Summit Bank

SUMMIT BANCSHARES INC.
2019 ANNUAL REPORT

FINANCIAL HIGHLIGHTS

FOR THE YEAR ENDED	2019	2018	2017	2016	2015
Net Income	$4,521,247	$3,081,791	$1,847,759	$2,037,603	$2,333,654
Earnings per common share	$3.79	$2.58	$1.54	$1.58	$1.79
Earnings per common share - assuming dilution	$3.79	$2.58	$1.54	$1.58	$1.79
AT YEAR END (in thousands)					
Deposits	$215,555	$231,125	$230,128	$210,007	$198,696
Loans (Net)	173,161	172,161	150,371	115,973	133,804
Assets	257,990	267,629	263,318	241,125	229,598
Shareholders' Equity	35,437	31,286	28,562	27,325	27,532
Non-performing Loans to Total Loans	0.00%	0.97%	0.07%	0.00%	0.00%
Allowance to Non-performing Loans	-	207.46%	3393.10%	-	-
Common Equity Tier 1 Capital	16.37%	15.42%	15.12%	17.20%	16.60%
Tier 1 Capital	16.37%	15.42%	15.12%	17.20%	16.60%
Total Capital	17.62%	16.68%	16.38%	18.46%	17.86%
Leverage Ratio	13.76%	11.45%	11.01%	11.07%	11.69%

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, the range of high and low bids for such common stock for each calendar quarter since January 2018 is contained below. The following prices reflect retail mark-up and may not represent actual transactions.

	HIGH	LOW	DIVIDENDS DECLARED
2019			
First Quarter	$53.91	$53.74	$0.15
Second Quarter	$53.67	$53.58	
Third Quarter	$41.10	$40.78	$0.16
Fourth Quarter	$38.92	$38.89	
Total			$0.31
2018			
First Quarter	$30.02	$30.00	$0.15
Second Quarter	$32.21	$32.15	
Third Quarter	$37.29	$37.23	$0.15
Fourth Quarter	$43.42	$43.37	
Total			$0.30

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

2019 was another successful year for Summit Bank and extended what is now our 37-year legacy of continuous annual and monthly profitability since we opened the doors in 1982. Our after tax profit was $4,521,000 or $3.79 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.

2019 was a year where Summit Bank received the following recognition.

● Findley Reports recognized us for the 15th time as a Super Premier performing bank,

● 'Five Stars' ranking as one of the strongest financial institutions in the country by Bauer Financial,

● Net Interest Margin ranked in the top 5% of all peer banks nationwide,

● 'Top 100 Corporate Philanthropist in the San Francisco Bay Area' by San Francisco Business Times – 3rd year in a row.

Our Return on Assets was 1.49% compared to 1.17% last year and Return on Equity was 12.76% compared to 10.79% in 2018. 2019 saw our total assets decrease to $257,990,000 from $267,629,000 with loans increasing from $172,161,000 to $173,160,000 after growing nearly 44% over the previous two years.

Our stock's book value increased 13.28% from $26.21 to $29.69 and our Risk Based Capital Ratio increased from 16.68% to 17.62%, which is well in excess of the Regulatory standard of 10% for a Well Capitalized Bank.

The Board of Directors of Summit Bancshares announced on December 18th, 2019, the termination of the Agreement and Plan of Merger with Faciam, which was entered into between the parties in late November 2018 and amended on October 3, 2019. Pursuant to the terms of the Agreement, Summit was able to terminate the transaction if required governmental approvals for the acquisition by Faciam were not received or likely within the time frames of the Agreement and converted the escrow deposit of $1.0MM in October 2019, which was included in the after tax profit amount mentioned above.

It appears that interest rates will be declining in the foreseeable future, which will impact interest margins and should have a slowing effect on interest income from loans. We expect that the interest rates on deposits will level off or decrease at a slow 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 celebrating our 38th anniversary and having another successful year in 2020 under increasingly challenging conditions.

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 Nelson

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 2019 was $4,521,000 compared to $3,082,000 in 2018, and $1,848,000 in 2017. The increase in the year 2019's net income from the year 2018 was caused primarily due to loan growth and an increase in the prime rate and from the proceeds of the escrow deposit due to non-fulfillment of the conditions of the definitive agreement with Faciam Holdings. The net income of $4,521,000 for 2019 represents diluted earnings per share of $3.79 which compared to diluted earnings per share of $2.58 in 2018, and diluted earnings per share of $1.54 per share in 2017.

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 28% 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 19% matures after one year while 25% 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 2019 was $12,525,000, an increase from $11,691,000 posted in 2018 and an increase as compared to $9,402,000 in 2017. The increase in 2019 was primarily the result of loan growth. Average earning assets decreased by 3.02% in 2019 to $236,302,000 from $243,671,000 in 2018 and as compared to $238,763,000 in 2017. Average total deposits were decreased by 6.54% to $216,739,000 in 2019 from $231,911,000 in 2018 and decreased 2.78% as compared to $222,933,000 in 2017.

Average loans outstanding increased by 8.78% in 2019 to $174,317,000 as compared to $160,242,000 in 2018 and $134,422,000 in 2017. Average outstanding investments decreased 25.70% to $61,986,000 in 2018 as compared to $83,429,000 in 2018 and $104,341,000 in 2017. The yield on average earning assets was 5.52% in

2019 as compared to 4.96% in 2018 and 4.11% in 2017. The increase in 2019 was due to an increase in interest rates on Due from Time deposits and Interest on Excess Reserves.

Interest expense increased 24.76% to $514,000 in 2019 from $412,000 in 2018 and as compared to $404,000 in 2017. The increase in 2019 was primarily centered in the average rates paid on deposits. Average interest-bearing deposits decreased 4.73% to $111,666,000 in 2019 compared to $117,210,000 in 2018 and $110,925,000 in 2017. Average non-interest-bearing deposits decreased 8.39% in 2019 to $105,073,000 as compared to $114,702,000 in 2018 and $112,008,000 in 2017. Overall cost of funds in 2019 was 0.46% as compared to 0.35% in 2018 and 0.36% in 2017. The increase in the overall cost of funds was a direct result of an increase 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 $1,673,000 in 2019, an increase of 111.41% from $791,000 in 2018, and an increase from $1,605,000 in 2017.The increase in Non-Interest income was primarily due to the termination fee earned from the definitive agreement. Total service charge income from deposit accounts decreased 27.94% to $367,000 in 2019 from $509,000 in 2018 and $572,000 in 2017 and total income from other charges increased 8.39% to $306,000 in 2019 from $282,000 in 2018 and $1,033,000 in 2017. 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 decreased 1.91% to $7,884,000 in 2019 from $8,037,000 in 2018, and $6,978,000 in 2017. Salary expense increased 0.52% to $4,974,000 in 2019 from $4,949,000 in 2018 and $4,507,000 in 2017. Legal expenses decreased by $67,000 in 2019 over 2018 and increased by $226,000 in 2018 over 2017. Legal expenses related primarily to M & A services and services rendered in connection with securing the satisfactory payoffs of non-accrual loans, including previously unrecognized interest income on those loans, in both 2017 and 2018. FDIC assessment expense decreased to $11,000 in 2019 from $81,000 in 2018 and $75,000 in 2017, primarily due to the credit received from FDIC assessment.

The Company's allowance for loan losses as a percent of loans was 1.96% as of December 31, 2019 as compared to 1.97% as of December 31, 2018 and 2.18% as of December 31, 2017. There was no accrual for loan loss provision in 2019, $75,000 in 2018 and a reversal of allowance in 2017 as there were no charge offs during these years. The change of the percentage was a result of the increase in total loans combined with a reversal of the allowance of $350,000 in 2017. At this time management believes that the allowance is appropriate. There were no charge offs in 2019, 2018 or 2017.

Provision for Income Taxes

The provision for income taxes reflects a combined Federal and California effective tax rate of 28.40% in 2019, compared to 29.50% in 2018 and 57.80% in 2017, as described in Note 7 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, 2019, the Company had $12,508,000 in cash and cash equivalents compared to $20,264,000 as of December 31, 2018 and $23,673,000 as of December 31, 2017. The decrease in 2019 was primarily due to a decrease in balances with correspondent bank accounts. The ratio of net loans to deposits as of December 31, 2019 was 79.4% compared to 74.5% as of December 31, 2018 and 65.3% as of December 31, 2017.

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 $73,037,000 at December 31, 2019 as compared to $96,080,000 at December 31, 2018, and $117,281,000 at December 31, 2017. This is equivalent to 28.0%, 36.0% and 45.0%, 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 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, 2019, the Company had no non-performing assets and as of December 31, 2018 the Company had one non-performing asset of $1,665,000.

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
DECEMBER 31, 2019 AND 2018

ASSETS		2019		2018
Cash and due from banks		$ 5,008,316		$ 7,264,111
Federal funds sold		7,500,000		13,000,000
Cash and cash equivalents		12,508,316		20,264,111
Time deposits with other financial institutions		55,227,000		59,989,000
Debt securities held to maturity, at cost (fair value of $398,593 at December 31, 2019 and $397,760 at December 31, 2018)		397,654		397,978
Loans (Net of related deferred loan fees)	176,614,856		175,615,468	
Less: allowance for loan losses	3,454,212		3,454,212	
Net loans		173,160,644		172,161,256
Premises and equipment, net		5,440,976		5,387,502
Right of use lease asset		1,582,686		-
Bank owned life insurance		5,055,691		4,926,118
Deferred tax assets		1,765,000		2,084,000
Interest receivable and other assets		2,852,503		2,419,002
Total Assets		$ 257,990,470		$ 267,628,967

LIABILITIES AND SHAREHOLDERS' EQUITY	2019	2018
Deposits:		
Demand	$ 107,665,450	$ 110,088,879
Interest-bearing transaction accounts	76,418,818	90,318,910
Savings	11,342,123	9,602,505
Time certificates $250,000 and over	13,765,341	14,098,189
Other time certificates	6,363,046	7,016,629
Total deposits	215,554,778	231,125,112
Interest payable and other liabilities	6,998,583	5,217,965
Total Liabilities	222,553,361	236,343,077
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, 2019 and 2018	2,322,188	2,322,188
Retained earnings	33,114,921	28,963,702
Total Shareholders' Equity	35,437,109	31,285,890
Total Liabilities and Shareholders' Equity	$ 257,990,470	$ 267,628,967

SUMMIT BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

	2019	2018	2017
INTEREST INCOME:			
Interest and fees on loans	$ 11,438,927	$ 10,386,370	$ 8,518,332
Interest on time deposits with other financial institutions	1,312,771	1,349,386	998,068
Interest on U.S. government agency securities	9,060	7,058	3,620
Interest on federal funds sold	278,225	359,845	286,166
Total interest income	13,038,983	12,102,659	9,806,186
INTEREST EXPENSE:			
Interest on savings deposits	5,154	5,426	7,963
Interest on interest-bearing transaction accounts	205,310	226,498	222,088
Interest on time deposits	303,849	180,113	173,966
Total interest expense	514,313	412,037	404,016
Net interest income	12,524,670	11,690,622	9,402,170
Provision for loan losses	-	75,000	(350,000)
Net interest income after provision for loan losses	12,524,670	11,615,622	9,752,170
NON-INTEREST INCOME:			
Service charges on deposit accounts	366,595	508,767	572,270
Agreement termination fee earned	1,000,000	-	-
Other Income	306,219	282,509	1,032,808
Total non-interest income	1,672,814	791,276	1,605,078
NON-INTEREST EXPENSE:			
Salaries and employee benefits	4,974,182	4,948,638	4,506,500
Occupancy expense	605,398	690,113	630,380
Equipment expense	506,199	501,593	472,527
FDIC assessment	10,714	81,000	75,000
Legal expense	211,219	277,894	52,000
Insurance expense	94,807	90,644	86,807
Other	1,481,054	1,447,426	1,155,105
Total non-interest expense	7,883,573	8,037,308	6,978,319
Income before income taxes	6,313,911	4,369,590	4,378,929
Provision for income taxes	1,792,664	1,287,799	2,531,170
Net income and comprehensive income	$ 4,521,247	$ 3,081,791	$ 1,847,759
EARNINGS PER SHARE			
Earnings per common share (basic)	$ 3.79	$ 2.58	$ 1.54
Earnings per common share (diluted)	$ 3.79	$ 2.58	$ 1.54

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, 2019, 2018, AND 2017

	NUMBER OF SHARES OUTSTANDING	COMMON STOCK	RETAINED EARNINGS	TOTAL
Balance at January 1, 2017	1,204,990	$ 2,435,678	$ 24,889,775	$ 27,325,453
Issuance of Cash Dividends,				
$.28 per share	-	-	(335,808)	(335,808)
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
Issuance of Cash Dividends,				
$.30 per share	-	-	(358,092)	(358,092)
Net Income	-	-	3,081,791	3,081,791
Balance at December 31, 2018	1,193,641	2,322,188	28,963,702	31,285,890
Issuance of Cash Dividends,				
$.31 per share	-	-	(370,028)	(370,028)
Net Income	-	-	4,521,247	4,521,247
Balance at December 31, 2019	1,193,641	$ 2,322,188	$ 33,114,921	$ 35,437,109

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, 2019, 2018 AND 2017

	2019	2018	2017
NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net Income	$ 4,521,247	$ 3,081,791	$ 1,847,759
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	120,855	72,445	44,440
Provision for loan losses	-	75,000	(350,000)
Deferred income tax expense (benefit)	319,000	(235,000)	1,248,000
Gain on sale of OREO	-	-	(823,590)
BOLI Income	(129,573)	(133,163)	(145,005)
Increase (decrease) in other assets and liabilities	(121,069)	798,494	(35,033)
Net cash provided by operating activities	4,710,460	3,659,567	1,786,571
CASH FLOWS FROM INVESTING ACTIVITIES:			
Decrease in time deposits with other financial institutions	4,762,000	15,376,000	4,451,000
Maturity of debt securities	-	-	3,964
Purchase of FHLB stock	(114,500)	(123,000)	(23,900)
Net increase in loans to customers	(999,388)	(21,865,526)	(34,356,473)
Purchases of premises and equipment	(174,005)	(1,094,902)	(4,355,110)
Proceeds from sale of OREO	-	-	1,400,090
Net cash provided by (used in) investing activities	3,474,107	(7,707,428)	(32,880,429)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in demand, interest bearing transaction, and savings deposits	(14,583,903)	1,456,792	25,610,799
Net decrease in time deposits	(986,431)	(459,840)	(5,489,805)
Repurchase of common stock	-	-	(275,213)
Dividends paid	(370,028)	(358,092)	(335,808)
Net cash provided by (used in) financing activities	(15,940,362)	638,860	19,509,973
Net decrease in cash and cash equivalents	(7,755,795)	(3,409,001)	(11,583,885)
Cash and cash equivalents at the beginning of the year	20,264,111	23,673,112	35,256,997
Cash and cash equivalents at the end of the year	$ 12,508,316	$ 20,264,111	$ 23,673,112

Supplemental Cash Flow Disclosure

	2019	2018	2017
Income taxes paid	$ 1,685,800	$ 1,305,800	$ 2,089,153
Interest paid	$ 504,897	$ 397,555	$ 417,743
Loan to facilitate sale of other real estate	$ -	$ -	$ 475,000

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

1. Summary of Significant Accounting Policies

The accounting and reporting policies of Summit Bancshares, Inc. 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. A material estimate that is particularly susceptible to significant change in the near term is the determination of the allowance for loan losses.

Basis of Presentation

The consolidated financial statements include the accounts of Summit Bancshares, Inc. and the Bank, collectively referred to herein as the "Company". Significant inter-company transactions have been eliminated in consolidation. The Company's stock is listed and traded in the over-the-counter markets and is therefore considered a public business entity for financial reporting purposes.

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.

Time Deposits with Other Financial Institutions

Time deposits with other financial institutions are carried at cost and have maturities at origination ranging from six months to two years. The Company 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.

Debt Securities

All debt 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.

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-nine 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.

Leases

The Company determines if an arrangement contains a lease at contract inception and recognize right-of-use ("ROU") assets and operating lease liabilities based on the present value of lease payments over the lease term. While operating leases may include options to extend the term, the Company does not take into account the options in calculating the ROU asset and lease liability unless it is reasonably certain such options will be reasonably exercised. The present value of lease payments is determined based on the Company's incremental borrowing rate and other information available at lease commencement. Leases with an initial term of 12 months or less are not recorded in the consolidated statements of financial position. Lease expense is recognized on a straight-line basis over the lease term. The Company has elected to account for lease agreements with lease and non-lease components as a single lease component. Refer to - Accounting Standards Adopted in 2019 below and Note 6, *Leases* for further discussion on the Company's leasing arrangements and related accounting.

Federal Home Loan Bank ("FHLB") Stock

The Company is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income. The Company's investment in FHLB stock was $793,600 and $679,100 at December 31, 2019 and 2018, respectively.

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 Company 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 Company 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 Company 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 Company 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, 2019 and 2018, there were no OREO properties.

Revenue Recognition - Noninterest Income

The Company adopted the provisions of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), on January 1, 2018 and all subsequent ASUs that modified Topic 606. Results for reporting periods beginning after December 31, 2017 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported in accordance with Topic 605. The Company recognizes revenue as it is earned and noted no impact to its revenue recognition policies as a result of the adoption of ASU 2014-09. All of the Company's revenue from contracts with customers within the scope of ASC 606 is recognized in non-interest income.

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 Company 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.

Comprehensive Income

The Company had no items of other comprehensive income for the twelve months ended December 31, 2019, 2018 and 2017. Accordingly, total comprehensive income was equal to net income for each of those periods.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through April 3, 2020, which is the date the financial statements were available to be issued. Subsequent to year-end, the Bank has loan customers who are expected to be negatively impacted by the effects of the world-wide coronavirus pandemic. The Company is closely monitoring its loan portfolio, operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Company's financial position is not known.

Recently Adopted Accounting Pronouncements

The Company adopted ASU 2016-02, *Leases (Topic 842)* and ASU 2018-11, *Leases (Topic 842): Targeted Improvements,* referred to herein as Topic 842, effective January 1, 2019. The new guidance establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. Entities are required to recognize right of use (ROU) assets and lease liabilities that arise from leases in the statement of financial position and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. Under the amendments in ASU 2018-11, entities may elect not to recast the comparative periods presented when transitioning to the new leasing standard.

Upon adoption, the Company elected to use the modified retrospective transition approach and recorded ROU assets and lease liabilities of approximately $1.8 million at the date of adoption with no adjustment to opening equity. The Company elected to apply the package of practical expedients which permits entities to not reassess: (i) whether any expired or existing contracts contain a lease; (ii) lease classification for any expired or existing leases; and (iii) whether initial direct costs for any existing leases qualify for capitalization under the amended guidance. The Company also elected not to include short-term leases (leases with initial terms of twelve months or less) on the consolidated statement of financial position.

Recent Accounting Guidance Not Yet Effective

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. 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. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU No. 2016-13 will be effective for interim and annual reporting periods beginning after December 15, 2022. Early adoption is permitted. 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. Debt Securities

The amortized cost and estimated fair values of investments in debt securities held to maturity as of December 31, 2019 and 2018 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2019				
U.S. Treasury Securities	$ 397,654	$ 939	$ -	$ 398,593
December 31, 2018				
U.S. Treasury Securities	$ 397,978	$ -	$ (218)	$ 397,760

Securities held at December 31, 2019 are due within one year. There were no sales of investments in debt securities during 2019 or 2018. At December 31, 2019, securities carried at $397,654 were pledged to secure public deposits, as required by law.

3. Loans and Allowance for Loan Losses

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

A summary of loans as of December 31, 2019, and 2018 (net of unearned loan fees of $912,118 and $1,072,352, respectively), is as follows:

	2019	2018
Real estate construction loans	$ 11,054,012	$ 11,219,842
Real estate loans	131,617,949	116,466,188
Commercial loans	33,188,641	47,350,371
Consumer loans	754,254	579,067
	176,614,856	175,615,468
Less: Allowance for loan losses	(3,454,212)	(3,454,212)
	$ 173,160,644	$ 172,161,256

The changes in the allowance for loan losses for the years ended December 31, 2019, 2018, and 2017 are as follows:

	2019	2018	2017
Balance, beginning of period	$ 3,454,212	$ 3,344,781	$ 3,694,781
Provision for loan losses	-	75,000	(350,000)
Recoveries	-	34,431	-
Loans charged-off	-	-	-
Balance, end of period	$ 3,454,212	$ 3,454,212	$ 3,344,781

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The following table presents the activity in the allowance for loan losses for the year 2019 and 2018 and the recorded investment in loans and impairment method as of December 31, 2019 and 2018 by portfolio segment:

December 31, 2019	Real Estate and Construction	Commercial	Consumer	Total
Allowance for Loan Losses:				
Beginning of Year	$ 2,062,605	$ 1,382,410	$ 9,197	$ 3,454,212
Provisions	660,330	(672,119)	11,789	-
Charge-offs	-	-	-	-
Recoveries	-	-	-	-
End of Year	$ 2,722,935	$ 710,291	$ 20,986	$ 3,454,212
Reserves:				
Specific	$ -	$ -	$ -	$ -
General	2,722,935	710,291	20,986	3,454,212
	$ 2,722,935	$ 710,291	$ 20,986	$ 3,454,212
Loans Evaluated for Impairment:				
Individually	$ -	$ 214,500	$ -	$ 214,500
Collectively	142,671,961	32,974,141	754,254	176,400,356
	$ 142,671,961	$ 33,188,641	$ 754,254	$ 176,614,856
December 31, 2018				
Allowance for Loan Losses:				
Beginning of Year	$ 2,227,772	$ 1,093,024	$ 23,985	$ 3,344,781
Provisions	(165,167)	289,386	(49,219)	75,000
Charge-offs	-	-	-	-
Recoveries	-	-	34,431	34,431
End of Year	$ 2,062,605	$ 1,382,410	$ 9,197	$ 3,454,212
Reserves:				
Specific	$ -	$ 593,939	$ -	$ 593,939
General	2,062,605	788,471	9,197	2,860,273
	$ 2,062,605	$ 1,382,410	$ 9,197	$ 3,454,212
Loans Evaluated for Impairment:				
Individually	$ -	$ 1,888,541	$ -	$ 1,888,541
Collectively	127,686,030	45,461,830	579,067	173,726,927
	$ 127,686,030	$ 47,350,371	$ 579,067	$ 175,615,468

The Company 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 Company 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 Company 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 Company 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, 2019 and 2018.

December 31, 2019	Pass	Special Mention	Substandard	Impaired	Total
Commercial Real Estate:					
Construction and Land Development	$ 11,054,012	$ -	$ -	$ -	$ 11,054,012
Other	130,188,724	474,987	954,238	-	131,617,949
Commercial	30,028,133	2,005,961	940,047	214,500	33,188,641
Consumer	368,789	385,465	-	-	754,254
	$171,639,658	$2,866,413	$ 1,894,285	$ 214,500	$176,614,856
December 31, 2018					
Commercial Real Estate:					
Construction and Land Development	$ 11,219,842	$ -	$ -	$ -	$ 11,219,842
Other	115,751,209	189,123	525,856	-	116,466,188
Commercial	42,540,545	2,435,573	485,712	1,888,541	47,350,371
Consumer	579,067	-	-	-	579,067
	$170,090,663	$2,624,696	$ 1,011,568	$1,888,541	$175,615,468

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2019 and 2018:

	Still Accruing		
December 31, 2019	**30-89 Days Past Due**	**Over 90 Days Past Due**	**Nonaccrual**
Commercial	$ -	$ -	$ -
December 31, 2018			
Commercial	$ -	$ -	$ 1,665,041

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2019 and 2018:

			Impaired Loans Specific Allowance			
December 31, 2019	**Unpaid Principal Balance**	**Recorded Investment**	**Without**	**With**	**Related Allowance**	**Average Recorded Investment**
Commercial	$ 214,500	$ 214,500	$ -	$ 214,500	$ 10,725	$ 219,000
December 31, 2018						
Commercial	$1,927,599	$1,888,541	$ -	$1,888,541	$ 593,939	$1,910,007

No interest income was recognized on impaired loans in 2019 and 2018.

The Company allocated $10,725 and $593,939 of specific reserves on loans with a recorded investment of $214,500 and $1,888,541 whose terms have been modified in troubled debt restructurings ("TDR") as of December 31, 2019 and 2018, respectively. The Company has committed to lend no additional amounts to customers with outstanding loans that are classified as troubled debt restructurings as of December 31, 2019 and 2018. In 2018, the Company modified two loans with the same borrower with a December 31, 2018 balance of $1,665,041, resulting in TDR status. The modifications resulted in a lowered monthly payment to accommodate insufficient cash flow. The borrower repaid the two loan in full in 2019. There were no troubled debt restructurings for which there was a payment default within twelve months following the modification during the years ended December 31, 2019 and 2018.

4. Related Party Transactions

The Company 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 collectability or present other unfavorable features. As of December 31, 2019 and 2018, loans outstanding to directors, officers, and principal shareholders and their known associates were $685,500 and $0 respectively. In 2019, advances on current directors' loans were $1,305,500 and collections were $620,000. In 2018, advances on current directors' loans were $0 and collections were $2,463,993. As of December 31, 2019 and 2018 total deposits of directors, officers and principal shareholders and their known associates totaled $6,788,417 and $11,046,173 respectively.

5. Premises and Equipment

Premises and equipment consisted of the following:

	Cost	Accumulated Depreciation	Net Book Value
December 31, 2019			
Land	$ 1,297,500	$ -	$ 1,297,500
Building	4,260,726	193,498	4,067,228
Leasehold improvements	1,202,182	1,179,435	22,747
Furniture and equipment	2,405,725	2,352,224	53,501
Total	$ 9,166,133	$ 3,725,157	$ 5,440,976
December 31, 2018			
Land	$ 2,001,610	$ -	$ 2,001,610
Building	3,412,417	84,397	3,328,020
Leasehold improvements	1,202,182	1,177,839	24,343
Furniture and equipment	2,375,919	2,342,390	33,529
Total	$ 8,992,128	$ 3,604,626	$ 5,387,502

Depreciation and amortization included in occupancy and equipment expenses was $120,531, $71,414, and $48,060 for the years ended December 31, 2019, 2018, and 2017 respectively.

6. Leases

ASU 2016-02, *Leases (Topic 842),* and related amendments were adopted on January 1, 2019, using the modified retrospective transition method whereby comparative periods were not restated. No cumulative effect adjustment to the opening balance of retained earnings was required. The Company elected the package of practical expedients permitted under the new standard, which allowed carry forward historical lease classifications, account for lease and nonlease components as a single lease component, and not to recognize a ROU asset and lease liability for short-term leases.

All leases are operating leases for corporate offices and branch locations. The amount of the lease liability and ROU asset is impacted by the lease term and the discount rate applied to determine the present value of future lease payments. The remaining terms of operating leases range from 6 months to 7.5 years.

Most leases include one or more options to renew, with renewal terms that can extend the lease term by varying amounts. The exercise of renewal options is at the sole discretion of the Company. Renewal option periods were not included in the measurement of ROU assets and lease liabilities as they are not considered reasonably certain of exercise.

Upon adoption of this standard, ROU assets and lease liabilities of $1,770,127 were recognized. The balance sheet and supplemental information at December 31, 2019 are shown below.

Operating Lease Right-of-Use Assets	$ 1,582,686
Operating Lease Liabilities included in Other Liabilities	$ 1,582,686
Weighted Average Remaining Lease Term, in Years	7.32
Weighted Average Discount Rate	5.00%

The Company elected, for all classes of underlying assets, not to separate lease and non-lease components and instead to account for them as a single lease component. Variable lease cost primarily represents variable payments such as common area maintenance and utilities. The following table represents lease costs and other lease information for the year ended December 31, 2019:

Operating lease cost	$ 322,465
Variable lease cost	3,646
Total lease costs	$ 326,111

Cash Paid for Amounts Included in the Measurement of Lease Liabilities	$ 322,465
Right-of-Use Assets Obtained in Exchange for Lease Obligations	$ 1,770,127

Total lease cost was $326,111 and $465,482 for the years ended December 31, 2019 and 2018.

Maturities of lease liabilities for periods indicated:

Year Ending	
2020	$ 290,376
2021	239,074
2022	244,968
2023	244,968
2024	244,968
Thereafter	632,834
Total lease payments	1,897,188
Less imputed interest	(314,502)
Present value of net future minimum lease payments	$ 1,582,686

7. Income Taxes

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

	2019	2018	2017
Current:			
Federal	$ 901,977	$ 957,736	$ 948,034
State	571,687	565,063	335,136
Total current	1,473,664	1,522,799	1,283,170
Deferred:			
Federal	233,000	(155,000)	369,000
State	86,000	(80,000)	129,000
Deferred tax asset adjustment for enacted change in tax rates	-	-	750,000
Total deferred	319,000	(235,000)	1,248,000
Total taxes	$ 1,792,664	$ 1,287,799	$ 2,531,170

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, 2019, 2018 and 2017, were as follows:

	2019	2018	2017
Deferred Tax Assets:			
Allowance for loan losses	$ 598,000	$ 598,000	$ 576,000
State taxes	137,000	120,000	98,000
Depreciation	-	60,000	56,000
Deferred Salary	1,114,000	1,060,000	1,004,000
Other, net	323,000	304,000	143,000
	2,172,000	2,142,000	1,877,000
Deferred Tax Liabilities:			
Depreciation	(310,000)	-	-
Other	(97,000)	(58,000)	(28,000)
	(407,000)	(58,000)	(28,000)
Net Deferred Tax Asset	$ 1,765,000	$ 2,084,000	$ 1,849,000

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:

	2019		2018		2017	
	Amount	Percent	Amount	Percent	Amount	Percent
Federal income tax expense, based on the statutory federal income tax rate	$ 1,326,000	21.00%	$ 918,000	21.00%	$ 1,489,000	34.00%
State franchise taxes, net of federal income tax benefit	514,000	8.10%	382,000	8.70%	305,000	7.00%
Deferred tax asset adjustment	-		-	-	750,000	17.10%
Other, net	(47,336)	(.70%)	(12,201)	(.20%)	(12,830)	(.30%)
Tax provision	$ 1,792,664	28.40%	$ 1,287,799	29.50%	$ 2,531,170	57.80%

The Company records 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, 2019. We do not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

The Company is subject to federal income tax and income tax of the state of California. Federal income tax returns for the years ended December 31, 2018, 2017 and 2016 are open to audit by the federal authorities and California state tax returns for the years ended December 31, 2018, 2017, 2016 and 2015, are open to audit by state authorities.

8. Time Deposits

Time deposits issued as of December 31, 2019, had $16,432,183 maturing in the year 2020, $475,180 maturing in 2021, $2,237,978 maturing in 2022, and the remaining $983,046 maturing in 2023 and 2024.

9. Borrowings

The Company 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, 2019. There were no borrowings outstanding under these agreements at December 31, 2019 and December 31, 2018.

The Company 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, 2019, this line provided for a maximum borrowing capacity of $25,978,000. There was no outstanding balance as of December 31, 2019. At December 31, 2019, this borrowing line was collateralized by mortgage loans with a carrying value of $36,961,000.

10. Regulatory Capital

The Bank is 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 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 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, 2019, that the Bank has met all capital adequacy requirements.

As of December 31, 2019, the most recent notification from Federal Deposit Insurance Corporation categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

In July, 2013, the federal bank regulatory agencies approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules). The new rules, Basel III, became effective on January 1, 2015, with certain of the requirements phased-in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in from 0.0% in 2016 to 2.5% by 2019. 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, 2019, that the Bank meets all capital adequacy requirements to which it is subject.

The Company's 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, 2019						
Total Capital						
(to Risk Weighted Assets)						
Consolidated	$ 38,148,000	17.62%	$ 17,321,462	8.00%	$ 21,651,828	10.00%
Bank	37,137,000	17.19%	17,279,840	8.00%	21,599,800	10.00%
Common Equity Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	35,437,000	16.37%	9,743,322	4.50%	14,073,688	6.50%
Bank	34,426,000	15.94%	9,719,910	4.50%	14,039,870	6.50%
Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	35,437,000	16.37%	12,991,097	6.00%	17,321,462	8.00%
Bank	34,426,000	15.94%	12,959,880	6.00%	17,279,840	8.00%
Tier 1 Capital						
(to Average Assets)						
Consolidated	35,437,000	13.76%	10,302,931	4.00%	12,878,664	5.00%
Bank	34,426,000	13.39%	10,282,120	4.00%	12,852,650	5.00%
As of December 31, 2018						
Total Capital						
(to Risk Weighted Assets)						
Consolidated	$ 33,828,000	16.68%	$ 16,227,462	8.00%	$ 20,284,328	10.00%
Bank	33,158,000	16.39%	16,185,840	8.00%	20,232,300	10.00%
Common Equity Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	31,286,000	15.42%	9,127,947	4.50%	13,184,813	6.50%
Bank	30,616,000	15.13%	9,104,535	4.50%	13,150,995	6.50%
Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	31,286,000	15.42%	12,170,597	6.00%	16,227,462	8.00%
Bank	30,616,000	15.13%	12,139,380	6.00%	16,185,840	8.00%
Tier 1 Capital						
(to Average Assets)						
Consolidated	31,286,000	11.45%	10,931,371	4.00%	13,664,214	5.00%
Bank	30,616,000	11.22%	10,910,560	4.00%	13,638,200	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, 2019, the Bank could pay dividends to the Company of up to approximately $8.7 million 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, 2019 were $1,955,000.

12. Commitments and Contingent Liabilities

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. 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, $114,456 was contributed in 2019, $108,524 in 2018 and $99,456 in 2017.

Stock Appreciation Plan

The Company adopted the 2018 Stock Appreciation Plan ("Plan") 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 grant except that shares granted to employees with 5 years or more of Company employment at the time of the grant 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.

A summary of the status of the phantom unvested shares under the Plan as of December 31, 2019 and 2018, and changes during the years then ended, follows:

	2019		2018	
	Unvested Shares	Weighted-Average Grant Date Value	Unvested Shares	Weighted-Average Grant Date Value
Balance, beginning of year	1,135	$ 29.33	1,135	$ 20.69
Granted	3,140	37.24	2,915	33.78
Vested	(2,685)	33.01	(2,865)	31.83
Forfeited	-	-	(50)	20.30
Balance, end of year	1,590	$ 32.19	1,135	$ 29.33

Compensation expense associated with the stock appreciation plan was $63,072 in 2019, $185,302 in 2018, and $245,807 in 2017.

Salary Continuation and Deferred Compensation Plans

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 salary continuation plan was $240,504 in 2019, $246,195 in 2018, and $387,150 in 2017.

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, 2019 and 2018, financial instruments whose contract amounts represent credit risk are as follows:

	Contract Amount	
	2019	**2018**
Commitments to extend credit in the future	$45,391,912	$38,663,441
Standby letters of credit	224,811	124,811
Total	$45,616,723	$38,788,252

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 Measurements

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 and Nonrecurring Basis

The Company does not have any assets measured at fair value on a recurring or nonrecurring basis as of December 31, 2019 or 2018.

Fair Value of Financial Instruments

The carrying amount and estimated fair value of financial instruments not measured at fair value at December 31, 2019 and 2018 are as follows (dollars in thousands):

		2019		2018	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets					
Cash and cash equivalents	Level 1	$ 12,508	$ 12,508	$ 20,264	$ 20,264
Time deposits in other financial institutions	Level 2	55,227	55,227	59,989	59,989
Debt securities held to maturity	Level 2	398	398	398	398
Loans, net	Level 3	173,161	173,161	172,161	172,161
FHLB stock	Level 2	794	794	679	679
Liabilities					
Noninterest-bearing deposits	Level 1	107,665	107,665	110,089	110,089
Interest-bearing deposits	Level 2	107,890	107,890	121,036	121,036

The fair value of loans and deposits approximates the carrying amounts as of December 31, 2019 and 2018.

16. Definitive Agreement and Subsequent Termination

Faciam Holdings, Inc. ("Faciam") and Summit Bancshares, Inc. ("Summit") entered into a definitive agreement ("Agreement") on November 27, 2018 which provided for the acquisition of Summit and Summit Bank ("Bank") in an all cash deal.

The Agreement expired in the fourth quarter 2019, resulting in the parties executing an extension to the first quarter 2020. As part of the extension agreement, Faciam forfeited an earnest money deposit of $1 million, which was recognized as other noninterest income in the consolidated statements of income in 2019.

On December 18, 2019, Summit terminated the Agreement, after receiving comments from banking regulators on the pending application and pursuant to terms allowing termination based on the unlikeliness of regulatory approval.

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

The following are the balance sheets as of December 31, 2019 and 2018 and the related statements of income and cash flows for the years ended December 31, 2019, 2018 and 2017 for Summit Bancshares, Inc. (parent company only):

BALANCE SHEET	2019	2018
ASSETS:		
Cash	$ 938,015	$ 148,290
Loan participation with subsidiary (net of allowance for loss reserve of $0 at December 31, 2018)	-	303,085
Investment in subsidiary	34,426,218	30,616,292
Other assets	95,071	218,223
Total Assets	$ 35,459,304	$ 31,285,890
LIABILITIES:		
Other liabilities	$ 22,195	$ -
Total Liabilities	22,195	-
Shareholders' Equity:		
Common Stock	2,322,188	2,322,188
Retained Earnings	33,114,921	28,963,702
Total Shareholders' Equity	35,437,109	31,285,890
Total Liabilities and Shareholders' Equity	$ 35,459,304	$ 31,285,890

STATEMENTS OF INCOME (year ended December 31)	2019	2018	2017
INCOME:			
Interest on short-term investments and loans	$ 2,539	$ 15,509	$ 7,711
Rental and other income	1,009,106	1,728	2,614
Total income	1,011,645	17,237	10,325
EXPENSE:			
Miscellaneous expense	1,960	2,852	11,662
Total expense	1,960	2,852	11,662
Income (loss) before income tax and equity in earnings of subsidiary	1,009,685	14,385	(1,337)
Provision for income taxes	298,364	4,499	(557)
Income (loss) before equity in earnings of subsidiary	711,321	9,886	(780)
Equity in earnings of subsidiary			
Distributed	-	-	-
Undistributed	3,809,926	3,071,905	1,848,539
Net Income	$ 4,521,247	$ 3,081,791	$ 1,847,759

	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received	$ 2,539	$ 17,170	$ 8,340
Fees Received	1,009,106	1,728	2,614
Cash paid to suppliers	(1,960)	(1,844)	(1,217)
Income taxes paid (received)	(153,017)	(6,664)	557
Net cash provided by operating activities	856,668	10,390	10,294
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net decrease (increase) in loans	303,085	(53,085)	(250,000)
Dividend received from subsidiary	-	-	-
Net cash provided by (used in) investing activities	303,085	(53,085)	(250,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repurchase of Common Stock	-	-	(275,212)
Dividends paid	(370,028)	($358,092)	($335,807)
Net cash (used in) financing activities	(370,028)	(358,092)	(611,019)
Net increase (decrease) in cash and cash equivalents	789,725	(400,787)	(850,725)
Cash at the beginning of the year	148,290	549,077	1,399,802
Cash at the end of the year	$ 938,015	$ 148,290	$ 549,077
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net Income	$ 4,521,247	$ 3,081,791	$ 1,847,759
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	-	-	-
Non-cash earnings from subsidiary	(3,809,926)	(3,071,905)	(1,848,539)
Decrease in other assets and liabilities	145,347	504	11,074
Total adjustments	(3,664,579)	(3,071,401)	(1,837,465)
Net cash provided by operating activities	$ 856,668	$ 10,390	$ 10,294

Independent Auditor's Report

The Board of Directors and Shareholders of
Summit Bancshares, Inc.
Oakland California

Report on the Financial Statements

We have audited the accompanying financial statements of Summit Bancshares, Inc. and Subsidiary which comprise the consolidated statement of financial position as of December 31, 2019 and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the 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 audit. We conducted our audit 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.

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Summit Bancshares, Inc. as of December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter
The financial statements of Summit Bancshares, Inc. as of and for the year ended December 31, 2018, were audited by Vavrinek, Trine, Day & Co. LLP, who joined Eide Bailly LLP on July 22, 2019, and whose report dated March 29, 2019, expressed an unmodified opinion on those statements.

Eide Bailly LLP

Laguna Hills, California
April 3, 2020

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Corporate Directory

Directors of Summit Bancshares, Inc. and Summit Bank

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Orthopedic Surgeon
Oakland

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

George Hollidge
Retired
Danville

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

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President and COO

Denise Dodini
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Mani Ganesamurthy
Senior Vice President
Chief Financial Officer

Krystle Johnson
Vice President
Compliance Officer/Operations Administrator

Mark Rapier
Vice President
Chief Risk Officer

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

Kyle Woodstrom
Commercial Loan Officer

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 Board of Directors

Shirley W. Nelson
Chairman

Joe Rainero
President
Kinder's BBQ

Mani Ganesamurthy
Chief Financial Officer

Susan Casper
Retired.

Ken Coit
Coit Financial Group

James Falaschi
Transbay Holdings

Derreck Johnson
Home of Chicken & Waffles

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Nancy O'Malley
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Alameda County

David Ruegg
Rue-Ell Enterprises

Anne Marie Taylor
John Muir Health Foundation

Bill Wheeler
Black Tie Transportation

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Professor, Oncologist, UCSF

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Gastroenterologist, UC Davis

John A. Linfoot, M.D.
Endocrinologist

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

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Robert Nelson, M.D.
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*Emeritus

Summit Bank

SUMMIT BANCSHARES INC.
2019 ANNUAL REPORT

Member FDIC

EQUAL HOUSING OPPORTUNITY