
*Branch Services Manager*

**Zack Noman**  
*Branch Services Manager*

### Summit Bank Foundation

**Amy Alanes**  
*Executive Director*

### Summit Bank Foundation Board of Directors

**Shirley W. Nelson**  
*Chairman*

**Joe Rainero**  
*President*  
*Kinder's BBQ*

**Susan Casper**  
*Herman Miller, Inc.*

**Ken Coit**  
*Coit Financial Group*

**James Falaschi**  
*Transbay Holdings*

**Maria Falaschi**  
*BluPoint Marketing*

**Derreck Johnson**  
*Home of Chicken & Waffles*

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

**Nancy O'Malley**  
*Alameda County District Attorney*

**David Ruegg**  
*Rue-Ell Enterprises*

**Anne Marie Taylor**  
*John Muir Health Foundation*

**Bill Wheeler**  
*President, Black Tie*  
*Transportation*

**Sam Williams**  
*Oakland Raiders*

### Summit Bank Foundation Medical Advisory Council

**Wei Z. Ai, M.D.**  
*Associate Professor, 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*

### Oakland Office

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*(510) 839-8800*  
*www.summitbanking.com*

### Walnut Creek Office

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*Walnut Creek, CA 94596*  
*(925) 935-9220*

### Emeryville Office

*2000 Powell Street*  
*Emeryville, CA 94608*  
*(510) 428-1868*

### Corporate Counsel

**Steven B. Piser, Esq.**  
*Law Office of Steven Piser*  
*1300 Clay Street*  
*Suite 1050*  
*Oakland, CA 94612*

### Independent Auditors

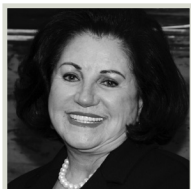
**Vavrinek, Trine, Day & Co.,**  
**LLP**  
*25231 Paseo De Alicia, Suite 100*  
*Laguna Hills, CA 92653*

### Registrar & Transfer Agent

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

**\*Emeritus**

## BOARD OF DIRECTORS



**SHIRLEY NELSON**

Summit Bank

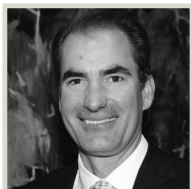
*Chairman: Loan Committee, 401(k) Profit Sharing Committee Member: Directors' Personnel Committee, Strategic Planning Committee, Investment & Funds Management*



**JOHN PROTOPAPPAS**

Madison Park Financial Corporation

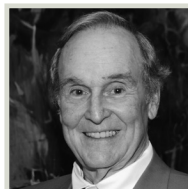
*Chairman: Directors' Personnel Committee Member: Loan Committee, Investment & Funds Management Committee, Strategic Planning Committee*



**JASON HILL**

R.G. Hill and Company

*Member: Audit & Compliance Committee, Loan Committee, E-Technology & Security Committee, Strategic Planning Committee, Investment & Funds Management Committee, 401(k) Profit Sharing 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*



**GEORGE HOLLIDGE**

*Chairman: Strategic Planning Committee, E-Technology & Security Committee*

*Member: Audit and Compliance Committee, Loan Committee, 401(k) Profit Sharing Committee, Directors' Personnel Committee, Investment & Funds Management Committee*



**BOB DILLON**

Brooker & Co., CPAs

*Vice-Chairman, Audit Committee Member: Investment & Funds Management Committee, E-Technology & Security Committee, Strategic Planning Committee, 401(k) Profit Sharing Plan Committee*



**KIKUO NAKAHARA**

*Chairman: Audit & Compliance Committee*

*Member: 401(k) Profit Sharing Committee, Investment & Funds Management Committee, Loan Committee*

## ADMINISTRATIVE OFFICERS



**SHIRLEY W. NELSON**

*Executive Chairman*



**THOMAS DURYEA**

*Chief Executive Officer*



**STEVEN P. NELSON**

*President and Chief Operating Officer*



**DENISE DODINI**

*Executive Vice President and Chief Credit Officer*



**MANI GANESAMURTHY**

*Vice President and Chief Financial Officer*



**KRYSTLE JOHNSON**

*Vice President, Compliance Officer, and Operations Administrator*

## SUMMIT BANK FOUNDATION

Summit Bank Foundation was founded in 1998 and was established to develop and promote financial literacy programs throughout Alameda, Contra Costa, and San Francisco Counties to support general education endeavors throughout the East Bay, and to recognize and encourage corporate volunteerism and support of the nonprofit community. In 2013, Summit Bank Foundation added the funding of cancer research at UCSF Helen Diller Cancer Research Center to its already impressive funding portfolio of providing educational scholarships to students in Oakland. In 2017, Summit Bank Foundation broadened its research funding to support stroke research provided by Dr. Wade Smith.

Summit Bank Foundation has helped to fund 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; Lloyd Damon, MD, Clinical Professor, Director, Hematologic Malignancies and Bone Marrow Transplant at UCSF Helen Diller Cancer Research Center.; and Wade Smith MD, PhD, Vice-Chair of Neurology at UCSF and Chief of the Neurovascular Division.

We are deeply grateful to each of you – past, present and future – who has extended your support to help make a difference in 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.

### OUR MISSION

- » To garner funds in support of cancer and other research at UCSF and aid doctors in pursuing a cure for cancer and other diseases
- » To provide a channel for innovation and progressive research
- » To provide scholarships to students from Castlemont High School and McClymonds High School in Oakland, and Bishop O'Dowd in East Oakland, using the income from restricted funds.



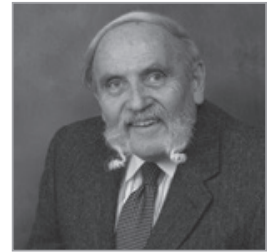
## SUMMIT BANK FOUNDATION MEDICAL ADVISORY COUNCIL



**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*



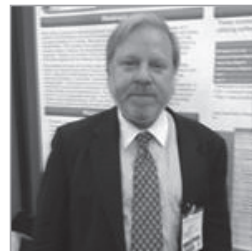
**Frank McCormick,  
PhD, FRS**  
*Professor Emeritus, UCSF  
Helen Diller Family  
Cancer Center*



**Mark Moasser, M.D.**  
*Oncologist, Professor,  
UCSF Helen Diller Family  
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**Robert Nelson, M.D.**  
*Obstetrician Gynecologist,  
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**Elliott N. Schwartz,  
M.D., CCD, CPD**  
*Nephrologist, Northern CA  
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**Wade Smith, PhD,  
M.D.**  
*Neurointensivist, Professor  
of Neurology, Daryl R.  
Gress Endowed Chair of  
Neurocritical Care and  
Stroke; Director, UCSF  
Neurovascular Services*





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