Summit Bank

SUMMIT BANCSHARES, INC.
2022 ANNUAL REPORT

"Celebrating 40 years of success!"
1982-2022

FINANCIAL HIGHLIGHTS

FOR THE YEAR ENDED	2022	2021	2020	2019	2018	2017
Net Income	$ 3,401,310	$2,330,342	$2,786,061	$4,521,247	$3,081,791	$1,847,759
Earnings per common share	$2.90	$1.95	$2.33	$3.79	$2.58	$1.54
Earnings per common share - assuming dilution	$2.90	$1.95	$2.33	$3.79	$2.58	$1.54
AT YEAR END (in thousands)						
Deposits	$312,117	$321,614	$262,269	$215,555	$231,125	$230,128
Loans (Net)	192,711	181,542	204,487	173,161	172,161	150,371
Assets	361,327	368,466	306,857	257,990	267,629	263,318
Shareholders' Equity	41,162	39,336	37,435	35,437	31,286	28,562
Non-performing Loans to Total Loans	0.00%	0.00%	0.00%	0.00%	0.97%	0.07%
Allowance to Non-performing Loans	-	-	-	-	207.46%	3393.10%
Common Equity Tier 1 Capital	18.42%	19.28%	17.74%	16.37%	15.42%	15.12%
Tier 1 Capital	18.42%	19.28%	17.74%	16.37%	15.42%	15.12%
Total Capital	19.68%	20.54%	19.11%	17.62%	16.68%	16.38%
Leverage Ratio	10.64%	10.48%	11.63%	13.76%	11.45%	11.01%

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 sales prices for such common stock for each calendar quarter since January 2021 is contained below. The following prices reflect retail mark-up and may not represent actual transactions.

	HIGH	LOW	DIVIDENDS DECLARED
2022			
First Quarter	$37.14	$37.06	$0.10
Second Quarter	$37.63	$37.57	$0.10
Third Quarter	$36.05	$36.04	$0.10
Fourth Quarter	$36.79	$36.77	$0.10
Total			$0.40
2021			
First Quarter	$35.20	$28.50	$0.18
Second Quarter	$38.00	$35.00	
Third Quarter	$38.00	$35.63	$0.18
Fourth Quarter	$37.99	$36.00	
Total			$0.36

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

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

Dear Fellow Shareholders

We are pleased to report that 2022 was another successful year for Summit Bank and extended what is now our 40-year legacy of continuous annual and monthly profitability since we opened our doors in 1982. Our after-tax profit was $3,401,000 or $2.90 per share compared $2,330,000 or $1.95 per share in 2021. We are very grateful to have enjoyed 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.

Summit Bank received the following recognition in 2022:

● Findley Reports recognized us for the 18th time as a Super Premier performing bank,

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

● 'Top 100 Corporate Philanthropist in the San Francisco Bay Area' by San Francisco Business Times – 5 years in a row.

Our Return on Assets was 0.89% compared to 0.67% last year and Return on Equity was 8.26% compared to 6.19% in 2021. 2022 saw our total assets decreased to $361,141,000 from $368,466,000 in 2021 with deposits decreasing from $321,614,000 in 2021 to $312,117,000 in 2022 and loans increased from $186,121,000 to $197,590,000.

Our stock's book value increased to $35.36 from $32.95 and our Risk Based Capital Ratio decreased from 20.54% to 19.68%, which is well in excess of the Regulatory standard of 10% for a Well Capitalized Bank.

The interest rate increases in 2022 helped improve the bank's Net Interest Margin for the year. Continued interest rate increases should help improve interest margins and interest income from loans and investments. However, this also brings with it the possibility of increased stress on some borrower's ability to service loans so we will be paying extra attention to loan quality and stress testing. The overabundance of liquidity in banks that resulted from the PPP loans during the pandemic has become a shortage due to some banks investing that liquidity in various investments. Our conservative principles are applied to our investment portfolio as they are to our lending. We typically only keep one Treasury security for the purpose of securing any public deposits we may have and at the end of 2022 there was only one short-term Treasury in the amount of $1.4 million.

We will continue our tradition of applying our conservative views to all aspects of banking fundamentals with an increased focus on prudent lending and credit quality. Our Investment portfolio will continue to be managed with a focus on low risk and balanced maturities. In 2022 we celebrated our 40th anniversary and we believe that our history of success and stability will continue through 2023 despite the ongoing challenging conditions.

We 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 provides excellent oversight and guidance on what is necessary with the daily challenges we face. In 2022 we invited former Alameda County DA, Nancy O'Malley to join us as a Director and she started on January 1st 2023. Our Board is complemented by the best management team in the Bay Area. They have a wealth of knowledge about the bank and our clients. They are passionate about customer service and creating shareholder value. I sincerely thank all our employees for their hard work and dedication.

Shirley W. Nelson

SHIRLEY W. NELSON
Chairman and CEO

STEVE NELSON
President 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 2022 was $3,401,000 compared to $2,330,000 in 2021, and $2,786,000 in 2020. The increase in the year 2022's net income from the year 2021 was caused primarily due to an increase in the net interest margin due to an increase in the prime rate. The net income of $3,401,000 for 2022 represents diluted earnings per share of $2.90 which compared to diluted earnings per share of $1.95 in 2021, and diluted earnings per share of $2.33 per share in 2020.

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 20% 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 27% matures after one year while 32% 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 2022 was $12,431,000, an increase from $11,448,000 posted in 2021 and an increase as compared to $12,292,000 in 2020. The increase in 2022 was primarily the result of an increase in prime rate which caused an increase in net interest margin. Average earning assets increased by 9.78% in 2022 to $364,313,000 from $331,860,000 in 2021 and as compared to $282,897,000 in 2020. Average total deposits were increased by 10.75% to $339,893,000 in 2022 from $306,891,000 in 2021 and increased 18.80% as compared to $258,320,000 in 2020.

Average loans outstanding decreased by 8.82% in 2022 to $186,245,000 as compared to $204,265,000 in 2021 and increased 1% as compared to $202,251,000 in 2020. The decrease in average loans was primarily the result of Paycheck Protection Program ("PPP") loans. Average outstanding investments increased 39.56% to $178,068,000 in 2022 as compared to $127,596,000 in 2021 and increased 58.22% as compared to $80,646,000 in 2020. The yield on average earning assets was 3.58% in 2022 as compared to 3.61% in 2021 and 4.54% in 2020. The decrease in 2022 was due to a decrease in loan fees collected from PPP Loans.

Interest expense increased 10.70% to $598,000 in 2022 from $534,000 in 2021 and decreased 0.74% as compared to $538,000 in 2020. The increase in 2022 was primarily centered in the average rates paid on deposits. Average interest-bearing deposits increased 10.52% to $152,158,000 in 2022 compared to $137,671,000 in 2021 and increased 20.94% as compared to $113,832,000 in 2020. Average non-interest-bearing deposits decreased 10.94% in 2022 to $187,735,000 as compared to $169,219,000 in 2021 and increased 17.12% as compared to $144,488,000 in 2020. Overall cost of funds in 2022 was 0.39% as compared to 0.39% in 2021 and 0.47% in 2020. The cost of funds remained the same for customers' time deposits and savings accounts in 2022 as compared to the interest expenses in 2021.

Non-Interest Income and Expense

Non-interest income, consisting primarily of service charges on deposit accounts and other income, was $1,105,000 in 2022, a decrease of 1.16% from $1,118,000 in 2021, and an increase of 33.45% from $828,000 in 2020. The decrease in Non-Interest income was primarily due to a decrease in Other Income. Total service charge income from deposit accounts increased 6.81% to $847,000 in 2022 from $793,000 in 2021 and 56.27% from $542,000 in 2020 and total income from other charges decreased 20.86% to $258,000 in 2022 from $326,000 in 2021 and 9.79% from $286,000 in 2020.

Non-interest expenses decreased 4.77% to $8,405,000 in 2022 from $8,826,000 in 2021, and $8,512,000 in 2020. Salary expense decreased 9.56% to $5,268,000 in 2022 from $5,825,000 in 2021 and $5,318,000 in 2020. Legal expenses increased by $21,000 in 2022 over 2021 and decreased by $51,500 as compared to 2020. FDIC assessment expense increased to $104,500 in 2022 from $90,500 in 2021 and $60,000 in 2020, primarily due to an increase in our total deposits and decrease in credit from PPP balances.

The Company's allowance for loan losses as a percent of loans was 2.53% as of December 31, 2022 as compared to 2.50% as of December 31, 2021 and 1.98% as of December 31, 2020. There was an accrual of $300,000 for loan loss provision in 2022, $450,000 in 2021 and 675,000 in 2020 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 29.60% in 2022, compared to 29.18% in 2021 and 29.10% in 2020, as described in Note 7 to the Financial Statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022

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, 2022, the Company had $85,346,000 in cash and cash equivalents compared to $128,469,000 as of December 31, 2020 and $39,770,000 as of December 31, 2020. The decrease in 2022 was primarily due to an increase in balances with Due from Banks – Time deposits and decrease in balances with Federal Reserve. The ratio of average loans to deposits for 2022 was 54.8% compared to 66.5% 2021 and 78.0% for 2020.

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 $99,536,000 at December 31, 2022 as compared to $92,781,000 at December 31, 2021, and $91,604,000 at December 31, 2020. This is equivalent to 27.6%, 25.2% and 29.9%, of total assets at the corresponding year-ends, respectively. The increase was mainly due to the fed funds sold and due from time deposits maturing in one year.

In addition, the Company's subsidiary Bank remains more than well-capitalized under current regulatory requirements.

Credit and Deposit Concentration

A part of the subsidiary Bank's marketing strategy is to offer quality financial services to physicians, other professionals and small business communities. The Company has been especially successful in targeting health care professionals. This segment has traditionally provided high levels of deposits and low loan losses. Over the past few years, the doctors and health care providers in the Company's communities have been adjusting to certain emerging trends in this industry. This includes higher percentages of patients on Medicare, closer scrutiny from insurance carriers, and movement to managed care and "capitation" contracts. Through this process, the Company has not experienced any noticeable deterioration in credit quality. The Company cannot predict the ultimate outcome of health care reform. However, the Company closely monitors the status of reform and considers the potential impact of any reform on its current customers and it's underwriting of loans to healthcare professionals.

Non-Performing Assets

As of December 31, 2022, 2021 and 2020, the Company had no non-performing assets.

Certain Factors that May Affect Results

The primary factor, which may affect future results, is the fluctuation of interest rates in the marketplace 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.

Independent Auditor's Report

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Summit Bancshares, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2022 and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Summit Bancshares, Inc. and Subsidiary as of December 31, 2022 and 2021, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2022, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Summit Bancshares, Inc. and Subsidiary, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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; and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Summit Bancshares, Inc. and Subsidiary's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Summit Bancshares, Inc. and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Summit Bancshares, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Eide Bailly LLP

Laguna Hills, California
March 28, 2023

SUMMIT BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

ASSETS		2022		2021
Cash and due from banks		$ 12,595,685		$ 5,719,253
Federal funds sold		72,750,000		122,750,000
Cash and cash equivalents		85,345,685		128,469,253
Time deposits with other financial institutions		65,045,000		41,314,000
Debt securities held to maturity, at cost (fair value of $1,387,094 at December 31, 2022 and $399,950 at December 31, 2021)		1,395,480		399,939
Loans (Net of related deferred loan fees)	197,590,359		186,121,358	
Less: allowance for loan losses	4,879,212		4,579,212	
Net loans		192,711,147		181,542,146
Premises and equipment, net		5,475,356		5,580,719
Right of use lease asset		1,104,301		1,408,633
Bank owned life insurance		5,452,538		5,320,134
Deferred tax assets		2,406,000		2,249,000
Interest receivable and other assets		2,391,275		2,181,864
Total Assets		$ 361,326,782		$ 368,465,688

LIABILITIES AND SHAREHOLDERS' EQUITY	2022	2021
Deposits:		
Demand	$ 164,758,198	$ 173,706,238
Interest-bearing transaction accounts	100,374,974	98,852,479
Savings	17,178,023	17,143,169
Time certificates $250,000 and over	26,479,843	27,121,206
Other time certificates	3,325,795	4,791,383
Total deposits	312,116,833	321,614,475
Interest payable and other liabilities	8,047,945	7,515,215
Total Liabilities	320,164,778	329,129,690
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;		
1,164,191 and 1,193,641 shares outstanding in 2022 and 2021	2,027,688	2,322,188
Retained earnings	39,134,316	37,013,810
Total Shareholders' Equity	41,162,004	39,335,998
Total Liabilities and Shareholders' Equity	$ 361,326,782	$ 368,465,688

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, 2022, 2021 AND 2020

	2022	2021	2020
INTEREST INCOME:			
Interest and fees on loans	$ 10,265,651	$ 11,311,248	$ 11,711,539
Interest on time deposits with other financial institutions	757,859	546,076	1,014,009
Interest on U.S. government agency securities	13,620	374	2,922
Interest on federal funds sold	1,991,400	123,729	101,505
Total interest income	13,028,530	11,981,427	12,829,975
INTEREST EXPENSE:			
Interest on savings deposits	5,315	14,371	6,103
Interest on interest-bearing transaction accounts	256,000	218,002	192,852
Interest on time deposits	336,343	301,337	339,127
Total interest expense	597,658	533,710	538,082
Net interest income	12,430,872	11,447,717	12,291,893
Provision for loan losses	300,000	450,000	675,000
Net interest income after provision for loan losses	12,130,872	10,997,717	11,616,893
NON-INTEREST INCOME:			
Service charges on deposit accounts	846,599	792,761	542,251
Other Income	258,316	325,537	285,823
Total non-interest income	1,104,915	1,118,298	828,074
NON-INTEREST EXPENSE:			
Salaries and employee benefits	5,268,066	5,824,800	5,318,215
Occupancy expense	674,765	652,988	674,261
Equipment expense	690,936	722,134	667,924
FDIC assessment	104,500	90,500	60,000
Legal expense	122,000	101,000	173,500
Insurance expense	100,493	90,771	211,940
Other	1,444,229	1,343,389	1,406,241
Total non-interest expense	8,404,989	8,825,582	8,512,081
Income before income taxes	4,830,798	3,290,433	3,932,886
Provision for income taxes	1,429,488	960,091	1,146,825
Net income and comprehensive income	$ 3,401,310	$ 2,330,342	$ 2,786,061
EARNINGS PER SHARE			
Earnings per common share (basic)	$ 2.90	$ 1.95	$ 2.33
Earnings per common share (diluted)	$ 2.90	$ 1.95	$ 2.33

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, 2022, 2021 AND 2020

	NUMBER OF SHARES OUTSTANDING	COMMON STOCK	RETAINED EARNINGS	TOTAL
Balance at January 1, 2020	1,193,641	$ 2,322,188	$ 33,114,921	$ 35,437,109
Issuance of cash fividends,				
$.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
Issuance of cash dividends,				
$.36 per share	-	-	(429,712)	(429,712)
Net income	-	-	2,330,342	2,330,342
Balance at December 31, 2021	1,193,641	2,322,188	37,013,810	39,335,998
Issuance of cash dividends,				
$.40 per share	-	-	(468,622)	(468,622)
Repurchase of common stock	(29,450)	(294,500)	(812,182)	(1,106,682)
Net income	-	-	3,401,310	3,401,310
Balance at December 31, 2022	1,164,191	$ 2,027,688	$ 39,134,316	$ 41,162,004

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, 2022, 2021 AND 2020

	2022	2021	2020
NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net Income	$ 3,401,310	$ 2,330,342	$ 2,786,061
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	138,777	148,553	148,604
Provision for loan losses	300,000	450,000	675,000
Deferred income tax expense (benefit)	(157,000)	(254,000)	(230,000)
BOLI income	(132,404)	(132,491)	(131,952)
Increase (decrease) in other assets and liabilities	627,651	1,608,404	(76,880)
Net cash provided by operating activities	4,178,334	4,150,808	3,170,833
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Increase) decrease in time deposits with other financial institutions	(23,731,000)	3,470,000	10,443,000
Maturity of debt securities	-	400,000	400,000
Purchase of debt securities	(981,921)	(399,757)	(399,232)
Purchase of FHLB stock	-	(130,800)	(39,400)
Net (increase) decrease in loans to customers	(11,469,001)	22,494,939	(32,001,441)
Purchases of premises and equipment	(47,034)	(201,696)	(238,500)
Net cash provided by (used in) investing activities	(36,228,956)	25,632,686	(21,835,573)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase (decrease) in demand, interest bearing transaction, and savings deposits	(7,390,691)	58,205,969	36,069,526
Increase (decrease) in time deposits	(2,106,951)	1,139,947	10,644,255
Repurchase of common stock	(1,106,682)	-	-
Dividends paid	(468,622)	(429,712)	(787,802)
Net cash provided by (used in) financing activities	(11,072,946)	58,916,204	45,925,979
Net increase (decrease) in cash and cash equivalents	(43,123,568)	88,699,698	27,261,239
Cash and cash equivalents at the beginning of the year	128,469,253	39,769,555	12,508,316
Cash and cash equivalents at the end of the year	$ 85,345,685	$ 128,469,253	$ 39,769,555

Supplemental Cash Flow Disclosure

	2022	2021	2020
Income taxes paid	$ 826,600	$ 1,296,449	$ 1,250,000
Interest paid	$ 587,585	$ 510,996	$ 518,057
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

Cash and cash equivalents include cash and due from banks, federal funds sold and interest-bearing deposits in other financial institutions with original maturities of less than 90 days. Net cash flows are reported for customer loan and deposit transactions and interest-bearing deposits in other financial institutions.

Time Deposits with Other Financial Institutions

Time deposits with other financial institutions are carried at cost and have maturities at origination ranging from three months to three 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.

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 $963,800 at December 31, 2022 and 2021.

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, 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 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

All of the Company's revenue from contracts with customers 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, 2022, 2021, and 2020. 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 years 2022, 2021 and 2020.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 28, 2023, which is the date the consolidated financial statements were available to be issued.

2. Debt Securities

The amortized cost and estimated fair values of investments in debt securities held to maturity as of December 31, 2022 and 2021 are as follows:

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury Securities	$ 1,395,480	$ -	$ (8,386)	$ 1,387,094
December 31, 2021				
U.S. Treasury Securities	$ 399,939	$ 11	$ -	$ 399,950

Securities held at December 31, 2022 are due within one year. There were no sales of investments in debt securities during 2022, 2021 or 2020. At December 31, 2022 and 2021, securities carried at $400,000 and $399,939, 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, 2022, and 2021 (net of unearned loan fees of $964,792 and $1,017,916, respectively), is as follows:

	2022	**2021**
Construction and land development	$ 10,852,471	$ 4,846,820
Commercial real estate	159,067,135	163,021,070
Commercial loans	27,487,442	18,080,297
Consumer loans	183,311	173,171
	197,590,359	186,121,358
Less: Allowance for loan losses	(4,879,212)	(4,579,212)
	$ 192,711,147	$ 181,542,146

The changes in the allowance for loan losses for the years ended December 31, 2022, 2021, and 2020 are as follows:

	2022	**2021**	**2020**
Balance, beginning of period	$ 4,579,212	$ 4,129,212	$ 3,454,212
Provision for loan losses	300,000	450,000	675,000
Recoveries	-	-	-
Loans charged-off	-	-	-
Balance, end of period	$ 4,879,212	$ 4,579,212	$ 4,129,212

The following table presents the activity in the allowance for loan losses for the years 2022, 2021 and 2020 and the recorded investment in loans and impairment method as of December 31, 2022, 2021 and 2020, by portfolio segment:

December 31, 2022	**Commercial Real Estate**	**Commercial**	**Consumer**	**Total**
Allowance for Loan Losses:				
Beginning of Year	$ 4,102,005	$ 471,213	$ 5,994	$ 4,579,212
Provisions	46,691	253,245	64	300,000
End of Year	$ 4,148,696	$ 724,458	$ 6,058	$ 4,879,212
Reserves:				
Specific	$ -	$ 18,147	$ -	$ 18,147
General	4,148,696	706,311	6,058	4,861,065
	$ 4,148,696	$ 724,458	$ 6,058	$ 4,879,212
Loans Evaluated for Impairment:				
Individually	$ -	$ 362,948	$ -	$ 362,948
Collectively	169,919,607	27,124,493	183,311	197,227,411
	$ 169,919,607	$ 27,487,441	$ 183,311	$ 197,590,359
December 31, 2021				
Allowance for Loan Losses:				
Beginning of Year	$ 3,281,614	$ 837,270	$ 10,328	$ 4,129,212
Provisions	820,391	(366,057)	(4,334)	450,000
End of Year	$ 4,102,005	$ 471,213	$ 5,994	$ 4,579,212
Reserves:				
Specific	$ -	$ 22,667	$ -	$ 22,667
General	4,102,005	448,546	5,994	4,556,545
	$ 4,102,005	$ 471,213	$ 5,994	$ 4,579,212
Loans Evaluated for Impairment:				
Individually	$ -	$ 543,727	$ -	$ 543,727
Collectively	167,867,890	17,536,570	173,171	185,577,631
	$ 167,867,890	$ 18,080,297	$ 173,171	$ 186,121,358
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

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, 2022 and 2021.

December 31, 2022	**Pass**	**Special Mention**	**Substandard**	**Impaired**	**Total**
Commercial Real Estate:					
Construction and Land Development	$ 10,852,471	$ -	$ -	$ -	$ 10,852,471
Other	143,545,645	14,244,376	1,277,114	-	159,067,135
Commercial	23,894,467	1,959,506	1,270,521	362,948	27,487,442
Consumer	59,652	123,659	-	-	183,311
	$ 178,352,235	$ 16,327,541	$ 2,547,635	$ 362,948	$ 197,590,359
December 31, 2021					
Commercial Real Estate:					
Construction and Land Development	$ 3,988,771	$ 858,049	$ -	$ -	$ 4,846,820
Other	136,144,010	25,387,103	1,489,957	-	163,021,070
Commercial	14,780,410	377,563	2,378,597	543,727	18,080,297
Consumer	11,719	161,452	-	-	173,171
	$ 154,924,910	$ 26,784,167	$ 3,868,554	$ 543,727	$ 186,121,358

The Company had no loans past due over 30 days and no nonaccrual loans as of December 31, 2022 and 2021.

Included in Commercial loans as of December 31, 2021 is $3,165,549 of Paycheck Protection Program ("PPP") loans, respectively, 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, 2022 and 2021:

	Unpaid Principal	Recorded	Impaired Loans Specific Allowance		Related	Average Recorded
December 31, 2022	**Balance**	**Investment**	**Without**	**With**	**Allowance**	**Investment**
Commercial	$ 362,948	$ 362,948	$ -	$ 362,948	$ 18,147	$ 453,338
December 31, 2021						
Commercial	$ 543,727	$ 543,727	$ -	$ 543,727	$ 22,667	$ 651,576

Interest income earned on impaired loans was $25,273, $26,286, and 48,576 in 2022, 2021 and 2020, respectively. The average recorded investment of impaired loans in 2020 was $486,962.

The Company allocated $18,147, $22,667, and $33,075, of specific reserves on loans with a recorded investment of $362,948, $543,727, and $759,424, whose terms have been modified in troubled debt restructurings ("TDR") as of December 31, 2022, 2021 and 2020, 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, 2022, 2021 and 2020. 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, 2022, 2021 and 2020.

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, 2022 and 2021, loans outstanding to directors, officers, and principal shareholders and their known associates were $2,680,560 and $2,581,240, respectively. In 2022, advances on current directors' loans were $1,674,000 and collections were $1,574,680. In 2021, advances on current directors' loans were $2,221,812 and collections were $2,551,571. In 2020, advances on current directors' loans were $2,961,000 and collections were $735,000.

As of December 31, 2022 and 2021 total deposits of directors, officers and principal shareholders and their known associates totaled $13,564,036 and $22,082,025, respectively.

5. Premises and Equipment

Premises and equipment consisted of the following:

	Cost	Accumulated Depreciation	Net Book Value
December 31, 2022			
Land	$ 1,297,500	$ -	$ 1,297,500
Building	4,599,302	538,015	4,061,287
Leasehold improvements	1,258,978	1,210,484	48,494
Furniture and equipment	2,500,391	2,432,316	68,075
Total	$ 9,656,171	$ 4,180,815	$ 5,475,356
December 31, 2021			
Land	$ 1,297,500	$ -	$ 1,297,500
Building	4,599,302	419,183	4,180,119
Leasehold improvements	1,232,443	1,203,695	28,748
Furniture and equipment	2,479,892	2,405,540	74,352
Total	$ 9,609,137	$ 4,028,418	$ 5,580,719

Depreciation and amortization included in occupancy and equipment expenses was $152,397, $148,927, and $151,526 for the years ended December 31, 2022, 2021, and 2020, respectively.

6. 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 .8 to 4.6 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, 2022 and 2021 are shown below.

	2022	2021
Operating lease right-of-use assets	$ 1,104,301	$ 1,408,633
Operating lease liabilities included in interest payable and other liabilities	$ 1,104,301	$ 1,408,633
Weighted-average remaining lease term, in years	4.23	5.00
Weighted-average discount rate	5.00%	5.00%

Other lease costs 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, 2022 and 2021:

	2022	2021
Operating lease cost	$ 323,381	$ 323,381
Other lease costs	54,016	31,940
Total lease costs	$ 377,397	$ 355,321
Other Information:		
Cash paid for amounts included in the measurement of lease liabilities	$ 367,875	$ 358,401
Right-of-Use assets obtained in exchange for lease obligations	$ -	$ -

Maturities of lease liabilities for periods indicated:

Year Ending	
2023	$ 350,098
2024	244,968
2025	244,968
2026	244,968
2027	142,898
Total lease payments	1,227,900
Less imputed interest	(123,599)
Present value of net future minimum lease payments	$ 1,104,301

7. Income Taxes

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

	2022	2021	2020
Current:			
Federal	$ 1,025,729	$ 740,227	$ 878,215
State	560,759	473,864	498,610
Total current	1,586,488	1,214,091	1,376,825
Deferred:			
Federal	(113,000)	(127,000)	(144,000)
State	(44,000)	(127,000)	(86,000)
Total deferred	(157,000)	(254,000)	(230,000)
Total taxes	$ 1,429,488	$ 960,091	$ 1,146,825

The components of the net deferred tax asset of the Company as of December 31, 2022 and 2021, were as follows:

	2022	2021
Deferred Tax Assets:		
Allowance for loan losses	$ 1,019,000	$ 931,000
State taxes	118,000	101,000
Deferred salary	1,462,000	1,383,000
Other, net	328,000	343,000
	2,927,000	2,758,000
Deferred Tax Liabilities:		
Depreciation	(422,000)	(432,000)
Other	(99,000)	(77,000)
	(521,000)	(509,000)
Net Deferred Tax Asset	$ 2,406,000	$ 2,249,000

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:

	2022		2021		2020	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Federal income tax expense, based on the statutory federal income tax rate	$ 1,014,000	21.00%	$ 691,000	21.00%	$ 826,000	21.00%
State franchise taxes, net of federal income tax benefit	408,000	8.40%	273,000	8.30%	328,000	8.30%
Other, net	7,488	.20%	(3,909)	(.12%)	(7,175)	(.20%)
Tax provision	$ 1,429,488	29.60%	$ 960,091	29.18%	$ 1,146,825	29.10%

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 2022, 2021 and 2020. 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, 2021, 2020 and 2019 are open to audit by the federal authorities and California state tax returns for the years ended December 31, 2021, 2020, 2019 and 2018, are open to audit by state authorities.

8. Time Deposits

Time deposits issued as of December 31, 2022, had $21,892,619 maturing in the year 2023, $4,351,239 maturing in the year 2024, $58,280 maturing in 2025, and the remaining $3,503,500 maturing in 2027.

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 $21,400,000 at December 31, 2022 and 2021. There were no borrowings outstanding under these agreements at December 31, 2022 and December 31, 2021.

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, 2022, this line provided for a maximum borrowing capacity of $11,858,117. There was no outstanding balance as of December 31, 2022 and 2021. At December 31, 2022, this borrowing line was collateralized by mortgage loans with a carrying value of $18,802,893.

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, 2022, 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, 2022 and 2021, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2022 and 2021, 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, 2022						
Total Capital						
(to Risk Weighted Assets)						
Consolidated	$ 43,981,000	19.68%	$ 17,877,880	8.00%	$ 22,347,349	10.00%
Bank	43,500,000	19.47%	17,875,200	8.00%	22,344,000	10.00%
Common Equity Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	41,161,000	18.42%	10,056,307	4.50%	14,525,777	6.50%
Bank	40,680,000	18.21%	10,054,800	4.50%	14,523,600	6.50%
Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	41,161,000	18.42%	13,408,410	6.00%	17,877,880	8.00%
Bank	40,680,000	18.21%	13,406,400	6.00%	17,875,200	8.00%
Tier 1 Capital						
(to Average Assets)						
Consolidated	41,161,000	10.64%	15,470,660	4.00%	19,338,325	5.00%
Bank	40,680,000	10.52%	15,469,320	4.00%	19,336,650	5.00%
As of December 31, 2021						
Total Capital						
(to Risk Weighted Assets)						
Consolidated	$ 41,907,000	20.54%	$ 16,320,582	8.00%	$ 20,400,728	10.00%
Bank	41,343,000	20.32%	16,278,960	8.00%	20,348,700	10.00%
Common Equity Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	39,336,000	19.28%	9,180,327	4.50%	13,260,473	6.50%
Bank	38,772,000	19.05%	9,156,915	4.50%	13,226,655	6.50%
Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	39,336,000	19.28%	12,240,437	6.00%	16,320,582	8.00%
Bank	38,772,000	19.05%	12,209,220	6.00%	16,274,960	8.00%
Tier 1 Capital						
(to Average Assets)						
Consolidated	39,336,000	10.48%	15,015,051	4.00%	18,768,814	5.00%
Bank	38,772,000	10.34%	14,994,240	4.00%	18,742,800	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, 2022, the Bank could pay dividends to the Company of up to approximately $6.3 million without prior regulatory approval.

Banking regulations require that all banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. Effective March 12, 2021, the Federal Reserve's board of directors approved a final rule reducing the required reserve requirement ratios to zero percent, effectively eliminating the requirement to maintain reserve balances in cash or on deposit with the Federal Reserve Bank.

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, $113,085 was contributed in 2022, $122,572 in 2021 and $114,992 in 2020.

Stock Appreciation Plan

The Company adopted the 2018 Stock Appreciation Plan ("Employee 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 employment anniversary date 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.

The Company also adopted a similar plan in 2014 for certain executives ("Executive Plan"), granting 30,000 phantom shares in 2014 and 2015 at a weighted-average price of $15.35 per share. Shares vest over a 5 year period from the date of grant, with exercise restricted until the advent of a change in control event. In 2021, the Company extended the expiration date of these executive phantom shares to December 31, 2023 and removed the change in control requirement to exercise. A total of 20,000 Executive Plan phantom shares were exercised in 2022. The remaining 10,000 shares are fully vested as of December 31, 2022.

A summary of the status of the phantom unvested shares under the Employee Plan as of December 31, 2022 and 2021, and changes during the years then ended, follows:

	2022		2021	
	Unvested Shares	Weighted-Average Grant Date Value	Unvested Shares	Weighted-Average Grant Date Value
Balance, beginning of year	1,175	$ 37.03	1,980	$ 28.82
Granted	2,720	36.84	3,110	35.05
Vested	(3,010)	37.36	(3,705)	33.34
Forfeited	(370)	34.82	(210)	37.69
Balance, end of year	515	$ 35.73	1,175	$ 37.03

Compensation expense associated with the stock appreciation plans was $180,000 in 2022, $427,140 in 2021, and $0 in 2020.

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 $321,159 in 2022, $300,860 in 2021, and $255,034 in 2020.

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

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At December 31, 2022 and 2021, financial instruments whose contract amounts represent credit risk are as follows:

	Contract Amount	
	2022	**2021**
Commitments to extend credit in the future	$ 50,880,000	$ 44,109,000
Standby letters of credit	741,000	741,000
Total	$ 51,621,000	$ 44,850,000

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, 2022 or 2021.

Fair Value of Financial Instruments

The carrying amount and estimated fair value of financial instruments not measured at fair value at December 31, 2022 and 2021 are as follows (dollars in thousands):

		2022		2021	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets					
Cash and cash equivalents	Level 1	$ 85,346	$ 85,346	$ 128,469	$ 128,469
Time deposits in other financial institutions	Level 2	65,045	65,045	41,314	41,314
Debt securities held to maturity	Level 2	1,395	1,387	400	400
Loans, net	Level 3	192,711	191,686	181,542	182,217
FHLB stock	Level 2	964	964	964	964
Liabilities					
Noninterest-bearing deposits	Level 1	164,758	164,758	173,706	173,706
Interest-bearing deposits	Level 2	147,359	145,282	147,908	148,343

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

The following are the balance sheets as of December 31, 2022 and 2021 and the related statements of income and cash flows for the years ended December 31, 2022, 2021 and 2020 for Summit Bancshares, Inc. (parent company only):

BALANCE SHEET	**2022**	**2021**
ASSETS:		
Cash	$ 447,844	$ 371,480
Investment in subsidiary	40,680,666	38,772,094
Other assets	33,494	192,424
Total Assets	$ 41,162,004	$ 39,335,998
LIABILITIES:		
Other liabilities	$ -	$ -
Total Liabilities	-	-
Shareholders' Equity:		
Common Stock	2,027,688	2,322,188
Retained Earnings	39,134,316	37,013,810
Total Shareholders' Equity	41,162,004	39,335,998
Total Liabilities and Shareholders' Equity	$ 41,162,004	$ 39,335,998

STATEMENTS OF INCOME (year ended December 31)	**2022**	**2021**	**2020**
INCOME:			
Interest on short-term investments and loans	$ -	$ -	$ -
Other income	-	-	8,504
Total income	-	-	8,504
EXPENSE:			
Miscellaneous expense	10,374	9,694	5,165
Total expense	10,374	9,694	5,165
Income (loss) before income tax and equity in earnings of subsidiary	(10,374)	(9,694)	3,339
Income tax provision (benefit)	(3,112)	(2,909)	1,026
Income (loss) before equity in earnings of subsidiary	(7,262)	(6,785)	2,313
Equity in earnings of subsidiary:			
Distributed	1,500,000	275,000	500,000
Undistributed	1,908,572	2,062,127	2,283,748
Net Income	$ 3,401,310	$ 2,330,342	2,786,061

SUMMIT BANCSHARES, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022, 2021 and 2020

The following are the statements of cash flows for the years ended December 31, 2022, 2021 and 2020 for Summit Bancshares, Inc. (parent company only):

	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:			
Interest received	$ -	$ -	$ -
Dividends received	1,500,000	275,000	500,000
Fees received	-	-	8,504
Cash paid to suppliers	(10,374)	(9,691)	(5,165)
Income taxes received (paid)	162,042	-	(117,669)
Net cash provided by operating activities	1,651,668	265,309	385,670
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net cash provided by investing activities	-	-	-
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid	(468,622)	(429,712)	(787,802)
Repurchase of common stock	(1,106,682)	-	-
Net cash (used in) financing activities	(1,575,304)	(429,712)	(787,802)
Net increase (decrease) in cash and cash equivalents	76,364	(164,403)	(402,132)
Cash at the beginning of the year	371,480	535,883	938,015
Cash at the end of the year	$ 447,844	$ 371,480	$ 535,883
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Net income	$ 3,401,310	$ 2,330,342	$ 2,786,061
Adjustments to reconcile net income to net cash provided by operating activities:			
Non-cash earnings from subsidiary	(1,908,572)	(2,055,342)	(2,283,748)
(Increase) decrease in other assets and liabilities	158,930	(9,691)	(116,643)
Total adjustments	(1,749,642)	(2,065,033)	(2,400,391)
Net cash provided by operating activities	$ 1,651,668	$ 265,309	$ 385,670

Corporate Directory

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Summit Bancshares, Inc.
Executive Chairman
Summit Bank
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George Hollidge
Retired
Danville

John Protopappas
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Oakland

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Krystle Johnson
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Summit Bank

SUMMIT BANCSHARES, INC.

2022 ANNUAL REPORT

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