

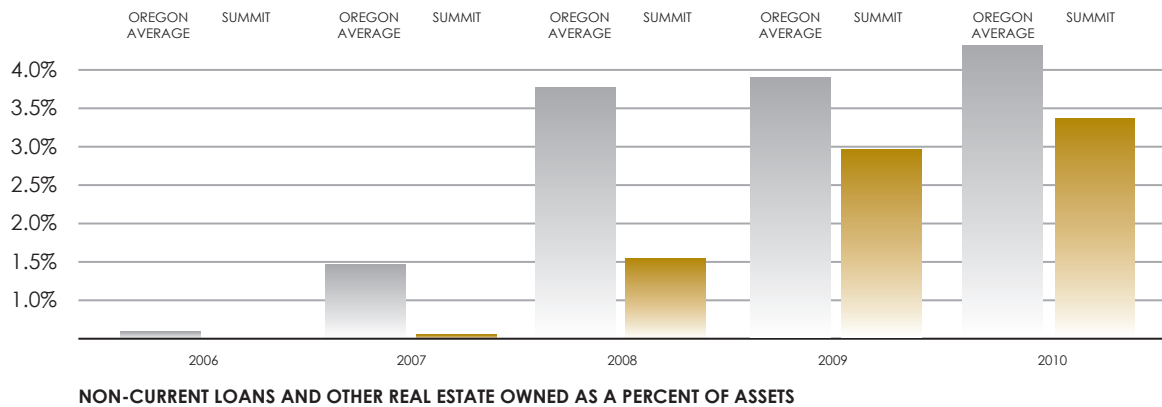
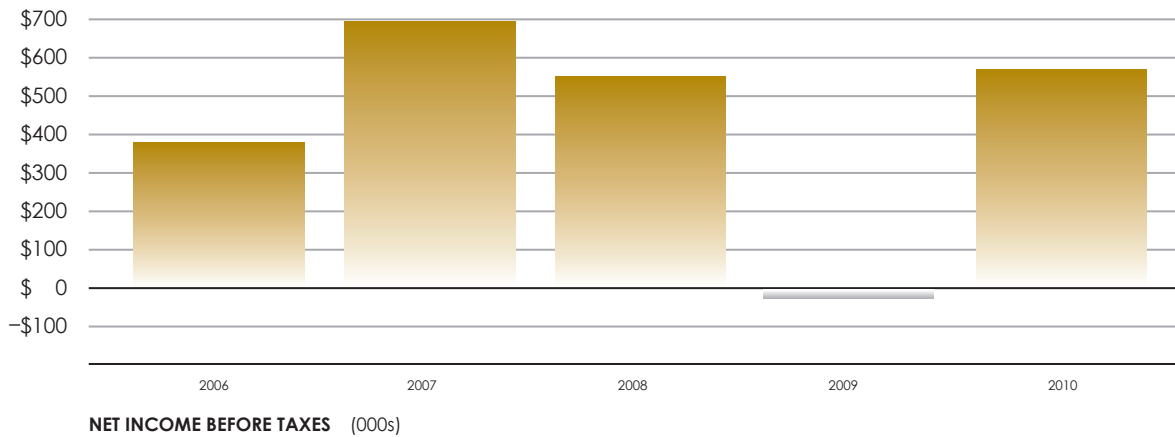
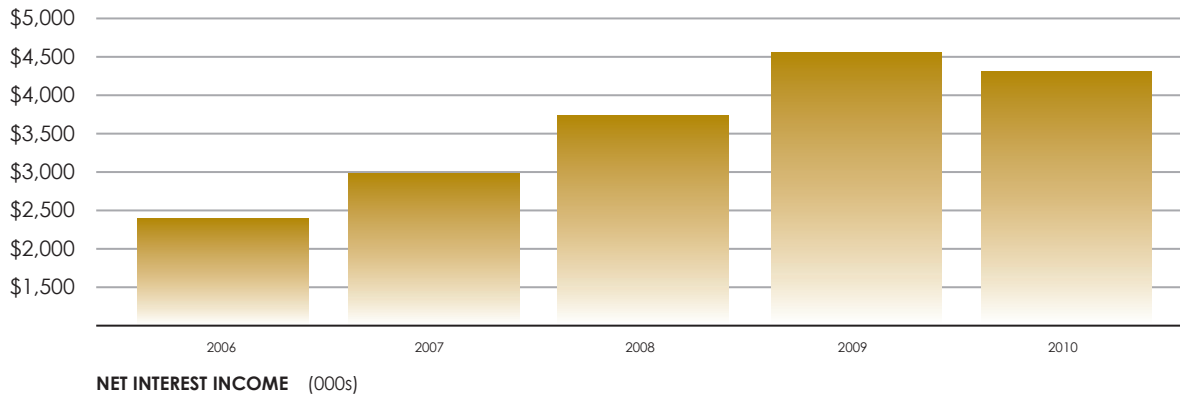
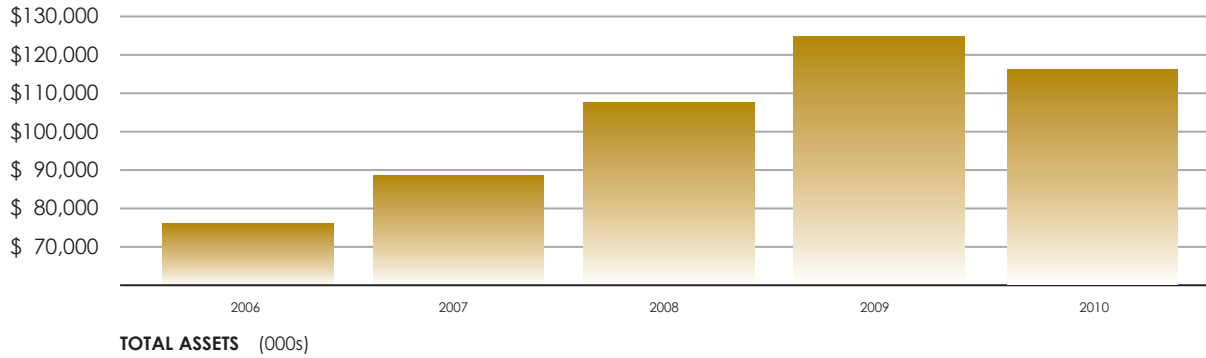
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**SUMMIT**BANK

ANNUAL  
REPORT

# PERFORMANCE HIGHLIGHTS



## CONTENTS

LETTER TO SHAREHOLDERS .....	3
INDEPENDENT AUDITOR'S LETTER.....	4
BALANCE SHEETS .....	5
STATEMENTS OF INCOME .....	6
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY .....	7
STATEMENTS OF CASH FLOWS .....	8
NOTES TO FINANCIAL STATEMENTS .....	9
CORPORATE & INVESTOR INFORMATION.....	24
BOARD OF DIRECTORS.....	25



**SUMMIT**BANK



## LETTER TO SHAREHOLDERS



April 1, 2011

To our Shareholders:

Summit's team of expert bankers worked closely with our clients during 2010 and made significant progress toward achieving their goals and ours. We are pleased to report that we reduced problem loans, strengthened the balance sheet, and improved earnings.

Asset quality improvement was noted in the significant reduction in net loans charged-off, which totaled \$454 thousand in 2010 as compared to \$1 million in 2009. While the Bank continues to maintain a strong reserve for future loan losses, reduction in the Allowance for Loan Loss Reserve from \$1.6 million to \$1.48 million also reflected improvement in the loan portfolio.

The balance sheet was strengthened due to improvements in the deposit product mix, thereby lowering the Bank's cost of funds. The Bank's large time deposits as a percentage of total deposits decreased from 33% at December 31st 2009 to 18% at December 31st 2010, while desirable business checking accounts increased to 26% of total deposits at year end 2010 from 21% last year. On the loan side, we were successful in reducing the Bank's concentration of real estate development and construction loans from \$13.2 million (10.5% of total assets) as of year-end 2009 to \$8.6 million (7.4% of total assets) on December 31st 2010. Additionally, the Bank increased its total regulatory capital by \$331 thousand in 2010. The Bank maintained a very strong liquidity position all year and ended 2010 with \$22.1 million (18.8% of total assets) in cash and securities.

The Bank posted net income of \$341 thousand or 34 cents per fully diluted share for the year. This improvement over 2009's break-even performance was due primarily to reduced loan related losses and an increase in non-interest income from new products and services utilized by the Bank's customers.

Summit has weathered the "Great Recession". While we see signs of improvement in our local economy, our customers and the Bank still face significant headwinds. However, we are confident the Bank is in position to capitalize on opportunities in the coming years.

We are grateful for the service of Gretchen Hult Pierce as Chair of the Board of Directors from the formation of the Bank in 2004 through 2010. Gretchen continues to serve on the Board and now chairs the Asset Liability Management Committee. Her leadership, steady hand, optimism and energy have played a major role in creating the successful local bank Summit has become.

We appreciate your patience during this difficult financial environment and will continue our work to increase the value of your investment.

R. Paul Weinhold  
Board Chair

Ann Marie Mehлум  
President & CEO

# INDEPENDENT AUDITOR'S LETTER



## Independent Auditor's Report

The Board of Directors  
Summit Bank:

We have audited the accompanying balance sheets of Summit Bank (the "Bank") as of December 31, 2010 and 2009, and the related statements of operations, 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, 2010 and 2009, 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.

*Isler CPA, LLC*

Eugene, Oregon  
March 21, 2011

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

## BALANCE SHEETS

	<b>Year Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
<b>ASSETS</b>		
Cash and cash equivalents:		
Cash and due from banks	\$ 5,007,512	\$ 7,680,405
Interest-bearing deposits with other banks	1,005,661	26,973
Federal funds sold	4,105,000	10,925,000
Total cash and cash equivalents	<u>10,118,173</u>	<u>18,632,378</u>
Investment securities available-for-sale	11,699,669	7,365,672
Loans, less allowance for loan losses	88,489,434	93,060,220
Interest receivable	377,561	388,924
Equity investments	264,300	264,300
Property, net of accumulated depreciation	3,028,993	3,152,357
Deferred income taxes	471,272	197,153
Foreclosed real estate	680,832	688,500
Cash surrender value of bank owned life insurance	1,740,581	1,284,943
Other assets	685,965	736,162
	<u>107,438,607</u>	<u>107,138,231</u>
Total assets	<u>\$ 117,556,781</u>	<u>\$ 125,770,610</u>
<b>LIABILITIES and STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Deposits:		
Noninterest-bearing demand	\$ 25,331,399	\$ 22,043,471
Savings and interest-bearing demand	50,495,762	47,061,555
Time, \$100,000 and over, maturing 2011	18,869,233	6,020,386
Other time, maturing 2011	2,107,702	31,387,273
Total deposits	<u>96,804,096</u>	<u>106,512,685</u>
Interest payable	102,005	167,092
Other liabilities	2,756,712	1,939,943
Repurchase agreements	5,085,472	4,633,401
Term borrowings	1,813,841	1,936,458
Total liabilities	<u>106,562,126</u>	<u>115,189,579</u>
Commitments (Notes 13 and 14)		
Stockholders' equity:		
Common stock, no par value; 10,000,000 shares authorized, 998,612 shares outstanding in 2010 and 2009	10,191,621	10,123,977
Retained earnings	686,711	345,401
Accumulated other comprehensive income	116,323	111,652
Total stockholders' equity	<u>10,994,655</u>	<u>10,581,031</u>
Total liabilities and stockholders' equity	<u>\$ 117,556,781</u>	<u>\$ 125,770,610</u>

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

## STATEMENTS OF INCOME

	Year Ended December 31	
	2010	2009
Interest income:		
Interest and fees on loans	\$ 4,801,239	\$ 5,155,691
Interest on investment securities	304,456	327,121
Interest on federal funds sold and short-term time deposits	26,879	40,068
	<u>5,132,574</u>	<u>5,522,880</u>
Interest expense	<u>855,699</u>	<u>934,792</u>
Net interest income	4,276,875	4,588,088
Provision for loan losses	<u>331,737</u>	<u>1,260,954</u>
Net interest income after provision for loan losses	<u>3,945,138</u>	<u>3,327,134</u>
Noninterest income:		
Rental income	208,788	232,480
Gain on sale of loans	128,214	-
Service charges and fees	76,882	51,888
Other	198,501	128,991
	<u>612,385</u>	<u>413,359</u>
Noninterest expense:		
Salaries and employee benefits	2,264,562	2,228,170
Occupancy and equipment expense	328,428	342,346
Write downs of foreclosed real estate	269,162	227,495
Data processing	205,843	208,230
Other	927,193	763,343
	<u>3,995,188</u>	<u>3,769,584</u>
Income (loss) before income taxes	562,334	(29,091)
Income tax expense (benefit)	<u>221,026</u>	<u>(19,359)</u>
Net income (loss)	<u>\$ 341,308</u>	<u>\$ (9,732)</u>
Earnings per share:		
Basic	\$ .34	\$ (.01)
Diluted	\$ .34	\$ (.01)

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

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2010 and 2009

	<u>Common Stock</u>		<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>		<u>Income</u>	
Balance, January 1, 2009	998,612	\$ 10,064,960	\$ 355,133	\$ 86,134	\$ 10,506,228
Net Loss			(9,732)		(9,732)
Other comprehensive income:					
Increase in unrealized gains on investment securities,				28,667	
Deferred income taxes				(3,149)	
				<u>25,518</u>	<u>25,518</u>
Comprehensive income					15,786
Share-based compensation		<u>59,015</u>			<u>59,015</u>
Balance, December 31, 2009	998,612	10,123,976	345,401	111,652	10,581,031
Net Income			<b>341,309</b>		<b>341,309</b>
Other comprehensive income:					
Increase in unrealized gains on investment securities,				26,118	
Deferred income taxes				(21,448)	
				<u>4,670</u>	<u>4,670</u>
Comprehensive income					<b>345,979</b>
Share-based compensation		<u>67,644</u>			<u>67,644</u>
Balance, December 31, 2010	<b><u>998,612</u></b>	<b><u>\$ 10,191,621</u></b>	<b><u>\$ 686,710</u></b>	<b><u>\$ 116,322</u></b>	<b><u>\$ 10,994,655</u></b>

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

## STATEMENTS OF CASH FLOWS

	<b>Year Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
Cash flows from operating activities:		
Net income (loss)	\$ 341,308	\$ (9,732)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	176,667	163,785
Share based compensation	67,644	59,015
Amortization (accretion) of investment premiums, net	45,317	(7,283)
Provision for loan losses	331,737	1,260,954
Gain on sale of loans	(128,214)	-
Write downs of foreclosed real estate	269,162	227,495
Deferred income taxes	(274,119)	(21,399)
Change in:		
Interest receivable and other assets	5,922	(476,918)
Deferred loan fees	(22,511)	(9,884)
Interest payable and other liabilities	751,682	(475,630)
Net cash provided by operating activities	<b>1,564,595</b>	<b>710,403</b>
Cash flows from investing activities:		
Purchase of investment securities	(8,181,682)	(5,651,450)
Principal payments and maturities of investment securities	3,845,195	6,032,456
Proceeds from sale of loans	3,679,668	11,912,799
Proceeds from sale of foreclosed real estate	213,829	-
Purchase of bank owned life insurance	(400,000)	-
Loans originated, net of principal collected	196,628	(20,571,363)
Purchase of property	(53,303)	(327,136)
Net cash used in investing activities	<b>(699,665)</b>	<b>(8,606,694)</b>
Cash flows from financing activities:		
Net increase (decrease) in deposits	(9,708,589)	20,155,811
Increase in repurchase agreements	452,071	581,262
Repayment of fed funds purchased	-	(1,000,000)
Payments on term borrowings	(122,617)	(115,154)
Net cash provided (used) by financing activities	<b>(9,379,135)</b>	<b>19,621,919</b>
Net increase (decrease) in cash and cash equivalents	<b>(8,514,205)</b>	<b>11,727,628</b>
Cash and cash equivalents, beginning of year	<b>18,632,378</b>	<b>6,904,750</b>
Cash and cash equivalents, end of year	<b>\$ 10,118,173</b>	<b>\$ 18,632,378</b>
Supplemental information:		
Cash paid during the year for interest	\$ 920,786	\$ 902,918
Cash paid during the year for income taxes	237,970	230,085
Change in unrealized losses on investment securities available-for-sale, net of deferred income taxes	4,670	25,518
Transfer of loans to foreclosed real estate	323,849	422,996

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.

**Financial Statement Presentation** – The preparation of the financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect reported amounts and related disclosures, and actual results could differ from those estimates. The most significant estimates are the allowance for loan losses and fair value estimates. The Bank has evaluated subsequent events through March 21, 2011, the date the financial statements were available for distribution. Certain prior year amounts have been reclassified to conform to the current year presentation.

**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 both interest-bearing and non interest-bearing deposits with other banks, principally short-term time deposits, and federal funds sold on an overnight basis and may exceed amounts insured by the 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. 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.

**Loans Held-for-Sale** – There are no loans held-for-sale at December 31, 2010 and 2009.

**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 interest or straight-line 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 off 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.

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.

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.

## NOTES TO FINANCIAL STATEMENTS

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

	<u>2010</u>	<u>2009</u>
Federal Home Loan Bank stock	\$ 74,300	\$ 74,300
Pacific Coast Bankers' Bancshares stock	<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 par, 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, 2010, the Bank’s minimum required investment was \$56,800. Stock redemptions may be requested at par value and are made at the discretion of the FHLB.

The Bank also holds an investment in its primary correspondent bank, Pacific Coast Bankers’ Bancshares (PCBB). This investment is carried at cost, which approximates fair value. PCBB reported a significant loss from its operations in the fiscal year ended December 31, 2009, and has subsequently reported positive net income for 2010 combined with significant improvements to its operations, particularly its asset quality. Management has evaluated the investment in PCBB stock for impairment and based upon the expectation of ultimate recovery of the par value of the investment, no impairment is recognized on the Bank’s investment in PCBB stock.

**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.

**Foreclosed Assets** – Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at fair value at the date of foreclosure based on current appraisals, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expense.

**Bank-owned Life Insurance (BOLI)** – The Bank is beneficiary of BOLI on certain Bank officers. The BOLI is recorded at fair value, which is based on the cash surrender value (net of surrender charges) of the insurance contracts. Changes in the cash surrender value are included in noninterest income in the accompanying statement of income.

**Advertising** – Advertising costs are charged to expense during the period in which they are incurred. Advertising expenses were \$51,386 and \$27,614 for the years ended December 31, 2010 and 2009, respectively.

**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.

Uncertain tax positions are accounted for in accordance with ASC 740 which prescribes recognition and measurement standards for uncertain income tax positions. The Standard provides guidance on recognition, derecognition, interest, penalties and disclosure. There is no material impact of potential tax uncertainties on Bank’s financial condition or results of operations at December 31, 2010.

## NOTES TO FINANCIAL STATEMENTS

**Derivative Instruments** – The Bank uses derivative financial instruments (interest rate swaps) to limit exposure to changes in interest rates. 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). All derivatives and related hedged loans are recognized in the balance sheet at their fair value. Changes in the fair value of a derivative that is highly effective, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk are recorded in current-period earnings. The Bank formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedged transactions. The Bank also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

The Bank would discontinue hedge accounting when: (a) it is determined that a derivative is no longer effective in offsetting changes in the fair value of the associated hedged item; (b) the derivative expires or is sold, terminated, or exercised; or (c) management determines that designation of the derivative as a hedge instrument is no longer appropriate. The hedged asset or liability would no longer be adjusted for changes in fair value and the derivative would be carried at its fair value in the balance sheet, with changes in its fair value recognized in current-period 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 10.

**Share-Based Compensation** – Financial accounting standards require companies to measure and recognize compensation expense for all share-based payments at the grant date based on the fair value of the award, as defined in the ASC 718, and include such costs as an expense over the requisite service (vesting) period. The Bank adopted ASC 718 using the modified prospective application, whereby the provisions of the statement have been applied prospectively only from the date of adoption for new (issued subsequent to December 31, 2005) and unvested stock option awards for which the requisite service is rendered after the date of adoption. Thus, the Bank recognizes as expense the fair value of stock options issued prior to January 1, 2006, but vesting after January 1, 2006, over the remaining vesting period.

**SBA/USDA Loans Sales and Servicing** – The Bank, on a limited basis, sells or transfers loans, including the government guaranteed portion of loans (with loan servicing retained) for proceeds equal to the principal amount of loans, as adjusted to yield interest to the investor based upon the current market rates. The Bank records an asset representing the right to service loans for others when it sells a loan and retains the servicing rights included in other assets. The carrying value of loans is allocated between the loan and the servicing rights, based on their relative fair values. The fair value of servicing rights is estimated by discounting estimated future cash flows from servicing using discount rates that approximate current market rates and using estimated prepayment rates. The servicing rights are carried at the lower of cost or market and are amortized in proportion to, and over the period of, the estimated net servicing income, assuming prepayments.

For the purposes of evaluating and measuring impairment, servicing rights are based on a discounted cash flow methodology, current prepayment speeds and market discount rates. Impairment is measured as the amount by which the carrying value of servicing rights for a loan asset exceeds its fair value. The carrying value of the servicing rights at December 31, 2010 and 2009 were \$104,071 and \$0, respectively. No impairment charges were recorded for the years ended December 31, 2010 or 2009, related to the servicing assets.

A premium over the adjusted carrying value is received upon the sale of the guaranteed portion of a loan. The Bank's investment in the loan is allocated among the sold and retained portions of the loan based on the relative fair value of each portion at the time of loan origination, adjusted for payments and other activities. Because the portion retained does not carry a guarantee, part of the gain recognized on the sold portion of the loan may be deferred and amortized as a yield enhancement on the retained portion in order to obtain a market equivalent yield.

## NOTES TO FINANCIAL STATEMENTS

**Fair Value** – The bank applies the hierarchy and framework for measuring fair value, and expanded disclosure about fair value measurements and the reliability of valuation inputs as provided in ASC 820. When determining the fair value, the Bank considers the transaction to sell an asset or transfer a liability occurs in the principal or at least the most advantageous market for that asset or liability. Within the hierarchy, Level 1 instruments use observable market prices for the identical item in active markets and have the most reliable valuations. Level 2 instruments are valued through broker/dealer quotation or through market-observable inputs for similar items in active markets, including forward and spot prices, interest rates and volatilities. Level 3 instruments are valued using inputs not observable in an active market such as Bank-developed future cash flow estimates, and are considered the least reliable. Valuations for all of the Bank’s financial instruments fall within Levels 2 and 3.

**Recently Issued Accounting Pronouncements** – In July 2010, FASB issued an Accounting Standards Update No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The objective of this update is to provide greater transparency about an entity’s allowance for credit losses and the credit quality of its financing receivables. This update is effective for the Bank for the year ended December 31, 2011.

In January 2010 FASB issued Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures, Improving Disclosures about Fair Value Measurements*. The objective of this statement was to increase the transparency in financial reporting of *Fair Value Measurement*. Part of this update became effective for the year ended December 31, 2010, the remainder will be effective for the Bank for the year ended December 31, 2011.

The Bank is currently evaluating the impact that the amendments effective in 2011 will have on its future financial statements.

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

Interest-bearing deposits with other banks at December 31, 2010 consist of demand account balances at the Federal Home Loan Bank of Seattle and time deposits at commercial banks, all FDIC insured.

## 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:

December 31, 2010						
Available-for-Sale				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	Estimated Fair Value			
Obligations of U.S. Government						
sponsored agencies	\$ 2,153,932	\$ 45,667	\$ -	2,199,599	\$ -	-
Corporate securities	2,005,952	5,474	(4,711)	2,006,715	996,525	-
Mortgage-backed securities	7,348,421	160,902	(15,968)	7,493,355	1,142,304	-
	<u>\$ 11,508,305</u>	<u>\$ 212,043</u>	<u>\$ (20,679)</u>	<u>\$11,699,669</u>	<u>\$ 2,138,829</u>	<u>\$ -</u>
December 31, 2009						
Available-for-Sale				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	Estimated Fair Value			
Obligations of U.S. Government						
sponsored agencies	\$ 2,150,000	\$ 41,571	\$ -	2,191,571	\$ -	-
Corporate securities	508,499	-	(3,149)	505,350	508,499	-
Mortgage-backed securities	4,541,927	126,824	-	4,668,751	-	-
	<u>\$ 7,200,426</u>	<u>\$ 168,395</u>	<u>\$ (3,149)</u>	<u>\$ 7,365,672</u>	<u>\$ 508,499</u>	<u>\$ -</u>

The amortized cost and estimated fair value of investment securities at December 31, 2010 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	\$ 1,505,952	\$ 1,511,010
Due after one year through five years	1,403,932	1,439,764
Due after more than five years	1,250,000	1,255,540
Mortgage-backed securities	7,348,421	7,493,355
	<u>\$ 11,508,305</u>	<u>\$ 11,699,669</u>

There were no sales of investment securities in 2010 or 2009.

## NOTES TO FINANCIAL STATEMENTS

At December 31, 2010, investment securities with estimated fair value of \$5,085,472 and amortized cost of \$4,952,167 were pledged for Federal Home Loan Bank borrowing, repurchase agreements and public deposits.

### 4. Loans:

Major classifications of loans at December 31 are as follows:

	<u>2010</u>	<u>2009</u>
Commercial loans	\$ 21,180,703	\$ 24,349,027
Real estate loans	66,009,800	67,152,018
Consumer loans	<u>2,990,630</u>	<u>3,393,958</u>
	90,181,133	94,895,003
Deferred loan origination fees	<u>(211,868)</u>	<u>(234,379)</u>
	89,969,265	94,660,624
Allowance for loan losses	<u>(1,479,831)</u>	<u>(1,600,404)</u>
Loans, net	<u>\$ 88,489,434</u>	<u>\$ 93,060,220</u>

Loans serviced for others are not included in the accompanying balance sheets. The unpaid principal balances of such serviced loans were \$35,276,010 and \$34,193,163 at December 31, 2010 and 2009, respectively.

The loan portfolio at December 31, 2010 and 2009 includes \$39,357,597 and \$30,026,949, respectively, of loans which have rates of interest that change more often than annually, exclusive of fixed rate loans that are effectively converted to variable rate loans via interest rate swaps. The December 31, 2010, amount includes \$14,091,802 of loans with interest rates at their contractual floors.

The loan portfolio at December 31, 2010 and 2009 includes \$3,415,465 and \$2,149,086, respectively, of loans in nonaccrual status. The specific valuation allowance for loan losses related to impaired loans was \$269,000 and \$784,275 at December 31, 2010 and 2009 respectively. The average recorded investment in impaired loans was \$2,207,438 in 2010 and \$1,861,258 in 2009. Interest income which would have been realized on nonaccrual loans had they remained accruing was approximately \$182,923 and \$33,900 in 2010 and 2009, respectively. There were no loans contractually past due 90 days or more as to interest or principal payments that were still accruing interest at December 31, 2010 or 2009. Loans modified as to their original agreements to terms more favorable than market conditions totalled \$2,180,886 and \$2,299,600 at December 31, 2010 and 2009 respectively.

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

	<u>2010</u>	<u>2009</u>
Balance, beginning of period	\$ 1,600,404	\$ 1,149,536
Loans charged off, net	(453,550)	(1,038,017)
Provision charged to income	331,737	1,488,449
Reclassify reserve for unfunded loan commitments	<u>1,240</u>	<u>436</u>
Balance, end of period	<u>\$ 1,479,831</u>	<u>\$ 1,600,404</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 totalled \$44,828,514 or 51% and \$48,021,167 or 52% of its December 31, 2010 and 2009 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>2010</u>	<u>2009</u>
Land	\$ 1,139,500	\$ 1,139,500
Building and improvements	2,122,361	2,109,379
Computer equipment and software	257,527	228,208
Furniture and equipment	<u>320,393</u>	<u>309,391</u>
	3,839,781	3,786,478
Accumulated depreciation	<u>(810,788)</u>	<u>(634,121)</u>
Property, net	<u>\$ 3,028,993</u>	<u>\$ 3,152,357</u>

The Bank owns its headquarters building and leases to others approximately 60% of the building. Rental income recorded under noncancelable leases as well as other month-to-month agreements totalled \$208,788 in 2010 and \$232,480 in 2009, respectively and is recorded in noninterest income. Future expected revenues from noncancelable leases are:

2011	161,468
2012	119,848
2013	93,423
2014	<u>37,800</u>
	<u>\$ 412,539</u>

### 6. Borrowings:

Short-term borrowings are repurchase agreements of \$5,085,472 (average rate 0.29%) and \$4,633,401 (average rate 0.20%) at December 31, 2010 and 2009, respectively. Investment securities are pledged as collateral in an amount equal to the repurchase agreements.

Term borrowings consist of an FHLB term advance payable monthly with interest at 4.68%, fixed, and a note payable to Ohio National Life Insurance Bank (ONLIC) payable monthly with interest at 6.75%, fixed, due as follows:

	<u>FHLB</u>	<u>ONLIC</u>	<u>Total</u>
2011	\$ 78,816	\$ 51,748	\$ 130,564
2012	83,677	55,351	139,028
2013	88,838	59,205	148,043
2014	94,317	63,327	157,644
2015-2016	<u>41,797</u>	<u>1,196,765</u>	<u>1,238,562</u>
	<u>\$ 387,445</u>	<u>\$ 1,426,396</u>	<u>\$ 1,813,841</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, 2010, is approximately \$7,358,000.

Land and building is pledged as collateral for the note payable to ONLIC.

## NOTES TO FINANCIAL STATEMENTS

The Bank has unsecured federal funds borrowing lines available with correspondent banks totalling \$2,060,000 at December 31, 2010. There were no borrowings against these lines at December 31, 2010. The Bank has a secured borrowing line available with the Federal Reserve Discount Window which is secured by a portion of the Bank's loan portfolio. The Bank had no outstanding advances from the facility at December 31, 2010, and had an availability of approximately \$3,131,000.

### 7. Interest and Fees on Loans:

Interest and fees on loans for the years ended December 31 is comprised of the following:

	<u>2010</u>	<u>2009</u>
Commercial	\$ 1,605,360	\$ 1,455,330
Real estate	2,812,457	3,488,231
Consumer	<u>383,422</u>	<u>212,130</u>
Total interest and fees on loans	<u>\$ 4,801,239</u>	<u>\$ 5,155,691</u>

### 8. Interest Expense:

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

	<u>2010</u>	<u>2009</u>
Savings and interest-bearing demand	\$ 432,944	\$ 380,882
Time deposits in excess of \$100,000	258,854	137,293
Other time deposits	25,561	277,945
Other borrowings	<u>138,340</u>	<u>138,672</u>
Total interest expense	<u>\$ 855,699</u>	<u>\$ 934,792</u>

### 9. 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 \$70,024 and \$82,140 in 2010 and 2009, respectively.

## NOTES TO FINANCIAL STATEMENTS

### 10. Stock Option Plans:

The Bank has an Employee and Nonemployee Director Stock Option Plan that reserve shares of stock for issuance to employees and directors. Under the plan, 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 generally occurs over three-year periods. Information with respect to options granted under the stock option plan is as follows:

	<u>2010</u>	<u>2009</u>
Total outstanding, beginning of year	121,047	95,147
Options granted:		
Directors - exercise price \$8.28 per share	17,820	
Employees - exercise price \$8.22 per share	6,000	
Employees - exercise price \$9.79 per share		
Directors - exercise price \$10.00 per share		5,500
Directors - exercise price \$8.88 per share		20,400
Employees - exercise price \$9.59 per share		12,500
Options exercised (zero intrinsic value)	-	-
Options expired	-	(12,500)
Total outstanding, end of year	<u>144,867</u>	<u>121,047</u>
Options exercisable end of year	113,797	88,397
Options available for grant	13,444	32,264

Outstanding options are as follows:

<u>Expiration</u>	<u>Average price per share</u>	<u>December 31, 2010</u>	
		<u>Exercisable</u>	<u>Outstanding</u>
2015	\$ 10.00	58,498	58,498
2016	\$ 15.00	5,000	5,000
2017	\$ 19.30	13,449	13,449
2018	\$ 15.40	10,200	11,200
2019	\$ 9.15	26,650	32,900
2020	\$ 8.26	-	23,820
		<u>113,797</u>	<u>144,867</u>
Aggregate intrinsic value		<u>\$0</u>	<u>\$0</u>

Weighted average shares outstanding at December 31 are as follows:

	<u>2010</u>	<u>2009</u>
Basic	998,612	998,612
Common stock equivalents attributable to stock options	<u>2,891</u>	<u>655</u>
Diluted	<u>1,001,503</u>	<u>999,267</u>

## NOTES TO FINANCIAL STATEMENTS

The following table presents the activity related to options under all plans for the years ended December 31 2010, 2009, and 2008:

	<u>2010</u>		<u>2009</u>		<u>2008</u>	
	<u>Options Outstanding</u>	<u>Weighted-average exercise price</u>	<u>Options Outstanding</u>	<u>Weighted-average exercise price</u>	<u>Options Outstanding</u>	<u>Weighted-average exercise price</u>
Balance, beginning of year	121,047	\$11.51	95,147	\$12.39	96,407	\$9.95
Granted	23,820	8.26	38,400	9.15	21,700	15.20
Exercised	0	n/a	0	n/a	(15,000)	10.00
Expired	0	n/a	(12,500)	15.07	(7,960)	0.00
Balance, end of year	<u>144,867</u>	<u>\$10.97</u>	<u>121,047</u>	<u>\$11.51</u>	<u>95,147</u>	<u>\$11.76</u>
Exercisable, end of year	<u>113,797</u>		<u>108,797</u>		<u>67,407</u>	

The compensation cost related to stock options that has been charged against income (included in salaries and employee benefits) was \$67,650 and \$63,722 for the years ended December 31, 2010 and 2009, respectively. The total income tax benefit recognized in the income statement related to stock options was \$26,528 and \$24,441 for the years ended December 31, 2010 and 2009 respectively. As of December 31, 2010, there was \$33,951 of total unrecognized compensation cost related to nonvested stock options which is expected to be recognized over a weighted-average period of 0.57 years.

The weighted average fair value of each option granted (\$1.01 and \$1.46 in 2010 and 2009, respectively) is estimated on the date of the grant using the Black-Scholes option pricing model.

### 11. Other Expense:

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

	<u>2010</u>	<u>2009</u>
Professional services	\$ 133,062	\$ 68,012
Loan expenses and collection	90,894	40,079
Correspondent bank fees	89,185	73,555
Advertising, marketing and public relations	82,594	59,664
Printing, supplies and postage	61,601	77,833
Contract funds administration	58,073	76,873
Communications	56,365	61,432
Insurance	17,903	9,674
Other operating expenses	<u>337,516</u>	<u>296,221</u>
Total other expense	<u>\$ 927,193</u>	<u>\$ 763,343</u>

## NOTES TO FINANCIAL STATEMENTS

### 12. Income Taxes:

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

	<u>2010</u>	<u>2009</u>
Currently payable:		
Federal	\$ 226,134	\$ 117,969
State	<u>52,892</u>	<u>21,672</u>
	<u>279,026</u>	<u>139,641</u>
Deferred:		
Federal	(48,000)	(131,641)
State	<u>(10,000)</u>	<u>(27,359)</u>
	<u>(58,000)</u>	<u>(159,000)</u>
Total tax expense (benefit)	<u>\$ 221,026</u>	<u>\$ (19,359)</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>2010</u>	<u>2009</u>
Tax on income at statutory rate (34%)	\$ 191,170	\$ (9,891)
State income tax, net of federal benefit	44,930	(1,267)
Deferred tax rate adjustments and other	<u>(15,074)</u>	<u>(8,201)</u>
Total tax expense (benefit)	<u>\$ 221,026</u>	<u>\$ (19,359)</u>

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 are as follows:

	<u>2010</u>	<u>2009</u>
Interest on nonaccrual loans	\$ 55,657	\$ -
Write downs of other real estate owned	46,911	-
Loan loss deduction for tax purposes more (less) than provision for financial reporting purposes	(96,115)	176,615
Depreciation	37,253	(13,692)
Loan origination costs	9,757	(10,318)
Deferred compensation	16,978	-
Accrued vacation pay	158	2,663
Prepaid expense	(12,232)	6,054
Other	<u>(367)</u>	<u>(2,322)</u>
Deferred tax benefit	<u>\$ 58,000</u>	<u>\$ 159,000</u>

## NOTES TO FINANCIAL STATEMENTS

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

	<u>2010</u>	<u>2009</u>
Assets:		
Allowance for loan losses	\$ 524,865	\$ 316,206
Foreclosed real estate	136,121	89,210
Accrued vacation pay	8,171	8,112
Deferred compensation	<u>16,978</u>	<u>-</u>
Total deferred tax assets	<u>686,135</u>	<u>413,528</u>
Liabilities:		
Excess tax over book depreciation	73,749	112,656
Loan origination costs	30,964	40,721
Prepaid expenses deducted for tax purposes	35,150	-
Unrealized gain on investment securities available-for-sale	<u>75,000</u>	<u>62,998</u>
Total deferred tax liabilities	<u>214,863</u>	<u>216,375</u>
Net deferred tax assets	<u>\$ 471,272</u>	<u>\$ 197,153</u>

It is anticipated that all deferred tax asset items will be fully utilized in the normal course of operations and, accordingly, management has not reduced deferred tax assets by a valuation allowance.

### 13. 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 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 Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

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 a variable rate instruments earning a margin over the one month or three month LIBOR rate. These fair value hedges have been structured to be perfectly effective, thus no ineffectiveness is recognized in earnings. Compensating balances of \$2,846,000 held at 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>2010</u>	<u>2009</u>
Commitments to extend credit	\$ 13,632,679	\$ 14,654,089
Standby letters of credit	30,000	50,975
Interest rate swaps (receive variable - pay fixed, maturing 2011-2021):		
Principal amount of hedged loans	18,263,515	18,645,256
Credit risk amount (included in other liabilities)	<u>2,424,893</u>	<u>1,805,092</u>
Total fair value of hedged loans	<u>20,688,408</u>	<u>20,450,348</u>

## NOTES TO FINANCIAL STATEMENTS

### 14. 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>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 2,851,492	\$ 2,357,765
Additions or renewals	218,743	1,057,853
Amounts collected or renewed	<u>(764,653)</u>	<u>(564,126)</u>
Balance, end of year	<u>\$ 2,305,582</u>	<u>\$ 2,851,492</u>

In addition, there were \$619,255 in commitments to extend credit to officers and directors, including related entities, at December 31, 2010, which are included as part of commitments in Note 13.

Deposits from officers, directors and related parties totalled \$3,741,910 and \$2,368,288 at December 31, 2010 and 2009, respectively.

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

The following disclosures are made in accordance with provisions of ASC 825. 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, 2010, are as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial assets:				
Cash and cash equivalents	\$ 10,118,173	\$ 10,118,173	\$ 18,632,378	\$ 18,632,378
Investment securities available-for-sale	11,699,669	11,699,669	7,365,672	7,365,672
Hedged loans, net of allowance for loan losses	20,556,204	20,556,204	20,316,102	20,316,102
Other loans, net of allowance for loan losses	68,137,324	68,415,185	72,978,496	73,437,187
Interest receivable	377,561	377,561	388,924	388,924
Equity investments	264,300	264,300	264,300	264,300
Cash surrender value of bank owned life insurance	1,740,581	1,740,581	1,284,943	1,284,943
Financial liabilities:				
Deposits	96,804,096	96,824,113	106,512,685	106,595,255
Interest payable	102,005	102,005	167,092	167,092
Repurchase agreements	5,085,472	5,085,472	4,633,401	4,633,401
Term borrowings	1,813,841	1,877,872	1,936,458	2,013,203
Interest rate swap agreements	2,424,893	2,424,893	1,805,092	1,805,092

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

**Securities** – 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. The estimated fair values of deposits do not take into account the benefit that results from low-cost funding such deposits provide.

## NOTES TO FINANCIAL STATEMENTS

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

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

The following table presents the Bank's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2010:

<u>Fair Value Measurements Using</u>						
<u>Description</u>	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level I)</u>	<u>Significant Other Observable Inputs (Level II)</u>	<u>Significant Unobservable Inputs (Level III)</u>	<u>Total Period Losses Included in Earnings</u>	
Recurring items:						
Assets						
Securities	\$ 11,699,669	\$ -	\$ 11,699,669	\$ -	\$ -	
Cash surrender value of life insurance	1,740,581	-	1,740,581	-	-	
Hedged loans	20,688,408	-	20,688,408	-	-	
Total assets measured at fair value on a recurring basis	<u>\$ 34,128,658</u>	<u>\$ -</u>	<u>\$ 34,128,658</u>	<u>\$ -</u>	<u>\$ -</u>	
Liabilities						
Interest rate swap agreements	<u>\$ 2,424,893</u>	<u>\$ -</u>	<u>\$ 2,424,893</u>	<u>\$ -</u>	<u>\$ -</u>	
Non-recurring items:						
Assets						
Loans measured for impairment	\$ 2,073,988	\$ -	\$ -	\$ 1,804,988	\$ 269,000	
Foreclosed real estate	949,994	-	-	680,832	269,162	
Total assets measured at fair value on a non-recurring basis	<u>\$ 3,023,982</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,485,820</u>	<u>\$ 538,162</u>	

The following table presents the Bank's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2009:

<u>Fair Value Measurements Using</u>						
<u>Description</u>	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level I)</u>	<u>Significant Other Observable Inputs (Level II)</u>	<u>Significant Unobservable Inputs (Level III)</u>	<u>Total Period Losses Included in Earnings</u>	
Recurring items:						
Assets						
Securities	\$ 7,365,672	\$ -	\$ 7,365,672	\$ -	\$ -	
Cash surrender value of life insurance	1,284,943	-	1,284,943	-	-	
Hedged loans	20,450,348	-	20,450,348	-	-	
Total assets measured at fair value on a recurring basis	<u>\$ 29,100,963</u>	<u>\$ -</u>	<u>\$ 29,100,963</u>	<u>\$ -</u>	<u>\$ -</u>	
Liabilities						
Interest rate swap agreements	<u>\$ 1,805,092</u>	<u>\$ -</u>	<u>\$ 1,805,092</u>	<u>\$ -</u>	<u>\$ -</u>	
Non-recurring items:						
Assets						
Loans measured for impairment	\$ 3,700,114	\$ -	\$ -	\$ 2,915,839	\$ 784,275	
Foreclosed real estate	915,995	-	-	688,500	227,495	
Total assets measured at fair value on a non-recurring basis	<u>\$ 4,616,109</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,604,339</u>	<u>\$ 1,011,770</u>	

## NOTES TO FINANCIAL STATEMENTS

The fair value represents management's best estimates based on a range of methodologies and assumptions. For loans with doubt as to collectability and foreclosed real estate, expected cash flows are discounted using an appropriate rate considering the time of collection, credit risk, and the discount for the uncertainty of the flows. The value of collateral is also considered.

### 16. Regulatory Matters:

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 ratios (set forth in the 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. As of December 31, 2010, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized as defined by regulations. 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, 2010:						
Total capital (to risk-weighted assets)	\$ 12,057	12.40%	\$ 7,779	8.00%	\$ 9,724	10.00%
Tier I capital (to risk-weighted assets)	\$ 10,837	11.15%	\$ 3,889	4.00%	\$ 5,834	6.00%
Tier I capital (to leverage assets)	\$ 10,837	8.49%	\$ 5,108	4.00%	\$ 6,385	5.00%
As of December 31, 2009:						
Total capital (to risk-weighted assets)	\$ 11,726	11.38%	\$ 8,244	8.00%	\$ 10,306	10.00%
Tier I capital (to risk-weighted assets)	\$ 10,434	10.12%	\$ 4,122	4.00%	\$ 6,183	6.00%
Tier I capital (to leverage assets)	\$ 10,434	8.49%	\$ 4,918	4.00%	\$ 6,147	5.00%

Management believes, as of December 31, 2010, that the Bank met all capital adequacy requirements to which it is subject.

## SUMMIT BANK TEAM

TIM CALHOUN, Operations Support Officer  
JOYCE COLLEY, Vice President, Commercial Lending  
BEV FISER, Mortgage Officer  
MICHAEL FLETCHER, Credit Analyst  
RODNEY GOEBEL, Courier  
SCOTT GOLDSTEIN\*, Corporate Cashier and Chief Financial Officer  
CHRIS HEMMING, Finance Assistant  
MARA HOOKER, Relationship Banker  
ASHLEY HORNER, Senior Credit Analyst  
KERRY C. LANCY\*, Corporate Secretary, HR and Administrative Officer  
GENEVIEVE MCCLARY, Technology Support Specialist  
HANS MCKNIGHT, Operations Specialist  
ANN MARIE MEHLUM\*, President and Chief Executive Officer  
J. MICHAEL MERCER, Vice President, Commercial Lending  
MARY MERRIMAN, Senior Vice President  
ALICE NOTE, Personal Banker  
JACK OMLIN, Teller/Proof Operator  
TINA OSTEN, Commercial Loan Assistant  
PAM PLILER\*, Senior Operations Officer  
KRISTA RIDDLE, Senior Loan Documentation Specialist  
SUMMER ROAT, Administrative Assistant  
GABRIELA SNYDER, Technology Support Manager  
TIM SPENCER, Portfolio Manager  
JOY SPRIGGS, Operations Assistant  
PATRICIA STAHR, Vice President, Operations Officer  
CRAIG WANICHEK\*, Senior Vice President, Chief Credit Administrator

\*denotes Executive Officer

## CORPORATE OFFICE

96 EAST BROADWAY  
EUGENE, OREGON 97401

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## INVESTOR INFORMATION

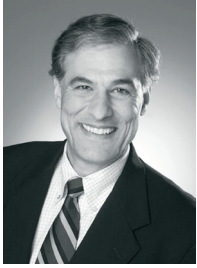
SCOTT GOLDSTEIN  
541-684-7505  
[shg@summitbankonline.com](mailto:shg@summitbankonline.com)

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# SUMMITBANK

## BOARD OF DIRECTORS



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

Dr. Abraham is a Founding Director and currently serves as a member of the Compensation and Nominating Committee. Richard is President of Cascade Medical Associates. He 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 Cascade Health Solutions, McKenzie Willamette Medical Center, and Safety and Health Institute. He previously served on the Boards of Pacific Source and the Marist Foundation.



### **DENNIS G. OREM**

Mr. Orem is a Founding Director and currently serves as a member of the Compensation and Nominating Committee. 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 including serving on the Boards of the Western Building Materials Association and Home Center Institute. He has also served on the board of the Eugene Area Chamber of Commerce.



### **ALAN V. EVANS**

Mr. Evans is a Founding Director and currently serves as a member of the Loan Committee. Alan is founder and President of Evans, Elder & Brown, Inc., a commercial real estate brokerage active in sales, leasing, and development of commercial properties. He also serves as Chair of the Arts and Business Alliance of Eugene. He previously served as Chair of the Arts Foundation of Western Oregon and served on the boards of the Eugene Opera and the Oregon Bach Festival.



### **GRETCHEN N. PIERCE**

Mrs. Pierce is a Founding Director and served as Board Chair through the end of 2010. Gretchen currently serves as the Chair of the Asset Liability Committee and as a member of the Compensation and Nominating Committee. She is President and General Manager of Hult & Associates, LLC, a local commercial and industrial real estate development company. She also serves on the Board of Pacific Source, the Arts & Business Alliance, and the Southern Oregon Leadership Council of the Oregon Community Foundation. She previously served on many other boards and commissions including Peace Health, the University of Oregon Foundation, the Eugene Chamber of Commerce, the Oregon Community Foundation, Associated Oregon Industries, and Siuslaw Bank.



### **STEVE KORTH**

Mr. Korth has been a Director since 2008 and currently serves as a member of the Loan Committee. Steve is the Director of Real Estate and Development for his family business McKay Investment Company. He serves on the Boards of the Eugene Chamber of Commerce, Lane Metro Partnership, and the Oregon Community Foundation. He is also active in local government, having served on the Mayor's Economic Development Committee (Eugene), the Eugene Enterprise Zone Committee, and as a member of the Eugene School Districts "Shaping 4-J's Future" task force.



### **ANDY J. STORMENT**

Mr. Storment is a Founding Director and currently serves as the Board Vice Chair, and as Chair of the Loan Committee. 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. Formerly, he was Executive Vice President, Treasurer, and Secretary of Percon Incorporated. He has prior experience in the accounting and wood products industries.



### **ANN MARIE MEHLUM**

Ms. Mehlum has been the Chief Executive Officer and a Director since the Bank's inception in 2004. Ann Marie's banking career spans over 35 years. She currently serves as the Chair of the Oregon Bankers Association, is a member of the American Bankers Association Community Banking Council, and is on the boards of United Way and the Eugene Area Chamber of Commerce. She previously served on other boards including the Boys and Girls Club and Lane Metro Partnership.



### **R. PAUL WEINHOLD**

Mr. Weinhold is a Founding Director and currently serves as the Board Chair, Chair of the Compensation and Nominating Committee and as a member of the Audit Committee. Paul is the President of the University of Oregon Foundation. He serves in leadership roles for a variety of local non-profits including the Sacred Heart Foundation, the Oregon Trail Council, and the Oregon Urology Foundation. Prior to joining the University of Oregon Foundation Mr. Weinhold spent twenty three years in serving as CEO of Willis of Oregon and Managing Director of Wells Fargo Insurance Services.



### **J. ANDREW MOORE**

Mr. Moore has been a Director since 2010 and currently serves as a member of the Audit Committee. Andy is Co-President of MLF Group, LLC (Pepsi-Cola Eugene, Coos Bay & Newport and Northwest Vending Company) and President of Pepsi-Cola Bottling Company of Bend. He serves as President of the Oregon Soft Drink Association and on the boards of the American Beverage Association, Cascade Health Solutions, Willamette Valley Council of the Oregon Community Foundation, and the Eugene Country Club. He has previously served on the boards of the Pepsi-Cola Bottler's Association and Lane Community College Foundation.



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

Dr. York is a Founding Director and currently serves as the Chair of the Audit Committee. John is the retired President of Women's Care Associates. He also serves on the Boards of Agate Resources and Trillium Holdings. He previously served on the boards of Pacific Source, Medical and Surgical Specialists, and was the OBGYN Department Chair for Peace Health.



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96 EAST BROADWAY  
EUGENE, OREGON 97401  
541.684.7500

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