SUMMIT BANCSHARES, INC.

Annual Report
2013

Summit Bank

FINANCIAL HIGHLIGHTS

For The Year Ended	2013	2012	2011	2010	2009
Net Income	$1,361,719	$906,092	$905,182	$983,660	$517,424
Earnings per common share	$1.05	$0.70	$0.70	$0.76	$0.40
Earnings per common share - assuming dilution	$1.05	$0.70	$0.70	$0.76	$0.40

At Year End (in thousands)					
Deposits	$165,674	$168,549	$163,446	$163,264	$158,166
Loans (Net)	113,863	100,957	112,271	123,124	119,769
Assets	191,338	191,957	186,256	184,934	179,311
Shareholders' Equity	22,569	21,208	20,301	19,396	18,413
Non-performing Loans to Total Loans	5.22%	8.34%	7.68%	6.33%	4.27%
Allowance to Non-performing Loans	52.96%	35.92%	29.72%	34.08%	52.15%
Tier 1 Capital	16.71%	15.97%	14.69%	13.06%	13.17%
Total Capital	18.01%	17.24%	15.94%	14.32%	14.43%
Leverage Ratio	11.41%	10.55%	10.44%	9.96%	10.36%

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 2012 is contained below. The following prices reflect retail mark-up and may not represent actual transactions.

	High	Low	Dividends Declared
2013			
First Quarter	$8.34	$8.31	$ --
Second Quarter	8.89	8.88	--
Third Quarter	10.42	10.39	--
Fourth Quarter	10.78	10.78	--
Total			$ --
2012			
First Quarter	$6.35	$6.35	$ --
Second Quarter	6.82	6.82	--
Third Quarter	6.77	6.77	--
Fourth Quarter	7.26	7.25	--
Total			$ --

The Company presently intends to continue the policy of not paying regular semi-annual cash dividends. Future dividends will depend upon the earnings of the Company, management's assessment of the future needs for funds, and the regulatory limitations outlined in Footnote #10.

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

Letter to Our Shareholders

The year of 2013 is Summit Bank's *32nd year of consecutive profitability* having achieved 372 months of consecutive profitability. We continue to be extraordinarily proud of this record and are pleased to provide this annual report reflecting our performance.

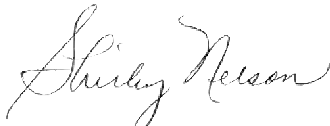
The company's earnings were impressive at **$1,361,719** increasing from *$906,092* in 2012. This resulted in a return on average assets of **0.72%** and a return on average equity of **6.42%** up from *0.48%* and *4.46% respectively* for 2012. Shareholder's equity grew to **$22,569,000** from *$21,208,000* in 2012.

Our overall profitability is largely dependent upon the behavior of interest rates and a favorable economic environment. Our biggest challenge has been the intense growth of new regulatory rules in the five years since the financial crisis. We had hoped we would see loosening of some of these new regulations but it appears we may just be at a new normal. Additionally, some banks are faced with new laws and regulations from the Consumer Financial Protection Bureau. Summit Bank is not a consumer bank and doesn't originate mortgage loans. Hopefully, this is an area in which we won't be challenged.

While uncertainty remains with the changes in our Regulations and Regulatory Burden we believe we will continue to perform as we have in the past and expect 2014 to be an even better year than 2013. Our strong foundation of quality people, our history of quality performance and our ability to deliver quality service positions us well for the future.

We are a **community bank,** *all of our business comes from local people, all our loans are made to business people in our community and all our deposits come from businesses and local people.* Our ownership in concentrated in local people as well.

On behalf of Summit Bank's management team, we want to take this opportunity to thank our clients and shareholders for their support and loyalty, our Board of Directors for their guidance, direct participation and assistance and our dedicated staff for their skills, flexibility and devotion to their jobs.



Shirley W. Nelson
Chairman and CEO

Steven P. Nelson
President and COO

BOARD OF DIRECTORS

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

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

Jason Hill
R.G. Hill and Company
Member: *Audit & Compliance Committee, Loan Committee, E-Technology & Security Committee, Strategic Planning Committee, Investment & Funds Management Committee, 401(k) Profit Sharing Committee*

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

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

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

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

OFFICERS

Shirley W. Nelson
Chairman and CEO

Steven P. Nelson
President and COO

Denise Dodini
Executive Vice President, CCO

Mani Ganesamurthy
Vice President, CFO

Yong Bai *Senior VP, Major Relationship Manager*

Marcia Gerg
VP, Senior Relationship Manager

Rich Hildebrand
VP, Senior Relationship Manager

George Yang
AVP, Relationship Manager

Leah Johnson
AVP, Note Department Manager

Zack Noman
Branch Service Manager

Carmen Larkin
Branch Service Manager

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

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

Summary of Earnings

The Company's net income for 2013 was $1,362,000 compared to $906,000 in 2012, and $905,000 in 2011. The increase in the year 2013's net income from the year 2012 was caused by gain on sale of OREO properties, decrease in the loan loss provision and decrease in the accruals for legal expenses. The net income of $1,362,000 for 2013 represents diluted earnings per share of $1.05 which compared to diluted earnings per share of $0.70 in 2012, and diluted earnings per share of $0.70 per share in 2011.

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 26% 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 7% matures after one year while 42% 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 2013 was $6,671,000, a decrease from $7,093,000 posted in 2012 and as compared to $7,604,000 in 2011. The decrease in 2013 was primarily the result of decrease in the average yield on average earning assets due to decrease in the yield on average loans compared to the year 2012. Average earning assets increased by 0.29% in 2013 to $177,316,000 from $176,806,000 in 2012 and as compared to $172,758,000 in 2011. Average total deposits decreased by 1.94% to $166,503,000 in 2013 from $169,799,000 in 2012 and decreased 0.49% as compared to $167,319,000 in 2011.

Average loans outstanding increased by 2.25% in 2013 to $111,864,000 as compared to $109,401,000 in 2012 and $122,086,000 in 2011. Average outstanding investments decreased 2.90% to $65,452,000 in 2013 as compared to $67,405,000 in 2012 and $50,672,000 in 2011. The yield on average earning assets was 3.62% in 2013 as compared to 3.91% in 2012 and 4.43% in 2011. The decrease in 2013 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 decreased 30.95% to $442,000 in 2013 from $640,000 in 2012 and as compared to $897,000 in 2011. The decrease in 2013 was primarily centered in the average rates paid on deposits. Average interest-bearing deposits decreased 4.86% to $100,487,000 in 2013 compared to $105,623,000 in 2012 and $104,880,000 in 2011. Average non-interest bearing deposits increased 2.87% in 2013 to $66,016,000 as compared to $64,176,000 in 2012 and $62,438,000 in 2011. Overall cost of funds in 2013 was 0.44% as compared to 0.61% in 2012 and 0.85% in 2011. The decrease in the overall cost of funds was a direct result of the changes in the deposit rates.

Non-Interest Income and Expense

Non-interest income, consisting primarily of service charges on deposit accounts and other income, was $1,040,000 in 2013, an increase of 14.59% from $907,000 in 2012, and $700,000 in 2011. Total service charge income from deposit accounts decreased 13.28% to $555,000 in 2013 from $640,000 in 2012 and $497,000 in 2011 and total income from other charges increased 81.32% to $485,000 in 2013 from $267,000 in 2012 and $203,000 in 2011. The increase in 2013 was due to gain on sale of OREO properties and rent received from one of the OREO properties.

Non-interest expenses decreased 10.02% to $5,277,000 in 2013 from $5,864,000 in 2012, and $5,301,000 in 2011. Salary expense decreased 4.50% to $2,880,000 in 2013 from $3,016,000 in 2012 and $2,834,000 in 2011. Legal fees decreased to $60,000 in 2013 from $349,000 in 2012 and $124,000 in 2011 due to decrease in the credit related issues. FDIC assessment expense decreased to $192,000 in 2013 from $258,000 in 2012 and $217,000 in 2011, primarily due to change in the method of calculation of assessment charges from total deposits to total average assets.

The Company's allowance for loan losses as a percent of loans was 2.77% as of December 31, 2013 as compared to 3.00% as of December 31, 2012 and 2.28% as of December 31, 2011. The provision of $200,000 for the year 2013 was directly related to the past due and charged off loans in 2013. This compares to the provision of $650,000 in 2012. At this time management has determined that the allowance is appropriate. Loans charged off in 2013 amounted to $137,000 compared to $306,000 in 2012.

Provision for Income Taxes

The provision for income taxes reflects a combined Federal and California effective tax rate of 39.0% in 2013, compared to 39.0% in 2012 and 39.0% in 2011, 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, 2013, the Company had $7,215,000 in cash and cash equivalents compared to $22,540,000 as of December 31, 2012 and $12,576,000 as of December 31, 2011. The decrease in 2013 was primarily due to a decrease in federal funds sold and balances with correspondent bank accounts. The ratio of net loans to deposits as of December 31, 2013 was 68.7% compared to 59.9% as of December 31, 2012 and 68.7% as of December 31, 2011.

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 $89,318,000 at December 31, 2013 as compared to $104,614,000 at December 31, 2012, and $84,670,000 at December 31, 2011. This is equivalent to 46.68%, 54.5%, and 43.6% of total assets at the corresponding year-ends, respectively. The decrease 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, 2013, the Company had $8,545,147 in non-performing assets including other real estate owned of $2,430,983. As of December 31, 2012, total non-performing assets were $11,377,019, including other real estate owned of $2,701,084.

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, 2013 and 2012

Assets		**2013**		**2012**
Cash and due from banks		$4,014,531		$5,540,290
Federal funds sold		3,200,000		17,000,000
Cash and cash equivalents		7,214,531		22,540,290
Time deposits with other financial institutions		58,690,000		56,111,000
Investment securities held to maturity, at cost (fair value of $399,929 at December 31, 2013 and $399,880 at December 31, 2012)		399,860		399,739
Loans (Net of related deferred loan fees)	117,101,017		104,075,856	
Less: allowance for loan losses	3,238,103		3,118,943	
Net loans		113,862,914		100,956,913
Premises and equipment, net		230,035		310,255
Bank Owned Life Insurance		4,192,367		3,063,714
Deferred Tax Assets		2,402,000		2,416,000
Other Real Estate Owned		2,430,983		2,701,084
Interest receivable and other assets		1,915,385		3,458,479
Total Assets		**$191,338,075**		**$191,957,474**

Liabilities And Shareholders' Equity		
Deposits:		
Demand	$65,884,904	$69,023,968
Interest-bearing transaction accounts	64,791,753	65,894,261
Savings	4,853,306	2,079,769
Time certificates $100,000 and over	26,504,142	27,585,915
Other time certificates	3,639,707	3,965,262
Total deposits	165,673,812	168,549,175
Interest payable and other liabilities	3,094,980	2,200,735
Total Liabilities	**168,768,792**	**170,749,910**
Commitments and contingent liabilities	-	-
Shareholders' Equity:		
Preferred Stock, no par value:		
2,000,000 shares authorized, no shares outstanding	-	-
Common Stock, no par value:		
3,000,000 shares authorized;		
1,300,178 shares outstanding at December 31, 2013 and 2012	3,387,558	3,387,558
Retained Earnings	19,181,725	17,820,006
Total Shareholders' Equity	**22,569,283**	**21,207,564**
Total Liabilities and Shareholders' Equity	**$191,338,075**	**$191,957,474**

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, 2013, 2012 and 2011

	2013	2012	2011
Interest Income:			
Interest and fees on loans	$6,806,321	$7,423,043	$8,185,791
Interest on time deposits with other financial institutions	271,829	266,517	270,389
Interest on U.S. government agency securities	457	652	1,780
Interest on federal funds sold	34,497	42,571	42,733
Total interest income	**7,113,104**	**7,732,783**	**8,500,693**
Interest Expense:			
Interest on savings deposits	5,936	5,641	11,433
Interest on interest-bearing transaction accounts	210,560	332,717	459,738
Interest on time deposits	255,444	301,692	425,520
Interest on federal funds purchased	12	1	1
Total interest expense	**441,952**	**640,051**	**896,692**
Net interest income	**6,671,152**	**7,092,732**	**7,604,001**
Provision for loan losses	200,000	650,000	1,520,000
Net interest income after provision for loan losses	**6,471,152**	**6,442,732**	**6,084,001**
Non-Interest Income:			
Service charges on deposit accounts	555,051	640,056	496,711
Other customer fees and charges	484,663	267,291	203,459
Total non-interest income	**1,039,714**	**907,347**	**700,170**
Non-Interest Expense:			
Salaries and employee benefits	2,880,014	3,015,873	2,834,159
Occupancy expense	483,445	423,907	441,456
Equipment expense	502,242	495,657	545,560
FDIC assessment	192,425	258,152	216,792
Legal expense	60,000	349,125	123,500
Insurance expense	101,003	93,389	84,163
Other	1,057,791	1,228,279	1,055,464
Total non-interest expense	**5,276,920**	**5,864,382**	**5,301,094**
Income before income taxes	**2,233,946**	**1,485,697**	**1,483,077**
Provision for income taxes	872,227	579,605	577,895
Net Income	**$1,361,719**	**$906,092**	**$905,182**
Earnings Per Share			
Earnings per common share (Basic)	$1.05	$0.70	$0.70
Earnings per common share (Diluted)	**$1.05**	**$0.70**	**$0.70**

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, 2013, 2012 and 2011

	Number Of Shares Outstanding	Common Stock	Retained Earnings	Total
Balance at January 1, 2011	**1,300,178**	**3,387,558**	**16,008,732**	**$18,412,630**
Net Income	-	-	905,182	905,182
Balance at December 31, 2011	**1,300,178**	**3,387,558**	**16,913,914**	**19,317,812**
Net Income	-	-	906,092	906,092
Balance at December 31, 2012	**1,300,178**	**3,387,558**	**17,820,006**	**21,207,564**
Net Income	-	-	1,361,719	1,361,719
Balance at December 31, 2013	**1,300,178**	**$3,387,558**	**$19,181,725**	**$22,569,283**

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, 2013, 2012 and 2011

	2013	2012	2011
Net Cash Provided By Operating Activities:			
Net Income	$1,361,719	$906,092	$905,182
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	106,134	121,825	150,737
Provision for loan losses	200,000	650,000	1,520,000
Deferred Income Tax Expense (benefit)	(13,000)	(528,000)	34,000
(Increase) decrease in other assets	1,579,194	(81,601)	(246,078)
OREO expense	-	232,549	242,255
Loss/(Gain) on sale of OREO	(211,363)	-	-
BOLI Income	(128,653)	(109,213)	(106,662)
Increase (decrease) in other liabilities	908,245	220,376	234,371
Total adjustments	2,440,557	505,936	1,828,623
Net cash provided by operating activities	**3,802,276**	**1,412,028**	**2,733,805**
Cash Flows From Investing Activities:			
(Increase) decrease in time deposits with other financial institutions	(2,579,000)	(6,897,000)	(18,709,000)
Maturity of investment securities	400,000	400,000	773,000
Purchase of FHLB stock	(23,100)	63,400	(20,800)
Purchase of investment securities	(399,664)	(399,373)	(399,312)
Purchase of bank owned life insurance	($1,000,000)	-	-
Net (increase) decrease in loans to customers	($13,563,708)	9,811,921	8,490,885
Recoveries on loans previously charged-off	56,208	152,535	311,246
(Increase) in premises and equipment	(26,371)	(40,688)	(40,688)
Proceeds from sale of OREO	882,963	434,386	560,457
Net cash provided by (used in) investing activities	**16,252,672**	**3,449,173**	**(9,034,212)**
Cash Flows From Financing Activities:			
Increase (decrease) in demand, interest bearing transaction, and savings deposits	(1,468,035)	7,355,365	6,125,347
Net increase (decrease) in time deposits	(1,407,328)	(2,251,988)	(5,943,395)
Net cash provided by (used in) financing activities	**(2,875,363)**	**5,103,377**	**181,952**
Net increase (decrease) in cash and cash equivalents	**(15,325,759)**	**9,964,577**	**(6,118,455)**
Cash and cash equivalents at the beginning of the year	22,540,290	12,575,713	18,694,168
Cash and cash equivalents at the end of the year	**$7,214,531**	**$22,540,290**	**$12,575,713**
Supplemental Cash Flow Disclosures			
Net noncash transfers to foreclosed property	$401,500	$699,484	$423,736

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

Notes to Consolidated Financial Statements
December 31, 2013

1. Summary of Significant Accounting Policies

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

Nature of Operations

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

Use of Estimates in the Preparation of Financial Statements

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

Basis of Presentation

The consolidated financial statements include the accounts of the Company and the Bank. Significant inter-company transactions have been eliminated in consolidation.

Investment Securities

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

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

Time Deposits with Other Financial Institutions

Time deposits with other financial institutions are carried at cost and have maturities at origination ranging from 30 days to 730 days. The Bank does not invest more than $250,000 in one institution in order to maintain Federal Deposit Insurance Corporation (FDIC) insurance on deposits in financial institutions.

Premises and Equipment

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

Loans

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

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

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

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, 2013 and 2012, the Bank had $2,430,983 and $2,701,084 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, 2013, 2012 and 2011. Accordingly, total comprehensive income was equal to net income for each of those periods.

Reclassifications

Certain reclassifications have been made in the 2012 and 2011 financial statements to conform to the presentation used in 2013. These reclassifications had no impact of the Bank's previously reported financial statements.

Subsequent events

The Company has evaluated subsequent events for recognition and disclosure through April 4, 2014, which is the date the financial statements were available to be issued.

Adoption of New Accounting Standards

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update 2013-02, Comprehensive Income ("Topic 220") - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"). This ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under Generally Accepted Accounting Principles ("GAAP") to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. ASU 2013-02 is effective prospectively for annual and interim periods beginning after December 15, 2012 for public entities and annual periods beginning after December 15, 2013 for nonpublic entities. The adoption of this ASU did not have a material impact on the Company's financial position, results of operations, or cash flows.

2. Investment Securities

The amortized cost and estimated fair values of investments in debt securities held to maturity as of December 31, 2013 and 2012 are as follows:

December 31, 2013

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury Securities	$399,860	$69	$ -	$399,929

December 31, 2012

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury Securities	$399,739	$141	$ -	$399,880

In analyzing an insurer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, no losses are deemed to be other-than-temporary.

The amortized cost and estimated fair value of debt securities at December 31, 2013, by contractual maturities are shown below.

	Amortized Cost	Estimated Fair Value
Due in one year or less	$399,860	$399,929
Total	$399,860	$399,929

There were no sales of investments in debt securities during 2013 or 2012. At December 31, 2013, securities carried at $399,860 were pledged to secure public deposits, as required by law.

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

3. Loans and Allowance for Loan Losses

A summary of loans as of December 31, 2013, and 2012 (net of unearned loan fees of $608,000 and $530,000, respectively), is as follows:

	2013	2012
Commercial loans	$36,618,995	$24,791,191
Real estate loans	71,063,827	63,993,957
Real estate construction loans	3,019,053	3,419,750
Consumer loans	6,399,142	11,870,958
	117,101,017	104,075,856
Less: Allowance for loan losses	(3,238,103)	(3,118,943)
	$113,862,914	$100,956,913

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

	2013	2012	2011
Balance, beginning of period	$3,118,943	$2,622,593	$2,730,952
Provision for loan losses	200,000	650,000	1,520,000
Recoveries	56,208	152,535	311,246
Loans charged-off	(137,048)	(306,185)	(1,939,605)
Balance, end of period	$3,238,103	$3,118,943	$2,622,593

The following table presents the activity in the allowance for loan losses for the year 2013 and 2012 and the recorded investment in loans and impairment method as of December 31, 2013 and 2012 by portfolio segment:

December 31, 2013	Real Estate and Construction	Commercial	Consumer	Total
Allowance for Loan Losses:				
Beginning of Year	$1,657,055	$1,069,712	$392,176	$3,118,943
Provisions	266,144	75,057	(141,201)	200,000
Charge-offs	(49,828)	(87,220)	-	(137,048)
Recoveries	50,865	5,343	-	56,208
End of Year	$1,924,236	$1,062,892	$250,975	$3,238,103
Reserves:				
Specific	$ -	$ -	$ -	$ -
General	1,924,236	1,062,892	250,975	3,238,103
	$1,924,236	$1,062,892	$250,975	$3,238,103
Loans Evaluated for Impairment:				
Individually	$5,773,760	$340,404	$ -	$6,114,164
Collectively	68,309,120	36,278,591	6,399,142	110,986,853
	$74,082,880	$36,618,995	$6,399,142	$117,101,017
December 31, 2012				
Reserves:				
Specific	$455,669	$58,984	$31,010	$545,663
General	1,201,386	1,010,728	361,166	2,573,280
	$1,657,055	$1,069,712	$392,176	$3,118,943
Loans Evaluated for Impairment:				
Individually	$7,758,235	$543,629	$374,071	$8,675,935
Collectively	59,655,472	24,247,563	11,496,887	95,399,921
	$67,413,707	$24,791,192	$11,870,958	$104,075,856

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, 2013 and 2012.

December 31, 2013	Pass	Special Mention	Substandard	Impaired	Total
Commercial Real Estate:					
Construction and Land Development	$1,768,862	$ -	$ -	$1,250,191	$3,019,053
Other	63,752,688	2,787,570	-	4,523,569	71,063,827
Commercial	33,417,622	2,705,108	155,861	340,404	36,618,995
Consumer	4,913,668	1,294,868	190,606	-	6,399,142
	$103,852,840	$6,787,546	$346,467	$6,114,164	$117,101,017

December 31, 2012	Pass	Special Mention	Substandard	Impaired	Total
Commercial Real Estate:					
Construction and Land Development	$1,726,292	$ -	$ -	$2,094,957	$3,821,249
Other	57,929,180	-	-	5,663,278	63,592,458
Commercial	21,652,802	1,786,678	808,082	543,629	24,791,191
Consumer	10,093,427	938,505	464,955	374,071	11,870,958
	$91,401,701	$2,725,183	$1,273,037	$8,675,935	$104,075,856

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2013 and 2012:

	Still Accruing		
December 31, 2013	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
Commercial Real Estate:			
Construction and Land Development	$ -	$ -	$1,250,191
Other	-	-	4,523,569
Commercial/Consumer	-	-	340,404
	$ -	$ -	$6,114,164

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

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2013:

December 31, 2013	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance Recorded					
Commercial Real Estate:					
Construction and Land Development	$1,859,956	$1,404,582	$ -	$1,799,979	$ -
Multifamily	-	-	-	-	-
Other	6,308,740	4,369,178	-	4,527,347	-
Residential Real Estate	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer	444,044	304,404	-	340,199	-
	$8,612,740	$6,114,164	$ -	$6,667,525	$ -

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

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

A summary of the investment in impaired loans, the related allowance for loan losses, income recognized thereon and information pertaining to nonaccrual and past due loans follows as of December 31:

	2013	2012
Recorded Investment in Impaired Loans		
With an Allowance	$ -	$5,474,391
Without an Allowance	$6,371,496	$3,201,544
Related Allowance for Loan Losses	$ -	$545,663
Average Recorded Investment in Impaired Loans	$11,252,824	$8,844,815
Interest Income Recognized During Impairment	$ -	$ -
Interest Income Included Above Recognized on a Cash Basis	$ -	$ -
Past Due Over 90 Days Still on Accrual	$ -	$ -
Nonaccrual Loans	$6,114,164	$8,675,935

The Bank has allocated $0 and $0 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2013 and 2012. The Bank has committed to lend no additional amounts to customers with outstanding loans that are classified as troubled debt restructurings (TDR's) as of December 31, 2013 and 2012.

There were two loans modified as TDR's in 2012. There were no new loans modified as TDR's that occurred during the period ended December 31, 2013. The concessions given in 2012 were a reduction in ongoing monthly debt service on both loans and the forgiveness of accrued interest on one of the loans. There were no defaults on loans classified as TDR's in 2013.

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

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

4. Related Party Transactions

The Bank has, and expects to have in the future, banking transactions in the ordinary course of its business with directors, officers, and principal shareholders and their associates. In management's opinion and as required by federal law, loans to related parties are granted on the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with others, and do not involve more than normal risk of collectibility or present other unfavorable features. As of December 31, 2013, and 2012, loans outstanding to directors, officers, and principal shareholders and their known associates were $4,539,495 and $4,220,875 respectively. In 2013, advances on current directors' loans were $2,743,443 and collections were $2,424,823. In 2012, advances on such loans were $1,060,673, and collections were $1,052,133. As of December 31, 2013 and 2012 total deposits of directors, officers and principal shareholders and their known associates totaled $2,467,126 and $3,751,394 respectively.

5. Premises and Equipment

Premises and equipment consisted of the following:

	Cost	Accumulated Depreciation	Net Book Value
December 31, 2013			
Leasehold improvements	$1,200,099	$1,171,071	$29,028
Furniture and equipment	2,872,019	2,671,012	201,007
Total	$4,072,118	$3,842,083	$230,035
December 31, 2012			
Leasehold improvements	$1,200,099	$1,157,943	$42,156
Furniture and equipment	2,845,648	2,577,549	268,099
Total	$4,045,747	$3,735,492	$310,255

Depreciation and amortization included in occupancy and equipment expenses was $106,591, $122,477, and $152,219 for the years ended December 31, 2013, 2012, and 2011, respectively.

6. Income Taxes

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

	2013	2012	2011
Current:			
Federal	$660,000	$837,000	$438,000
State	225,000	275,000	106,000
Total current	885,000	1,112,000	544,000
Deferred:			
Federal	(12,000)	(406,000)	39,000
State	(1,000)	(126,000)	(5,000)
Total deferred	(13,000)	(532,000)	34,000
Total taxes	$872,000	$580,000	$578,000

The components of the net deferred tax asset of the Company as of December 31, 2013, 2012 and 2011, were as follows:

	2013	2012	2011
Deferred Tax Assets:			
Allowance for loan losses	$946,000	$956,000	$749,000
State taxes	83,000	95,000	36,000
Installment sale	(417,000)	(417,000)	(368,000)
Depreciation	78,000	111,000	117,000
Other real estate owned	275,000	681,000	518,000
Deferred Salary	995,000	956,000	870,000
Other	442,000	(34,000)	(38,000)
Net Deferred Tax Asset	$2,402,000	$2,416,000	$1,884,000

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

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

	2013		2012		2011	
	Amount	Percent	Amount	Percent	Amount	Percent
Federal income tax expense, based on the statutory federal income tax rate	$760,000	34.00%	$505,000	34.00%	$504,000	34.00%
State franchise taxes, net of federal income tax benefit	160,000	7.20%	72,000	4.90%	72,000	4.90%
Other, net	(48,000)	(2.20%)	3,000	0.10%	3,000	0.10%
Tax provision	$872,000	39.00%	$580,000	39.00%	$579,000	39.00%

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, 2013. 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, 2012, 2011 and 2010 are open to audit by the federal authorities and our California state tax returns for the years ended December 31, 2012, 2011, 2010 and 2009, are open to audit by state authorities.

7. Time Deposits

Time deposits issued as of December 31, 2013, had $27,983,585 maturing in the year 2014, $293,921 maturing in 2015, $103,605 maturing in 2016, $1,245,999 maturing in 2017 and the remaining $516,739 maturing in 2018.

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 $14,000,000 at December 31, 2013. There were no borrowings outstanding under these agreements at December 31, 2013 and December 31, 2012.

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, 2013, this line provided for a maximum borrowing capacity of $7,048,774. There was no outstanding balance as of December 31, 2013. At December 31, 2013, this borrowing line was collateralized by mortgage loans with a book value of $9,574,649. Interest expense related to FHLB borrowings totaled $12 in 2013, $0 in 2012 and $0 in 2011, respectively.

9. Shareholders' Equity and Earnings per Share

Basic Earnings Per Share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted Earnings Per Share is computed by dividing net income available to shareholders by the weighted average number of common shares outstanding and potential common shares, which include dilutive stock options. The computation of potential common stock equivalent shares is based on the weighted average market price of the Company's common stock throughout the period. The following is a reconciliation of the numerators and denominators of the basic and diluted EPS computations for the years ended December 31, 2013, 2012, and 2011.

	FOR THE YEAR ENDED								
	December 31, 2013			December 31, 2012			December 31, 2011		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net Income	$1,361,719			$906,092			$905,182		
Basic EPS Income Available to Common Stockholders	$1,361,719	1,300,178	$1.05	906,092	1,300,178	$0.70	905,182	1,300,178	$0.70
Effect of Dilutive Securities									
Stock Options									
Diluted EPS Income Available to Common Stockholders and Assumed Conversion	$1,361,719	1,300,178	$1.05	$906,092	1,300,178	$0.70	$905,182	1,300,178	$0.70

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

10. Regulatory Capital

The Company and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-

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, 2013, that the Company and the Bank have met all capital adequacy requirements.

As of December 31, 2013, the most recent notification from Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk based, Tier 1 risk based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The consolidated and Bank's actual capital amounts and ratios are also presented in the table.

	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2013						
Total Capital						
(to Risk Weighted Assets)						
Consolidated	$24,037,000	18.01%	$10,674,320	8.00%	$13,342,900	10.00%
Bank	22,943,000	16.87%	10,879,600	8.00%	13,599,500	10.00%
Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	22,302,000	16.71%	5,337,160	4.00%	8,005,740	6.00%
Bank	21,224,000	15.61%	5,439,800	4.00%	8,159,700	6.00%
Tier 1 Capital						
(to Average Assets)						
Consolidated	22,302,000	11.41%	7,818,240	4.00%	9,772,800	5.00%
Bank	21,224,000	10.91%	7,778,160	4.00%	9,722,700	5.00%
As of December 31, 2012						
Total Capital						
(to Risk Weighted Assets)						
Consolidated	22,562,000	17.24%	10,470,800	8.00%	13,088,500	10.00%
Bank	21,494,000	16.43%	10,465,600	8.00%	13,082,000	10.00%
Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	20,908,000	15.97%	5,235,400	4.00%	7,853,100	6.00%
Bank	19,840,000	15.17%	5,232,800	4.00%	7,849,200	6.00%
Tier 1 Capital						
(to Average Assets)						
Consolidated	20,908,000	10.55%	7,929,462	4.00%	9,911,828	5.00%
Bank	19,840,000	10.05%	7,895,998	4.00%	9,869,998	5.00%

11. Restrictions

The Bank is regulated by the Federal Deposit Insurance Corporation, whose regulations do not specifically limit payment of dividends, and the State of California Department of Financial Institutions. California banking laws limit dividends that the Bank may transfer to the Company, to the lesser of retained earnings or net income less dividends

paid for the last three years. Under these restrictions, at December 31, 2013, the Bank could pay dividends to the Company of up to approximately $3,157,927 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, 2013, were $1,048,000.

12. Commitments and Contingent Liabilities

The Company is obligated for rental payments under certain operating lease and contract agreements. Total rental expense for all leases included in occupancy and equipment expenses was $372,957, $316,137 and $333,733, for the years ended December 31, 2013, 2012, and 2011.

At December 31, 2013, the approximate future minimum payments for non-cancelable leases with initial or remaining terms in excess of one year were as follows:

2014	$411,145
2015	422,002
2016	434,602
2017	327,498
2018 and after	113,377
	$1,708,624

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

13. Pension Plan and Salary Continuation Program

Pension Plan

The Company provides pension benefits for all its eligible employees through a 401(k) Profit Sharing Program, which was adopted in 1984. Under the terms of the plan, eligible employees are allowed to contribute, under the 401(k) portion of the plan, 100% of compensation up to $17,500 with a Catch Up contribution of $5,500 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, $54,352 was contributed in 2013, $36,380 in 2012 and $32,926 in 2011.

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 2013, $0 in 2012, and $0 in 2011. 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 $144,010 in 2013, $207,894 in 2012, and $242,753 in 2011.

14. Financial Instruments with Off Balance Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, and standby letters of credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the statement of financial position. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies and procedures in making commitments and conditional obligations as it does for on balance sheet instruments. At December 31, 2013 and 2012, financial instruments whose contract amounts represent credit risk are as follows:

	Contract Amount	
	2013	2012
Commitments to extend credit in the future	$27,695,706	$24,944,259
Standby letters of credit	109,689	119,689
Total	$27,805,395	$25,063,948

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

15. Fair Value of Financial Instruments

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

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

Fair Value Hierarchy

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

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

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

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

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

Fair Value on a Recurring Basis
The Bank doesn't have any assets measured at fair value on a recurring basis as of December 31, 2013 or 2012.

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, 2013 and 2012.

	As of December 31, 2013			
Fair Value Hierarchy	**Total**	**Level 1**	**Level 2**	**Level 3**
Other real estate owned	$2,430,984	-	$2,430,984	-

	As of December 31, 2012			
Fair Value Hierarchy	**Total**	**Level 1**	**Level 2**	**Level 3**
Other real estate owned	$2,701,084	-	$2,701,084	-

Write-downs of OREO were $0 and $243,200 for the years ended December 31, 2013 and 2012, respectively.

The Company is required to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the balance sheet, for which it is practical to estimate fair value. Following is a summary of the estimated fair value for each class of financial instrument as of December 31, 2013, and December 31, 2012, and the methods and assumptions used to evaluate them.

2013	Carrying Value	Estimated Fair Value
Cash and due from banks and Fed funds sold	$7,214,531	$7,214,531
Investment securities	399,860	399,929
Time deposits with other financial institutions	58,690,000	58,683,313
Loans	113,862,914	112,919,634
Bank owned life insurance	4,192,367	4,192,367
Accrued interest receivable	344,940	344,940
Deposits		
Demand	65,884,904	65,884,904
Interest bearing transaction accounts	64,791,753	64,791,753
Savings	4,853,306	4,853,306
Time certificates	30,143,849	30,325,784
Accrued interest payable	44,340	44,340

2012	Carrying Value	Estimated Fair Value
Cash and due from banks	$22,540,290	$22,540,290
Investment securities	399,739	399,880
Time deposits with other financial institutions	56,111,000	56,063,538
Loans	100,956,913	100,236,893
Bank owned life insurance	3,063,714	3,063,714
Accrued interest receivable	323,297	323,297
Deposits		
Demand	69,023,968	69,023,968
Interest bearing transaction accounts	65,894,261	65,894,261
Savings	2,079,769	2,079,769
Time certificates	31,551,177	31,669,228
Accrued interest payable	41,703	41,703

Cash and due from banks have a relatively short period of time between their origination and their expected realization and are valued at their carrying amounts. The fair value of investment securities and time deposits with other financial institutions were estimated using quoted market prices or dealer quotes. For certain variable rate loans, fair value is estimated at carrying value, as these loans reprice to market frequently. The fair value of other types of loans is estimated by discounting the future cash flows, using the current rates at which similar loans would be made to similar borrowers with similar credit ratings and for the same remaining maturities. The fair value of loans is shown net of the related allowance for loan losses. The fair value of non-interest bearing, interest bearing transaction accounts and savings deposits is equal to their carrying value. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. The Bank has off balance sheet commitments comprising letters of credit and loan commitments with a contract amount of $109,689 and $119,689 respectively. The fair value of these off balance sheet commitments is not material.

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

The following are the balance sheets as of December 31, 2013, and 2012, and the related statements of income and cash flows for the years ended December 31, 2013, 2012, and 2011, for Summit Bancshares, Inc. (parent company only)

Balance Sheet	**2013**	**2012**
Assets:		
Cash	$644,611	$1,002,883
Loan participation with subsidiary (net of allowance for loss reserve of $0 at December 31, 2012 and $0 at December 31, 2011)	375,000	-
Investment in subsidiary	21,491,771	20,140,201
Other assets	57,901	64,480
Total Assets	**$22,569,283**	**$21,207,564**
Liabilities:		
Income taxes payable	$-	$-
Total Liabilities	-	-
Shareholders' Equity:		
Common Stock	3,387,558	3,387,558
Retained Earnings	19,181,725	17,820,006
Total Shareholders' Equity	**22,569,283**	**21,207,564**
Total Liabilities and Shareholders' Equity	**$22,569,283**	**$21,207,564**

Statements of Income (year ended December 31)	**2013**	**2012**	**2011**
Income:			
Interest on short-term investments and loans	$18,390	$469	$6,594
Rental and other income	-	25	6,778
Total income	**18,390**	**494**	**13,372**
Expense:			
Miscellaneous expense	1,031	1,444	4,007
Total expense	**1,031**	**1,444**	**4,007**
Income (loss) before income tax and equity in earnings of subsidiary	17,377	(950)	9,365
Provision for income taxes	7,227	(395)	3,895
Income (loss) before equity in earnings of subsidiary	10,150	(555)	5,470
Equity in earnings of subsidiary			
Distributed	-	-	-
Undistributed	1,351,569	906,647	899,712
Net Income	**$1,361,719**	**$906,092**	**$905,182**

Summit Bancshares, Inc. Statements of Cash Flows for the Years ended December 31, 2013, 2012 and 2011

	2013	2012	2011
Cash Flows from Operating Activities:			
Interest received	$17,741	$1,172	$6,053
Rental income	-	-	-
Fees Received	0	25	6,778
Cash received from sale of land	-	-	-
Notes Receivable charged off	-	-	-
Other income (expense)	-	-	-
Cash paid to suppliers	(1,013)	(1,444)	(4,007)
Income taxes paid	0	-	(126,028)
Net cash provided by (used in) operating activities	**16,728**	**(247)**	**(117,204)**
Cash Flows from Investing Activities:			
Net decrease (increase) in loans	($375,000)	$100,000	-
Transfer of tax reserves	0	0	47,128
Interest received from subsidiary	0	0	866
Net cash provided by (used in) investing activities	**(375,000)**	**100,000**	**47,994**
Cash Flows from Financing Activities:			
Stock options exercised	-	-	-
Repurchase of common stock	-	-	-
Dividends paid	-	-	-
Net cash (used in) financing activities	-	-	-
Net increase (decrease) in cash and cash equivalents	(358,272)	99,753	(69,210)
Cash at the beginning of the year	1,002,882	903,129	972,339
Cash at the end of the year	**$644,610**	**$1,002,882**	**$903,129**
Reconciliation of Net Income to Net Cash Provided by Operating Activities:			
Net Income	$1,361,719	$906,092	$905,182
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	-	-	-
Non-cash earnings from subsidiary	(1,351,569)	(906,647)	(899,712
(Increase) Decrease in other assets	6,578	308	54,790
Increase (Decrease) in other liabilities	0	0	(177,464)
Total adjustments	(1,344,991)	(906,339)	(1,022,386)
Net cash provided by (used in) operating activities	**$16,728**	**($247)**	**($117,204)**

Independent Auditor's Report

The Board of Directors and Shareholders
Summit Bancshares, Inc.

We have audited the accompanying consolidated financial statements of Summit Bancshares, Inc. (a California corporation) and subsidiary, which are comprised of the consolidated statements of financial condition as of December 31, 2013 and 2012, 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, 2013, 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, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
April 4, 2014

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