Summit Bank

# SUMMIT BANCSHARES INC.
# 2020 ANNUAL REPORT

## FINANCIAL HIGHLIGHTS

| FOR THE YEAR ENDED | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Net Income | $2,786,061 | $4,521,247 | $3,081,791 | $1,847,759 | $2,037,603 |
| Earnings per common share | $2.33 | $3.79 | $2.58 | $1.54 | $1.58 |
| Earnings per common share - assuming dilution | $2.33 | $3.79 | $2.58 | $1.54 | $1.58 |
| **AT YEAR END (in thousands)** | | | | | |
| Deposits | $262,269 | $215,555 | $231,125 | $230,128 | $210,007 |
| Loans (Net) | 204,487 | 173,161 | 172,161 | 150,371 | 115,973 |
| Assets | 306,857 | 257,990 | 267,629 | 263,318 | 241,125 |
| Shareholders' Equity | 37,435 | 35,437 | 31,286 | 28,562 | 27,325 |
| Non-performing Loans to Total Loans | 0.00% | 0.00% | 0.97% | 0.07% | 0.00% |
| Allowance to Non-performing Loans | - | - | 207.46% | 3393.10% | - |
| Common Equity Tier 1 Capital | 17.74% | 16.37% | 15.42% | 15.12% | 17.20% |
| Tier 1 Capital | 17.74% | 16.37% | 15.42% | 15.12% | 17.20% |
| Total Capital | 19.11% | 17.62% | 16.68% | 16.38% | 18.46% |
| Leverage Ratio | 11.63% | 13.76% | 11.45% | 11.01% | 11.07% |

### 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 2019 is contained below. The following prices reflect retail mark-up and may not represent actual transactions.

| | HIGH | LOW | DIVIDENDS DECLARED |
|---|---|---|---|
| **2020** | | | |
| First Quarter | $36.67 | $36.52 | $0.49 |
| Second Quarter | $24.33 | $24.19 | |
| Third Quarter | $24.24 | $24.22 | $0.17 |
| Fourth Quarter | $25.21 | $25.18 | |
| Total | | | $0.66 |
| **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 |

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

While 2020 was a very challenging year due to the pandemic, it was also another successful year for Summit Bank and extended what is now our 38-year legacy of continuous annual and monthly profitability since we opened our doors in 1982. Our after-tax profit was $2,786,000 or $2.33 per share compared $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.

2020 was a year where Summit Bank received the following recognition:

● Findley Reports recognized us for the 16th 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 10% of all peer banks nationwide,

● 'Top 100 Corporate Philanthropist in the San Francisco Bay Area' by San Francisco Business Times – 4th year in a row.

Our Return on Assets was 0.93% compared to 1.49% last year and Return on Equity was 7.80% compared to 12.76% in 2019. 2020 saw our total assets increased to $306,857,000 from $257,990,000 in 2019 with loans increasing from $173,161,000 to $204,487,000 with most of the growth related to the significant amount of PPP loans to aid our clients, but also included approximately 8% growth in commercial loans that ranks favorably to peers.

Our stock's book value increased from $29.69 to $31.36 and our Risk Based Capital Ratio increased from 17.62% to 19.11%, which is well in excess of the Regulatory standard of 10% for a Well Capitalized Bank.

After interest rates declined due to the pandemic and resulting economic slowdown, it appears that rates have moderated and will remain relatively low in the foreseeable future, which will impact interest margins and should have a slowing effect on interest income from loans and investments. Accordingly, we remain especially focused on driving even great efficiencies in our operations. We expect that the interest rates on deposits will remain low for the foreseeable future until the economy begins to grow more discernably as more people are vaccinated and we are able to return to normalcy sometime in the second half of 2021.

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 39th anniversary and having another successful year in 2021 under challenging conditions.

I want to thank our Board members, especially during the challenging year due to the pandemic, 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 2020 was $2,786,000 compared to $4,521,000 in 2019, and $3,082,000 in 2018. The decrease in the year 2020's net income from the year 2019 was caused primarily due to decrease in the prime rate, Covid-19 pandemic crisis and there was non-recurring income from proceeds of the escrow deposit due to non-fulfillment of the conditions of the definitive agreement with Faciam Holdings in 2019. The net income of $2,786,000 for 2020 represents diluted earnings per share of $2.33 which compared to diluted earnings per share of $3.79 in 2019, and diluted earnings per share of $2.58 per share in 2018.

### Net Interest Income

The primary source of income for the Company is Net Interest Income or "Gross Margin" which is the difference between interest earned on loans and investments and interest paid on deposits and other liabilities. In general, net interest income is affected by a change in interest rates. As interest rates rise or fall, so will the Company's net interest income, excluding changes in total assets. The primary reason for this is that the Company's investment portfolio earns income on a fixed interest rate basis while a majority of the lending portfolio earns income on a floating interest rate basis because loans are tied to the prime-lending rate. In addition, investments are held to maturity while 100% of the federal agency investments mature within one year. Regarding loans, approximately 31% of the loans outstanding mature within one year, while the longest maturity is ten years. In a rising interest rate environment, interest income on loans will generally rise faster than the investment income and vice versa. To offset any decline in interest income due to a declining interest rate environment, the Company monitors closely its interest expense on deposits. Of the total time certificates of deposit outstanding at year-end, approximately 14% matures after one year while 28% 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 2020 was $12,292,000, a decrease from $12,525,000 posted in 2019 and an increase as compared to $11,691,000 in 2018. The decrease in 2020 was primarily the result of decrease in prime rate. Average earning assets increased by 19.72% in 2020 to $282,897,000 from $236,302,000 in 2019 and as compared to 243,671,000 in 2018. Average total deposits were increased by 19.18% to $258,320,000 in 2020 from $216,739,000 in 2019 and increased 11.39% as compared to $231,911,000 in 2018.

Average loans outstanding increased by 16.02% in 2020 to $202,251,000 as compared to $174,317,000 in 2019 and $160,242,000 in 2018. The increase in average loans was primarily the result of Paycheck Protection Program ("PPP") loans. Average outstanding investments increased 30.10% to $80,646,000 in 2020 as compared to

$61,986,000 in 2019 and decreased 3.34% as compared to $83,429,000 in 2018. The yield on average earning assets was 4.54% in 2020 as compared to 5.52% in 2019 and 4.96% in 2018. The decrease in 2020 was due to a decrease in prime rate which resulted in decrease in interest rates on due from time deposits and interest on excess reserves.

Interest expense increased 4.67% to $538,000 in 2020 from $514,000 in 2019 and as compared to $412,000 in 2018. The increase in 2020 was primarily centered in the average rates paid on deposits. Average interest-bearing deposits increased 1.94% to $113,832,000 in 2020 compared to $111,666,000 in 2019 and $117,210,000 in 2018. Average non-interest-bearing deposits increased 37.51% in 2020 to $144,488,000 as compared to $105,073,000 in 2019 and $114,702,000 in 2018. Overall cost of funds in 2020 was 0.47% as compared to 0.46% in 2019 and 0.35% in 2018. The increase in the overall cost of funds was a direct result of an increase in customers' time deposits and savings accounts interest rates in 2019 and remains the same in 2020.

**Non-Interest Income and Expense**

Non-interest income, consisting primarily of service charges on deposit accounts and other income, was $828,000 in 2020, a decrease of 50.51% from $1,673,000 in 2019, and an increase from $791,000 in 2018.The decrease in Non-Interest income was primarily due to the termination fee earned from the definitive agreement in 2019. Total service charge income from deposit accounts increased 47.68% to $542,000 in 2020 from $367,000 in 2019 and $509,000 in 2018 and total income from other charges decreased 6.54% to $286,000 in 2020 from $306,000 in 2019 and $282,000 in 2018.

Non-interest expenses increased 7.97% to $8,512,000 in 2020 from $7,884,000 in 2019, and $8,037,000 in 2018. Salary expense increased 6.92% to $5,318,000 in 2020 from $4,974,000 in 2019 and $4,949,000 in 2018. Legal expenses decreased by $37,000 in 2020 over 2019 and decreased by $104,000 as compared to 2017. Legal expenses related primarily to M & A services in 2018 and partially in 2019. FDIC assessment expense increased to $60,000 in 2020 from $11,000 in 2019 and $81,000 in 2018, primarily due to the credit received from FDIC assessment.

The Company's allowance for loan losses as a percent of loans was 1.98% as of December 31, 2020 as compared to 1.96% as of December 31, 2019 and 1.97% as of December 31, 2018. There was an accrual of $675,000 for loan loss provision in 2020, no accrual in 2019 and $75,000 in 2018 and there were no charge offs during these years. At this time management believes that the allowance is appropriate.

**Provision for Income Taxes**

The provision for income taxes reflects a combined Federal and California effective tax rate of 29.10% in 2020, compared to 28.40% in 2019 and 29.50% in 2018, 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, 2020, the Company had $39,770,000 in cash and cash equivalents compared to $12,508,000 as of December 31, 2019 and $20,264,000 as of December 31, 2018. The increase in 2020 was primarily due to an increase in balances with Federal Reserve as excess reserves. The ratio of net loans to deposits as of December 31, 2020 was 78.0% compared to 79.4% as of December 31, 2019 and 74.5% as of December 31, 2018.

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 $91,604,000 at December 31, 2020 as compared to $73,037,000 at December 31, 2019, and $96,080,000 at December 31, 2018. This is equivalent to 29.9%, 28.0% and 36.0%, of total assets at the corresponding year-ends, respectively. The increase 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, 2020 and 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 BALANCE SHEETS
# DECEMBER 31, 2020 AND 2019

| ASSETS | | 2020 | | 2019 |
|---|---|---|---|---|
| Cash and due from banks | | $ 3,519,555 | | $ 5,008,316 |
| Federal funds sold | | 36,250,000 | | 7,500,000 |
| Cash and cash equivalents | | 39,769,555 | | 12,508,316 |
| Time deposits with other financial institutions | | 44,784,000 | | 55,227,000 |
| Debt securities held to maturity, at cost (fair value of $399,933 at December 31, 2020 and $398,593 at December 31, 2019) | | 399,808 | | 397,654 |
| Loans (Net of related deferred loan fees) | 208,616,297 | | 176,614,856 | |
| Less: allowance for loan losses | 4,129,212 | | 3,454,212 | |
| Net loans | | 204,487,085 | | 173,160,644 |
| Premises and equipment, net | | 5,527,950 | | 5,440,976 |
| Right of use lease asset | | 1,714,089 | | 1,582,686 |
| Bank owned life insurance | | 5,187,643 | | 5,055,691 |
| Deferred tax assets | | 1,995,000 | | 1,765,000 |
| Interest receivable and other assets | | 2,991,753 | | 2,852,503 |
| **Total Assets** | | $ 306,856,883 | | $ 257,990,470 |

| LIABILITIES AND SHAREHOLDERS' EQUITY | 2020 | 2019 |
|---|---|---|
| Deposits: | | |
| Demand | $ 138,764,118 | $ 107,665,450 |
| Interest-bearing transaction accounts | 79,732,614 | 76,418,818 |
| Savings | 12,999,185 | 11,342,123 |
| Time certificates $250,000 and over | 24,940,506 | 13,765,341 |
| Other time certificates | 5,832,136 | 6,363,046 |
| Total deposits | 262,268,559 | 215,554,778 |
| Interest payable and other liabilities | 7,152,956 | 6,998,583 |
| **Total Liabilities** | 269,421,515 | 222,553,361 |
| | | |
| 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, 2020 and 2019 | 2,322,188 | 2,322,188 |
| Retained earnings | 35,113,180 | 33,114,921 |
| **Total Shareholders' Equity** | 37,435,368 | 35,437,109 |
| | | |
| **Total Liabilities and Shareholders' Equity** | $ 306,856,883 | $ 257,990,470 |

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

## SUMMIT BANCSHARES, INC. AND SUBSIDIARY
## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
## FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| **INTEREST INCOME:** | | | |
| Interest and fees on loans | $ 11,711,539 | $ 11,438,927 | $ 10,386,370 |
| Interest on time deposits with other financial institutions | 1,014,009 | 1,312,771 | 1,349,386 |
| Interest on U.S. government agency securities | 2,922 | 9,060 | 7,058 |
| Interest on federal funds sold | 101,505 | 278,225 | 359,845 |
| **Total interest income** | 12,829,975 | 13,038,983 | 12,102,659 |
| **INTEREST EXPENSE:** | | | |
| Interest on savings deposits | 6,103 | 5,154 | 5,426 |
| Interest on interest-bearing transaction accounts | 192,852 | 205,310 | 226,498 |
| Interest on time deposits | 339,127 | 303,849 | 180,113 |
| **Total interest expense** | 538,082 | 514,313 | 412,037 |
| **Net interest income** | 12,291,893 | 12,524,670 | 11,690,622 |
| Provision for loan losses | 675,000 | - | 75,000 |
| **Net interest income after provision for loan losses** | 11,616,893 | 12,524,670 | 11,615,622 |
| **NON-INTEREST INCOME:** | | | |
| Service charges on deposit accounts | 542,251 | 366,595 | 508,767 |
| Agreement termination fee earned | - | 1,000,000 | - |
| Other Income | 285,823 | 306,219 | 282,509 |
| **Total non-interest income** | 828,074 | 1,672,814 | 791,276 |
| **NON-INTEREST EXPENSE:** | | | |
| Salaries and employee benefits | 5,318,215 | 4,974,182 | 4,948,638 |
| Occupancy expense | 674,261 | 605,398 | 690,113 |
| Equipment expense | 667,924 | 506,199 | 501,593 |
| FDIC assessment | 60,000 | 10,714 | 81,000 |
| Legal expense | 173,500 | 211,219 | 277,894 |
| Insurance expense | 211,940 | 94,807 | 90,644 |
| Other | 1,406,241 | 1,481,054 | 1,447,426 |
| **Total non-interest expense** | 8,512,081 | 7,883,573 | 8,037,308 |
| **Income before income taxes** | 3,932,886 | 6,313,911 | 4,369,590 |
| Provision for income taxes | 1,146,825 | 1,792,664 | 1,287,799 |
| **Net income and comprehensive income** | $ 2,786,061 | $ 4,521,247 | $ 3,081,791 |
| **EARNINGS PER SHARE** | | | |
| Earnings per common share (basic) | $ 2.33 | $ 3.79 | $ 2.58 |
| **Earnings per common share (diluted)** | $ 2.33 | $ 3.79 | $ 2.58 |

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, 2020, 2019 AND 2018

| | NUMBER OF SHARES OUTSTANDING | COMMON STOCK | RETAINED EARNINGS | TOTAL |
|---|---|---|---|---|
| Balance at January 1, 2018 | 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 |
| Issuance of Cash Dividends, | | | | |
| **$.66 per share** | - | - | (787,802) | (787,802) |
| Net Income | - | - | 2,786,061 | 2,786,061 |
| Balance at December 31, 2020 | 1,193,641 | $ 2,322,188 | $ 35,113,180 | $ 37,435,368 |

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, 2020, 2019 AND 2018**

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| **NET CASH PROVIDED BY OPERATING ACTIVITIES:** | | | |
| Net Income | $ 2,786,061 | $ 4,521,247 | $ 3,081,791 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation, amortization and accretion | 148,604 | 120,855 | 72,445 |
| Provision for loan losses | 675,000 | - | 75,000 |
| Deferred income tax expense (benefit) | (230,000) | 319,000 | (235,000) |
| BOLI Income | (131,952) | (129,573) | (133,163) |
| Increase (decrease) in other assets and liabilities | (76,880) | (121,069) | 798,494 |
| **Net cash provided by operating activities** | 3,170,833 | 4,710,460 | 3,659,567 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Decrease in time deposits with other financial institutions | 10,443,000 | 4,762,000 | 15,376,000 |
| Maturity of debt securities | 400,000 | - | - |
| Purchase of debt securities | (399,232) | - | - |
| Purchase of FHLB stock | (39,400) | (114,500) | (123,000) |
| Net increase in loans to customers | (32,001,441) | (999,388) | (21,865,526) |
| Purchases of premises and equipment | (238,500) | (174,005) | (1,094,902) |
| **Net cash provided by (used in) investing activities** | (21,835,573) | 3,474,107 | (7,707,428) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Increase (decrease) in demand, interest bearing transaction, and savings deposits | 36,069,526 | (14,583,903) | 1,456,792 |
| Net increase (decrease) in time deposits | 10,644,255 | (986,431) | (459,840) |
| Dividends paid | (787,802) | (370,028) | (358,092) |
| **Net cash provided by (used in) financing activities** | 45,925,979 | (15,940,362) | 638,860 |
| **Net increase (decrease) in cash and cash equivalents** | 27,261,239 | (7,755,795) | (3,409,001) |
| Cash and cash equivalents at the beginning of the year | 12,508,316 | 20,264,111 | 23,673,112 |
| **Cash and cash equivalents at the end of the year** | $ 39,769,555 | $ 12,508,316 | $ 20,264,111 |

| **Supplemental Cash Flow Disclosure** | | | |
|---|---|---|---|
| Income taxes paid | $ 1,250,000 | $ 1,685,800 | $ 1,305,800 |
| Interest paid | $ 518,057 | $ 504,897 | $ 397,555 |
| Lease liabilities arising from obtaining right-of-use assets | $ 396,352 | $ - | $ - |

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 consolidated 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 consolidated 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 and recorded on a trade date basis. 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 balance sheets. 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. See 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 $833,000 and $793,600 at December 31, 2020 and 2019, 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. Interest is accrued on the unpaid loan balance.

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, i 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 real estate construction, real estate, commercial 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.

**Bank Owned Life Insurance**

The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the consolidated balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

**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. 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 and consists primarily of service charges on deposit accounts.

The Company earns fees from its deposit customers for account-maintenance, transaction-based activity and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees, which include services such as stop payment charges, return item fees and wire transfer fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

**Income Taxes**

Income taxes reported in the consolidated statements of income and comprehensive 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 consolidated 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, 2020, 2019, and 2018. Accordingly, total comprehensive income was equal to net income for each of those periods.

**Earnings Per Share ("EPS")**

Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The Company had no dilutive shares for the year 2020, 2019 and 2018.

**Subsequent Events**

The Company has evaluated subsequent events for recognition and disclosure through April 9, 2021, which is the date the consolidated financial statements were available to be issued.

**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 consolidated balance sheet 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 balance sheets.

**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 are not 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 consolidated 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, 2020 and 2019 are as follows:

| December 31, 2020 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| U.S. Treasury Securities | $ 399,808 | $ 125 | $ - | $ 399,933 |
| **December 31, 2019** | | | | |
| U.S. Treasury Securities | $ 397,654 | $ 939 | $ - | $ 398,593 |

Securities held at December 31, 2020 are due within one year. There were no sales of investments in debt securities during 2020, 2019 or 2018. At December 31, 2020 and 2019, securities carried at $399,808 and $397,654, respectively, 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 consumer 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, 2020, and 2019 (net of unearned loan fees of $1,342,553 and $912,118, respectively), is as follows:

| | 2020 | 2019 |
|---|---|---|
| Construction and land development | $ 6,209,018 | $ 11,054,012 |
| Commercial real estate | 147,751,284 | 131,617,949 |
| Commercial loans | 54,209,610 | 33,188,641 |
| Consumer loans | 446,385 | 754,254 |
| | 208,616,297 | 176,614,856 |
| Less: Allowance for loan losses | (4,129,212) | (3,454,212) |
| | $ 204,487,085 | $ 173,160,644 |

The changes in the allowance for loan losses for the years ended December 31, 2020, 2019, and 2018 are as follows:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Balance, beginning of period | $ 3,454,212 | $ 3,454,212 | $ 3,344,781 |
| Provision for loan losses | 675,000 | - | 75,000 |
| Recoveries | - | - | 34,431 |
| Loans charged-off | - | - | - |
| Balance, end of period | $ 4,129,212 | $ 3,454,212 | $ 3,454,212 |

**SUMMIT BANCSHARES, INC. AND SUBSIDIARY**
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**DECEMBER 31, 2020, 2019 and 2018**

The following table presents the activity in the allowance for loan losses for the years 2020, 2019 and 2018 and the recorded investment in loans and impairment method as of December 31, 2020, 2019 and 2018, by portfolio segment:

| | Commercial Real Estate | Commercial | Consumer | Total |
|---|---|---|---|---|
| **December 31, 2020** | | | | |
| Allowance for Loan Losses: | | | | |
| Beginning of Year | $ 2,722,935 | $ 710,291 | $ 20,986 | $ 3,454,212 |
| Provisions | 558,679 | 126,979 | (10,658) | 675,000 |
| End of Year | $ 3,281,614 | $ 837,270 | $ 10,328 | $ 4,129,212 |
| Reserves: | | | | |
| Specific | $ - | $ 33,075 | $ - | $ 33,075 |
| General | 3,281,614 | 804,195 | 10,328 | 4,096,137 |
| | $ 3,281,614 | $ 837,270 | $ 10,328 | $ 4,129,212 |
| Loans Evaluated for Impairment: | | | | |
| Individually | $ - | $ 759,424 | $ - | $ 759,424 |
| Collectively | 153,960,302 | 53,450,186 | 446,385 | 207,856,873 |
| | $ 153,960,302 | $ 54,209,610 | $ 446,385 | $ 208,616,297 |
| **December 31, 2019** | | | | |
| 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 | - |
| End of Year | $ 2,722,935 | $ 710,291 | $ 20,986 | $ 3,454,212 |
| Reserves: | | | | |
| Specific | $ - | $ 10,725 | $ - | $ 10,725 |
| General | 2,722,935 | 699,566 | 20,986 | 3,443,487 |
| | $ 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 |
| 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, 2020 and 2019.

| **December 31, 2020** | **Pass** | **Special Mention** | **Substandard** | **Impaired** | **Total** |
|---|---|---|---|---|---|
| Commercial Real Estate: | | | | | |
| Construction and Land Development | $ 6,209,018 | $ - | $ - | $ - | $ 6,209,018 |
| Other | 114,212,864 | 32,595,568 | 942,852 | - | 147,751,284 |
| Commercial | 49,327,760 | 3,058,171 | 1,064,255 | 759,424 | 54,209,610 |
| Consumer | 249,277 | 197,108 | - | - | 446,385 |
| | $169,998,919 | $35,850,847 | $ 2,007,107 | $ 759,424 | $208,616,297 |
| **December 31, 2019** | | | | | |
| 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 |

The Company had no loans past due over 30 days and no nonaccrual loans as of December 31, 2020 and 2019.

Included in Commercial loans as of December 31, 2020 is $19,714,061 of Paycheck Protection Program ("PPP") loans, which are 100% guaranteed by the Small Business Administration.

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2020 and 2019:

| | Unpaid | | Impaired Loans | | | Average |
|---|---|---|---|---|---|---|
| | Principal | Recorded | Specific Allowance | | Related | Recorded |
| **December 31, 2020** | **Balance** | **Investment** | **Without** | **With** | **Allowance** | **Investment** |
| Commercial | $ 759,424 | $ 759,424 | $ - | $ 759,424 | $ 33,075 | $ 486,962 |
| **December 31, 2019** | | | | | | |
| Commercial | $ 214,500 | $ 214,500 | $ - | $ 214,500 | $ 10,725 | $ 219,000 |

Interest income earned on impaired loans was $48,576, $19,660 and $0 in 2020, 2019 and 2018, respectively. The average recorded investment of impaired loans in 2018 was $1,910,007.

The Company allocated $33,075, $10,725 and $593,939 of specific reserves on loans with a recorded investment of $759,424, $214,500 and $1,888,541 whose terms have been modified in troubled debt restructurings ("TDR") as of December 31, 2020, 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, 2020, 2019 and 2018. In 2020, the Company modified two loans with a December 31, 2020 balance of $558,778, resulting in TDR status. The modifications resulted in a lowered monthly payment to accommodate insufficient cash flow. In 2018, the Company modified loans with one borrower with a December 31, 2018 balance of $1,665,041 resulting in TDR status. The modifications resulted in a lowered monthly payment. The borrower repaid the loans 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, 2020, 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, 2020 and 2019, loans outstanding to directors, officers, and principal shareholders and their known associates were $2,911,000 and $685,500 respectively. In 2020, advances on current directors' loans were $2,961,000 and collections were $735,500. 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, 2020 and 2019 total deposits of directors, officers and principal shareholders and their known associates totaled $17,044,724 and $6,788,417 respectively.

## 5. Premises and Equipment

Premises and equipment consisted of the following:

| | Cost | Accumulated Depreciation | Net Book Value |
|---|---|---|---|
| **December 31, 2020** | | | |
| Land | $ 1,297,500 | $ - | $ 1,297,500 |
| Building | 4,446,725 | 302,747 | 4,143,978 |
| Leasehold improvements | 1,202,182 | 1,202,066 | 116 |
| Furniture and equipment | 2,461,034 | 2,374,678 | 86,356 |
| Total | $ 9,407,441 | $ 3,879,491 | $ 5,527,950 |
| **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 |

Depreciation and amortization included in occupancy and equipment expenses was $151,526, $120,531, and $71,414 for the years ended December 31, 2020, 2019, and 2018 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.

Consolidated balance sheet and supplemental information at December 31, 2020 and 2019 are shown below.

| | 2020 | 2019 |
|---|---|---|
| Operating lease right-of-use assets | $ 1,714,089 | $ 1,582,686 |
| Operating lease liabilities included in interest payable and other liabilities | $ 1,714,089 | $ 1,582,686 |
| Weighted-average remaining lease term, in years | 5.86 | 7.32 |
| Weighted-average discount rate | 5.00% | 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, 2020 and 2019:

| | 2020 | 2019 |
|---|---|---|
| Lease cost: | | |
| Operating lease cost | $ 349,303 | $ 322,465 |
| Variable lease cost | 18,373 | 3,646 |
| Total lease costs | $ 367,676 | $ 326,111 |
| Other Information: | | |
| Cash Paid for Amounts Included in the Measurement of Lease Liabilities | $ 349,303 | $ 322,465 |
| Right-of-Use Assets Obtained in Exchange for Lease Obligations | $ 396,352 | $ - |

Maturities of lease liabilities for periods indicated:

| Year Ending | |
|---|---|
| 2021 | $ 358,401 |
| 2022 | 367,875 |
| 2023 | 350,098 |
| 2024 | 244,968 |
| 2025 | 244,968 |
| Thereafter | 413,083 |
| Total lease payments | 1,979,393 |
| Less imputed interest | (265,304) |
| Present value of net future minimum lease payments | $ 1,714,089 |

## 7. Income Taxes

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

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Current: | | | |
| Federal | $ 878,215 | $ 901,977 | $ 957,736 |
| State | 498,610 | 571,687 | 565,063 |
| Total current | 1,376,825 | 1,473,664 | 1,522,799 |
| Deferred: | | | |
| Federal | (144,000) | 233,000 | (155,000) |
| State | (86,000) | 86,000 | (80,000) |
| Total deferred | (230,000) | 319,000 | (235,000) |
| Total taxes | $ 1,146,825 | $ 1,792,664 | $ 1,287,799 |

The components of the net deferred tax asset of the Company as of December 31, 2020 and 2019, were as follows:

| | 2020 | 2019 |
|---|---|---|
| Deferred Tax Assets: | | |
| Allowance for loan losses | $ 798,000 | $ 598,000 |
| State taxes | 105,000 | 137,000 |
| Deferred Salary | 1,173,000 | 1,114,000 |
| Other, net | 333,000 | 323,000 |
| | 2,409,000 | 2,172,000 |
| Deferred Tax Liabilities: | | |
| Depreciation | (317,000) | (310,000) |
| Other | (97,000) | (97,000) |
| | (414,000) | (407,000) |
| Net Deferred Tax Asset | $ 1,995,000 | $ 1,765,000 |

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:

| | 2020 | | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| | **Amount** | **Percent** | **Amount** | **Percent** | **Amount** | **Percent** |
| Federal income tax expense, based on the statutory federal income tax rate | $ 826,000 | 21.00% | $ 1,326,000 | 21.00% | $ 918,000 | 21.00% |
| State franchise taxes, net of federal income tax benefit | 328,000 | 8.30% | 514,000 | 8.10% | 382,000 | 8.70% |
| Other, net | (7,175) | (.20%) | (47,336) | (.70%) | (12,201) | (.20%) |
| Tax provision | $ 1,146,825 | 29.10% | $ 1,792,664 | 28.40% | $ 1,287,799 | 29.50% |

The Company records interest and penalties related to uncertain tax positions as part of operating expense. There was no penalty or interest expense recorded in the years 2020, 2019 and 2018. 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, 2019, 2018 and 2017 are open to audit by the federal authorities and California state tax returns for the years ended December 31, 2019, 2018, 2017 and 2016, are open to audit by state authorities.

## 8. Time Deposits

Time deposits issued as of December 31, 2020, had $26,386,678 maturing in the year 2021, $3,337,158 maturing in 2022, $5,196 maturing in 2023, and the remaining $1,043,610 maturing in 2024 and 2025.

## 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, 2020. There were no borrowings outstanding under these agreements at December 31, 2020 and December 31, 2019.

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, 2020, this line provided for a maximum borrowing capacity of $17,756,000. There was no outstanding balance as of December 31, 2020 and 2019. At December 31, 2020, this borrowing line was collateralized by mortgage loans with a carrying value of $33,299,000.

## 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 consolidated 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.

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. The new rules became effective on January 1, 2015. Under the rules, minimum requirements increased for both the quantity and quality of capital held by the Bank. The rules include a new common equity Tier 1 ("CET1") capital to risk-weighted assets ratio with minimums for capital adequacy and prompt corrective action purposes of 4.5% and 6.5%, respectively. The minimum Tier 1 capital to risk-weighted assets ratio was raised from 4.0% to 6.0% under the capital adequacy framework and from 6.0% to 8.0% to be well-capitalized under the prompt corrective action framework. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

In addition, the rules introduced the concept of a "conservation buffer" of 2.5% applicable to the three capital adequacy risk-weighted asset ratios (CET1, Tier 1 and Total). If the capital adequacy minimum ratios plus the phased-in conservation buffer amount exceed actual risk-weighted capital ratios, then dividends, share buybacks and discretionary bonuses to executives could be limited in amount. Based on the level of actual risk-weighted capital ratios at December 31, 2020, the Bank is not limited by the provisions of the conservation buffer.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total, Tier 1 and CET1 capital to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of December 31, 2020 and 2019, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2020 and 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 below. There are no conditions or events since that notification that management believes have changed the Bank's category.

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, 2020** | | | | | | |
| Total Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Consolidated | $ 40,330,000 | 19.11% | $ 16,880,182 | 8.00% | $ 21,100,228 | 10.00% |
| Bank | 39,605,000 | 18.82% | 16,838,560 | 8.00% | 21,048,200 | 10.00% |
| Common Equity Tier 1 Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Consolidated | 37,435,000 | 17.74% | 9,495,102 | 4.50% | 13,715,148 | 6.50% |
| Bank | 36,710,000 | 17.44% | 9,471,690 | 4.50% | 13,681,330 | 6.50% |
| Tier 1 Capital | | | | | | |
| (to Risk Weighted Assets) | | | | | | |
| Consolidated | 37,435,000 | 17.74% | 12,660,137 | 6.00% | 16,880,182 | 8.00% |
| Bank | 36,710,000 | 17.44% | 12,628,920 | 6.00% | 16,838,560 | 8.00% |
| Tier 1 Capital | | | | | | |
| (to Average Assets) | | | | | | |
| Consolidated | 37,435,000 | 11.63% | 12,878,091 | 4.00% | 16,097,614 | 5.00% |
| Bank | 36,710,000 | 11.42% | 12,857,280 | 4.00% | 16,071,600 | 5.00% |
| **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% |

## 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, 2020, the Bank could pay dividends to the Company of up to approximately $9.2 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, 2020 were $0.

## 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 $19,500 with a Catch-Up contribution of $6,500 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, $114,992 was contributed in 2020, $114,456 in 2019 and $108,524 in 2018.

### 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, 2020 and 2019, and changes during the years then ended, follows:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Unvested Shares | Weighted-Average Grant Date Value | Unvested Shares | Weighted-Average Grant Date Value |
| Balance, beginning of year | 1,590 | $ 32.19 | 1,135 | $ 29.33 |
| Granted | 3,115 | 30.42 | 3,140 | 37.24 |
| Vested | (2,445) | 30.43 | (2,685) | 33.01 |
| Forfeited | (280) | 32.45 | - | 0.00 |
| Balance, end of year | 1,980 | $ 28.82 | 1,590 | $ 32.19 |

Compensation expense associated with the stock appreciation plan was $0 in 2020, $63,072 in 2019, and $185,302 in 2018.

**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 $255,034 in 2020, $240,504 in 2019, and $246,195 in 2018.

## 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 consolidated balance sheet. 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, 2020 and 2019, financial instruments whose contract amounts represent credit risk are as follows:

| | Contract Amount | |
|---|---|---|
| | **2020** | **2019** |
| Commitments to extend credit in the future | $ 45,280,000 | $ 45,392,000 |
| Standby letters of credit | 797,000 | 225,000 |
| Total | $ 46,077,000 | $ 45,617,000 |

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 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, 2020 or 2019.

**Fair Value of Financial Instruments**

The carrying amount and estimated fair value of financial instruments not measured at fair value at December 31, 2020 and 2019 are as follows (dollars in thousands):

| | | 2020 | | 2019 | |
|---|---|---|---|---|---|
| | Fair Value Hierarchy | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets | | | | | |
| Cash and cash equivalents | Level 1 | $ 39,770 | $ 39,770 | $ 12,508 | $ 12,508 |
| Time deposits in other financial institutions | Level 2 | 44,784 | 44,784 | 55,227 | 55,227 |
| Debt securities held to maturity | Level 2 | 400 | 400 | 398 | 398 |
| Loans, net | Level 3 | 204,487 | 208,217 | 173,161 | 177,522 |
| FHLB stock | Level 2 | 833 | 833 | 794 | 794 |
| Liabilities | | | | | |
| Noninterest-bearing deposits | Level 1 | 138,764 | 138,764 | 107,665 | 107,665 |
| Interest-bearing deposits | Level 2 | 123,505 | 123,715 | 107,890 | 108,092 |

## 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 and comprehensive 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, 2020 and 2019 and the related statements of income and cash flows for the years ended December 31, 2020 and 2019 for Summit Bancshares, Inc. (parent company only):

| **BALANCE SHEET** | **2020** | **2019** |
|---|---|---|
| **ASSETS:** | | |
| Cash | $ 535,883 | $ 938,015 |
| Investment in subsidiary | 36,709,965 | 34,426,218 |
| Other assets | 189,520 | 95,071 |
| Total Assets | $ 37,435,368 | $ 35,459,304 |
| | | |
| **LIABILITIES:** | | |
| Other liabilities | $ - | $ 22,195 |
| Total Liabilities | - | 22,195 |
| Shareholders' Equity: | | |
| Common Stock | 2,322,188 | 2,322,188 |
| Retained Earnings | 35,113,180 | 33,114,921 |
| Total Shareholders' Equity | 37,435,368 | 35,437,109 |
| | | |
| Total Liabilities and Shareholders' Equity | $ 37,435,368 | $ 35,459,304 |

| **STATEMENTS OF INCOME** (year ended December 31) | **2020** | **2019** | **2018** |
|---|---|---|---|
| **INCOME:** | | | |
| Interest on short-term investments and loans | $ - | $ 2,539 | $ 15,509 |
| Rental and other income | 8,504 | 1,009,106 | 1,728 |
| Total income | 8,504 | 1,011,645 | 17,237 |
| **EXPENSE:** | | | |
| Miscellaneous expense | 5,165 | 1,960 | 2,852 |
| Total expense | 5,165 | 1,960 | 2,852 |
| Income before income tax and equity in earnings of subsidiary | 3,339 | 1,009,685 | 14,385 |
| Provision for income taxes | 1,026 | 298,364 | 4,499 |
| Income before equity in earnings of subsidiary | 2,313 | 711,321 | 9,886 |
| Equity in earnings of subsidiary | | | |
| Distributed | 500,000 | - | - |
| Undistributed | 2,283,748 | 3,809,926 | 3,071,905 |
| Net Income | $ 2,786,061 | $ 4,521,247 | $ 3,081,791 |

## SUMMIT BANCSHARES, INC. AND SUBSIDIARY
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
## DECEMBER 31, 2020, 2019 and 2018

The following are the statements of cash flows for the years ended December 31, 2020, 2019 and 2018 for Summit Bancshares, Inc. (parent company only):

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Interest received | $ - | $ 2,539 | $ 17,170 |
| Dividends Received | 500,000 | - | - |
| Fees Received | 8,504 | 1,009,106 | 1,728 |
| Cash paid to suppliers | (5,165) | (1,960) | (1,844) |
| Income taxes paid (received) | (117,669) | (153,017) | (6,664) |
| Net cash provided by operating activities | 385,670 | 856,668 | 10,390 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Net decrease (increase) in loans | - | 303,085 | (53,085) |
| Net cash provided by (used in) investing activities | - | 303,085 | (53,085) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Dividends paid | (787,802) | (370,028) | ($358,092) |
| Net cash (used in) financing activities | (787,802) | (370,028) | (358,092) |
| Net increase (decrease) in cash and cash equivalents | (402,132) | 789,725 | (400,787) |
| Cash at the beginning of the year | 938,015 | 148,290 | 549,077 |
| Cash at the end of the year | $ 535,883 | $ 938,015 | $ 148,290 |
| **RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:** | | | |
| Net Income | $ 2,786,061 | $ 4,521,247 | $ 3,081,791 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Non-cash earnings from subsidiary | (2,283,748) | (3,809,926) | (3,071,905) |
| Decrease in other assets and liabilities | (116,643) | 145,347 | 504 |
| Total adjustments | (2,400,391) | (3,664,579) | (3,071,401) |
| Net cash provided by operating activities | $ 385,670 | $ 856,668 | $ 10,390 |

EideBailly

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## Independent Auditor's Report

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

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Summit Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**
The consolidated financial statements of Summit Bancshares, Inc. as of and for 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 9, 2021

# Corporate Directory

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

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

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

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

**Summit Bank Officers**

Shirley W. Nelson
*Executive Chairman*

Tom Duryea
*Chief Executive Officer*

Steven P. Nelson
*President and COO*

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

Mani Ganesamurthy
*Senior Vice President*
*Chief Financial Officer*

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

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*

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

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

David Ruegg
*Rue-Ell Enterprises*

Anne Marie Taylor
*John Muir Health Foundation*

Bill Wheeler
*Black Tie Transportation*

**Summit Bank Foundation Medical Advisory Council**

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

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*Gastroenterologist, UC Davis*

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

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*Radiologist - Retired*

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*FRS Director, UCSF*

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*Oncologist, UCSF*

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

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

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

**Oakland Office**
2969 Broadway
Oakland, CA 94611
(510) 839-8800
www.summitbanking.com

**Walnut Creek Office**
*1701 N. California Blvd.*
*Walnut Creek, CA 94596*
*(925) 935-9220*

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

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

**Independent Auditors**
*Eide Bailly LLP*
*Laguna Hills, CA*

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

*Emeritus

To enhance our presence in Contra Costa County to better serve our existing clients and drive new client relationships into our community bank to further growth, we purchased a well located commercial building in the expanding Walnut Creek downtown area to house our branch. In addition, our new building has multiple tenants, which drives additional income for our shareholders. Our state of the art branch has been very well received by our long term clients and by the Walnut Creek community, which will further support our growth plans.

Summit Bank

SUMMIT BANCSHARES INC.
2020 ANNUAL REPORT