

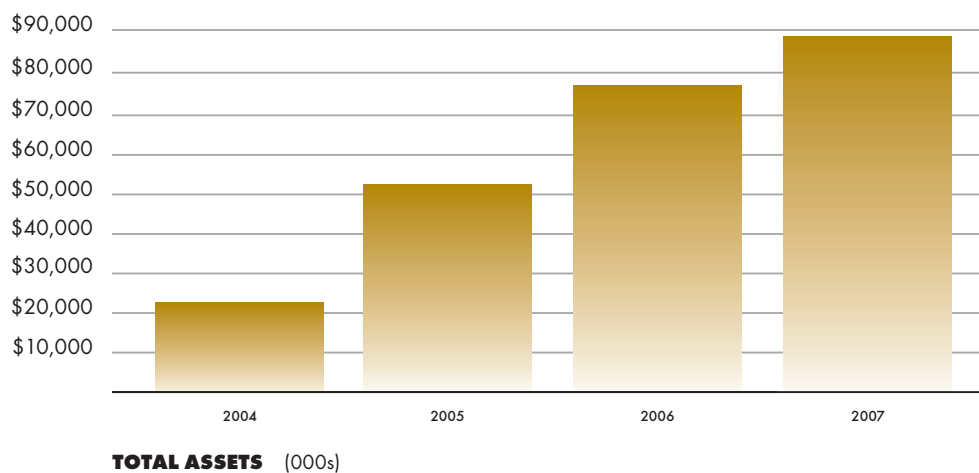
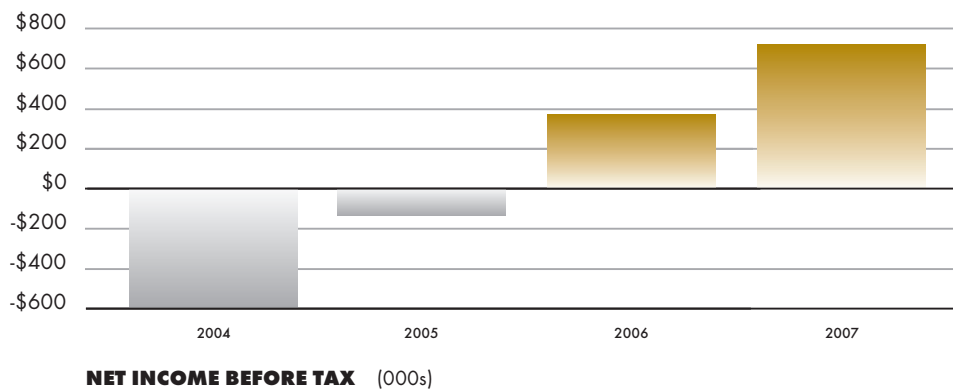
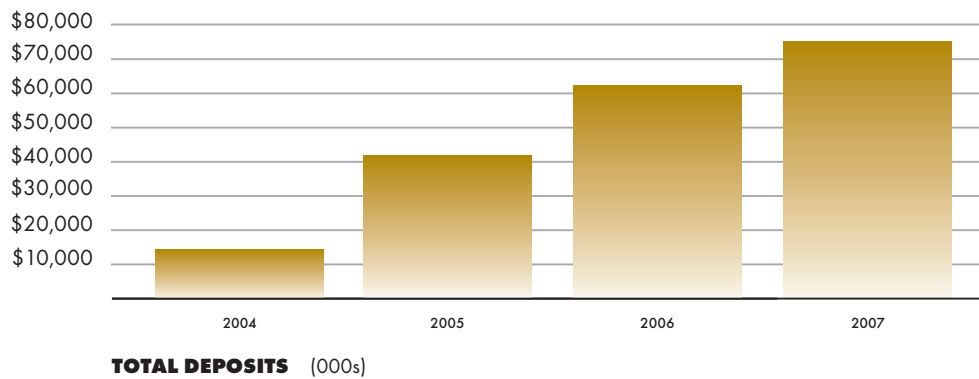
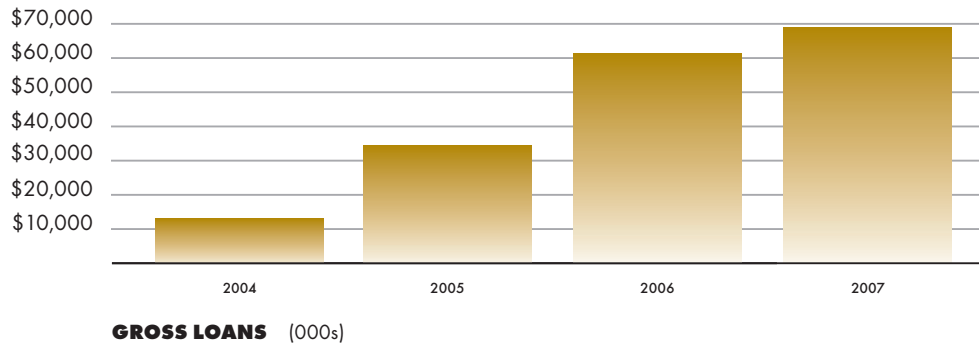
2007



**SUMMIT**BANK

ANNUAL  
REPORT

## PERFORMANCE HIGHLIGHTS



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**SUMMIT**BANK

INTEGRITY

CONFIDENTIALITY

EXCEPTIONAL SERVICE

ACCOUNTABILITY

TRUST

**THRIVE.**  
BANK ON IT!

## LETTER TO SHAREHOLDERS

Dear Shareholders,

2007 was a turbulent year for financial institutions. The weakening residential real estate environment and collapse of the sub-prime mortgage market caused many financial institutions to write down assets and post sharply reduced earnings during the latter half of the year. Financial stock prices have reflected these events and the sector had its worst year since 1998.

Summit Bank's asset quality and earnings have not been materially affected by these industry problems as our loan and investment portfolios have never included assets with sub-prime exposure. Summit recorded steady asset and earnings growth throughout the year by doing what we have strived to do throughout our brief four year history, provide our customers with innovative banking solutions and the very best in personal service.

Summit's assets at year-end were \$89.7 million, an increase of \$13 million or 16.9% over the previous year. Loan production showed similar strength with growth of \$8.5 million or 14%. Deposits grew more than 19% over the previous year and totaled \$74.2 million at year end. Summit's pre-tax earnings increased from \$380 thousand in 2006, to \$695 thousand in 2007, an 83% increase.

2008 promises to be a challenging year for financial institutions and the US economy in general. Your Bank is well positioned for continued success.

We are grateful for your support as shareholders. Remember, the best way to support the Bank's success is to become customers as well.



Gretchen N. Pierce  
Board Chair



Ann Marie Mehlum  
President & CEO

## INDEPENDENT AUDITOR'S LETTER



The Board of Directors  
Summit Bank:

We have audited the accompanying balance sheets of Summit Bank (the “Bank”) as of December 31, 2007 and 2006, and the related statements of income, changes in stockholders’ equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Summit Bank as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Eugene, Oregon  
January 25, 2008

**The Federal Deposit Insurance Corporation has not reviewed the financial data and related data in this statement for accuracy or relevance.**

## BALANCE SHEETS

	December 31	
	2007	2006
<b>ASSETS</b>		
Cash and cash equivalents:		
Cash and due from banks	\$ 3,415,094	\$ 3,621,474
Interest-bearing deposits with other banks	4,419,313	108,568
Federal funds sold	760,000	2,585,000
Total cash and cash equivalents	<u>8,594,407</u>	<u>6,315,042</u>
Investment securities available-for-sale	8,715,032	6,393,071
Loans, less allowance for loan losses	68,454,008	59,950,935
Interest receivable	367,571	343,599
Equity investments, at cost	264,300	264,300
Property, net of accumulated depreciation	2,989,912	3,012,377
Deferred income taxes	148,061	282,598
Other assets	168,756	153,728
	<u>81,107,640</u>	<u>70,400,608</u>
Total assets	<u>\$ 89,702,047</u>	<u>\$ 76,715,650</u>
<b>LIABILITIES and STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Deposits:		
Noninterest-bearing demand	\$ 11,862,767	\$ 11,993,960
Savings and interest-bearing demand	42,573,066	36,270,750
Time, \$100,000 and over, maturing 2008	7,950,948	6,083,351
Other time, maturing 2008	11,810,980	7,996,360
Total deposits	<u>74,197,761</u>	<u>62,344,421</u>
Interest payable	232,716	115,160
Other liabilities	401,544	286,010
Repurchase agreements	2,860,625	2,539,184
Term debt	2,159,759	2,261,328
Total liabilities	<u>79,852,405</u>	<u>67,546,103</u>
Commitments (Notes 5, 15 and 17)		
Stockholders' equity:		
Common stock, no par value; 10,000,000 shares authorized, 983,612 shares outstanding (966,553 in 2006)	9,858,860	9,651,800
Retained earnings (Accumulated deficit)	1,414	(436,292)
Accumulated other comprehensive loss	(10,632)	(45,961)
Total stockholders' equity	<u>9,849,642</u>	<u>9,169,547</u>
Total liabilities and stockholders' equity	<u>\$ 89,702,047</u>	<u>\$ 76,715,650</u>

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

## STATEMENTS OF OPERATIONS

	<b>Year Ended December 31</b>	
	<b>2007</b>	<b>2006</b>
Interest income:		
Interest and fees on loans	\$ 5,029,096	\$ 3,535,786
Interest on investment securities	188,405	353,724
Interest on federal funds sold and short-term time deposits	<u>291,199</u>	<u>280,074</u>
	<b>5,508,700</b>	4,169,584
Interest expense	<u>2,510,428</u>	<u>1,781,177</u>
Net interest income	<b>2,998,272</b>	2,388,407
Provision for loan losses	<u>124,751</u>	<u>332,075</u>
Net interest income after provision for loan losses	<b>2,873,521</b>	2,056,332
Noninterest income:		
Rental income	278,249	113,761
Service charges	22,817	19,712
Other, principally fee income	<u>83,737</u>	<u>21,475</u>
	<b>384,803</b>	154,948
Noninterest expense:		
Salaries and employee benefits	1,584,084	1,091,755
Occupancy and equipment expense	264,282	141,509
Rental expenses	149,021	70,485
Other	<u>566,296</u>	<u>527,664</u>
	<b>2,563,683</b>	1,831,413
Income before income taxes	<b>694,641</b>	379,867
Income tax (expense) benefit	<u>(256,935)</u>	<u>253,990</u>
Net income	<b>\$ 437,706</b>	<b>\$ 633,857</b>
Earnings per share:		
Basic	\$ .45	\$ .66
Diluted	\$ .43	\$ .64

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

## STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

For the Years Ended December 31, 2007 and 2006

	Common Stock		Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			
Balance, January 1, 2006	966,553	\$ 9,651,800	\$ (1,070,149)	\$ (148,156)	\$ 8,433,495
Net income			633,857		633,857
Other comprehensive income:					
Decrease in unrealized losses on investment securities,				73,597	
Deferred income taxes				28,598	
				<u>102,195</u>	<u>102,195</u>
Comprehensive income					<u>736,052</u>
Balance, December 31, 2006	966,553	9,651,800	(436,292)	(45,961)	9,169,547
Net income			<b>437,706</b>		<b>437,706</b>
Other comprehensive income:					
Decrease in unrealized losses on investment securities,				57,311	
Deferred income taxes				(21,982)	
				<u>35,329</u>	<u>35,329</u>
Comprehensive income					<u>473,035</u>
Stock options exercised and related tax benefit - see Note below	<b>17,059</b>	<b>204,000</b>			<b>204,000</b>
Share-based compensation		<b>3,060</b>			<b>3,060</b>
Balance, December 31, 2007	<b><u>983,612</u></b>	<b><u>\$ 9,858,860</u></b>	<b><u>\$ 1,414</u></b>	<b><u>\$ (10,632)</u></b>	<b><u>\$ 9,849,642</u></b>

Note – During 2007 a former Bank employee exercised 5,000 stock options at an exercise price of \$100.00 per share. The \$50,000 exercise price was funded by the employee's surrender of 2,941 previously owned shares at the then current market price of \$17.00 per share. On a net basis, 2,059 shares were issued in connection with this transaction. In addition, during 2007 directors of the Bank exercised 15,000 options for \$10.00 per share. These transactions were settled in cash.

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

## STATEMENTS OF CASH FLOWS

	<b>Year Ended December 31</b>	
	<b>2007</b>	<b>2006</b>
Cash flows from operating activities:		
Net income	\$ 437,706	\$ 633,857
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	120,202	94,879
Amortization (accretion) of investment premiums, net	35	(12,154)
Provision for loan losses	124,751	332,075
Deferred income taxes	112,555	(254,000)
Change in:		
Interest receivable and other assets	(39,000)	(303,516)
Deferred loan fees	34,371	146,819
Interest and other liabilities	284,689	192,657
Net cash provided by operating activities	<b>1,075,309</b>	<b>830,617</b>
Cash flows from investing activities:		
Purchase of investment securities	(8,345,083)	(4,573,771)
Proceeds from maturities of investment securities	6,080,397	5,081,355
Sale of loans	9,097,275	4,119,826
Purchase of loans	(700,000)	(1,100,000)
Loans originated, net of principal collected	(17,054,008)	(29,381,928)
Purchase of equity investments	-	(205,600)
Purchase of property	(97,737)	(2,849,518)
Net cash used in investing activities	<b>(11,019,156)</b>	<b>(28,909,636)</b>
Cash flows from financing activities:		
Net increase in deposits	11,853,340	20,048,731
Increase in repurchase agreements	321,441	1,704,602
Proceeds from term debt on building acquisition	-	1,605,000
Proceeds from stock options exercised	150,000	-
Payments on term borrowings	(101,569)	(61,608)
Net cash provided by financing activities	<b>12,223,212</b>	<b>23,296,725</b>
Net increase (decrease) in cash and cash equivalents	<b>2,279,365</b>	<b>(4,782,294)</b>
Cash and cash equivalents, beginning of year	<b>6,315,042</b>	<b>11,097,336</b>
Cash and cash equivalents, end of year	<b>\$ 8,594,407</b>	<b>\$ 6,315,042</b>
Supplemental information:		
Cash paid during the year for interest	\$ 2,392,872	\$ 1,710,579
Change in unrealized losses on investment securities available-for-sale, net of deferred income taxes	35,329	102,195

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

## NOTES TO FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies:

**General** – The Bank provides commercial banking, financing, real estate lending and other services in Western Oregon. The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

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

**Cash and Cash Equivalents** – For purposes of presentation in the statements of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheets caption “Cash and due from banks.” Such amounts include interest-bearing deposits with other banks, principally short-term portfolio time deposits, and federal funds sold on an overnight basis and may exceed amounts insured by FDIC.

**Investment Securities** – The Bank classifies all investment securities as available-for-sale. Securities available-for-sale are held for indefinite periods of time and may be sold in response to changes in market interest rates, shifts in the maturity mix or concentration of bank assets or liabilities or to alleviate liquidity demands. Securities designated as available-for-sale are carried at estimated fair value. Temporary unrealized gains and losses are excluded from earnings and are credited or charged to other comprehensive income in stockholders’ equity, net of applicable deferred taxes.

Interest income on debt securities is included in income using the effective interest method. Gains and losses realized on sales of securities are recognized on the specific identification method.

Declines in fair value of individual available-for-sale securities below their adjusted cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. Temporary unrealized losses are charged to stockholders’ equity as noted above. Management believes that all unrealized losses on investment securities at December 31, 2007 are temporary.

**Loans Held-for-Sale** – There are no loans held-for-sale at December 31, 2007.

**Loans and Income Recognition** – Loans are stated at the amount of unpaid principal, reduced by deferred loan origination fees and an allowance for loan losses. Interest on loans is calculated using the simple-interest method on daily balances of the principal amount outstanding. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts that the borrower’s financial condition is such that collection of the interest is doubtful. Loan origination fees, net of associated direct costs, if significant, are amortized by the constant yield method over the contractual life of the loan.

**Allowance for Loan Losses** – The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management considers adequate to absorb possible losses on existing loans that may become uncollectible based on evaluations of the collectibility of loans and prior loss experience. The evaluations take into consideration such factors as changes in the nature and value of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower’s ability to pay.

## NOTES TO FINANCIAL STATEMENTS

A loan is considered impaired when management believes that it is probable that all amounts will not be collected according to the contractual terms. An impaired loan is valued using the present value of expected cash flows discounted at the loan's effective interest rate, the observable market price of the loan or the estimated fair value of the loan's collateral or related guaranty. Loans deemed impaired are specifically allocated for in the allowance for loan losses. There are no impaired loans at December 31, 2007.

The Bank classifies loss reserves for unfunded loan commitments in other liabilities.

Federal and State of Oregon bank regulatory agencies, as an integral part of their examination process, periodically review the Bank's reserve for loan losses.

Such agencies may require the Bank to recognize additions to the reserve in the future based on their judgment of the information available to them at the time of their examinations.

**Equity Investments** – Equity investments consist of the following:

	<u>2007</u>	<u>2006</u>
Federal Home Loan Bank stock	\$ 74,300	\$ 74,300
Pacific Coast Bankers' Bancshares stock, at cost which approximates market value	<u>190,000</u>	<u>190,000</u>
	<u>\$ 264,300</u>	<u>\$ 264,300</u>

The investment in Federal Home Loan Bank ("FHLB") stock is carried at cost, which approximates its fair value. As a member of the FHLB system, the Bank is required to maintain a minimum level of investment in FHLB stock based on specific percentages of its outstanding mortgages, total assets or FHLB advances. At December 31, 2007, the minimum required investment was \$71,100. The Bank may request redemption at par value of any stock in excess of the amount it is required to hold.

**Property** – Property is stated at cost, net of accumulated depreciation. Additions, betterments and replacements of major units are capitalized. Expenditures for normal maintenance, repairs and replacements of minor units are charged to expense as incurred. Gains or losses realized from sales or retirements are reflected in operations currently.

Depreciation is computed by the straight-line method over the estimated useful lives of the assets.

**Advertising** – Advertising costs are charged to expense during the period in which they are incurred.

**Income Taxes** – Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are calculated on differences between financial statement and tax bases of assets and liabilities using tax rates in effect for the year in which the differences are expected to reverse. A valuation allowance is recognized if, based on the available evidence, it is determined it is more likely than not some portion or all of the deferred tax assets will not be realized.

**Comprehensive Income (Loss)** – The Bank reports other comprehensive income (loss) in the statements of stockholders' equity separately from accumulated deficit. Such amount results from unrealized holding gains and losses on available-for-sale securities, net of deferred income taxes.

## NOTES TO FINANCIAL STATEMENTS

**Derivative Instruments and Hedging Activities** – The Bank uses derivative financial instruments (interest rate swaps) to limit exposure to changes in interest rates (Note 15). The Bank accounts for derivatives under the provision of Statement of Financial Accounting Standards (“SFAS”) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Derivatives entered into by the Bank are designated as fair value hedges with perfect effectiveness between changes in the value of the interest rate swap and the hedged instrument (loan). Thus, no ineffectiveness is recognized in earnings.

**Stockholders’ Equity and Earnings Per Share** – Basic earnings per share are computed by dividing net income by the weighted average number of shares outstanding during the period. Diluted earnings per share include the effect of common stock equivalents that would arise from the exercise of stock options discussed in Note 13.

Weighted average shares outstanding at December 31 are as follows:

	<u>2007</u>	<u>2006</u>
Basic	979,124	966,553
Common stock equivalents attributable to stock options	<u>29,810</u>	<u>22,845</u>
Diluted	<u>1,008,934</u>	<u>989,398</u>

**Share-Based Compensation** – The Bank adopted SFAS No. 123R, *Share-Based Payment*, on the required effective date, January 1, 2006, using the modified prospective method provided for under SFAS No. 123R. Accordingly, results for prior periods have not been restated. Under the provisions of SFAS No. 123R options granted prior to 2006 are accounted for using the accounting principles previously applied to those awards. For options granted prior to January 1, 2006, the Bank continues to apply the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*. No compensation expense is recognized for pre-2006 stock option grants, as all such grants had an exercise price equal to the fair market value on the date of grant.

The following pro forma disclosures illustrate the effect on net income and earnings per share if the Bank had applied the fair value method of SFAS No. 123 for the vesting of options granted prior to January 1, 2006.

	<u>Year Ended December 31</u>	
	<u>2007</u>	<u>2006</u>
Net income - as reported	\$ 437,706	\$ 633,857
Deduct total stock-based employee compensation expense determined under the fair value method for all awards, net of related tax effects	<u>0</u>	<u>(51,617)</u>
Net income - pro forma	<u>\$ 437,706</u>	<u>\$ 582,240</u>
Earnings per share:		
Basic - as reported	\$ .45	\$ .66
Basic - pro forma	\$ .45	\$ .60
Diluted - as reported	\$ .43	\$ .64
Diluted - pro forma	\$ .43	\$ .60

## NOTES TO FINANCIAL STATEMENTS

The weighted average fair value of each option grant (\$6.14 and \$4.90 in 2007 and 2006, respectively) is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	<u>2007</u>	<u>2006</u>
Risk-free interest rate	4.9%	5.0%
Expected life	8 years	8 years
Dividend yield	0	0
Expected volatility	0	0

**Recently Issued Accounting Pronouncements** – In July 2006, the Financial Accounting Standards Board issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (“FIN 48”). FIN 48 establishes a recognition threshold and measurement for income tax positions recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 also prescribes a recognition and measurement evaluation process for tax positions. For recognition, an enterprise judgmentally determines whether it is more-likely-than-not that a tax position will be sustained upon examination, based on the technical merits of the position. If the tax position meets the more-likely-than-not recognition threshold, the benefit is measured and recognized in the financial statements. Tax positions that meet the more-likely-than-not recognition threshold at the effective date of FIN 48 may be recognized, or continue to be recognized, upon adoption of this Interpretation. The cumulative effect of applying the provisions of FIN 48 shall be reported as an adjustment to the opening balance of retained earnings for that fiscal year. FIN 48 is effective for fiscal years beginning after December 15, 2007. Accordingly, the Bank plans to adopt FIN 48 on January 1, 2008. The Bank is evaluating the impact of adoption of FIN 48 and at this point does not believe it will have a material impact on the Bank’s financial statements.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurement*, defining fair value, establishing a framework for measuring fair value in generally accepted accounting principles, and expanding disclosures about fair value measurements. SFAS No. 157 is effective for the Bank on January 1, 2008. The Bank is currently evaluating the impact of the adoption of SFAS No. 157.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 provides entities with an option to report certain financial assets and liabilities at fair value. If elected, subsequent changes in fair value would be reported in earnings and the Bank would be required to make additional disclosures related to the election to use fair value reporting. It also requires the Bank to display the fair value of those assets and liabilities on the face of the balance sheet for which the Bank has elected to use fair value. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Management is currently evaluating the impact that SFAS No. 159 may have on its future financial statements.

### 2. Interest-bearing Deposits with Other Banks:

Interest-bearing deposits with other banks consist of short-term investments in a portfolio deposits program administered by SunTrust Bank and short-term time deposit investments in the CDARS network administered by Promontory Interfinancial Network. Such deposits are in maximum increments of \$99,000 and qualify for FDIC deposit insurance.

## NOTES TO FINANCIAL STATEMENTS

### 3. Investment Securities:

The amortized cost and estimated fair values of available-for-sale investment securities at December 31 are as follows:

	2007 Securities					
	Available-for-Sale			Estimated Fair Value	Securities in Continuous Unrealized Loss Position for Less Than 12 Months	Securities in Continuous Unrealized Loss Position for 12 Months or Longer
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses			
Obligations of U.S. Government sponsored agencies	\$ 1,950,451	\$ -	\$ (1,562)	1,948,889	\$ -	\$ 1,948,889
Mortgage-backed securities	2,781,830	13,726	(29,413)	2,766,143	742,068	1,069,831
Money market mutual funds	4,000,000	-	-	4,000,000	-	-
	<u>\$ 8,732,281</u>	<u>\$ 13,726</u>	<u>\$ (30,975)</u>	<u>\$ 8,715,032</u>	<u>\$ 742,068</u>	<u>\$ 3,018,720</u>

	2006 Securities					
	Available-for-Sale			Estimated Fair Value	Securities in Continuous Unrealized Loss Position for Less Than 12 Months	Securities in Continuous Unrealized Loss Position for 12 Months or Longer
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses			
U.S. Treasury securities	\$ 1,099,667	\$ -	\$ (4,730)	\$ 1,094,937	\$ -	\$ 1,094,937
Obligations of U.S. Government sponsored agencies	4,049,125	-	(20,345)	4,028,780	-	4,028,780
Mortgage-backed securities	1,318,839	-	(49,485)	1,269,354	-	1,269,354
	<u>\$ 6,467,631</u>	<u>\$ -</u>	<u>\$ (74,560)</u>	<u>\$ 6,393,071</u>	<u>\$ -</u>	<u>\$ 6,393,071</u>

The amortized cost and estimated fair value of investment securities at December 31, 2007 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 749,970	\$ 748,408
Due after one year through five years	1,200,481	1,200,481
Mortgage-backed securities	2,781,830	2,766,143
Money market mutual funds	4,000,000	4,000,000
	<u>\$ 8,732,281</u>	<u>\$ 8,715,032</u>

There were no sales of investment securities in 2007 or 2006.

At December 31, 2007, investment securities with estimated fair value of \$4,239,502 and amortized cost of \$4,225,198 were pledged for Federal Home Loan Bank borrowing, repurchase agreements and public deposits.

## NOTES TO FINANCIAL STATEMENTS

### 4. Loans:

Major classifications of loans at December 31 are as follows:

	<u>2007</u>	<u>2006</u>
Commercial loans	\$ 17,903,725	\$ 15,588,988
Real estate loans	50,350,514	44,384,021
Consumer loans	<u>1,206,549</u>	<u>832,535</u>
	69,460,788	60,805,544
Deferred loan origination fees	<u>(231,899)</u>	<u>(197,528)</u>
	69,228,889	60,608,016
Allowance for loan losses	<u>(774,881)</u>	<u>(657,081)</u>
	<u>\$ 68,454,008</u>	<u>\$ 59,950,935</u>

The loan portfolio at December 31, 2007 and 2006 includes \$50,384,891 and \$36,461,434, respectively, of loans which have a variable rate of interest.

Loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of such serviced loans were \$19,618,059 and \$9,769,409 at December 31, 2007 and 2006, respectively.

There were no loans outstanding on December 31, 2007 or 2006 which were on a nonaccrual basis, contractually past due 90 days or more as to interest or principal payments, or modified as to the original agreement to terms more favorable than market conditions.

Activity in the allowance for loan losses for the period ended December 31 is as follows:

	<u>2007</u>	<u>2006</u>
Balance, beginning of period	\$ 657,081	\$ 333,005
Loans charged off	(1,489)	-
Provision charged to income	124,751	332,075
Reclassify reserve for unfunded loan commitments	<u>(5,462)</u>	<u>(7,999)</u>
Balance, end of period	<u>\$ 774,881</u>	<u>\$ 657,081</u>

Concentration of Credit Risk – Although the Bank has a diversified loan portfolio, a significant portion of its debtors' ability to honor their contracts is dependent upon the commercial real estate sector. The Bank's loans to commercial real estate related borrowers totaled \$33,713,635 or 48% and \$27,083,375 or 44% of its December 31, 2007 and 2006 loan portfolios, respectively. The Bank's policy for requiring collateral for the commercial real estate loans does not differ substantially from collateral requirements in its other lending.

## NOTES TO FINANCIAL STATEMENTS

### 5. Property:

Property at December 31 consists of the following:

	<u>2007</u>	<u>2006</u>
Land	\$ 1,139,500	\$ 1,139,500
Building and improvements	1,835,284	1,802,830
Computer equipment and software	157,146	130,677
Furniture and equipment	<u>193,611</u>	<u>154,797</u>
	3,325,541	3,227,804
Accumulated depreciation	<u>(335,629)</u>	<u>(215,427)</u>
	<u>\$ 2,989,912</u>	<u>\$ 3,012,377</u>

The Bank purchased its previously leased headquarters in 2006. Rent expense in 2006 related to this lease was \$35,175. The Bank leases to others approximately 74% of the building. Rental income recorded under noncancelable leases as well as other month-to-month agreements totaled \$278,248 in 2007 and \$113,761 in 2006, respectively and is recorded in noninterest income.

Future expected revenues from noncancelable leases are:

2008	231,387
2009	63,636
2010	<u>37,350</u>
	<u>\$ 332,373</u>

### 6. Other Assets:

Other assets at December 31 consist of the following:

	<u>2007</u>	<u>2006</u>
Prepaid expenses	\$ 54,124	\$ 55,073
Capitalized property financing costs, net of amortization	44,602	50,197
Real estate lease payments receivable	23,157	21,925
Deposits with vendors	38,704	16,377
Other	<u>8,169</u>	<u>10,156</u>
	<u>\$ 168,756</u>	<u>\$ 153,728</u>

### 7. Contract Deposits Arrangements:

The Bank acts as custodian of certain deposits in trust totalling approximately \$9,300,000 at December 31, 2007. The agreements provide that such deposits are paid interest at negotiated fixed rates for one-year terms, renewable annually. The current agreements extend through November 2008. The Bank pays contract administration costs associated with these agreements that are included in noninterest expense.

### 8. Borrowings:

Short-term borrowings include repurchase agreements of \$2,860,625 (average rate 3.08%) and \$2,539,184 (average rate 3.42%) at December 31, 2007 and 2006, respectively. Investment securities are pledged as collateral in an amount equal to the repurchase agreements.

## NOTES TO FINANCIAL STATEMENTS

Term debt consists of a FHLB term advance payable monthly with interest at 4.68%, fixed, and a note payable to Ohio National Life Insurance Company (ONLIC) with collateral of land and building, payable monthly with interest at 6.75%, fixed, due as follows:

	<u>FHLB</u>	<u>ONLIC</u>	<u>Total</u>
2008	\$ 65,862	\$ 42,286	\$ 108,148
2009	69,924	45,230	115,154
2010	74,237	48,379	122,616
2011	78,816	51,748	130,564
2012	83,671	55,351	139,022
2013-2016	<u>224,958</u>	<u>1,319,297</u>	<u>1,544,255</u>
	<u>\$ 597,468</u>	<u>\$ 1,562,291</u>	<u>\$ 2,159,759</u>

The Bank has a borrowing limit with the FHLB equal to 10% of total assets. This borrowing line is limited to collateral consisting of FHLB stock, funds on deposit with FHLB and eligible portions of the Bank's loan portfolio. The available borrowing line at December 31, 2007 was approximately \$7,700,000 (\$7,102,000 unused).

The Bank has unsecured federal funds borrowing lines available with correspondent banks totaling \$7,500,000 at December 31, 2007. There were no borrowings against these lines at December 31, 2007.

### 9. Interest and Fees on Loans:

Interest and fees on loans for the periods ended December 31 are comprised of the following:

	<u>2007</u>	<u>2006</u>
Commercial	\$ 1,188,486	\$ 888,227
Real Estate	3,759,304	2,589,151
Consumer	<u>81,306</u>	<u>58,408</u>
Total interest and fees on loans	<u>\$ 5,029,096</u>	<u>\$ 3,535,786</u>

### 10. Interest Expense:

Interest expense for the periods ended December 31 is comprised of the following:

	<u>2007</u>	<u>2006</u>
Savings and interest-bearing demand	\$ 1,348,043	\$ 1,119,786
Time deposits in excess of \$100,000	362,327	322,224
Other time deposits	585,566	211,699
Other borrowings	<u>214,492</u>	<u>127,468</u>
Total interest expense	<u>\$ 2,510,428</u>	<u>\$ 1,781,177</u>

### 11. Benefit Plans:

The Bank has a 401(k) profit sharing plan covering substantially all employees. Employer contributions are determined annually by the Board of Directors. Employer contributions were \$46,231 and \$13,766 in 2007 and 2006, respectively.

## NOTES TO FINANCIAL STATEMENTS

### 12. Other Expense:

Other expense for the periods ended December 31 is comprised of the following:

	<u>2007</u>	<u>2006</u>
Data processing	\$ 138,086	\$ 129,801
Professional services	85,422	60,530
Contract funds administration	78,537	74,636
Advertising, marketing and public relations	86,068	44,494
Supplies and postage	69,424	52,306
Communications	46,128	39,100
Insurance	11,357	11,934
Other operating expenses	<u>51,274</u>	<u>114,863</u>

### 13. Income Taxes:

The provision for income taxes for the periods ended December 31 consists of the following:

	<u>2007</u>	<u>2006</u>
Currently payable:		
Federal	\$ 119,380	\$ -
State	<u>25,000</u>	<u>10</u>
	<u>144,380</u>	<u>10</u>
Deferred benefits:		
Federal	93,247	(225,000)
State	<u>19,308</u>	<u>(29,000)</u>
	<u>112,555</u>	<u>(254,000)</u>
Total tax expense (benefit)	<u>\$ 256,935</u>	<u>\$ (253,990)</u>

The provision for income taxes results in effective tax rates different from the federal income tax statutory rate. The reasons for the differences are as follows:

	<u>2007</u>	<u>2006</u>
Tax on income at statutory rate (34%)	\$ 236,178	\$ 129,155
State income tax, net of federal benefit	30,259	13,906
Deferred tax rate adjustments and other	(9,502)	1,238
Valuation allowance (eliminated)	<u>-</u>	<u>(398,289)</u>
	<u>\$ 256,935</u>	<u>\$ (253,990)</u>

## NOTES TO FINANCIAL STATEMENTS

The provision for deferred income taxes results from timing differences in the recognition of transactions for financial statement and tax purposes. The nature and tax effects of these differences for the periods ended December 31 is as follows:

	<u>2007</u>	<u>2006</u>
Net operating loss	\$ (138,701)	\$ (156,042)
Pre-opening and organizational expenses	(24,832)	(24,832)
Loan loss deduction for tax purposes less than provision for financial reporting purposes	47,849	89,672
Depreciation	(10,497)	(32,650)
Loan origination costs	593	(9,322)
Accrued vacation pay	1,101	(601)
Other	<u>11,932</u>	<u>(10,514)</u>
Deferred tax benefit	(112,555)	(144,289)
Valuation allowance eliminated	<u>-</u>	<u>398,289</u>
Net deferred tax benefit	<u>\$ (112,555)</u>	<u>\$ 254,000</u>

The components of deferred tax assets and liabilities at December 31 are as follows:

	<u>2007</u>	<u>2006</u>
Assets:		
Net operating loss	\$ -	\$ 149,715
Pre-opening and organizational expenses	28,970	51,620
Allowance for loan losses	212,137	139,194
Accrued vacation pay	3,662	2,458
Unrealized loss on investment securities available-for-sale	<u>6,616</u>	<u>28,598</u>
Total deferred tax assets	<u>251,385</u>	<u>371,585</u>
Liabilities:		
Excess tax over book depreciation	64,526	51,868
Loan origination costs	24,223	23,810
Prepaid expenses deducted for tax purposes	<u>14,575</u>	<u>13,309</u>
Total deferred tax liabilities	<u>103,324</u>	<u>88,987</u>
Net deferred tax assets	<u>\$ 148,061</u>	<u>\$ 282,598</u>

Management believes that net deferred income taxes will be recognized in the normal course of operations and, accordingly, management has not reduced deferred tax assets at December 31, 2007 and 2006 by a valuation allowance.

## NOTES TO FINANCIAL STATEMENTS

### 14. Stock Option Plans:

The Bank has Employee and Nonemployee Director Stock Option Plans that reserve shares of stock for issuance to employees and directors. Under the plans, the exercise price of each option must equal the market price of the Bank's stock on the date of the grant, and the option's maximum term is ten years. Vesting occurs over two- and three-year periods. Information with respect to options granted under the stock option plans is as follows:

	<u>2007</u>	<u>2006</u>
Total outstanding, beginning of year	102,498	97,498
Options granted:		
Employees - exercise price \$10.00 per share		6,500
Employees - exercise price \$16.00 per share	1,500	
Employees - exercise price \$19.00 per share	2,500	
Employees - exercise price \$20.25 per share	2,500	
Employees - exercise price \$21.00 per share	1,140	
Directors - exercise price \$19.00 per share	10,080	
Options exercised (total intrinsic value \$178,125)	(20,000)	-
Options expired	(5,811)	(1,500)
Total outstanding, end of year	<u>94,407</u>	<u>102,498</u>
Options exercisable end of year	73,447	92,998
Options available for grant	78,904	90,813

Outstanding options are as follows:

<u>Expiration</u>	<u>Average price per share</u>	<u>December 31, 2007</u>	
		<u>Exercisable</u>	<u>Outstanding</u>
2015	\$10.00	72,998	73,498
2016	\$15.00	-	5,000
2017	\$18.97	449	15,909
		<u>73,447</u>	<u>94,407</u>
Aggregate intrinsic value		<u>\$434,338</u>	<u>\$442,063</u>

### 15. Financial Instruments with Off-Balance-Sheet Risk:

In order to meet the financing needs of its customers, the Bank commits to extensions of credit and issues standby letters of credit. The Bank's exposure to credit loss in the event of non-performance 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 Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

## NOTES TO FINANCIAL STATEMENTS

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

To manage interest rate risk, the Bank enters into interest rate swaps that effectively convert fixed rate loans into variable rate instruments earning a margin over the one month LIBOR rate. These fair value hedges have been structured to be perfectly effective, thus no ineffectiveness is recognized in earnings. Compensating balances of \$284,000 held with a correspondent bank are pledged as security for these interest rate swaps.

Financial instruments with off-balance-sheet risk at December 31 are as follows:

	<u>2007</u>	<u>2006</u>
Commitments to extend credit	\$ 13,819,654	\$ 13,850,629
Standby letters of credit	300,975	270,000
Interest rate swaps (receive variable - pay fixed, maturing 2011-2021):		
Notional amount	9,597,759	6,342,000
Credit risk amount	506,560	118,096
Net fair value	0	0

### 16. Related Party Transactions:

The Bank has granted loans to officers and directors and to companies with which they are associated. Such loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated parties. Activity with respect to these loans during the periods ended December 31 was as follows:

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 4,371,329	\$ 2,098,901
Additions or renewals	685,239	2,309,478
Amounts collected or renewed	<u>(1,413,680)</u>	<u>(37,050)</u>
Balance, end of year	<u>\$ 3,642,888</u>	<u>\$ 4,371,329</u>

In addition, there were \$377,637 in commitments to extend credit to officers and directors, including related entities, at December 31, 2007 which are included as part of commitments in Note 15.

Deposits from officers, directors and related parties totaled \$2,968,639 and \$2,159,106 at December 31, 2007 and 2006, respectively.

### 17. Employment Agreement:

The Bank has entered into an employment agreement through December 2007 with its chief executive officer, Ann Marie Mehlum. The agreement provides for a minimum annual base salary of \$140,000, plus incentive compensation and benefits commonly found in such agreements.

## NOTES TO FINANCIAL STATEMENTS

### 18. Fair Value Disclosures of Financial Instruments:

The following disclosures are made in accordance with provisions of SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*. The use of different assumptions and estimation methods could have a significant effect on fair value amounts. Accordingly, the estimates of fair value herein are not necessarily indicative of the amounts that might be realized in a current market exchange.

The estimated fair values of the financial instruments at December 31, 2007 are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:		
Cash and cash equivalents	\$ 8,594,407	\$ 8,594,407
Investment securities available-for-sale	8,715,032	8,715,032
Loans, net of allowance for loan losses	68,454,008	68,300,511
Interest receivable	367,571	367,571
Equity investments	264,300	264,300
Financial liabilities:		
Deposits	74,197,761	74,229,659
Interest payable	232,716	232,716
Repurchase agreements	2,860,625	2,860,625
Term debt	2,159,759	2,242,484

Cash and Cash Equivalents – The fair value approximates carrying amount.

Securities – Fair value is based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices from similar securities.

Loans – Fair value of fixed-rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. Variable rate loans not at contractual floors have carrying amounts that are a reasonable estimate of fair value.

Equity investments – As stated in Note 1, equity investments are carried at cost which approximates fair value.

Deposits – Fair value of demand, interest-bearing demand and savings deposits is the amount payable on demand at the reporting date. Fair value of time deposits is estimated using the interest rates currently offered for the deposits of similar remaining maturities. In accordance with provisions of SFAS No. 107, the estimated fair values of deposits do not take into account the benefit that results from low-cost funding such deposits provide.

Repurchase agreements – The carrying amount is a reasonable estimate of fair value because of the short-term nature of these borrowings.

Term Debt – The fair value of fixed rate issuances is estimated using a discounted cash flow calculation.

Interest receivable and payable – The carrying amounts of accrued interest receivable and payable approximate their fair value

## NOTES TO FINANCIAL STATEMENTS

Off-Balance-Sheet Financial Instruments – The carrying amount and fair value are based on fees charged for similar commitments and are not material.

### 19. Regulatory Matters:

Restrictions on Dividends – Federal and state banking regulations place certain restrictions on dividend payments by the Bank. Generally dividends are limited to the amount of retained earnings. The Bank has minimal retained earnings at December 31, 2007.

The Bank is subject to the regulations of certain federal and state agencies and receives periodic examinations by those regulatory authorities. In addition, the Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table below) of Total and Tier I capital to risk-weighted assets, and of Tier I capital to leverage assets, all as defined in the regulations. Management believes, as of December 31, 2007, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2007, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts (in thousands) and ratios are also presented in the following 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, 2007:						
Total capital (to risk-weighted assets)	\$ 10,616	14.10%	\$ 6,021	8.00%	\$ 7,527	10.00%
Tier I capital (to risk-weighted assets)	\$ 9,815	13.04%	\$ 3,011	4.00%	\$ 4,516	6.00%
Tier I capital (to leverage assets)	\$ 9,815	11.26%	\$ 3,488	4.00%	\$ 4,360	5.00%
As of December 31, 2006:						
Total capital (to risk-weighted assets)	\$ 9,894	15.16%	\$ 5,196	8.00%	\$ 6,495	10.00%
Tier I capital (to risk-weighted assets)	\$ 9,216	14.11%	\$ 2,598	4.00%	\$ 3,896	6.00%
Tier I capital (to leverage assets)	\$ 9,216	12.39%	\$ 2,958	4.00%	\$ 3,698	5.00%

**INTEGRITY**

**CONFIDENTIALITY**

**EXCEPTIONAL SERVICE**

**ACCOUNTABILITY**

**TRUST**

**THRIVE.**  
**BANK ON IT!**

## SUMMIT BANK TEAM

DALE BEARE  
Residential Mortgage Officer

TIM CALHOUN  
Business Relationship Officer

JACOB ELD  
Senior Credit Analyst

SARAH FREELAND  
Teller

RODNEY GOEBEL  
Courier

SCOTT GOLDSTEIN\*  
Corporate Cashier and Chief Financial Officer

MARA HOOKER  
Relationship Banker

ASHLEY HORNER  
Credit Analyst

MARK A. HUMPHREYS\*  
SVP and Chief Credit Administrator

NANCY KINNARD  
VP Business Relationships

KERRY C. LANCY\*  
Corporate Secretary and Administrative Officer

HANS MCKNIGHT  
Operations Specialist

ANN MARIE MEHLUM\*  
President and Chief Executive Officer

MARY MERRIMAN-SMITH\*  
SVP Planning and Development

PAM PLILER\*  
Senior Operations Officer

RANDY RICHICHI  
VP, Commercial Loan Officer

KRISTA RIDDLE  
Loan Assistant

SUMMER ROAT  
Administrative Assistant

GENEVIEVE SACKET  
Technology Support Specialist

MARSI SMITH  
Loan Administration Assistant

GABRIELA SNYDER  
Technology Support Manager

JOY SPRIGGS  
Operations Assistant

PATRICIA STAHR  
Operations Officer

\* denotes Executive Officer

## CORPORATE OFFICE

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SUMMITBANKONLINE.COM

## INVESTOR INFORMATION

SCOTT GOLDSTEIN      541.684.7505

STOCK SYMBOL      SBKO



# **SUMMIT**BANK

## BOARD OF DIRECTORS



### **GRETCHEN N. PIERCE, CHAIR**

Gretchen is President and General Manager of Hult & Associates, LLC, a local commercial/industrial real estate development company. Prior to joining Hult & Associates, she worked in management positions for Boise Cascade including Director of Strategic, Capital and Information Planning. She has served on the Boards of Peace Health, University of Oregon Foundation, the Eugene Chamber of Commerce, the Oregon Community Foundation, Associated Oregon Industries and Siuslaw Bank.



### **J. PETER MOORE**

Peter is Chairman of the Board of the Pepsi Cola Bottling Company of Eugene. He currently is on the Board of the Oregon Bach Festival and serves as the Bach Festival Endowment Committee Co-Chair. He is a Past President of the Oregon Soft Drink Association and has served as Chairman of the National Soft Drink Association and the National Pepsi Cola Bottlers Association. Other past service includes the Boards of McKenzie Willamette Hospital, McKenzie Willamette Hospital Foundation and Cascade Health Solutions.



### **RICHARD M. ABRAHAM, MD**

Richard has been a practicing Emergency and Occupational Medicine physician with Cascade Medical Associates since 1979. He is also the Medical Director of Cascade Health Solutions Occupational Medicine Program and serves on the Boards of the McKenzie Cascade Health Solutions & McKenzie Willamette Medical Center. He has previously served on the Boards of PacificSource and the Marist Foundation.



### **DENNIS G. OREM**

Dennis is the CEO of Jerry's Home Improvement Centers with stores in Eugene and Springfield. He has been an active participant in local, regional and national industry trade organizations.



### **JACK L. COURTEMANCHE**

Jack retired as the President and CEO of Country Coach, Inc. in Junction City. From 1982-1989 he served on the senior staff at the White House for President Ronald Reagan. Prior to that, he was the President of several large corporations involved in manufacturing and retailing. He is a third generation Oregonian and serves on the governing Board for Peace Health.



### **ANDY J. STORMENT**

Andy is a Managing Director of McKenzie Capital a locally owned private equity firm that manages investments in commercial real estate and operating companies in Oregon. He was the Executive Vice President, Treasurer and Secretary of Percon Incorporated. He has prior experience in the accounting and wood products industries.



### **ALAN V. EVANS**

Alan is a founder and President of Evans, Elder & Brown, Inc., a commercial real estate brokerage. He currently serves as Vice Chair on the Board of the Oregon Bach Festival and is on the Boards of Next Step Recycling and the Arts Foundation of Western Oregon.



### **PAUL WEINHOLD**

Paul is the Managing Director of ABD Insurance and Financial Services of Oregon, an insurance brokerage firm. He serves in leadership roles for a variety of local non-profits including: The Oregon Classic, a professional golf tournament that benefits local charities, the Sacred Heart Foundation, the Oregon Trail Council and the Oregon Urology Foundation.



### **ANN MARIE MEHLUM**

Ann Marie serves as a Director and Chief Executive Officer of the Bank. She has a banking career that spans over 30 years and has served as CEO of Summit Bank since its inception in February 2004. She has served on numerous non-profit agency boards and currently serves on the Boards of United Way, the Eugene Area Chamber of Commerce, the Oregon Bankers Association and the American Bankers Association Community Banking Council.



### **JOHN R. YORK, MD**

John is the retired President of Women's Care Associates. He serves as President of Medical and Surgical Specialists of Lane County and is on the Board of Agate Resources and Trillium Holdings.



### **JEFFERY R. MILLER**

Jeff is an ordained minister and a Vice President with Pacific Benefit Consultants, an insurance and benefits company. He is a former Eugene Mayor and City Councilor. He serves on the Boards of Northwest Christian University, the Sacred Heart Foundation and the Child Center.



**SUMMIT**BANK

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