SUMMIT
STATE BANK

2007 Annual Report
on Form 10-K

To our Shareholders and Friends

Here at Summit and throughout most of the banking industry, we experienced a steady increase in the cost of deposits throughout 2007 resulting in compressed net interest margins and a decline in net income compared to 2006.

While many banks sought increased returns through subprime lending and securitized mortgage obligations…..we did not! Nor did we ease our lending standards to chase loan growth. We ended 2007 with respectable asset growth of 8.7%. Moreover, we show solid asset quality indicators with nonperforming assets to total assets of only 0.14% at year end.

Following our Initial Public Offering in 2006, our capital ratios exceed those required for a "Well-Capitalized" institution under regulatory guidelines. With this capital we are positioned favorably to take advantage of investment opportunities we feel will follow the present credit difficulties.

During the year, we opened our fifth branch office in Petaluma which has enhanced our presence in southern Sonoma County. We expanded our business development staff in the latter part of the year with a new Marketing Director and two new business development officers to promote deposit gathering. Naturally, the above investments increased operating expenses in 2007 but should contribute favorably to the bottom line in 2008.

With an emphasis on controlling expenses in 2008, we hope you approve of our effort to reduce expenses with this presentation of the 10K in place of the customary Annual Report.

Plans for the coming year are focused on risk management, deposit gathering, cost of funds management, and productivity improvement. The net result should be very good for Earnings.

John C. Lewis	Thomas Duryea
Chairman	CEO and President

Directors:

John F. DeMeo
Attorney
DeMeo DeMeo & West

Michael J. Donovan
Attorney

Richard A. Dorr
Owner
RAD Developers

Thomas M. Duryea
President & Chief Executive Officer
Summit State Bank

Todd R. Fry
Chief Financial Officer
Champion Industries, Inc.

George I. Hamamoto
Partner
Bill Noonan Insurance Agency /
McDonald-Leavitt Agency, Inc.

Allan J. Hemphill
President
Hemphill and Associates

Jeanne D. Hubbard
Chairwoman, President and
Chief Executive Officer
Abigail Adams National Bancorp, Inc.

John C. Lewis
Chairman
Summit State Bank

Ronald A. Metcalfe
Principal
Call & Metcalfe Certified Public Accountants, P.C.

Marshall T. Reynolds
Chairman and Chief Executive Officer
Champion Industries, Inc.

Robert B. St. Clair
Executive
Clover Stornetta Farms, Inc.

Eugene W. Traverso
Owner
Traverso's Gourmet Foods & Liquors

Executive Officers:

Thomas M. Duryea
President & Chief Executive Officer
Summit State Bank

Dennis E. Kelley
Senior Vice President & Chief Financial Officer

Company Contact Information:

Phone: 707-568-6000
www.summitstatebank.com
Corporate Secretary: Nancy Farber

Summit State Bank
P.O. Box 6188
Santa Rosa, CA 95406

Transfer Agent:
Computershare
1745 Gardena Ave.
Glendale, CA 91204
303-262-0780

SUMMIT STATE BANK
ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

Form 10-K

Selected Financial Data

(in thousands except per share data)	Year Ended December 31 2007	2006	2005	2004	2003
Interest income	$ 22,755	$ 20,454	$ 16,668	$ 12,450	$ 12,629
Net interest income	10,851	11,031	10,386	8,968	8,450
Provision for loan losses	749	253	444	444	360
Total non-interest income	1,196	1,321	1,859	1,338	491
Total non-interest expense	7,993	7,238	6,481	5,328	4,897
Income before income taxes	3,305	4,861	5,320	4,534	3,684
Income taxes	1,363	2,053	2,189	1,866	1,518
Net income	$ 1,942	$ 2,808	$ 3,131	$ 2,668	$ 2,166
Selected balance sheet data:					
Assets	$ 340,193	$ 312,950	$ 345,788	$ 247,772	$ 232,894
Loans, net	267,067	252,860	236,208	200,184	180,638
Earning assets	321,154	289,581	330,833	229,652	210,400
Deposits	249,019	232,974	301,754	189,337	181,945
Federal Home Loan Bank advances	42,600	31,460	15,200	32,200	25,858
Shareholders' equity	47,715	47,812	27,043	25,386	23,782
Balance sheet data - average					
Assets	$ 329,457	$ 303,800	$ 294,615	$ 234,341	$ 227,835
Loans, net	268,310	248,539	222,011	189,052	190,840
Earning assets	310,636	284,906	275,919	215,435	209,357
Deposits	238,721	235,553	242,329	181,503	178,532
Federal Home Loan Bank advances	41,180	28,557	23,747	26,664	24,949
Shareholders' equity	48,219	36,768	26,396	24,504	23,072
Selected per share data:					
Earnings per share - basic	$ 0.40	$ 0.70	$ 0.93	$ 0.79	$ 0.64
Earnings per share - diluted	$ 0.40	$ 0.69	$ 0.93	$ 0.79	$ 0.64
Weighted average shares used to calculate earnings per share - basic	4,831	4,030	3,361	3,361	3,361
Weighted average shares used to calculate earnings per share - diluted	4,834	4,074	3,378	3,361	3,361
Shares oustanding at year end	4,745	4,795	3,361	3,361	3,361
Cash dividends per share	$ 0.36	$ 0.36	$ 0.36	$ 0.30	$ 0.23
Book value per share	10.06	9.97	8.05	7.55	7.08
Tangible book value per share	9.19	9.11	6.82	6.33	5.85
Selected ratios:					
Return on average equity	4.03%	7.64%	11.86%	10.89%	9.39%
Return on average tangible equity	4.40%	8.60%	14.05%	13.09%	11.43%
Return on average assets	0.59%	0.92%	1.06%	1.14%	0.95%
Dividend payout ratio	89.75%	52.21%	38.65%	37.78%	34.91%
Net interest margin	3.49%	3.87%	3.76%	4.16%	4.04%
Efficiency ratio (noninterest expenses to net interest income and noninterest income)	66.35%	58.60%	52.93%	51.70%	54.77%
Average equity to average assets	14.64%	12.10%	8.96%	10.46%	10.13%
Leveraged capital ratio	12.98%	14.29%	6.72%	9.24%	8.64%
Nonperforming assets to total assets	0.14%	0.76%	0.21%	0.09%	0.17%
Nonperforming loans to total loans	0.17%	0.93%	0.30%	0.11%	0.22%
Net charge-offs to average loans	0.32%	0.05%	0.00%	0.05%	0.00%
Allowance for loan losses to total loans	1.34%	1.46%	1.51%	1.56%	1.54%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides additional information about the financial condition of Summit State Bank ("the Bank") at December 31, 2007 and 2006 and results of operations for the years ended December 31, 2007, 2006 and 2005. The following analysis should be read in conjunction with the consolidated financial statements of the Bank and the notes thereto prepared in accordance with accounting principles generally accepted in the United States.

All references to Common Shares and per share information have been adjusted for the 2-for-1 stock split issued in June 2006.

This discussion contains certain forward-looking information about us (See "DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS"on page 57).

Critical Accounting Policies. The discussion and analysis of the Bank's results of operations and financial condition are based upon financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Bank's management to make estimates and judgments that affect the reported amounts of assets and liabilities, income and expense, and the related disclosures of contingent assets and liabilities at the date of these financial statements.

The Bank believes these estimates and assumptions to be reasonably accurate; however, actual results may differ from these estimates under different assumptions or circumstances. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses.

The allowance for loan losses is determined first and foremost by promptly identifying potential credit weaknesses that could jeopardize repayment. The Bank's process for evaluating the adequacy of the allowance for loan losses includes determining estimated loss percentages for each credit based on the Bank's historical loss experience and other factors in the Bank's credit grading system and accompanying risk analysis for determining an adequate level of the allowance. The risks are assessed by rating each account based upon paying habits, loan to value ratio, financial condition and level of classifications. The allowance for loan losses was $3,621,000 at December 31, 2007 compared to $3,736,000 at December 31, 2006.

Overview

The Bank is a community bank serving Sonoma County in California. It operates through five offices located in Santa Rosa, Petaluma, Rohnert Park and Windsor. The Bank was founded as a savings and loan in 1982 under the name Summit Savings. On January 15, 1999, the Bank converted its charter to a California state-chartered commercial bank and thereby became subject to regulation, supervision and examination by the California Department of Financial Institutions and the FDIC.

Results of Operations

Years Ended December 31, 2007, 2006 and 2005

The Bank's primary source of income is net interest income, which is the difference between interest income and fees derived from earning assets and interest paid on liabilities which fund those assets. Net interest income, expressed as a percentage of total average interest earning assets, is referred to as the net interest margin. The Bank's net interest income is affected by changes in the volume and mix of interest earning assets and interest bearing liabilities. It is also affected by changes in yields earned on interest earning assets and rates paid on interest bearing deposits and other borrowed funds. The Bank also generates noninterest income, including transactional fees, service charges, office lease income and gains on sold SBA guaranteed loans originated by the Bank. Noninterest expenses consist primarily of employee compensation and benefits, occupancy and equipment expenses and other operating expenses. The Bank's results of operations are also affected by its provision for loan losses. Results of operations may also be significantly affected by other factors including general economic and competitive conditions, mergers and acquisitions of other financial institutions within the Bank's market area, changes in market interest rates, government policies, and actions of regulatory agencies.

Net Income

For the year ended December 31, 2007, net income was $1,942,000, or $0.40 per diluted share, and return on average assets was 0.59%. This compares with net income of $2,808,000, or $0.69 per diluted share, for the year ended December 31, 2006 and a return on average assets of 0.92%. The decline in year-over-year earnings amounts was $866,000, or 31%. The Bank experienced a decline in net income in 2007 when compared to 2006, primarily due to a decline in net interest income and noninterest income, an increase in operating expenses, including the opening and operation of the new Petaluma office, and increased provision for loan losses. See "Net Interest Income and Net Interest Margin", "Provision for Loan Losses, "Noninterest Income" and "Noninterest Expenses" below.

Net income for 2006 declined by $323,000, or 10%, as compared to the year ended December 31, 2005, which had net income of $3,131,000, or $0.93 per diluted share and a return on average assets of 1.06%. The decline in net income was attributable to a decline in noninterest income and an increase in salaries and employee benefits expense, which was partially offset by an increase in net interest income and a reduced level of provision for loan losses. A large deposit received through the Section 1031 Deposit program in August 2005 contributed to net income for 2005.

On August 16, 2006, the Bank completed an underwritten public offering of 1,432,700 shares of common stock. These shares increased the weighted average shares outstanding for the year ending December 31, 2007 over 2006 by 19% and for the year ending December 31, 2007 over 2006 by 21%. The diluted earnings per share decline between 2007 and 2006 of $0.29 was comprised of a decline of $0.21 attributable to the decline in net income and $0.08 decline attributable to the increase in weighted average shares outstanding. The $0.24 decline in earnings per share for 2006 as compared to 2005 was comprised of a $0.10 decline attributable to the decline in net income and $0.14 decline attributable to the increase in weighted average shares outstanding

Net Interest Income and Net Interest Margin

For the year ended December 31, 2007, net interest income was $10,851,000 and the net interest margin was 3.49%. This was a decrease of $180,000 or 2% over 2006. At December 31, 2006, net interest income was $11,031,000 and the net interest margin was 3.87%. Net interest income was $10,386,000 for the year ended December 31, 2005 and the net interest margin was 3.76% At December 31, 2007, approximately 79% of the Bank's assets were comprised of net loans and 12% of U.S. Government agency and corporate securities and 2% in Federal Funds sold compared to 81% of net loans, 10% of U.S. Government agency and corporate securities and no Federal Funds sold at December 31, 2006. At December 31, 2005 there was 68% in net loans, 7% in U.S. Government agency and corporate securities and 18% in Federal Funds sold. The amount of Federal Funds sold at the end of 2005 was high due to Section 1031 Deposit program deposits of $85,505,000 that were withdrawn in the first quarter of 2006. This deposit program contributed to net interest income for 2005, even though it had a negative impact on that year's net interest margin.

The yield on interest earning assets continued to increase from 2005 to 2007. The yield on interest earning assets was 7.33% for the year ended December 31, 2007, 7.18% for the year ended December 31, 2006 and 6.04% for the year ended December 31, 2005. The increasing yields were attributable to the general increase in interest rates and the repricing of floating rate loans.

The impact of rising rates on the net interest margin experienced during 2006 and 2005 was offset by the growth in earning assets. As interest rates leveled off in the second half of 2006, the Bank's cost of funds continued to climb due to competition for deposits and repricing of maturing deposits. The Bank anticipates that the yield on earning assets and the cost of funds will decline in 2008 as assets tied to indexes are repriced and as time deposits and other borrowings mature.

For the year ended December 31, 2007, the cost of interest bearing liabilities was 4.44% compared with a cost of interest bearing liabilities of 3.73% for the year ended December 31, 2006 and 2.49% for the year ended December 31, 2005. The increase in the cost of funds has been driven by the rising market interest rates during 2005 through 2006, and an increase in time deposits as a component of total deposits.

The following tables present condensed average balance sheet information for the Bank, together with interest rates earned and paid on the various sources and uses of its funds for each of the periods presented. Average balances are based on daily average balances. Nonaccrual loans are included in loans with any interest collected reflected on a cash basis.

Average Balance Sheets and Analysis of net Interest Income

	Year Ended December 31,								
	2007			2006			2005		
(in thousands)	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
Assets									
Interest earning assets:									
Interest bearing deposits in banks	$ 203	$ 7	3.45%	$ 832	$ 28	3.37%	$ 2,992	$ 118	3.94%
Taxable investment securities	41,982	2,415	5.75%	28,856	1,622	5.62%	19,772	964	4.88%
Federal funds sold	141	6	4.26%	6,679	297	4.45%	31,144	1,131	3.63%
Loans, net of unearned income	268,310	20,327	7.58%	248,539	18,507	7.45%	222,011	14,455	6.51%
Total earning assets/interest income	310,636	22,755	7.33%	284,906	20,454	7.18%	275,919	16,668	6.04%
Nonearning assets	22,268			22,599			22,128		
Allowance for loan losses	(3,447)			(3,705)			(3,432)		
Total assets	$ 329,457			$ 303,800			$ 294,615		
Liabilities and Shareholders' Equity									
Interest bearing liabilities:									
Deposits:									
Interest-bearing demand deposits	$ 12,530	94	0.75%	$ 13,438	60	0.45%	$ 13,921	64	0.46%
Savings and money market	49,838	1,666	3.34%	80,669	2,298	2.85%	125,606	2,764	2.20%
Time deposits	164,356	8,109	4.93%	129,636	5,682	4.38%	88,460	2,656	3.00%
Securities sold under repurchase agreements	87	2	2.30%	578	13	2.25%	563	13	2.31%
FHLB advances	41,180	2,033	4.94%	28,557	1,370	4.80%	23,747	785	3.31%
Total interest bearing liabilities/interest expense	267,991	11,904	4.44%	252,878	9,423	3.73%	252,297	6,282	2.49%
Noninterest bearing deposits	11,997			11,810			14,342		
Other liabilities	1,250			2,344			1,580		
Total liabilities	281,238			267,032			268,219		
Shareholders' equity	48,219			36,768			26,396		
Total liabilities and shareholders' equity	$ 329,457			$ 303,800			$ 294,615		
Net interest income and margin (2)		$ 10,851	3.49%		$ 11,031	3.87%		$ 10,386	3.76%
Net interest spread (3)			2.89%			3.45%			3.55%

(1) The net amortization of deferred fees and costs on loans included in interest income was \$228,000, \$172,000 and \$138,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

(2) Net interest margin is computed by dividing net interest income by average total earning assets.

(3) Net interest spread is the difference between the average rate earned on average total earning assets and the average rate paid on average total interest bearing liabilities.

The following table shows the change in interest income and interest expense and the amount of change attributable to variances in volume and rates. The unallocated change in rate or volume variance has been allocated between the rate and volume variances in proportion to the absolute dollar amount in the change of each.

Volume and Yield/Rate Variances

	2007 Compared to 2006			2006 Compared to 2005		
	Change Due to			Change Due to		
(in thousands)	Volume	Rate	Net	Volume	Rate	Net
Interest bearing deposits in banks	$ (22)	$ 1	$ (21)	$ (75)	$ (15)	$ (90)
Taxable investment securities	754	39	793	494	164	658
Federal funds sold	(279)	(12)	(291)	(1,044)	210	(834)
Loans, net of unearned income	377	1,443	1,820	1,840	2,212	4,052
Total interest income	830	1,471	2,301	1,215	2,571	3,786
Interest-bearing demand deposits	(4)	38	34	(2)	(2)	(4)
Savings and money market	(983)	351	(632)	(1,149)	683	(466)
Time deposits	1,652	775	2,427	1,522	1,504	3,026
Securities sold under repurchase agreements	(11)	-	(11)	-	-	-
FHLB advances	622	41	663	181	404	585
Total interest expense	1,276	1,205	2,481	552	2,589	3,141
Increase (decrease) in net interest income	$ (446)	$ 266	$ (180)	$ 663	$ (18)	$ 645

Provision for Loan Losses

The Bank maintains an allowance for loan losses for losses that are expected to occur as an incidental part of the banking business. Write-offs of loans are charged against the allowance for loan losses, which is adjusted periodically to reflect changes in the volume of outstanding loans and estimated losses due to deterioration in the financial condition of borrowers or the value of property securing nonperforming loans, or changes in general economic conditions and other qualitative factors. Additions to the allowance for loan losses are made through a charge against income referred to as the “provision for loan losses.”

The Bank’s loan policy provides procedures designed to evaluate and assess the credit risk factors associated with its loan portfolio, to enable management to assess such credit risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for loan losses. The Bank conducts an assessment of the allowance for loan losses on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors examines and formally approves the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and regulatory examination, estimated potential loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and non-accruals loans, trends in loan volume, effects of any changes in the lending policies and procedures, changes in lending personnel, current economic conditions at the local, state and national level, and a migration analysis of historical losses and recoveries for the prior eight quarters.

At December 31, 2007, the Bank’s allowance for loan losses totaled $3,621,000, or 1.34% of outstanding loans, compared with an allowance for loan losses of $3,736,000, or 1.46% of outstanding loans, at December 31, 2006 and $3,617,000, or 1.51% of outstanding loans, at December 31, 2005. There were $864,000 in net loans charged-off to the allowance for loan losses during 2007, including $250,000 for which the estimated losses had been previously allocated for at December 31, 2006, and $134,000 was charged-off in 2006. No loans were charged-off to the allowance in 2005. For the year ended December 31, 2007, the provision for loan losses amounted to $749,000, and for the years ended December 31, 2006 and 2005, the provision for loan losses amounted to $253,000 and $444,000, respectively. The provision for loan losses is dependent on the increase in loans outstanding, the mix of types of loans within the portfolio, net charge-offs recorded against the allowance, the volumes of loans past due or on nonaccrual status and economic factors. See "Allowance for Loan Losses" below.

Noninterest Income

Noninterest income is comprised primarily of service charges and other fees on deposit accounts, gains on sales of SBA guaranteed loans and office lease income. Additionally, the Bank receives fees through the Section 1031 Deposit program, loan servicing fees and other fees.

The following table summarizes noninterest income recorded for the years indicated.

	Year Ended December 31,		
(in thousands)	2007	2006	2005
Service charges	$ 352	$ 337	$ 590
Office leases	699	658	558
Gains on sales of loans	41	99	446
Real estate exchange fees	10	42	109
Loan servicing, net	65	65	71
Other income	29	120	85
Total non-interest income	$1,196	$1,321	$1,859

Rising interest rates have had a negative impact on the Bank's noninterest income as the volume of SBA guaranteed loans and the number of real estate exchanges handled are partly dependent on the level of general economic interest rates. The Bank currently provides the real estate exchange services as an accommodation to its customers. Future levels of gains on sales of loans will be dependent on the volume of SBA Guaranteed loan activity which is not expected to increase significantly due the current general economy.

Service charges on deposit accounts were $352,000 for the year ended December 31, 2007, compared to $337,000 and $590,000 for the years ended December 31, 2006 and 2005, respectively. The service charges experienced in 2005 were the result of draft processing income received during the first six months of 2005. Draft processing services were discontinued in June 2005 due to the high volume of return items and associated expenses with the service.

The Bank built and owns its headquarters building with approximately half of the office space leased to nonaffiliated tenants. The building was occupied in 2004 and fully leased in 2005. Lease income from this office building was $699,000, $658,000 and $558,000 for the years ended December 31, 2007, 2006 and 2005, respectively. The leases have annual rent increases.

Noninterest Expenses

The following table summarizes noninterest expenses recorded for the years indicated.

	Year Ended December 31,		
(in thousands)	2007	2006	2005
Salaries and employee benefits	$ 3,974	$ 3,675	$ 3,055
Occupancy and equipment	1,624	1,350	1,214
Other expenses	2,395	2,213	2,212
Total	$7,993	$7,238	$6,481

For the year ended December 31, 2007, noninterest expenses were $7,993,000, or 2% of average total assets and 66% of total revenue (total revenue is defined as net interest income plus noninterest income). This was a 10% increase over 2006 noninterest expenses of $7,238,000. Noninterest expenses increased 12% in 2006 compared to noninterest expenses of $6,481,000 in 2005. Noninterest expenses were 2% of average assets and 59% of total revenue in 2006 and 2% of average assets and 53% of total revenue in 2005.

Salaries and employee benefits expense increased 8% in 2007 compared to 2006 and 20% in 2006 compared to 2005. The increase in 2007 was primarily attributable to the increased staffing for the new Petaluma office. The increased personnel expense during 2006 was primarily attributable to the addition of a branch administrator, a marketing officer, a compliance officer and the separation of duties between a Chief Executive Officer and a Chief Operating Officer. These positions were created in anticipation of growth and implementation of cash management products.

Occupancy and equipment expenses increased 20% in 2007 compared to 2006 and 11% in 2006 compared to 2005. The increase in occupancy expenses in 2007 was primarily attributable to occupancy expenses for the new Petaluma office and the increase in 2006 was attributable to additional space in the Bank owned main office building in April 2005, and the related depreciation expense of buildings, furniture and improvements.

The following table summarizes the categories of other expenses.

(in thousands)	Year Ended December 31, 2007	2006	2005
Data processing	$ 578	$ 526	$ 609
Professional fees	319	268	337
Director fees and expenses	250	223	262
Advertising and promotion	289	382	217
Deposit and other insurance premimums	193	179	149
Telephone and postage	95	105	146
Other expenses	671	530	492
	$ 2,395	$ 2,213	$ 2,212

Provision for Income Taxes

The Bank accrues income tax based on the anticipated tax rates during the financial period covered. The provision for income taxes for the years ended December 31, 2007, 2006 and 2005, was $1,363,000, $2,053,000 and $2,189,000, respectively. The combined effective Federal and State corporate income tax rates for the years ended December 31, 2007, 2006 and 2005, were 41.2%, 42.2% and 41.1%, respectively.

Investment Portfolio

Securities classified as available-for-sale for accounting purposes are recorded at their fair or market value on the balance sheet. Securities classified as held-to-maturity are recorded at amortized cost. At December 31, 2007, investment securities comprised 12% of total assets and 13% of interest earning assets. At December 31, 2006, investment securities comprised 10% of total assets and 11% of interest earning assets. At December 31, 2007 and 2006, there were securities classified as held-to-maturity of $5,000,000, with market values of $5,000,000 at December 31, 2007 and $4,868,000 at December 31, 2006. Securities classified as available-for-sale were $35,426,000 and $25,829,000 for the 2007 and 2006 respective year ends. Changes in the fair market value of available-for-sale securities (e.g., unrealized holding gains or losses) are reported as “other comprehensive income (loss),” net of tax, and carried as accumulated other comprehensive income or loss within shareholders’ equity until realized.

The Bank utilizes the investment portfolio to manage liquidity and attract funding that requires collateralization. At December 31, 2007, investment securities with a market value of $19,771,000, or 49% of the portfolio, were pledged to secure State of California deposits and securities sold under repurchase agreements. At December 31, 2007, securities with a par value of $33,760,000 were callable within one year.

Investment Securities

(in thousands)	December 31, 2007	2006	2005
Available-for-sale securities:			
Government agencies	$ 30,826	$ 22,192	$ 18,831
Mortgage-backed securities	2,642	2,869	-
Other debt securities	659	763	711
Government agencies' stock	1,299	5	5
	35,426	25,829	19,547
Held-to-maturity:			
Government agencies	5,000	5,000	5,000
Total	$ 40,426	$ 30,829	$ 24,547

The composition of the investment portfolio by major category and contracted maturities or repricing of debt investment securities at December 31, 2007 are shown below.

Contractual Maturity or Repricing Schedule and Weighted Average Yields of Securities As of December 31, 2007

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
(in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available-for-sale:								
Government agencies	$ 1,247	3.80%	$ 2,510	4.62%	$ 2,001	6.00%	$ 25,068	6.00%
Mortgage backed securities	-	-	-	-	2,642	5.77%	-	-
Other debt securities	-	-	427	6.98%	-	-	232	8.06%
	1,247	3.80%	2,937	4.96%	4,643	5.87%	25,300	6.02%
Held-to-maturity:								
Government agencies	-	-	5,000	4.27%	-	-	-	-
	$ 1,247	3.80%	$ 7,937	4.53%	$ 4,643	5.87%	$ 25,300	6.02%

As of December 31, 2007 the Bank did not own securities of any single issuer (other than U.S. Government agencies and corporations) whose aggregate book value was in excess of 10% of the Bank’s total equity at the time of purchase.

Loan Portfolio

The following table shows the composition of the Bank’s loan portfolio by amount and percentage of total loans for each major loan category at the dates indicated.

Loans

(in thousands)	December 31, 2007	%	2006	%	2005	%	2004	%	2003	%
Commercial & Agricultural	$ 54,846	20.2%	$ 55,814	21.7%	$ 41,064	17.1%	$ 39,584	19.5%	$ 35,350	19.2%
Real Estate - Commercial	114,775	42.3%	102,439	39.9%	92,198	38.4%	70,954	34.8%	63,516	34.6%
Real Estate-Construction	27,085	10.0%	30,937	12.0%	23,875	9.9%	20,567	10.1%	14,913	8.1%
Real estate - Single family units	40,940	15.1%	31,451	12.2%	30,763	12.8%	35,072	17.2%	33,530	18.2%
Real Estate-Multifamily & Land	20,545	7.6%	24,998	9.7%	43,465	18.1%	30,791	15.1%	32,013	17.4%
Consumer	5,711	2.1%	4,977	1.9%	4,181	1.7%	4,273	2.1%	3,263	1.8%
Lease financing	7,295	2.7%	6,538	2.6%	4,756	2.0%	2,471	1.2%	1,239	0.7%
	271,197	100%	257,154	100%	240,302	100%	203,712	100%	183,824	100%
LESS:										
Allowance for Loan Losses	(3,621)		(3,736)		(3,617)		(3,173)		(2,831)	
Deferred Loan Fees	(509)		(558)		(477)		(355)		(355)	
Total Loans, Net	$ 267,067		$ 252,860		$ 236,208		$ 200,184		$ 180,638	

At December 31, 2007, the Bank had approximately $68,177,000 in undisbursed loan commitments, of which approximately $10,669,000 related to real estate construction loans. This compares with undisbursed commitments of approximately $35,471,000 at December 31, 2006, of which approximately $14,305,000 related to real estate construction loans. At December 31, 2007 and 2006, there were $48,000 and $2,019,000, respectively, in standby letters of credit outstanding.

The following table shows the maturity distribution of Real Estate Construction and Commercial & Agriculture loans, including rate repricing intervals on variable rate loans, at December 31, 2007. In the following table, the term variable (generally referring to loans for which the interest rate will change immediately given a change in the underlying index) also includes loans with adjustable rates (loans for which the rate may change, but which are also limited in occurrence).

Loan Portfolio Maturity Structure at December 31, 2007

(in thousands)	Within One Year	After One But Within Five Years	After Five Years	Total
Real Estate - Construction (1)	$ 15,334	$ 910	$ 10,841	$ 27,085
Commercial & Agricultural	23,336	21,606	9,904	54,846
Total	$ 38,670	$ 22,516	$ 20,745	$ 81,931
Loans with:				
Fixed Interest Rates	$ 7,332	$ 15,187	$ 11,944	$ 34,463
Floating Interest Rates	31,338	7,329	8,801	47,468
Total	$ 38,670	$ 22,516	$ 20,745	$ 81,931

(1) Construction loans with maturities over five years include loans that borrowers have paid fees for a rollover to permanent financing.

Nonperforming Assets

Nonperforming assets consist of nonperforming loans and other real estate owned. Nonperforming loans are those for which the borrower fails to perform under the original terms of the obligation and consist of nonaccrual loans, accruing loans 90 days or more past due and restructured loans.

In addition to the nonperforming loans discussed below for the respective periods, the Bank owns a General Motors Acceptance Corporation bond which matures September 2011 and has a coupon of 6.875%. The par value is $500,000 and was carried on the Bank's financial statements at its market value of $427,000 compared to an amortized cost of $498,000 as of December 31, 2007. General Motors Acceptance Corporation's bonds were downgraded below investment grade in 2005. Management believes that there is no potential of loss in this bond at this time. The Board of Directors' Internal Asset Review Committee also monitors the bond's rating.

The Bank owns class D-1 notes with a par value of $250,000 issued by ALESCO Preferred Funding IX, Ltd. These notes are collateralized by a pool of trust preferred securities issued by financial and insurance holding companies. The notes are current and performing. The market value of the notes has been impacted by the disruption in the credit markets and are carried at a market value of $232,000. Management monitors the collateral coverage of the notes and believes there is no loss potential at this time.

Nonaccrual, Past Due and Restructured Loans

	December 31,				
(in thousands)	2007	2006	2005	2004	2003
Nonaccrual loans	$ 465	$ 2,383	$ 713	$ 216	$ 404
Accruing loans past due 90 days or more	-	-	-	-	-
Total nonperforming loans	465	2,383	713	216	404
Other real estate owned	-	-	-	-	-
Total nonperforming assets	$ 465	$ 2,383	$ 713	$ 216	$ 404
Nonperforming loans to total loans	0.17%	0.93%	0.30%	0.11%	0.22%
Nonperforming assets to total assets	0.14%	0.76%	0.21%	0.09%	0.17%

Nonaccrual loans were $465,000, or 0.17% of gross loans outstanding, at December 31, 2007. Nonaccrual loans consisted of two loans of which $323,000 was restructured in 2006 and is current with the restructured terms and the other loan is 75% guaranteed by the Small Business Administration (SBA). At December 31, 2007 and 2006, there were $5,811,000 and $ -0 - loans with respect to which management had concerns as to the ability of the borrower to comply with the present loan repayment terms that were not included in nonaccrual or nonperforming loans. These borrowers have exhibited some deterioration as of December 31, 2007, but were current with the loans' terms.

While the number of nonperforming loans has remained consistent over the past three years, the balance has fluctuated due to the size of a given credit at any point in time. Nonaccrual loans were $2,383,000, or 0.93% of gross loans outstanding at December 31, 2006 and $713,000, or 0.30% of gross loans at December 31, 2005. There were $864,000 in net loans charged-off to the allowance for loan losses in 2007, and $134,000 in loans charged-off in 2006, no loans were charged-off in 2005.

Loan Policies and Procedures

The Bank's underwriting practices include an analysis of the borrower's management, current economic factors, the borrower's ability to respond and adapt to economic changes outside its direct control and verification of primary and secondary sources of repayment. Risk within the loan portfolio is managed through the Bank's loan policies and underwriting. These policies are reviewed and approved annually by the Board of Directors.

- Management administers the loan policy, ensures proper loan documentation is maintained and develops the methodology for monitoring loan quality and the level of the allowance for loan losses and reports on these matters to the Board of Directors' Internal Asset Review Committee and the Board of Directors.

- The Board of Directors' Internal Asset Review Committee meets regularly to evaluate problem assets and the adequacy of the allowance for loan losses. The Committee also reviews and makes recommendations to the Board of Directors regarding the adequacy of the allowance for loan losses, and is responsible for ensuring that an independent third party reviews the loan portfolio at least annually. Resultant reports are sent to this Committee and to the Audit Committee.

- The Board of Directors' Loan Committee is responsible for enforcement of loan policy and has additional responsibilities which include approving loans or loan relationships for a customer that, when considered in the aggregate, exceed management's level of loan authority for that customer.

- The Board of Directors' Audit Committee also engages a third party to perform a review of management's asset and liability practices to ensure compliance with the Bank's policies.

- The Board of Directors retains overall responsibility for all loan functions and reviews material loan relationships.

Loan approvals are granted according to established policies, and lending officers are assigned approval authorities within their levels of training and experience. Interest rates reflect the risk inherent in loans and collateral is generally taken for purchase-money financing. Collateral may consist of accounts receivable, direct assignment of contracts, inventory, equipment and real estate. Unsecured loans may be made when warranted by the financial strength of the borrower. With the exception of single-family residential mortgage loans, the maximum rate adjusting period is generally five years. The majority of the Bank's loans bear interest at variable rates or include periodic repricing features. Guarantees are generally required to help assure repayment.

Management believes that pricing is commensurate with risk for both new and existing customers.

Allowance for Loan Losses

The Bank maintains the allowance for loan losses to provide for inherent losses in the loan portfolio. Additions to the allowance for loan losses are established through a provision charged to expense. All loans which are judged to be uncollectible are charged against the allowance while any recoveries are credited to the allowance. The Bank's policy is to charge off any known losses at the time of determination. Any unsecured loan more than 90 days delinquent in payment of principal or interest and not in the process of collection is charged off in total. Secured loans are evaluated on a case by case basis to determine the ultimate loss potential to us subsequent to the liquidation of collateral. In those cases where we believe we are inadequately protected, a charge-off will be made to reduce the loan balance to a level equal to the liquidation value of the collateral.

The Bank's loan policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, to enable the Bank to assess such credit risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for loan losses. The Bank conducts an assessment of the allowance on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors will examine and formally approve the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and any recent regulatory examination, estimated potential loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and non-accrual loans, trends in loan volume, effects of any changes in lending policies and procedures, changes in lending personnel, current economic conditions at the local, state and national level and historical losses and recoveries.

The following table sets forth an analysis of the allowance for loan losses and provision for loan losses for the periods indicated.

Summary of Activity in the Allowance for Loan Losses

(in thousands)	Year Ended December 31, 2007	2006	2005	2004	2003
Balance at beginning of period	$ 3,736	$ 3,617	$ 3,173	$ 2,831	$ 2,471
Charge-offs:					
Commerical and agricultural	331	134	-	102	30
Real estate--construction and land development	561	-	-	-	-
Real estate--mortgage		-	-	-	-
Installment loans to individuals		-	-	-	-
Total loans charged-off	892	134	-	102	30
Recoveries:					
Commerical and agricultural	28	-	-	-	30
Real estate--construction and land development	-	-	-	-	-
Real estate--mortgage	-	-	-	-	-
Installment loans to individuals	-	-	-	-	-
Total recoveries	28	-	-	-	30
Net loans charged-off	864	134	-	102	-
Provisions for loan losses	749	253	444	444	360
Allowance for loan losses - end of period	$ 3,621	$ 3,736	$ 3,617	$ 3,173	$ 2,831
Loans:					
Average loans outstanding duing period, net of unearned income	$ 268,310	$ 248,539	$ 222,011	$ 189,052	$ 190,840
Total loans at end of period, net of unearned income	$ 270,688	$ 256,596	$ 239,825	$ 203,357	$ 183,469
Ratios:					
Net loans charged-off to average net loans	0.32%	0.05%	-	0.05%	-
Net loans charged-off to total loans	0.32%	0.05%	-	0.05%	-
Allowance for loan losses to average net loans	1.35%	1.50%	1.63%	1.68%	1.48%
Allowance for loan losses to total loans	1.34%	1.46%	1.51%	1.56%	1.54%
Net loans charged-off to beginning allowance for loan losses	23.13%	3.70%	-	3.60%	-
Net loans charged-off to provision for loan losses	115.35%	52.96%	-	22.97%	-

The following table summarizes the allocation of the allowance for loan losses by loan category and the amount of loans in each category as a percentage of total loans in each category. The allocated and unallocated portions of the allowance for loan losses are available to the entire portfolio.

Allocation of Allowance for Loan Losses

	Year Ended December 31,									
	2007		2006		2005		2004		2003	
(in thousands)	Allowance Allocation	Amount of Category Loans to Total Loans	Allowance Allocation	Amount of Category Loans to Total Loans	Allowance Allocation	Amount of Category Loans to Total Loans	Allowance Allocation	Amount of Category Loans to Total Loans	Allowance Allocation	Amount of Category Loans to Total Loans
Commercial & Agricultural	$ 450	20.2%	$ 521	21.7%	$ 1,013	17.1%	$ 986	19.5%	$ 1,394	19.2%
Commercial real estate	1,156	42.3%	688	39.9%	680	38.4%	617	34.8%	480	34.6%
Real estate - construction	749	10.0%	450	12.0%	227	9.9%	416	10.1%	374	8.1%
Real estate - mortgage	67	15.1%	58	12.2%	59	12.8%	64	17.2%	54	18.2%
Real Estate - multifamily & Land	126	7.6%	271	9.7%	303	18.1%	117	15.1%	140	17.4%
Consumer	66	2.1%	36	1.9%	29	1.7%	20	2.1%	13	1.8%
Lease financing	79	2.7%	69	2.6%	47	2.0%	29	1.2%	14	0.7%
Other	756		1,117		934		828		123	
Unallocated	172		526		325		96		239	
Total	$ 3,621	100%	$ 3,736	100.0%	$ 3,617	100.0%	$ 3,173	100.0%	$ 2,831	100.0%

The other allocation represents various qualitative factors in the determination of the adequacy of the allowance for loan losses. Qualitative factors included the size of individual credits, concentrations and general economic conditions. Management also considers these qualitative factors in their evaluation of the adequacy of the allowance for loan losses. Sonoma County commercial real estate vacancy rates declined in 2007 over 2006 and a large portion of the vacant space is attributable to buildings vacated by a large technology company headquartered outside Sonoma County. Additionally, many of the Bank's commercial real estate loans are owner occupied.

An unallocated allowance can arise from fluctuations in the amount of classified and nonperforming loans ("credit grades") between periods. The Internal Asset Review Committee reviews the amount and reasons for unallocated allowances and whether it has arisen due to periodic fluctuations in the credit grades or has arisen due to changes in qualitative factors or change in lending strategies. If the unallocated allowance has arisen from other than periodic fluctuations in credit grades, then the Internal Asset Review Committee may determine that a portion of the allowance for loan losses should be reversed. The unallocated allowance represents temporary changes in allocations resulting from changes in loan volumes, types and quality, as well as other factors. Management assesses the unallocated amount to determine if the amount is due to other than temporary changes in these factors.

In addition to the allowance for loan losses, the Bank maintains an allowance for losses for undisbursed loan commitments, which is reported in other liabilities on the consolidated balance sheets. This allowance was $50,000 at December 31, 2007 and 2006.

Deposits

Deposits are the Bank's primary source of funds. The Bank employs business development officers to solicit commercial demand deposits and instituted a formalized direct mail retail demand account solicitation program during the second half of 2006. This program is designed to increase the amount of demand deposits which have a lower cost of funds than other types of deposits. The Bank focuses on obtaining deposits from the communities it serves but occasionally may accept deposits from outside its market area or receive brokered deposits.

At December 31, 2007, the Bank had a deposit mix of 74% in time deposits, 17% in money market and savings accounts, and 9% in interest bearing, and noninterest bearing demand accounts. At December 31, 2006, the Bank's deposit mix was comprised of 61% in time deposits, 29% in money market and savings accounts, and 10% in interest bearing and noninterest bearing demand accounts.

The Bank offers local depositors with deposits in excess of $100,000 and who are concerned with FDIC insurance limits, a deposit placement service through a program called CDARS. Through this program amounts in excess of $100,000 can be placed in certificates of deposit at other institutions and the Bank receives reciprocal deposits from other institutions within the network. At December 31, 2007 and 2006, there were $2,740,000 and $8,170,000 in the CDARS program, respectively. Although the originating depositors are local customers of the Bank, this exchange of deposits for the purposes of FFIEC Call Reports, are classified as brokered deposits.

Time deposits are received through a program run by the Treasurer of the State of California to place public deposits with community banks. At December 31, 2007 and 2006, the State of California had $38,000,000 and $20,000,000 in time deposits with the Bank with maturities of 3 to 6 months and collateralized by investment securities, mortgage loans or letters of credit issued by the Federal Home Loan Bank.

The following table sets forth the average balances by deposit category and the interest cost for the periods indicated.

Average Deposit Balances and Rates Paid

	Year Ended December 31,					
	2007		2006		2005	
(in thousands)	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Non-Interest-bearing demand deposits	$ 11,997		$ 11,810		$ 14,342	
Interest-bearing demand deposits	12,530	0.75%	13,438	0.45%	13,921	0.46%
Saving and money market (1)	49,838	3.34%	80,669	2.85%	125,606	2.20%
Time certificates under $100,000	69,327	5.13%	55,504	3.91%	43,883	2.85%
Time certificates $100,000 or over	95,029	4.79%	74,132	4.74%	44,577	3.15%
Total deposits	$ 238,721	4.13%	$235,553	3.41%	$242,329	2.27%

(1) This includes the Bank's 1031 Deposits which are volatile and generally do not remain on deposit for more than 180 days. These deposits were $624,000, $6,173,000 and $93,914,000 at December 31, 2007, 2006 and 2005.

The following table sets forth the maturities of time certificates of deposit outstanding at December 31, 2007.

Maturity of Time Deposits of $100,000 or More

(in thousands)		December 31, 2007
Time deposits of $100,000 or more maturing in:		
Three months or less	$	63,046
Over three though six months		21,375
Over six to twelve months		15,602
Over twelve months		3,972
Total time deposits of $100,000 or more	$	103,995

Borrowings

Borrowings were $42,600,000 and $31,717,000 at December 31, 2007 and 2006. Borrowings consisted of FHLB advances and securities sold under repurchase agreements. Borrowings increased through an $11,140,000 net increase in FHLB advances and a $257,000 net decline in securities sold under repurchase agreements. Management utilizes FHLB advances when the terms are deemed advantageous compared to raising time deposits.

Quantitative and Qualitative Disclosures about Market Risk

The Bank constantly monitors earning asset and deposit levels, developments and trends in interest rates, liquidity, capital adequacy and marketplace opportunities. Management responds to all of these to protect and possibly enhance net interest income while managing risks within acceptable levels as set forth in the Bank's policies. In addition, alternative business plans and transactions are contemplated for their potential impact. This process is known as asset/liability management and is carried out by changing the maturities and relative proportions of the various types of loans, investments, deposits and borrowings in the ways described above.

The tool most commonly used to manage and analyze the interest rate sensitivity of a bank is known as a computer simulation model. To quantify the extent of risks in both the Bank's current position and in transactions it might make in the future, the Bank uses a model to simulate the impact of different interest rate scenarios on net interest income. The hypothetical impact of both sudden (generally, an immediate change in interest rates of +/- 2.00%) and smaller incremental interest rate changes are modeled at least quarterly, representing the primary means the Bank uses for interest rate risk management decisions.

The Bank is liability sensitive during a one year period meaning that during one year, more liabilities will reprice than loans. Liability sensitive banks would expect an increase in the net interest margin if interest rates decline and the net interest margin to decline when rates increase.

However various factors influence the change in the Bank's margin when general economic interest rates change. These factors include, but are not limited to, the growth and mix of new assets, deposit liabilities and borrowings, the extension or contraction of maturities of new and renewed assets and liabilities, the particular shape of the general economic yield curve, and the general influence on pricing by competition in the local market for loans and deposits. Additionally, when economic rates change, there is an immediate impact from loans that are tied to a daily "prime lending rate." The repricing of liabilities to offset this change requires time for deposits to mature and renew. Based strictly on maturing time deposits and borrowings, and without the other factors listed above, it normally will take three months for the Bank to reprice liabilities to offset a prime rate change.

At December 31, 2007, the computer simulation model results in the Bank's net interest income for a twelve month period to increase 2.2% or $242,000 for a -2.00% shock in interest rates. For a +2.00% shock in interest rates, the model reflects a -4.3% or $(470,000) decline in net interest income over a twelve month period.

When preparing its modeling, the Bank makes significant assumptions about the lag in the rate of change in various asset and liability categories. The Bank bases its assumptions on past experience and comparisons with other banks, and tests the validity of its assumptions by reviewing actual results with projected expectations.

Liquidity and Capital Resources

Maintenance of adequate liquidity requires that sufficient resources be available at all times to meet cash flow requirements of the Bank. Liquidity in a banking institution is required primarily to provide for deposit withdrawals and the credit needs of customers and to take advantage of lending and investment opportunities as they arise. A bank may achieve desired liquidity from both assets and liabilities. Cash and deposits held in other banks, Federal funds sold, other short term investments, maturing loans and investments, payments of principal and interest on loans and investments, and potential loan sales are sources of asset liquidity. Deposit growth and access to credit lines established with correspondent banks, primarily with the FHLB, and access to brokered certificates of deposits are sources of liability liquidity. The Bank reviews its liquidity position on a regular basis based upon its current position and expected trends of loans and deposits. Management believes that the Bank maintains adequate sources of liquidity to meet its liquidity needs.

The Bank's liquid assets, defined as cash, demand deposits with bank's Federal funds sold and unpledged investment securities, totaled $33,443,000 and $23,756,000 at December 31, 2007 and December 31, 2006, respectively, and constituted 10% and 8%, respectively, of total assets on those dates.

At December 31, 2007, lines of credit with the FHLB and the Bank's correspondent banks totaled $100 million, of which $50 million was outstanding, which included $7 million in letters of credit issued by the FHLB as collateral for State of California deposit. At December 31, 2006, lines of credit with the Federal Home Loan Bank and the Bank's correspondent banks totaled $110 million, of which $38 million was outstanding, which included $7 million in letters of credit issued by the FHLB as collateral for State of California deposits.

The Board of Directors recognizes that a strong capital position is vital to growth, continued profitability, and depositor and investor confidence. The policy of the Board of Directors is to maintain sufficient capital at not less than the "well-capitalized" thresholds established by banking regulators.

On July 13, 2006, the Bank had an initial public offering of 1,400,000 shares of common stock with an additional option of 210,000 shares granted the underwriters to cover over-allotments, of which 32,700 were exercised. This offering increased Shareholders' equity by $19,303,000, net of underwriters' discount and other expenses.

The Bank's primary source of capital had been the retention of earnings, net of shareholder dividend payments. During the years ended December 31, 2007 and 2006, capital was supplemented by the retention of net income, less dividends of $199,000 and $1,342,000, respectively. Dividends paid as a percent of net income was 90% for the year ended December 31, 2007, 52% for the year ended December 31, 2006 and 39% for the year ended December 31, 2005.

Shareholders' equity also includes the Bank's accumulated other comprehensive income (loss), net of taxes of $16,000 at December 31, 2007, $(142,000) at December 31, 2006 and $(266,000) at December 31, 2005. Other comprehensive income (loss) reflects the fair value adjustment, net of tax, of investment securities classified as available-for-sale. This will fluctuate based on the amount of securities classified as available-for-sale and changes in market interest rates. Total shareholders' equity was $47,715,000 at December 31, 2007, $47,812,000 at December 31, 2006 and $27,043,000 at December 31, 2005. Shareholders' equity was reduced during 2007 by $881,000 through the repurchase of 100,000 shares of common stock.

Federal regulations establish guidelines for calculating "risk-adjusted" capital ratios and minimum ratio requirements. Under these regulations, banks are required to maintain a total risk-based capital ratio of 8.0% and Tier 1 risk-based capital (primarily shareholders' equity) of at least 4.0% of risk-weighted assets. The Bank had total and Tier 1 risk-based capital ratios of 16.4% and 15.1%, respectively, at December 31, 2007, and was "well-capitalized" under the regulatory guidelines. The Bank's total and Tier 1 risk-based capital ratios were 18.0% and 16.8%, respectively, at December 31, 2006.

In addition, regulators have adopted a minimum leverage ratio standard for Tier 1 capital to average assets. The minimum ratio for top-rated institutions may be as low as 3%. However, regulatory agencies have stated that most institutions should maintain ratios at least 1 to 2 percentage points above the 3% minimum. As of December 31, 2007, the Bank's leverage ratio was 13.0%, while as of December 31, 2006, the Bank's leverage ratio was 14.3%. Capital levels for the Bank remain above established regulatory capital requirements.

Impact of Inflation

The primary impact of inflation on the Bank is its effect on interest rates. The Bank's primary source of income is net interest income, which is affected by changes in interest rates. The Bank attempts to limit the impact of inflation on its net interest margin through management of rate-sensitive assets and liabilities and analyses of interest rate sensitivity. The effect of inflation on premises and equipment as well as on noninterest expenses has not been significant for the periods presented.

SUMMIT STATE BANK AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2007 AND 2006

AND FOR THE YEARS ENDED

DECEMBER 31, 2007, 2006 AND 2005

AND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Crowe

Crowe Chizek and Company LLP

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Summit State Bank:

We have audited the accompanying consolidated balance sheets of Summit State Bank and Subsidiary as of December 31, 2007 and 2006 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Summit State Bank and Subsidiary as of December 31, 2007 and 2006 and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Crowe Chizek and Company LLP

Crowe Chizek and Company LLP

South Bend, Indiana
March 18, 2008

PERRY-SMITH LLP
ACCOUNTANTS

400 Capitol Mall, Suite 1200
Sacramento, CA 95814
www.perry-smith.com
916.441.1000

INDEPENDENT AUDITOR'S REPORT

The Shareholders and Board of Directors
Summit State Bank and Subsidiary

We have audited the accompanying consolidated statements of income, changes i shareholders' equity and cash flows of Summit State Bank and subsidiary for the year ende December 31, 2005. These consolidated financial statements are the responsibility of the Bank' management. Our responsibility is to express an opinion on these consolidated financial statement based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in a material respects, the results of operations and cash flows of Summit State Bank and subsidiary fc the year ended December 31, 2005, in conformity with accounting principles generally accepted in th United States of America.

Perry-Smith LLP

March 10, 2006

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(In thousands)

	December 31, 2007	December 31, 2006
ASSETS		
Cash and due from banks	$ 5,695	$ 10,606
Federal funds sold	7,110	-
Total cash and cash equivalents	12,805	10,606
Time deposits in banks	80	457
Available-for-sale investment securities - amortized cost of $35,404 in 2007 and $26,104 in 2006	35,426	25,829
Held-to-maturity investment securities - market value of $5,000 in 2007 and $4,868 in 2006	5,000	5,000
Loans, less allowance for loan losses of $3,621 in 2007 and $3,736 in 2006	267,067	252,860
Bank premises and equipment, net	8,463	8,175
Investment in Federal Home Loan Bank stock, at cost	2,850	1,699
Goodwill	4,119	4,119
Accrued interest receivable and other assets	4,383	4,205
Total assets	$ 340,193	$ 312,950
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand - non interest-bearing	$ 10,297	$ 11,188
Demand - interest-bearing	12,421	12,623
Savings	12,460	19,331
Money market	29,858	47,335
Time deposits, $100,000 and over	103,995	80,160
Other time deposits	79,988	62,337
Total deposits	249,019	232,974
Securities sold under repurchase agreements	-	257
Federal Home Loan Bank (FHLB) advances	42,600	31,460
Accrued interest payable and other liabilities	859	447
Total liabilities	292,478	265,138
Shareholders' equity		
Preferred stock, no par value; 20,000 shares authorized; none issued	-	-
Common stock, no par value; shares authorized - 30,000; shares isssued and outstanding 4,745 at December 31, 2007 and 4,795 at December 31, 2006	36,244	36,698
Retained earnings	11,455	11,256
Accumulated other comprehensive income (loss), net of taxes	16	(142)
Total shareholders' equity	47,715	47,812
Total liabilities and shareholders' equity	$ 340,193	$ 312,950

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

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

(In thousands except for earnings per share data)	Year Ended December 31, 2007	2006	2005
Interest income:			
Interest and fees on loans	$ 20,327	$ 18,507	$ 14,455
Interest on Federal funds sold	6	297	1,131
Interest on investment securities and deposits in banks	2,293	1,536	1,025
Dividends on FHLB stock	129	114	57
Total interest income	22,755	20,454	16,668
Interest expense:			
Deposits	9,869	8,040	5,484
Securities sold under repurchase agreements	2	13	13
FHLB advances	2,033	1,370	785
Total interest expense	11,904	9,423	6,282
Net interest income before provision for loan losses	10,851	11,031	10,386
Provision for loan losses	749	253	444
Net interest income after provision for loan losses	10,102	10,778	9,942
Non-interest income:			
Service charges	352	337	590
Office leases	699	658	558
Gains on sales of loans	41	99	446
Real estate exchange fees	10	42	109
Loan servicing, net	65	65	71
Other income	29	120	85
Total non-interest income	1,196	1,321	1,859
Non-interest expense:			
Salaries and employee benefits	3,974	3,675	3,055
Occupancy and equipment	1,624	1,350	1,214
Other expenses	2,395	2,213	2,212
Total non-interest expense	7,993	7,238	6,481
Income before provision for income taxes	3,305	4,861	5,320
Provision for income taxes	1,363	2,053	2,189
Net income	$ 1,942	$ 2,808	$ 3,131
Basic earnings per share	$ 0.40	$ 0.70	$ 0.93
Diluted earnings per share	$ 0.40	$ 0.69	$ 0.93
Basic weighted average shares of common stock outstanding	4,831	4,030	3,361
Diluted weighted average shares of common stock outstanding	4,834	4,074	3,378

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

SUMMIT STATE BANK AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total Shareholders' Equity	Total Compre-hensive Income
Balance, January 1, 2005	$ 3,361	$ 17,395	$ 7,993	$ (2)	$ 25,386	
Comprehensive income						
Net income			3,131		3,131	$ 3,131
Other comprehensive loss, net of tax:						
Net change in unrealized gains (losses) on available-for-sale investment securities				(264)	(264)	(264)
Total comprehensive income						$ 2,867
Cash dividends - $.36 per share			(1,210)		(1,210)	
Balance, December 31, 2005	3,361	17,395	9,914	(266)	27,043	
Comprehensive income:						
Net income			2,808		2,808	$ 2,808
Other comprehensive income, net of tax:						
Net change in unrealized gains (losses) on available-for-sale investment securities				124	124	124
Total comprehensive income						$ 2,932
Stock issued	1,434	19,303			19,303	
Cash dividends - $.36 per share			(1,466)		(1,466)	
Balance, December 31, 2006	4,795	36,698	11,256	(142)	47,812	
Comprehensive income:						
Net income			1,942		1,942	$ 1,942
Other comprehensive income, net of tax:						
Net change in unrealized gains (losses) on available-for-sale investment securities				158	158	158
Total comprehensive income						$ 2,100
Stock-based compensation expense		3			3	
Stock issued, net of tax benefits	50	424			424	
Stock purchases and retirements	(100)	(881)			(881)	
Cash dividends - $.36 per share			(1,743)		(1,743)	
Balance, December 31, 2007	4,745	$ 36,244	$ 11,455	$ 16	$ 47,715	

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

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(In thousands)	**2007**	**2006**	**2005**
Cash flows from operating activities:			
Net income	$ 1,942	$ 2,808	$ 3,131
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	820	711	633
Loss on disposal of bank premises and equipment	33		
Net (decrease) increase in deferred loan fees	(49)	81	122
Net loss on sale of foreclosed real estate	4	-	-
Provision for loan losses	749	253	444
Gains on sales of loans	(41)	(99)	(446)
Loans originated for sale	(661)	(1,201)	(6,013)
Proceeds from sales of loans held for sale	702	1,281	6,498
Dividends on Federal Home Loan Bank stock	(119)	(98)	(62)
Tax benefit from exercise of stock option	165	-	-
Net change in accrued interest receivable and other assets	(317)	(628)	(745)
Net change in accrued interest payable and other liabilities	412	(1,169)	1,359
Stock-based compensation expense	3	-	-
Net cash from operating activities	3,643	1,939	4,921
Cash flows from investing activities:			
Decrease in time deposits in banks	377	1,178	2,599
Purchases of available-for-sale investment securities	(14,671)	(15,015)	(17,257)
Proceeds from calls and maturities of available-for-sale investment securities	5,371	8,920	5,500
Purchase of Federal Home Loan Bank stock	(2,335)	(1,118)	(26)
Proceeds from the redemption of Federal Home Loan Bank stock	1,303	968	150
Net change in loans	(15,828)	(16,987)	(36,641)
Purchases of bank premises and equipment, net	(1,141)	(234)	(734)
Proceeds from sale of foreclosed real estate	917	-	-
Net cash from investing activities	(26,007)	(22,288)	(46,409)

(Continued)

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Year Ended December 31, 2007	2006	2005
Cash flows from financing activities:			
Net (decrease) increase in demand, NOW, savings and money market deposits	(25,441)	(101,326)	70,923
Net change in certificates of deposit	41,486	32,546	41,494
Net change in securities sold under repurchase agreements	(257)	82	(417)
Net change in short term FHLB advances	(8,260)	3,260	5,000
Proceeds from long term FHLB advances	37,000	13,000	-
Repayment of long-term FHLB advances	(17,600)	-	(22,000)
Gross proceeds from issuance of common stock	259	19,303	-
Repurchase of common stock	(881)	-	-
Dividends paid on common stock	(1,743)	(1,466)	(1,210)
Net cash from financing activities	24,563	(34,601)	93,790
Net change in cash and cash equivalents	2,199	(54,950)	52,302
Cash and cash equivalents at beginning of year	10,606	65,556	13,254
Cash and cash equivalents at end of year	$ 12,805	$ 10,606	$ 65,556
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest expense	$ 11,718	$ 10,311	$ 5,187
Income taxes, net of refunds	$ 1,453	$ 2,495	$ 1,812
Non cash investing activities:			
Transfer from loans to other real estate owned	$ 921	$ -	$ -

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

On January 15, 1999, Summit State Bank (the "Bank") received authority to transact business as a California state-chartered commercial bank and is subject to regulation, supervision and examination by the California Department of Financial Institutions and the Federal Deposit Insurance Corporation. The Bank was organized under a charter granted by the Department of Savings and Loan of the State of California under the name Summit Savings. The Bank was incorporated on December 20, 1982. The Bank converted to a federal savings bank under a charter granted by the Office of Thrift Supervision on May 24, 1990. The Bank provides a variety of banking services to individuals and businesses in its primary service area of Sonoma County, California. The Bank's branch locations include Santa Rosa, Petaluma, Rohnert Park and Windsor. The Bank offers depository and lending services primarily to meet the needs of its business and individual clientele. These services include a variety of transaction, money market, savings and time deposit account alternatives. The Bank's lending activities are directed primarily towards commercial real estate, construction and business loans. The Bank utilizes its subsidiary Alto Service Corporation for its deed of trust services.

The accounting and reporting policies of Summit State Bank and subsidiary conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Principles of Consolidation

The consolidated financial statements include the accounts of Summit State Bank (the "Bank") and its wholly-owned subsidiary, Alto Service Corporation. All significant inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of 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 these estimates. The allowance for loan losses and fair values of investment securities and other financial instruments are particularly subject to change.

Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, the Bank considers cash and due from banks under 90 days and Federal funds sold to be cash equivalents. Generally, Federal funds are sold for one-day periods. Net cash flows are reported for customer loan and deposit transactions, time deposits in banks and short-term borrowings with an original maturity of 90 days or less.

Time Deposits in Banks

Time deposits in banks are carried at cost.

Investment Securities

Investments are classified into the following categories:

- Available-for-sale securities, reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity, net of tax.

- Held-to-maturity securities, which management has the positive intent and ability to hold to maturity, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value.

Gains or losses on the sale of investment securities are recorded on the trade date and are computed on the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums on the level yield method.

Investment securities are evaluated for impairment on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Bank to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

Investment in Federal Home Loan Bank Stock

In order to borrow from the Federal Home Loan Bank of San Francisco (FHLB), the Bank is required to maintain an investment in the capital stock of the FHLB. The investment is carried at cost and is generally redeemable at par. Both cash and stock dividends are reported as income.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or market, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Loans held for sale are generally sold with servicing rights retained. The carrying value of loans sold is reduced by the cost allocated to the servicing right. Gains and losses on loan sales are based on the difference between the selling price, net of loan discount or premium, and the carrying value of the related loans sold.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are stated at principal balances outstanding, net of deferred loan origination fees and costs and the allowance for loan losses, adjusted for accretion of discounts or amortization of premiums. Interest is accrued daily based upon outstanding loan balances. However, when, in the opinion of management, loans are considered to be impaired and the future collectability of interest and principal is in serious doubt, loans are placed on nonaccrual status and the accrual of interest income is suspended. Any interest previously accrued, but unpaid, is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. Subsequent payments on these loans, or payments received on nonaccrual loans for which the ultimate collectability of principal is not in doubt, are applied first to earned but unpaid interest and then to principal.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due (including both principal and interest) in accordance with the contractual terms of the loan agreement. An impaired loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical matter, at the loan's observable market price or the fair value of collateral if the loan is collateral dependent.

Substantially all loan origination fees, commitment fees, direct loan origination costs and purchase premiums and discounts on loans are deferred and recognized in interest income using the level yield method, to be amortized to interest income over the contractual term of the loan. The unamortized balance of deferred fees and costs is reported as a component of net loans.

The Bank may purchase loans or acquire loans through a business combination for which differences exist between the contractual cash flows and the cash flows expected to be collected due, at least in part, to credit quality. When the Bank acquires such loans, the yield that may be accreted (accretable yield) is limited to the excess of the Bank's estimate of undiscounted cash flows expected to be collected over the Bank's initial investment in the loan. The excess of contractual cash flows over cash flows expected to be collected may not be recognized as an adjustment to yield, loss, or a valuation allowance. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as impairment. The Bank may not "carry over" or create a valuation allowance in the initial accounting for loans acquired under these circumstances. At December 31, 2007, there were no loans being accounted for under this policy.

Allowance for Loan Losses

The allowance for loan losses is maintained to provide for probable incurred credit losses related to impaired loans and other losses that can be expected to occur in the normal course of business. The determination of the allowance is based on estimates made by management, to include consideration of the character of the loan portfolio, specifically identified problem loans, losses inherent in the portfolio taken as a whole and economic conditions in the Bank's service area.

Classified loans and loans determined to be impaired are evaluated by management for specific risk of loss. In addition, reserve factors are assigned to currently performing loans based on management's assessment of the following for each identified loan type: (1) inherent credit risk, (2) historical losses and, (3) where the Bank has not experienced losses, the loss experience of peer banks. Finally, a residual component is maintained to cover the margin of imprecision inherent in the assumptions used to estimate losses. These estimates are particularly susceptible to changes in the economic environment and market conditions.

The Bank's Board of Directors reviews the adequacy of the allowance for loan losses at least quarterly, to include consideration of the relative risks in the portfolio and current economic conditions. The allowance is adjusted based on that review if, in the judgment of the Board of Directors and management, changes are warranted.

The allowance for loan losses is established through a provision for loan losses which is charged to expense. Future additions to the allowance are expected to maintain the adequacy of the total allowance after reductions for loan losses and for loan growth. Subsequent recoveries of loan losses, if any, are credited to the allowance. The allowance for loan losses at December 31, 2007 and 2006 reflects management's estimate of probable incurred credit losses in the portfolio.

Loan Servicing

The Bank adopted Statement of Financial Accounting Standard No. 156 "Accounting for Servicing of Financial Assets" ("SFAS No. 156"), as of January 1, 2007. SFAS No. 156 requires separately recognized servicing assets and servicing liabilities to be initially measured at fair value and permits the Bank to elect to measure servicing assets and servicing liabilities at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur or to continue to amortize the servicing assets over the loan service period with periodic impairment assessment. The Bank has elected to continue to amortize its servicing assets. There was no cumulative effect upon the adoption of SFAS No. 156 and the effect on net income for the year ended December 31, 2007 was not significant. The Bank's servicing assets at December 31, 2007 and 2006 were $56,000 and $82,000 respectively, and consist of the servicing of loans guaranteed by the Small Business Administration (SBA) totaling $7,761,000 and $14,752,000 at December 31, 2007 and 2006, respectively.

Servicing fee income which is reported on the income statement as loan servicing, net is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of SBA loan servicing rights is netted against loan servicing fee income. Servicing fees totaled $65,000 $65,000, and $71,000 for the years ended December 31, 2007, 2006 and 2005. Late fees and ancillary fees related to loan servicing are not material

Goodwill

Goodwill results from business acquisitions and is not amortized, but is periodically evaluated using current facts and circumstances for indications that its value may be impaired. If the carrying amount of goodwill exceeds its fair value, an impairment loss is recognized in the amount of the excess and the carrying value of goodwill is reduced accordingly. Based on an evaluation performed in November 2007, management determined that the fair value of goodwill exceeds its carrying value and no impairment was recognized. Goodwill is recorded, net of accumulated amortization, at $4,119,000 at December 31, 2007 and 2006.

Other Real Estate

Other real estate includes real estate acquired in full or partial settlement of loan obligations. When property is acquired, any excess of the Bank's recorded investment in the loan balance and accrued interest income over the estimated fair market value of the property, less costs to sell, is charged against the allowance for loan losses. A valuation allowance for losses on other real estate, if needed, is maintained to provide for temporary declines in value. The allowance is established through a provision for losses on other real estate which is included in other expenses. Subsequent gains or losses on sales or write-downs resulting from impairment are recorded in other income or expenses as incurred. There was no other real estate held at December 31, 2007 and 2006. Operating costs after acquisition are expensed.

Bank Premises and Equipment

Land is carried at cost. Buildings, furniture, fixtures, and equipment are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of buildings are estimated to be 39 years and furniture, fixtures and equipment are estimated to be 3 to 15 years. Leasehold improvements are amortized over the estimated useful life of the asset or the term of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

The Bank evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Income Taxes

The Bank files its income taxes on a consolidated basis with its subsidiary. The allocation of income tax expense (benefit) represents each entity's proportionate share of the consolidated provision for income taxes. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

The Bank adopted FASB Interpretation 48, “Accounting for Uncertainty in Income Taxes”, (“FIN 48”), as of January 1, 2007. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The adoption had no affect on the Bank’s consolidated financial statements.

The Bank recognizes interest and/or penalties related to income tax matters in income tax expense. The Bank has not accrued any potential interest and penalties as of December 31, 2007 and December 31, 2006 For uncertainties related to income taxes.

Stock Split

On May 22, 2006, the Board of Directors declared a two-for-one stock split for all common stock outstanding as of June 1, 2006 effected in the form of a stock dividend which was paid on June 14, 2006. All share and per share amounts have been retroactively adjusted for the stock split.

Earnings Per Common Share

Basic earnings per common share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if contracts to issue common stock, such as stock options, result in the issuance of common stock which shares in the earnings of the Bank. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the financial statements. Accordingly, all share and per share information reflects the two-for-one stock split paid on June 14, 2006.

The factors used in the earnings per share computations follow:

(in thousands except earnings per share)	2007	2006	2005
Basic			
Net income	$ 1,942	$ 2,808	$ 3,131
Weighted average comon shares outstanding	4,831	4,030	3,361
Basic earnings per common share	$ 0.40	$ 0.70	$ 0.93
Diluted			
Net income	$ 1,942	$ 2,808	$ 3,131
Weighted average common shares outstanding for basic earnings per common share	4,831	4,030	3,361
Add: Dilutive effects of assumed exercises of stock options	3	44	17
Average shares and dilutive potential common shares	4,834	4,074	3,378
Diluted earnings per common share	$ 0.40	$ 0.69	$ 0.93

Comprehensive Income

Comprehensive income is reported in addition to net income for all periods presented. Comprehensive income is a more inclusive financial reporting methodology that includes disclosure of other comprehensive income (loss) that historically has not been recognized in the calculation of net income. Unrealized gains and losses on the Bank's available-for-sale investment securities are included in other comprehensive income (loss), net of taxes. Total comprehensive income and the components of accumulated other comprehensive income (loss), net of taxes, are presented in the consolidated statements of changes in shareholders' equity.

Other comprehensive income (loss) net of related taxes were attributable to available for sale securities and were as follows:

(in thousands)	Before Tax	Tax Benefit (Expense)	After Tax
For the year ended December 31, 2007			
Other comprehensive income:			
Unrealized holding gains on available-for-sale investment securities	$ 297	$ (139)	$ 158
For the year ended December 31, 2006			
Other comprehensive income:			
Unrealized holding gains on available-for-sale investment securities	$ 187	$ (63)	$ 124
For the year ended December 31, 2005			
Other comprehensive loss:			
Unrealized holding losses on available-for-sale investment securities	$ (458)	$ 194	$ (264)

Stock Based Compensation

Effective January 1, 2006, the Bank adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-based Payment*, using the prospective transition method. Under this transition method, nonvested equity awards outstanding on December 31, 2005, continue to be accounted for under the intrinsic value method and compensation costs is recognized for all share-based payments vesting during 2006 that were granted on or subsequent to January 1, 2006, based on grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). Results for prior periods have not been restated. During 2006 no stock options were awarded. Options on 20,000 shares of common stock were awarded in 2007.

Prior to 2006, the Bank accounted for this plan under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost was reflected in net income for 2006 and 2005, as all options granted under this plan through December 31, 2005 had an exercise price equal to the market value of the underlying common stock on the date of grant.

The adoption of this new accounting standard had no material affect on the Bank's consolidated financial statements.

Adoption of New Accounting Standards

The Bank adopted FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), as of January 1, 2007. See "Income Taxes" above for further discussions of the effect of adopting FIN 48.

The Bank adopted Statement of Financial Accounting Standards No. 156 "Accounting for Servicing of Financial Assets" ("SFAS No. 156"), as of January 1, 2007. See "Loan Servicing" above for further discussion of the effect of adopting SFAS No. 156.

FASB Statement No. 155

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, "Accounting for Certain Hybrid Financial Instruments" ("SFAS No. 155"), which permits fair value remeasurement for hybrid financial instruments that contain an embedded derivative that otherwise would require bifurcation. Additionally, SFAS No. 155 clarifies the accounting guidance for beneficial interests in securitizations. Under SFAS No. 155, all beneficial interests in a securitization will require an assessment in accordance with SFAS No. 133 to determine if an embedded derivative exists within the instrument. In January 2007, the FASB issued Derivatives Implementation Group Issue B40, "Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets" ("DIG Issue B40"). DIG Issue B40 provides an exemption from the embedded derivative test of paragraph 13(b) of SFAS No. 133 for instruments that would otherwise require bifurcation if the test is met solely because of a prepayment feature included within the securitized interest and prepayment is not controlled by the security holder. SFAS No. 155 and DIG Issue B40 are effective for fiscal years beginning after September 15, 2006. The adoption of SFAS No. 155 and DIG Issue B40 did not have a material impact on the Bank's consolidated financial position or results of operations.

Effect of Newly Issued But Not Yet Effective Accounting Standards

FASB Statement No. 157

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS No. 157"). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position 157-2 ("FSP"), "Effective Date of FASB Statement No. 157". This FSP delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The impact of adoption on January 1, 2008 was not material to the Bank's consolidated financial position or results of operations.

FASB Statement No. 159

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective for the Bank on January 1, 2008. The Bank did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008.

SAB 109

On November 5, 2007, the SEC issued Staff Accounting Bulletin No. 109, "*Written Loan Commitments Recorded at Fair Value through Earnings*" ("SAB 109"). Previously, SAB 105, "*Application of Accounting Principles to Loan Commitments*", stated that in measuring the fair value of a derivative loan commitment, a company should not incorporate the expected net future cash flows related to the associated servicing of the loan. SAB 109 supersedes SAB 105 and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in measuring fair value for all written loan commitments that are accounted for at fair value through earnings. SAB 105 also indicated that internally-developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment, and SAB 109 retains that view. SAB 109 is effective for derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The Bank does not expect the impact of this standard to be material to the Bank's consolidated financial position or results of operations.

Reclassifications

Certain reclassifications were made to the prior year's presentation to conform to the current year's presentation.

Operating segments

While the Bank's chief decision makers monitor the revenue streams of the Bank's various products and services, operations are managed and financial performance is evaluated on a bank-wide basis. Operating segments are aggregated into one segment as operating results for all segments are similar.

2. INVESTMENT SECURITIES

The amortized costs and estimated fair value of investment securities at December 31, 2007 and 2006 consisted of the following:

(in thousands)	2007 Amortized Costs	2007 Gross Unrealized Gains	2007 Gross Unrealized Losses	2007 Estimated Fair Value
Securities available -for-sale:				
Government agencies	$ 30,760	$ 75	$ (9)	$ 30,826
Mortgage-backed securities	2,612	30	-	2,642
Government agencies stock	1,284	15	-	1,299
Other	748	-	(89)	659
Total securities available -for-sale	$ 35,404	$120	$ (98)	$ 35,426
Securities held-to-maturity:				
Government agencies	$ 5,000	$ -	$ -	$ 5,000
Total securities held-to-maturity	$ 5,000	$ -	$ -	$ 5,000
	$ 40,404	$120	$ (98)	$ 40,426

(in thousands)	2006 Amortized Costs	2006 Gross Unrealized Gains	2006 Gross Unrealized Losses	2006 Estimated Fair Value
Securities available -for-sale:				
Government agencies	$ 22,510	$ -	$ (318)	$ 22,192
Mortgage-backed securities	2,845	24	-	2,869
FNMA stock	1	4	-	5
Other	748	15	-	763
Total securities available -for-sale	$ 26,104	$ 43	$ (318)	$ 25,829
Securities held-to-maturity:				
Government agencies	$ 5,000	$ -	$ (132)	$ 4,868
Total securities held-to-maturity	$ 5,000	$ -	$ (132)	$ 4,868
	$ 31,104	$ 43	$ (450)	$ 30,697

Net unrealized gains (losses) on available-for-sale investment securities totaling $22,000 and $(275,000) are recorded, net of $6,000 and $(133,000) in tax expense (benefits), as accumulated other comprehensive income (loss) within shareholders' equity at December 31, 2007 and 2006, respectively. There were no sales or transfers of available-for-sale or held-to-maturity investment securities for the years ended December 31, 2007, 2006 and 2005.

Investment securities with unrealized losses at December 31, 2007 and 2006 are summarized and classified according to the duration of the loss period as follows:

	2007					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
Government agencies	$ -	$ -	$ 5,240	$ (9)	$ 5,240	$ (9)
Other	659	(89)	-	-	659	(89)
	$ 659	$ (89)	$ 5,240	$ (9)	$ 5,899	$ (98)

	2006					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
Government agencies	$ 2,500	$ (1)	$ 24,560	$ (449)	$ 27,060	$ (450)
	$ 2,500	$ (1)	$ 24,560	$ (449)	$ 27,060	$ (450)

At December 31, 2007, the Bank held 2 investment securities of which were in a loss position for less than twelve months and 8 were in a loss position and had been in a loss position for twelve months or more. Management periodically evaluates each investment security for other than temporary impairment, relying primarily on industry analyst reports and observation of market conditions and interest rate fluctuations. Management believes it will be able to collect all amounts due according to the contractual terms of the underlying investment securities and that the noted decline in fair value is considered temporary and due only to interest rate fluctuations.

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 the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held-to-Maturity	
(in thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Within one year	$ 1,250	$ 1,247	$ -	$ -
After one year through five years	2,998	2,937	-	-
After five years through ten years	2,000	2,001	5,000	5,000
After ten years	25,260	25,300	-	-
	31,508	31,485	5,000	5,000
Investment securities not due at a single maturity date:				
Government agencies stock	1,284	1,299	-	-
Mortgage-backed securities	2,612	2,642	-	-
	$ 35,404	$ 35,426	$ 5,000	$ 5,000

Investment securities with amortized costs totaling $19,760,000 and $18,010,000 and estimated fair values totaling $19,771,000 and $17,679,000 were pledged to secure State of California deposits and securities sold under repurchase agreements at December 31, 2007 and 2006 (see Notes 5 and 6).

3. LOANS

Outstanding loans are summarized as follows:

(in thousands)	December 31, 2007	2006
Mortgage loans collateralized by:		
Real estate - single family units	$ 40,940	$ 31,451
Real estate multi-family & land	20,545	24,998
Real estate-commercial	114,775	102,439
Real estate-construction	27,085	30,937
Commercial & agricultural	54,846	55,814
Consumer	5,711	4,977
Lease financing	7,295	6,538
	271,197	257,154
Deferred loan fees	(509)	(558)
Allowance for loan losses	(3,621)	(3,736)
	$ 267,067	$ 252,860

Changes in the allowance for loan losses were as follows:

(in thousands)	Year Ended December 31, 2007	2006	2005
Balance, beginning of year	$ 3,736	$ 3,617	$ 3,173
Provision charged to operations	749	253	444
Losses charged to allowance	(892)	(134)	-
Recoveries added to allowance	28	-	-
Balance, end of year	$ 3,621	$ 3,736	$ 3,617

At December 31, 2007 and 2006, nonaccrual loans totaled $465,000 and $2,383,000 respectively. Interest foregone on nonaccrual loans totaled $40,000, $111,000 and $36,000 for the years ended December 31, 2007, 2006 and 2005, respectively. Interest income recognized on nonaccrual loans was $12,000, $139,000 and $22,000 for the years ended December 31, 2007, 2006 and 2005, respectively. At December 31, 2007 and 2006, there were no accruing loans past due 90 days or more.

The recorded investment in loans that were considered to be impaired totaled $465,000 at December 31, 2007, with a related allowance for loan losses of $25,000. There was $2,383,000 considered to be impaired at December 31, 2006 with a related allowance of 375,000. The average recorded investment in impaired loans for the years ended December 31, 2007, 2006 and 2005 was $907,000, $923,000, and $600,000. The Bank recognized $0, $0, and $153,000 in interest income on a cash basis for such loans during December 31, 2007, 2006 and 2005.

Salaries and employee benefits totaling $386,000 $393,000 and $455,000 have been deferred as loan origination costs for the years ended December 31, 2007, 2006 and 2005, respectively.

Mortgage loans totaling $183,953,000 and $177,200,000 were pledged to secure borrowings with the Federal Home Loan Bank or State of California time deposits at December 31, 2007 and 2006, respectively (see Notes 5 and 6).

4. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following:

(in thousands)	December 31, 2007	2006
Land	$ 1,184	$ 1,184
Building	7,455	7,453
Furniture, fixtures and equipment	2,161	1,650
Leasehold improvements	804	254
	11,604	10,541
Less accumulated depreciation and amortization	(3,141)	(2,366)
	$ 8,463	$ 8,175

Depreciation and amortization included in occupancy and equipment expense totaled $820,000, $711,000 and $633,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

5. INTEREST-BEARING DEPOSITS

The aggregate amount of maturities of all time deposits is as follows:

2008 - $176,830,000; 2009 - $6,223,000; 2010 - $703,000; 2011 – $199,000 and 2012 - $28,000.

Interest expense recognized on interest-bearing deposits were as follows:

(in thousands)	Year Ended December, 31 2007	2006	2005
Interest bearing demand	$ 94	$ 60	$ 64
Savings	266	968	1,372
Money market	1,400	1,330	1,392
Time deposits	8,109	5,682	2,656
	$ 9,869	$ 8,040	$ 5,484

As of December 31, 2007 and 2006, time deposits, $100,000 and over included $38,000,000 and $20,000,000 of public deposits from the State of California with maturity term of three to six months. Broker deposits issued in denominations of less than $100,000 and issued in denominations greater than $100,000 and participated out by the broker in shares of $100,000 or less are included in other time deposits and were $20,842,000 and $19,000,000 at December 31, 2007 and 2006.

6. BORROWINGS

Borrowing Arrangements

The Bank has a total of $21,000,000 in Federal funds lines of credit with four correspondent banks at December 31, 2007. The Bank also maintains a letter of credit facility totaling $1,000,000 with a correspondent bank to guarantee international letters of credit issued to certain customers. There were guarantees of $577,000 and $233,000 under this facility as of December 31, 2007 and 2006, respectively. There were no borrowings outstanding under the Federal funds lines of credit as of December 31, 2007 and 2006. Interest on any advances is due monthly or quarterly and principal is due at maturity.

In addition, the Bank can borrow from the Federal Home Loan Bank of San Francisco on either a short-term or long-term basis up to approximately $78,488,000 and $91,064,000 of which $35,888,000 and $59,347,000 was available as of December 31, 2007 and 2006, respectively. Various mortgage loans with a carrying value of $154,808,000 and $177,200,000 as of December 31, 2007 and 2006, respectively, secured the borrowing arrangement. Interest on advances is due monthly or quarterly and principal is due at maturity.

The Bank also enters into sales of securities under agreements to repurchase which generally mature within one day. The securities underlying these agreements are carried as available-for-sale investment securities. At December 31, 2006, these securities had market values of $1,480,000 and amortized costs of $1,500,000, respectively.

Borrowings included the following advances from the Federal Home Loan Bank of San Francisco and securities sold under repurchase agreements.

	Year Ended December 31,					
	2007			2006		
(in thousands)	Amount	Rate	Maturity	Amount	Rate	Maturity
Securities sold under repurchase agreements	$ -			$ 257	2.25%	January 2007
FHLB advance	-			8,260	5.09%	January 2007
Total short-term borrowings	-			8,517		
FHLB advance	1,600	2.66%	May 2008	7,600	4.28%	July 2007
FHLB advance	5,000	5.38%	June 2008	1,600	2.66%	May 2008
FHLB advance	5,000	5.36%	June 2008	5,000	5.38%	June 2008
FHLB advance	3,000	4.80%	August 2008	5,000	5.36%	June 2008
FHLB advance	3,000	4.97%	September 2008	3,000	4.97%	September 2008
FHLB advance	2,000	4.87%	March 2009	1,000	6.52%	December 2010
FHLB advance	12,000	4.11%	November 2009			
FHLB advance	3,000	4.41%	September 2010			
FHLB advance	1,000	6.52%	December 2010			
FHLB advance	7,000	4.67%	May 2012			
Total long-term borrowings	42,600			23,200		
Total borrowings	$ 42,600			$ 31,717		

7. INCOME TAXES

The provision for income taxes for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

(in thousands) 2007	Federal	State	Total
Current	$ 1,146	$ 429	$ 1,575
Deferred	(142)	(70)	(212)
Provision for income taxes	$ 1,004	$ 359	$ 1,363
2006	**Federal**	**State**	**Total**
Current	$ 1,670	$ 670	$ 2,340
Deferred	(205)	(82)	(287)
Provision for income taxes	$ 1,465	$ 588	$ 2,053
2005	**Federal**	**State**	**Total**
Current	$ 1,807	$ 627	$ 2,434
Deferred	(194)	(51)	(245)
Provision for income taxes	$ 1,613	$ 576	$ 2,189

Deferred tax assets (liabilities) are comprised of the following:

	December 31,	
(in thousands)	2007	2006
Deferred tax assets:		
Allowance for loan losses	$ 1,612	$ 1,557
Future benefit of state tax deduction	43	82
Bank premises and equipment	429	290
Net unrealized losses on available-for-sale investment securities	-	133
Other accruals	82	88
Total deferred tax assets	2,166	2,150
Deferred tax liabilities:		
Federal Home Loan Bank stock dividends	(148)	(170)
Net unrealized gains on available-for-sale investment securities	(6)	-
Prepaid expenses and other	(97)	(138)
Total deferred tax liabilities	(251)	(308)
Valuation allowance	-	-
Net deferred tax assets	$ 1,915	$ 1,842

The provision for income taxes differs from amounts computed by applying the statutory Federal income tax rates to operating income before income taxes. The significant items comprising these differences for the years ended December 31, 2007, 2006 and 2005 consisted of the following:

	2007			2006			2005		
(in thousands)	Amount		Rate %	Amount		Rate %	Amount		Rate %
Federal income tax expense, at statutory rate	$	1,124	34.0%	$	1,653	34.0%	$	1,809	34.0%
State franchise tax expense, net of Federal tax effect		239	7.2%		400	8.2%		380	7.1%
Total income tax expense	$	1,363	41.2%	$	2,053	42.2%	$	2,189	41.1%

The Bank has not recorded any tax contingencies under FIN 48. The Bank does not expect to record any unrecognized tax benefits under FIN 48 in the next twelve months. The Bank and its subsidiary are subject to U.S. federal income tax as well as income tax of the State of California. The Bank is no longer subject to examination by federal taxing authorities for tax years 2003 and prior and by California taxing authorities for tax years 2002 and prior.

8. COMMITMENTS AND CONTINGENCIES

Leases

The Bank leases various equipment and branch offices in Santa Rosa, Rohnert Park, Petaluma and Windsor under noncancelable operating leases. These leases include various renewal and termination options and rental adjustment provisions. Rental expense included in occupancy and equipment expense totaled $329,000, $212,000 and $197,000 for the years ended December 31, 2007, 2006 and 2005, respectively. Future minimum lease payments are as follows:

Year Ending December 31,	(in thousands)	
2008	$	320
2009		244
2010		183
2011		188
2012		167
	$	1,102

The Bank entered into operating leases with third parties during 2007 and 2006 for office space in its building. The leases are for periods from five to seven years and contain a provision for one five year renewal option. Rental income totaled $699,000, $658,000 and $558,000 for the years ended December 31, 2007, 2006 and 2005 respectively. Minimum future rental income from these operating leases are as follows:

Year Ending December 31,	(in thousands)	
2008	$	600
2009		314
2010		194
2011		200
2012		67
	$	1,375

Federal Reserve Requirements

Banks are required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits less vault cash. The reserve requirement was $360,000 and $369,000 as of December 31, 2007 and 2006 respectively.

Financial Instruments With Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its clients and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and standby letters of credit as it does for loans included on the consolidated balance sheets.

The contractual amounts of financial instruments with off-balance-sheet risk at year end were as follows:

	December 31,			
(in thousands)	2007		2006	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ -	$ 3,085	$ 1,579	$ 3,527
Unused lines of credit	10,334	27,018	9,409	20,956
Standby letters of credit	-	48	172	1,847

Commitments to make loans are generally made for periods of 30 days or less. The fixed rate loan commitments at December 31, 2007 had interest rates ranging from 7.25% to 10.0% and maturities ranging from 1 year to 30 years.

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each client's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of the credit, is based on management's credit evaluation of the borrower. Collateral held relating to these commitments varies, but may include securities, equipment, accounts receivable, inventory and deeds of trust on residential real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a client to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to clients. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2007 and 2006. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

At December 31, 2007, real estate loan commitments represent 34% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%. Commercial loan commitments represent approximately 61% of total commitments and are generally secured by collateral other than real estate or are unsecured. Credit card and other unsecured commitments represent approximately 5% of total commitments. The majority of the Bank's commitments have variable interest rates.

Concentrations of Credit Risk

The Bank's business activity is primarily with clients located within Northern California. Although the Bank has a diversified loan portfolio, a significant portion of its clients' ability to repay loans is dependent upon the real estate market and various economic factors within Sonoma County. Generally, loans are secured by various forms of collateral. The Bank's loan policy requires sufficient collateral be obtained as necessary to meet the Bank's relative risk criteria for each borrower. The Bank's collateral consists primarily of real estate, accounts receivable, inventory and other financial instruments.

Correspondent Banking Agreements

The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Uninsured deposits totaled $4,568,000 at December 31, 2007.

Contingencies

The Bank is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the financial position or results of operations of the Bank.

9. SHAREHOLDERS' EQUITY

Regulatory Capital

The Bank is subject to certain regulatory capital requirements administered by the Federal Deposit Insurance Corporation (FDIC). Failure to meet these 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The 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 of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. Management believes that the Bank met all its capital adequacy requirements as of December 31, 2007 and 2006.

The most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth below. There are no conditions or events since the last notification by the FDIC that management believes have changed the Bank's category.

The Bank's actual and required capital amounts and ratios consisted of the following:

	2007		2006	
(in thousands)	Amount	Ratio	Amount	Ratio
Tier 1 Leverage Ratio				
Summit State Bank	$ 43,524	13.0%	$43,753	14.3%
Minumum requirement for "Well-Capitalized" institiution	$ 16,761	5.0%	$15,313	5.0%
Minimum regulatory requirement	$ 13,409	4.0%	$12,251	4.0%
Tier 1 Risk-Based Capital Ratio				
Summit State Bank	$ 43,524	15.1%	$43,753	16.8%
Minumum requirement for "Well-Capitalized" institiution	$ 17,258	6.0%	$15,671	6.0%
Minimum regulatory requirement	$ 11,505	4.0%	$10,448	4.0%
Total Risk-Based Captial Ratio				
Summit State Bank	$ 47,127	16.4%	$47,026	18.0%
Minumum requirement for "Well-Capitalized" institiution	$ 28,763	10.0%	$26,119	10.0%
Minimum regulatory requirement	$ 23,011	8.0%	$20,895	8.0%

Dividends

Upon declaration by the Board of Directors, all shareholders of record will be entitled to receive dividends. The California Financial Code restricts the total dividend payment of any bank in any calendar year to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. At December 31, 2007, retained earnings of $3,462,000 were free of such restrictions.

Stock Options

In 1999, the Bank established a stock option plan for which 100,000 shares of common stock are reserved for issuance to directors and officers under nonstatutory agreements. The plan requires that the option price may not be less than the fair market value of the stock at the date the option is granted, and the stock must be paid in full at the time the option is exercised. Payment in full for the option price must be made in cash or with Bank common stock previously acquired by the optionee and held by the optionee for a period of at least six months. The options expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. Options vest over a three to five year period. The 1999 stock option plan has been cancelled with the adoption of the 2007 stock option plan, except for the current options that were granted under this plan, which totaled 30,666 shares at December 31, 2007.

The Bank’s 2007 Stock Option Plan (stock option plan or the Plan), which is shareholder-approved, permits the grant of share options to its employees for up to 150,000 shares of common stock. The Company believes that such awards better align the interests of its employees with those of its shareholders. Option awards are generally granted with an exercise price equal to the market price of the Company’s common stock at the date of grant; those option awards have vesting periods of 5 years unless otherwise approved by the Board of Directors and have 10-year contractual terms. As of December 31, 2007, 130,000 shares remain available for future grants under this plan.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of an index consisting of financial institution stocks which should approximate the future volatility of the Bank's common stock. The Bank uses historical data to estimate option exercise and post-vesting termination behavior. Employee and management options are tracked separately. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of options granted was determined using the following weighted-average assumptions as of the grant date.

	2007	2006	2005
Risk-free interest rate	5.0%	-	-
Expected term	7 years	-	-
Expected stock price volatility	26.63	-	-
Dividend yield	3.3%	-	-

A summary of the activity in the stock option plan for 2007 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of the year	80,666	$ 5.97		
Granted	20,000	10.92		
Exercised	(50,000)	5.18		
Forfeited or expired	-	-		
Outstanding at the end of year	50,666	$ 8.70	7.0 years	$ 24,000
Vested or expected to vest	50,066	$ 8.70	7.0 years	$ 24,000
Exercisable at end of year	29,332	$ 7.25	5.5 years	$ 23,000

Information related to the stock option plan during each year follows:

	2007	2006	2005
Intrinsic value of options exercised	$408,000	$ -	$ -
Cash received from option exercises	259,000	-	-
Tax benefit realized from option exercises	165,000	-	-
Weighted average fair value of options granted	2.76		

As of December 31, 2007, there was $52,000 of total unrecognized compensation costs related to nonvested stock options granted under the Plan.

Initial Public Offering

On July 13, 2006, the Bank commenced an underwritten initial public offering (IPO) and sold 1,432,700 shares of common stock at an offering price of $15 per share. Net proceeds from the IPO after the underwriters discount and other expense was $19,303,000. The common stock of the Bank is listed on the Nasdaq Global market under the trading symbol of SSBI.

10. OTHER EXPENSES

Other expenses consisted of the following:

	Year Ended December 31,		
(in thousands)	2007	2006	2005
Data processing	$ 578	$ 526	$ 609
Professional fees	319	268	337
Director fees and expenses	250	223	262
Advertising and promotion	289	382	217
Deposit and other insurance premimums	193	179	149
Telephone and postage	95	105	146
Other expenses	671	530	492
	$ 2,395	$ 2,213	$ 2,212

11. EMPLOYEE BENEFIT PLAN

401(k) Employee Savings Plan

The Bank has a 401(k) Employee Savings Plan (the "Plan"), qualified under the Internal Revenue Code (Code), whereby participants may defer a percentage of their compensation, but not in excess of the maximum allowed under the Code. Bank contributions, as determined by the Board of Directors, are discretionary and vest immediately. Contributions by the Bank totaled $41,000, $61,000 and $34,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

12. RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into loans with related parties, including executive officers and directors. The following is a summary of the aggregate activity involving related party borrowers during 2007:

	(in thousands)
Balance, January 1, 2007	$ 461
New borrowings	-
Amounts repaid	(17)
Balance, December 31, 2007	$ 444
Undisbursed commitments to related parties, December 31, 2007	$ 100

A significant shareholder of the Bank is also a significant shareholder of three other banks ("affiliated banks”). During the years ended December 31, 2007 and 2006, the Bank purchased participations in loans originated by the affiliated banks. As of December 31, 2007 and 2006, the outstanding balances of these participations purchased were approximately $11,671,000 and $13,934,000 respectively. The Bank has also sold participation interests in loans to these affiliated banks. As of December 31, 2007 and 2006, the outstanding balances of these participations sold were approximately $0, and $2,291,000, respectively.

13. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Bank's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

Because no active market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

The following methods and assumptions were used by the Bank to estimate the fair value of its financial instruments at December 31, 2007 and 2006:

<u>Cash and cash equivalents</u>: For cash and cash equivalents consisting of cash, due from banks and federal funds sold, the carrying amount is estimated to be fair value.

<u>Time deposits in banks</u>: The fair value for time deposits in banks is estimated by discounting their future cash flows using interest rates being offered at each reporting date for instruments with similar remaining maturities.

<u>Investment securities</u>: For investment securities, fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are estimated using quoted market prices for similar securities and indications of value provided by brokers. The carrying amount of accrued interest receivable approximates its fair value.

<u>Loans, net of allowance</u>: For variable-rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness. The allowance for loan losses is considered to be a reasonable estimate of discount for credit risk. The carrying amount of accrued interest receivable approximates its fair value.

<u>Federal Home Loan Bank stock</u>: The fair value for Federal Home Loan Bank Stock is not determinable as there are restrictions on its transferability.

<u>Deposits</u>: The fair values for demand deposits are, by definition, equal to the amount payable on demand at the reporting date represented by their carrying amount. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow analysis using interest rates being offered at each reporting date for certificates with similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

<u>Short-term borrowings and long-term debt</u>: The fair values of fixed rate borrowings are estimated using a discounted cash flow analysis that applies interest rates being offered on similar debt instruments. The fair

values of variable rate borrowings are based on carrying value. The carrying amount of accrued interest payable approximates its fair value.

Commitments to fund loans/standby letters of credit: The fair values of commitments are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The differences between the carrying value of commitments to fund loans or standby letters of credit and their fair value are not significant and, therefore, are not included in the following table.

	December 31, 2007		December 31, 2006	
(in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and due from banks	$ 5,695	$ 5,695	$ 10,606	$ 10,606
Federal funds sold	7,110	7,110	-	-
Time deposits in banks	80	80	457	454
Investment securities	40,426	40,426	30,829	30,697
Loans, net of allowance	267,067	273,157	252,860	259,534
Investment in FHLB stock	2,850	N/A	1,699	N/A
Accrued interest receivable	1,827	1,827	1,662	1,662
Financial liabilities:				
Deposits	$ 249,019	$ 248,928	$ 232,974	$ 232,609
Securities sold under repurchase agreements	-	-	257	257
FHLB advances	42,600	42,096	31,460	31,398
Accrued interest payable	426	426	240	240

14. SUBSEQUENT EVENT

On January 28, 2008, the Board of Directors declared a $.09 per share cash dividend to shareholders of record at the close of business on February 11, 2008, to be paid on or about February 21, 2008.

15. QUARTERLY FINANCIAL DATA (Unaudited)

	2007				
				Earnings Per Share	
(in thousands except EPS data)	Interest income	Net Interest Income	Net Income	Basic	Diluted
First quarter	$ 5,533	$ 2,764	$ 592	$ 0.12	$ 0.12
Second quarter	5,607	2,635	400	0.08	0.08
Third quarter	5,822	2,731	509	0.11	0.10
Fourth quarter	5,793	2,721	441	0.09	0.09

	2006				
				Earnings Per Share	
	Interest income	Net Interest Income	Net Income	Basic	Diluted
First quarter	$ 4,871	$ 2,801	$ 750	$ 0.22	$ 0.22
Second quarter	4,920	2,691	683	0.20	0.20
Third quarter	5,255	2,827	734	0.16	0.16
Fourth quarter	5,408	2,712	641	0.13	0.13

FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C. 20429

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the Fiscal Year Ended December 31, 2007

[ ] Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ___ to ___.

FDIC Certificate Number 32203

Summit State Bank
(Exact name of registrant as specified in its charter)

California	94-2878925
(State of incorporation)	(I.R.S. Employee Identification No.)

500 Bicentennial Way, Santa Rosa, California 95403
(Address of principal executive offices)
(707) 568-6000
(registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act::
Common Stock, no par value, registered on the NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a nonaccelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act). (Check one)
Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [X[

Indicate by check mark if the registrant is a shell company, in Rule 12b(2) of the Exchange Act. Yes[ ]No [X]

The aggregate market value of the Common Stock held by nonaffiliates was approximately $43,280,000 (based upon the closing price of shares of the registrant's Common Stock, no par value, as reported by the NASDAQ Stock Market, LLC on June 30, 2007.) The number of shares outstanding of the registrant's common stock (no par value) at the close of business March 26, 2008 was 4,744,720.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2008 Annual Meeting of Shareholders to be filed within 120 days of the fiscal year ended December 31, 2007 are incorporated by reference into Part III.

SUMMIT STATE BANK
CROSS REFERENCE INDEX

PART I

PART II

PART III

PART IV

SUMMIT STATE BANK

ANNUAL REPORT ON FORM 10-K

PART I

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from those expressed in, or implied by, our forward-looking statements. Words such as "expects," "anticipates," "believes," "estimates" and other similar expressions or future or conditional verbs such as "will," "should," "would" and "could" are intended to identify such forward-looking statements. Readers of this annual report of the Summit State Bank (also referred to as we, us or our) should not rely solely on the forward-looking statements and should consider all uncertainties and risks throughout the report.

Forward-looking statements, by their nature, are subject to risks, uncertainties and assumptions. Our future results and shareholder values may differ significantly from those expressed in these forward-looking statements. You are cautioned not to put undue reliance on any forward-looking statement. The statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement. However, your attention is directed to any further disclosures made on related subjects in any subsequent reports we may file with the Federal Deposit Insurance Corporation ("FDIC"), including on Forms 10-K, 10-Q and 8-K, in the event we become required to make such filings.

ITEM 1. BUSINESS

INFORMATION ABOUT SUMMIT STATE BANK

General

Summit State Bank (the "Bank") is a state-chartered commercial bank operating a traditional community banking business within our primary service area of Sonoma County in California. We operate through five offices located in Santa Rosa, Rohnert Park, Windsor and Petaluma.

The Bank was incorporated on December 20, 1982 and commenced operations as a California state-chartered savings and loan in 1982. On January 15, 1999, the Bank received authority to convert its charter to a California state-chartered commercial bank. On July 13, 2006, the Bank completed an underwritten initial public offering and listed its stock on the Nasdaq Global Market under the symbol SSBI. The Bank's deposits are insured by the FDIC in accordance with the Federal Deposit Insurance Act and the related regulations.

We provide a broad array of financial services to small-to-medium-sized businesses, and their owners and employees, professionals and professional associations, entrepreneurs, high net worth families, foundations, estates and to individual consumers. We believe that our principal competitive advantages are personal service, flexibility and responsiveness to customer needs. Our lending activities are primarily focused on commercial real estate, construction, and business loans to our targeted clientele.

We emphasize relationship banking and we believe we offer our customers many of the management capabilities of a large financial institution, together with the resourcefulness and superior customer service of a community bank. Through our branches and the use of technology, we offer a broad array of deposit products and services for both commercial and consumer customers, including electronic banking, cash management services and electronic bill payment. We provide a comprehensive set of loan products, such as commercial loans and leases, lines of credit, commercial real estate loans, Small Business Administration, or SBA, loans, residential mortgage loans, home equity lines of credit and construction loans. We believe that local decision making ensures that our lending process is fast, efficient, and focused on maintaining our high credit quality and underwriting standards.

The Bank's only subsidiary is ALTO Service Corporation, which is a wholly owned subsidiary, incorporated in California. Its purpose is to act as trustee on the Bank's deeds of trust and perform reconveyances. The assets of ALTO Service Corporation consist exclusively of cash on deposit with the Bank. It has no employees and its operations and balance sheet are not material to the Bank's consolidated operating income or financial condition.

Services and Financial Products

Deposit Products

The Bank offers a wide range of deposit accounts designed to attract commercial businesses, professionals, and residents in its primary service area. These accounts include personal and business checking accounts, money market accounts, time certificates of deposit, sweep accounts and specialized deposit accounts, including professional accounts, small business "packaged" accounts, and tiered accounts designed to attract larger deposits, and Keogh and IRA accounts.

Lending Products

The Bank also offers a full complement of lending products designed to meet the specialized needs of its customers, including commercial and industrial lines of credit and term loans, credit lines to individuals, equipment loans, real estate and construction loans, small business loans of which a portion may be guaranteed by the SBA, and business lines of credit. The Bank has the designation of "Preferred Lender" by the SBA, which allows for expedited loan approval and funding. The Bank also offers consumer loans, including auto loans, mortgage loans, home improvement loans, and home equity lines of credit. The Bank offers loans in amounts which exceed the Bank's lending limits through participation arrangements with correspondent banks. On a selective basis, the Bank also offers loans for accounts receivable and inventory financing, loans to agriculture-related businesses, and equipment and expansion financing programs.

Brokered Deposits and CDARS

The Bank will accept brokered deposits when it is determined to be advantageous over time deposits through its branch system. The Bank is a member of a special network (Promontory Interfinancial Network) offering a time deposit product called CDARS. When a customer places a large deposit with the Bank as a network member, the Bank can place the funds into certificates of deposit issued by other banks in the network in increments of less than $100,000, so that both principal and interest are eligible for complete FDIC protection. Other banks do the same thing with their customer funds. The network banks exchange deposits on a dollar-for-dollar basis, bringing the full amount of the original deposit back to the originating bank. Because the originating bank comes out "whole," it can make the full amount of deposits received available for community lending purposes or other initiatives of its choosing. Deposits placed using CDARS meet the pass-through insurance coverage guidelines established by the FDIC and the depositor can obtain up to $25 million in FDIC insurance coverage. The deposits received by the Bank from other network members in exchange for the Bank's customers' deposits placed in the program are reported as brokered deposits for FFIEC Call Report purposes. Deposit funding raised through the CDARS product can vary significantly between financial reporting periods. CDARS and other brokered deposits totaled $20,842,000 or 8% of deposits at December 31, 2007, and $19,191,000 or 8% of deposits at December 31, 2006.

State of California Approved Depositary

The Bank is an approved depositary for the deposit of funds of the State of California. These time deposits are placed by the Treasurer of the State of California and have maturities of three to six months, and are collateralized by investment securities, mortgage loans or letters of credit issued by the Federal Home Loan Bank ("FHLB"). These deposits totaled $38,000,000 15% of deposits at December 31, 2007 and $20,000,000 or 9% of deposits at December 31, 2006.

Internet and Telephone Banking Services

SSB offers a computerized internet banking system, accessible on the Internet at the Bank's website www.summitstatebank.com, that enables its customers to view account information, access cash management services (including the initiation of automated clearinghouse payments), make transfers between accounts, pay bills, make loan payments, pre-schedule deposit transfers and request loan draws, and view both the front and back of cleared deposit items. The internet banking product also effectively extends the Bank's business hours for customers by enabling same-day processing for transactions initiated by 7:00 p.m., Pacific Time, on normal business days. The Bank also offers telephone banking services that enable customers to obtain account information, make transfers between accounts, make stop payments, check cleared items, and pre-schedule deposit transfers and loan payments.

Other Services

Other services which the Bank offers include banking by appointment, online banking services, direct payroll and social security deposits, letters of credit, access to national automated teller machine networks, courier services, safe deposit boxes, night depository facilities, notary services, travelers checks, lockbox, and banking by mail.

Management evaluates the Bank's services on an ongoing basis, and adds or discontinues services based upon customer needs, competitive factors, and the financial and other capabilities of the Bank. Future services may also be significantly influenced by improvements and developments in technology and evolving state and federal regulations.

Sources of Business

In marketing its services, the Bank capitalizes on its identity as a local, community bank, with officers, Directors and shareholders who have business and personal ties to the community. Small to medium-sized businesses are targeted, as well as accounting, insurance, legal and medical professionals.

The Bank competes with other financial institutions in its service area through localized promotional activities, personalized service, and personal contact with potential customers by Executive Officers, Directors, employees and shareholders. Promotional activities include direct mail, media advertising, community advisory groups and Executive Officer participation in community business and civic groups. Executive Officers and Directors are active members of the community who call personally on their business contacts and acquaintances in the Sonoma County area to become customers.

The Bank employs business development officers to solicit loans and deposits from local businesses and professionals. Additionally, the business development officers concentrate on attracting loans which are partially guaranteed by the SBA and are funded and sold by the Bank.

Competition

The banking business in California generally, and in the Bank's service area in particular, is highly competitive with respect to both loans and deposits and is dominated by a relatively small number of major banks that have offices operating over wide geographic areas. The Bank competes for deposits and loans with these banks as well as with savings and loan associations, credit unions, mortgage companies, money market funds, stock brokerage firms, insurance companies, and other traditional and non-traditional financial institutions.

Major financial institutions with offices in the service area include Bank of America, Wells Fargo Bank, and Washington Mutual Bank. Regional and independent financial institutions with offices in our service area include, among others, Sonoma Bank (part of Sterling Savings Bank), Luther Burbank Savings, Exchange Bank, and Westamerica Bank.

The major banks and some of the other institutions have the ability to finance extensive advertising campaigns and to shift their resources to regions or activities of greater potential profitability. Many of the competing banks and other institutions offer diversified financial services which may not be directly offered by the Bank. The major banks also have substantially more capital and higher lending limits.

The Bank competes for customers' funds with governmental and private entities issuing debt or equity securities or other forms of investments which may offer different or higher yields than those available through bank deposits.

Existing and future state and federal legislation could significantly affect the Bank's cost of doing business, its range of permissible activities, and the competitive balance among major, regional and independent banks, and other financial institutions. Management cannot predict the impact these matters may have on commercial banking in general or on the business of the Bank in particular.

To compete with the financial institutions operating in the Bank's service area, the Bank relies upon its independent status to provide flexibility and personalized service to its customers. The Bank emphasizes personal contacts with potential customers by Executive Officers, Directors and employees, develops local promotional activities, and seeks to develop specialized or streamlined services for customers. To the extent customers desire loans in excess of its lending limits or services not offered by the Bank, the Bank attempts to assist customers in obtaining such loans or other services through participations with other banks or assistance from correspondent banks.

Our Address, Telephone Number and Internet Website

Our principal executive offices are located at 500 Bicentennial Way, Santa Rosa, California 95403, and our telephone number is (707) 568-6000. Information about us is available at www.summitstatebank.com. The information on our website is not incorporated by reference into and does not form a part of this report.

REGULATION AND SUPERVISION

Overview

The Bank is extensively regulated by federal and state authorities. As a California state-chartered commercial bank with deposit accounts insured by the FDIC to the maximum amount permitted by law, the Bank is regulated, supervised and examined by the Commissioner and the FDIC. The Bank must also comply with certain regulations issued by the FRB. The regulations of the Commissioner, the FRB and the FDIC govern most aspects of the Bank's business, including the making of periodic reports by the Bank, as well as the Bank's activities relating to dividends, investments, loans, borrowings, capital requirements, certain check-clearing activities, branching, mergers and acquisitions, reserves against deposits, the issuance of securities and numerous other areas. The Bank is also subject to the requirements and restrictions of various consumer laws and regulations, as well as applicable provisions of California law, insofar as they do not conflict with and are not preempted by federal banking laws. Supervision, legal action and examination of the Bank by the regulatory agencies are generally intended to protect depositors and are not intended for the protection of shareholders.

Statutes, regulations and policies affecting the banking industry are frequently under review by the U.S. Congress and state legislatures, and by the federal and state agencies charged with supervisory and examination authority over banking institutions. Changes in the banking and financial services industry can be expected to occur in the future. Some of the changes may create opportunities for the Bank to compete in financial markets with less regulation. However, these changes also may create new competitors in geographic and product markets which have historically been limited by law to insured depository institutions such as the Bank. Changes in the statutes, regulations or policies that affect the Bank cannot be predicted and may have a material effect on the Bank's business and earnings. In addition, the regulatory agencies which have jurisdiction over the Bank have broad discretion in exercising their supervisory powers. For example, the FDIC has authority under federal law to prohibit a state bank from engaging in banking practices which it considers unsafe and unsound.

The laws of the State of California affect the Bank's business and operations. The California Financial Code provides that if the Commissioner believes that a bank is violating its articles of incorporation or state law, or is engaging in unsafe or injurious business practices, the Commissioner can order that bank to comply with the law or to cease the unsafe or injurious practices and has authority to impose civil money penalties. The Commissioner has the power to suspend or remove bank officers, directors and employees who violate any law or regulation relating to the business of the bank or breach any fiduciary duty to the bank, engage in any unsafe and unsound practices related to the business of the bank, or are charged with or convicted of a felony involving dishonesty or breach of trust. The Commissioner also has authority to take possession of and to liquidate a bank, to appoint a conservator for a bank and to appoint the FDIC as receiver for a bank.

The FDIC can pursue an enforcement action against a bank for unsafe and unsound practices in conducting its business, or for violations of any law, rule or regulation or provision, any consent order with any agency, any condition imposed in writing by the agency, or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, cease-and-desist orders and written agreements, the termination of insurance of deposits, the imposition of civil money penalties and removal and prohibition orders against institution-affiliated parties.

In addition to the regulation and supervision outlined above, banks must be prepared for judicial scrutiny of their lending and collection practices. For example, some banks have been found liable for exercising remedies which their loan documents authorized upon the borrower's default. This has occurred in cases where the exercise of those remedies was determined to be inconsistent with the previous course of dealing between those banks and the borrowers. As a result, banks have had to exercise increased caution, incur greater expense and face increased exposure to liability when dealing with defaulting loans.

Limitations on Dividends

Under California law the holders of the Bank's common stock are entitled to receive dividends out of funds legally available for the payment of dividends when and as declared by the Board of Directors, provided the conditions described below are satisfied.

The payment of cash dividends by the Bank depends on various factors, including the earnings and capital requirements of the Bank and other financial conditions. California law provides that, as a state-licensed bank, the Bank may not make a cash distribution to its shareholders in excess of the lesser of the following: (a) the Bank's retained earnings or (b) the Bank's net income for its last three fiscal years, less the amount of any distributions made by the Bank to its shareholders during that period. However, a bank such as the Bank, with the prior approval of the Commissioner, may make a distribution to its shareholders of an amount not to exceed the greater of (1) the Bank's retained earnings, (2) the Bank's net income for its last fiscal year, or (3) the Bank's net income for the current fiscal year. If the Commissioner determines that the shareholders' equity of the Bank is inadequate or that the making of a distribution by the Bank would be unsafe or unsound, the Commissioner may order the Bank to refrain from making a proposed distribution.

The FDIC and the Commissioner have authority to prohibit a bank from engaging in business practices which are considered to be unsafe or unsound. Depending upon the financial condition of bank and upon other factors, the FDIC or the Commissioner could assert that payments of dividends or other payments by the Bank might be an unsafe or unsound practice.

Capital Adequacy Guidelines

Federal bank regulatory agencies have adopted risk-based capital guidelines for insured banks. A bank's total qualifying capital consists of two types of capital components: "core capital elements," known as Tier 1 capital, and "supplementary capital elements," known as Tier 2 capital. The Tier 1 component of a bank's qualifying capital must represent at least 50% of total qualifying capital. Tier 1 capital consists of common equity, non-cumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries. Tier 1 capital excludes goodwill and other specified intangibles, as well as the equity impact of adjusting available-for-sale securities to market value. In addition to the Tier 1 capital components, total capital also includes cumulative perpetual preferred stock, trust preferred stock, limited-life preferred stock, mandatory convertible securities, subordinated debt and general loan loss reserves up to a limit of 1.25% of risk-weighted assets.

The guidelines make regulatory capital requirements sensitive to the differences in risk profiles among banking institutions, take off-balance-sheet items into account when assessing capital adequacy, and minimize disincentives to holding liquid low-risk assets.

These guidelines require a minimum total risk-based capital ratio of 8% of risk-weighted assets, with at least 4% in the form of Tier 1 capital. Federal banking regulators also have instituted minimum leverage ratio guidelines for financial institutions. The leverage ratio guidelines require maintenance of a minimum ratio of 3% Tier 1 capital to adjusted quarterly average assets for the most highly rated bank holding company organizations. Less highly rated institutions and institutions that are anticipating significant growth or that face other significant risks are required to maintain capital levels ranging from 1% to 2% above the 3% minimum. In addition, all banks are generally expected to maintain capital above these minimums.

Federal banking agencies, including the FDIC, have adopted regulations implementing a system of prompt corrective action under the Federal Deposit Insurance Corporation Improvement Act. The regulations establish five capital categories with the following characteristics: (1) "Well-capitalized," consisting of institutions with a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater and a leverage ratio of 5% or greater and which are not operating under an order, written agreement, capital directive or prompt corrective action directive; (2) "Adequately capitalized," consisting of institutions with a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital of 4% or greater and a leverage ratio of 4% or greater and which do not meet the definition of a "well-capitalized" institution; (3) "Undercapitalized," consisting of institutions with a total risk-based capital ratio of less than 8%, a Tier 1 risk-based capital ratio of less than 4%, or a leverage ratio of less than 4%; (4) "Significantly undercapitalized," consisting of institutions with a total risk-based capital ratio of less than 6%, a Tier 1 risk-based capital ratio of less than 3%, or a leverage ratio of less than 3%; and (5) "Critically undercapitalized," consisting of institutions with a ratio of tangible equity to total assets that is equal to or less than 2%. Banks are subject to sanctions of increasing severity for failure to maintain capital ratios at well-capitalized or adequately-capitalized levels.

As of December 31, 2007, the Bank was well-capitalized and had a total risk-based capital ratio of 16.4%, a Tier-1 risk-based capital ratio of 15.1% and a leverage ratio of 13.0%.

Recent Developments

Programs To Mitigate Identity Theft. In November 2007, federal banking agencies together with the NCUA and FTC adopted regulations under the Fair and Accurate Credit Transactions Act of 2003 to require financial institutions and other creditors to develop and implement a written identity theft prevention program to detect, prevent and mitigate identity theft in connection with certain new and existing accounts. Covered accounts generally include consumer accounts and other accounts that present a reasonably foreseeable risk of identity theft. Each institution's program must include policies and procedures designed to: (i) identify indicators, or "red flags," of possible risk of identity theft based; (ii) detect the occurrence of red flags; (iii) respond appropriately to red flags that are detected; and (iv) ensure that the program is updated periodically as appropriate to address changing circumstances. The regulations include guidelines that each institution must consider and, to the extent appropriate, include in its program.

Administration Response to Subprime Mortgage Crisis. In 2007 the subprime mortgage market suffered substantial losses. Subprime mortgages generally include residential real estate loans made to borrowers with certain credit deficiencies, most using relaxed underwriting and documentation standards and usually with adjustable interest rates that reset upward after an introductory period. The combination of falling real estate prices and upward interest rate and payment adjustments has caused the default rate on subprime mortgages to increase. In 2007 and early 2008 major banks and securities firms announced losses in the tens of billions of dollars on subprime related investments. In December 2007, the Bush administration announced a proposal to freeze interest rates on certain subprime mortgages at pre-adjustment levels for up to five years in an effort to minimize residential foreclosures and bring some stability to home prices. As currently described, the proposal would benefit residential owner-occupants who are not yet in default but are likely to default after interest rate and payment adjustments are put into effect; those already in default and those who are presumed able to afford their adjusted payments would not be covered. No assurance can be given whether this proposal will ultimately be adopted, what revisions might be made before adoption, how many borrowers will be affected by it or what effect it may have on foreclosures and home prices. In addition to the Bush administration proposal, various state and federal legislative proposals are pending and could be enacted. The Bank did not originate subprime mortgages and does not hold subprime investments, but the value of real estate collateral securing its residential and commercial mortgages may be affected by residential real estate values in its service area.

Legislation and Proposed Changes

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in Congress, in the California legislature and before various bank regulatory agencies. For example, from time to time Congress has considered various proposals to eliminate the federal thrift charter, create a uniform financial institutions charter, conform holding company regulation, and abolish the Office of Thrift Supervision. Typically, the intent of this type of legislation is to strengthen the banking industry. No prediction can be made as to the likelihood of any major changes or the impact that new laws or regulations might have on the Bank.

Employees

At December 31, 2007, the Bank employed John C. Lewis as Chairman and Chief Executive Officer, Terrance M. Davis as President and Chief Operating Officer, Dennis Kelley as Senior Vice President and Chief Financial Officer; and Thomas M. Duryea as Senior Vice President and Chief Credit Officer. John Lewis retired as Chief Executive Officer in March 2008 and will continue as Chairman. Terrance Davis resigned in February 2008. Thomas Duryea was appointed President and Chief Executive Officer in March 2008.

As of December 31, 2007, the Bank employed a total of 47 full-time and 13 part-time employees in various capacities, all located in California. The Bank’s employees are not represented by any union or covered by any collective bargaining agreement. The Bank considers its relationships with its employees to be good.

ITEM 1A. RISK FACTORS

The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This report is qualified in its entirety by these risk factors.

Our Share Price May Be Volatile

As of December 31, 2007, there were 4,744,720 shares of our common stock issued and outstanding. The Bank’s common stock is listed on the Nasdaq Global Market under the symbol “SSBI.” Factors such as announcements of developments related to the Bank’s business, announcements by competitors, fluctuations in its financial results, general conditions in the banking industry, economic conditions in the areas in which the Bank does business, fluctuations in interest rates, and other factors could cause the price of the Shares to fluctuate substantially. In addition, in recent years the stock market in general and the market for shares of small capitalization stocks in particular have experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. Such fluctuations could have a material adverse effect on the market price of the Shares.

The Bank Is Highly Dependent on Real Estate and Events that Negatively Impact the Real Estate Market Could Hurt Our Business

A significant portion of our loan portfolio is dependent on real estate. At December 31, 2007, real estate served as the principal source of collateral with respect to approximately 88% of our loan portfolio. Our financial condition may be adversely affected by a decline in the value of the real estate securing our loans and, while we presently hold no real estate acquired through foreclosure or other judicial proceeding, a decline in the value of real estate that may be owned by us, through foreclosure or otherwise, in the future could adversely impact our financial condition. In addition, acts of nature, including earthquakes, brush fires and floods, which may cause uninsured damage and other loss of value to real estate that secures these loans, may also negatively impact our financial condition. This is particularly significant in light of the fact that substantially all of the real estate that makes up the collateral of our real estate secured loans is located in Northern California, where earthquakes and brush fires are common.

The Bank's Business Is Highly Competitive

In California generally, and in the Bank's service area specifically, major banks and regional banks dominate the commercial banking market. By virtue of their larger capital bases, such institutions have substantially greater financial, marketing and operational resources than the Bank and offer diversified services that might not be directly offered by the Bank. The Bank competes with these larger commercial banks and other financial institutions, such as savings and loan associations and credit unions, which offer services traditionally offered only by banks. In addition, the Bank competes with other institutions such as money market funds, brokerage firms, commercial finance companies, leasing companies, and even retail stores seeking to penetrate the financial services market. No assurance can be given, however, that the Bank's efforts to compete with other banks and financial institutions will continue to be successful. In addition, the costs of providing a high level of personal service could adversely affect the Bank's operating results. See "Information About Summit State Bank — Competition" on page 60.

The Bank Depends on Loan Originations to Grow Its Business

The Bank's success depends on, among other things, its ability to originate loans. The Bank's competitors may offer better terms or better service, or respond to changing capital and other regulatory requirements better than the Bank is able to do. Some of the Bank's competitors make loans on terms that the Bank is not willing to match. Success in competing for loans depends on such factors as:

- Quality of service to borrowers, especially the time it takes to process loans;
- Economic factors, such as interest rates;
- Terms of the loans offered, such as rate adjustment provisions, adjustment caps, loan maturities, loan-to-value ratios and loan fees; and
- Size of the loan.

The Bank Is Subject to Lending Risks

The Bank intends to engage primarily in commercial lending; however, other products such as consumer and real estate mortgage lending are offered as well. All lenders face the risk that some of their borrowers will not repay their loans. The ability of borrowers to repay their obligations can be adversely affected by factors beyond the control of the Bank, including local and general economic and market conditions. A substantial portion of the Bank's loans are secured by liens on real estate. These same factors may adversely affect the value of real estate taken as collateral. The Bank maintains the allowance for loan losses to reflect the level of losses determined by management to be inherent in the loan portfolio. Each increase made in the allowance for loan losses ("provision") results in a charge against the Bank's earnings in the financial period in which the increase is made. However, the level of the allowance for loan losses and the amount of the provision are estimates based on management's judgment, and there can be no assurance that actual losses incurred will not exceed the amount of the allowance or require substantial additional increases to the allowance. See "Information About Summit State Bank — Services and Financial Products" on page 58-60.

The Bank's Business is Subject to Extensive Government Regulation and Legislation

The Bank is subject to extensive state and federal regulation, supervision and legislation, and the laws that govern The Bank and its operations are subject to change from time to time. Applicable laws and regulations provide for the regular examination and supervision of institutions; affect the cost of funds through reserve requirements and assessments on deposits; limit or prohibit the payment of interest on demand deposits; limit the kinds of investments a bank or bank holding company can make and the kinds of activities in which it can engage; and grant the regulatory agencies broad enforcement authority in case of violations. The laws and regulations increase the cost of doing business and have an adverse impact on the ability of the Bank to compete efficiently with other financial services providers that are not similarly regulated. There can be no assurance that future regulation or legislation will not impose additional requirements and restrictions on the Bank in a manner that will adversely affect its results of operations, financial condition and prospects. See "Information About Summit State Bank — Competition" and "Regulation and Supervision" on pages 57 - 71.

Limited Capital May Adversely Affect the Bank's Ability to Do Business

Under applicable government regulations, the Bank is permitted to make unsecured loans to any single borrower or group of related borrowers in an amount that will not exceed 15% of its shareholders' equity, plus the allowance for loan losses, capital notes and debentures, and secured loans in an amount that, when combined with unsecured loans made to the same borrower or group of related borrowers, will not exceed 25% of its shareholders' equity, plus the allowance for loan losses, capital notes and debentures (the "Lending Limits"). Such Lending Limits make it more difficult for the Bank to attract borrowers who have lending requirements in excess of those Lending Limits and, as a result, the future success of the Bank depends on, among other things, its ability to increase capital (and thereby the amount of the loans it will be able to make to borrowers) by selling additional common stock or preferred stock, subordinated notes that are senior in priority to the shares and any preferred stock, but junior in priority to depositors and creditors of the Bank (which are known as "Capital Notes"), or certain other securities, such as trust preferred securities. The Bank has no plans at this time to sell any additional common stock, preferred stock or Capital Notes or other securities (except upon issuance of options to directors and employees under its stock option plan). However, if the need to do so should arise, there is no assurance that the Bank's efforts to raise such additional capital will be successful or that the sale of additional shares will not dilute the ownership of current investors. The Bank seeks the participation of other banks and lending institutions, as co-lenders with it, for loans that exceed the Bank's Lending Limits; however, there can be no assurance that other lending institutions will be interested in doing so.

The Bank's Business May Be Adversely Affected By General Economic Conditions Including Conditions in California

The banking business is affected by general economic and political conditions, both domestic and international, and by governmental monetary and fiscal policies. Conditions such as inflation, recession, unemployment, volatile interest rates, money supply, scarce natural resources, weather, natural disasters such as earthquakes, international disorders, etc., and other factors beyond the Bank's control may adversely affect the profitability of the Bank.

A substantial majority of the Bank's assets and deposits are generated in Northern California. As a result, poor economic conditions in Northern California may cause the Bank to incur losses associated with higher default rates and decreased collateral values in its loan portfolio. Economic conditions in Northern California are subject to various uncertainties at this time, including the state's budget deficit and the appreciation of real estate. If economic conditions in Northern California decline further, the Bank recognizes that its level of problem assets could increase accordingly.

Failure to Successfully Execute Our Strategy Could Adversely Affect Our Performance

Along with the other factors listed herein, our financial performance and profitability depends on our ability to execute our corporate growth strategy. Continued growth may present operating and other problems that could adversely affect our business, financial condition and results of operations. Accordingly, there can be no assurance that we will be able to execute our growth strategy or maintain the level of profitability that we have recently experienced. Our strategy relies in part on the opening of new branches. Our intent is to lease our branches. However, there can be no assurance that we will be able to achieve lease terms which are favorable. In certain cases, we may not be able to lease appropriate space in locations which we believe to be favorable to the growth of the Bank's business or we may need to purchase real estate instead of entering into lease arrangements, which would involve a significantly larger capital expenditure than leasing property.

Our Business is Subject to Liquidity Risk and Changes in Our Source of Funds May Affect Our Performance and Financial Condition

Our ability to make loans is directly related to our ability to secure funding. In addition to local deposits, the Bank receives funding from FHLB advances, broker deposits and State of California time deposits, when such alternatives are attractive compared to the cost of attracting additional local deposits. These alternative sources of funds, along with local time deposits, are sensitive to interest rates and can affect the cost of funds and net interest margin. Liquidity risk arises from the inability to meet obligations when they come due or to manage the unplanned decreases or changes in funding sources. Although we believe we can continue to successfully pursue a local deposit funding strategy, significant fluctuations in local deposit balances or if one of the alternative source of funds becomes unavailable, an adverse effect on our financial condition and results of operations may be experienced.

The Bank's Business Is Subject to Interest Rate Sensitivity

The income of the Bank depends to a great extent on the difference between the interest rates earned on its loans, securities and other interest-earning assets and the interest rates paid on its deposits and other interest-bearing liabilities. These rates are highly sensitive to many factors that are beyond the Bank's control, including general economic conditions and the policies of various governmental and regulatory agencies, in particular the Federal Reserve Board ("FRB"). A change in interest rates could have a material adverse effect on the Bank's results of operations, financial condition and prospects by reducing the spread between income on interest earning assets and interest paid on interest bearing liabilities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources" on page 21.

We Are Exposed to Risk of Environmental and Other Liabilities with Respect to Properties to Which We Take Title

In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental or other liabilities with respect to these properties. We may be held liable to a governmental entity or to third persons for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, in the event we become the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition, liquidity and results of operations could be materially and adversely affected.

The Bank's Ability to Declare Future Dividends Is Subject to Certain Limitations

The Bank's ability to pay dividends is limited by law and regulation and by the financial condition of the Bank. There can be no assurance that the Bank will continue to pay dividends at the rate and frequency at which it has done so in the past, or that any dividends will be declared and paid in the future at all. See "Regulation and Supervision-Limitations on Dividends" on page 63.

The Accuracy of the Bank's Judgments and Estimates about Financial and Accounting Matters Will Impact Operating Results and Financial Condition

The Bank makes certain estimates and judgments in preparing its financial statements. The quality and accuracy of those estimates and judgments will have an impact on the Bank's operating results and financial condition. See "MANAGEMENT'S DISCUSSION AND ANALYSIS-*Critical Accounting Policies*" on page 4.

The Bank's Information Systems May Experience an Interruption or Breach in Security

The Bank relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Bank's customer relationship management and systems. There can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately corrected by the Bank. The occurrence of any such failures, interruptions or security breaches could damage the Bank's reputation, result in a loss of customer business, subject the Bank to additional regulatory scrutiny, or expose the Bank to litigation and possible financial liability, any of which could have a material adverse effect on the Bank's financial condition and results of operations.

The Bank's Controls and Procedures May Fail or Be Circumvented

Management regularly reviews and updates the Bank's internal control over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Bank's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Bank's business, results of operations and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Bank owns its head office building located at 500 Bicentennial Way, Santa Rosa, California. The building has approximately 31,000 square feet of usable space. The Bank occupies approximately 13,000 square feet as its headquarters. The remaining 18,000 square feet are currently leased to 3 tenants: Countrywide Home Loans, Kaiser-Permanente and Fidelity National Title, with lease terms maturing from 2008 to 2011. Two of the leases include 5-year extension options at the tenant's election. The Bank also leases spaces for branch offices in four shopping centers. These leases expire at various dates through 2012 and include renewal and termination options and rental adjustment provisions.

ITEM 3. LEGAL PROCEEDINGS

The nature of our business causes us to be involved in routine legal proceedings from time to time. As of the date of this report, the Bank is not a party to any litigation of any kind nor is the Bank aware of any threats of any litigation or administrative proceedings affecting the Bank.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There was no submission of matters to a vote of securities holders during the quarter ended December 31, 2007.

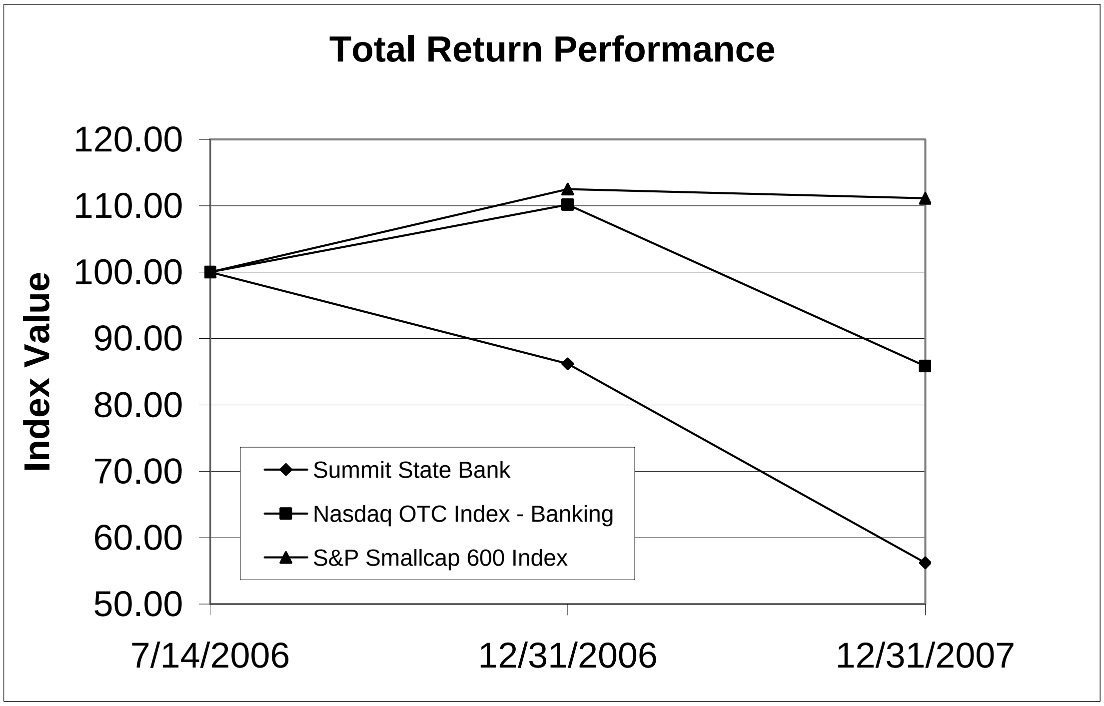
PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Bank had its underwritten initial public offering on July 13, 2006 with an offering price of $15.00. The common stock started trading on the NASDAQ on July 14, 2006, under the symbol "SSBI." Prior to July 14, 2006, the common stock had no established public trading market. The quotations shown below reflect for the periods indicated the high and low closing sales prices for our common stock as reported by NASDAQ.

For the quarter ended	High	Low	Cash dividends declared
December 31, 2007	$ 9.99	$ 7.85	$ 0.09
September 30, 2007	12.01	9.56	0.09
June 30, 2007	13.39	10.75	0.09
March 31, 2007	13.47	12.46	0.09
December 31, 2006	13.75	12.50	0.09
July 14 to September 30, 2006	16.40	12.50	0.09

The following graph compares the cumulative total return on the Bank's common stock from the start of trading on July 14, 2006 to December 31, 2007, with the Standard & Poor's Smallcap 600 Index and the Nasdaq OTC Banking Index during the same period. The graph shows the value of $100 invested in the Bank common stock and each of the foregoing indices on July 14, 2006, and assumes the reinvestment of all dividends. The graph depicts the change in the value of the Bank's common stock relative to the indices as of the end of each fiscal year and not for any interim period. Historical stock performance is not necessarily indicative of future stock price performance.



	Period Ending		
Index	**7/14/06**	**12/31/06**	**12/31/07**
Summit State Bank	100.00	86.20	56.21
Nasdaq OTC Index - Banking	100.00	110.14	85.83
S&P Smallcap 600 Index	100.00	112.51	114.14

There were 212 common stock shareholders of record at December 31, 2007

Issuer purchase of equity securities for the three month period ended December 31, 2007 are as follows:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (1)
October 1 - 31, 2007	5,600	$9.54	5,600
November 1-30, 2007	69,300	$9.07	74,900
December 1-31, 2007	24,400	$8.58	99,300

(1) The shares repurchased were made as part of a plan announced in August 2007 to purchase up to 100,000 shares of the Bank's common stock with a limit price of $10.00 per share.

ITEM 6. SELECTED FINANCIAL DATA

Information regarding Selected Financial Data appears on page 3 under the caption "SELECTED FINANCIAL DATA" and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information regarding Management's Discussion and Analysis of Financial Condition and Results of Operations appears on pages 4 - 23 under the caption "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information regarding Quantitative and Qualitative Disclosures About Market Risk appears on pages 20-21 under the caption "QUANTITATVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK" and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information regarding Financial Statements and Supplementary Data appears on pages 24 - 53 under the captions "REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, "CONSOLIDATED BALANCE SHEETS," "CONSOLIDATED STATEMENTS OF INCOME," "CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY," "CONSOLIDATED STATEMENTS OF CASH FLOWS" and "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS" and is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Current Report on Form 8-K dated October 24, 2006 regarding "Changes in Registrant's Certifying Accountants" is incorporated here in by reference.

ITEM 9A. CONTROLS AND PROCEDURES

(A) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2007. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, means controls and other procedures of a Bank that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files and submits under the Exchange Act is accumulated and communicated to the Bank's management, including its principal executive and principle financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of December 31, 2007, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, meets regularly with our independent registered public accounting firm, Crowe Chizek and Company LLP, and representatives of management to review accounting, financial reporting, internal control and audit matters, as well as the nature and extent of the audit effort. The Audit Committee is responsible for the engagement of the independent auditors. The independent auditors have free access to the Audit Committee.

(B) Management's Annual Report on Internal Control over Financial Reporting

The Bank's management is responsible for establishing and maintaining adequate control over financial reporting for the Bank, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of the Bank's management, including our principal executive and principal financial officers, the Bank conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework"). Based on this evaluation under the COSO Framework, management concluded that its internal control over financial reporting was effective as of December 31, 2007.

(C) Changes in Internal Control over Financial Reporting

During the quarter ended December 31, 2007, the Registrant did not make any significant changes in, nor take any corrective actions regarding, its internal control over financial reporting or other factors that has materially affected, or is reasonably likely to materially affect the registrants' internal control over financial reporting.

(D) Attestation Report of the Independent Registered Public Accounting Firm

This annual report does not include an attestation report of the Bank's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Bank's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Bank to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We intend to file a definitive proxy statement for the 2008 Annual Meeting of Shareholders (or "the Proxy Statement") with the FDIC within 120 days of December 31, 2007. Information regarding directors of Summit State Bank will appear under the caption —Proposal 1: "Election of Directors" in the Proxy Statement and is incorporated herein by reference. Information about Summit State Bank's Audit Committee Financial Expert will appear under the caption "The Committees of the Board—Audit Committee" and is incorporated herein by reference. The Bank has adopted a code of ethics applicable to all of our directors and employees, including the principal executive officer, principal financial officer and principal accounting officer.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation will appear under the captions "EXECUTIVE OFFICERS OF THE BANK," "EXECUTIVE COMPENSATION, EMPLOYEMENT CONTRACTS" AND BOARD OF DIRECTS REPORT ON COMPENSATON," in the Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table summarizes information as of December 31, 2007 relating to equity compensation plans of Summit State Bank pursuant to which grants of options, restricted stock, or other rights to acquire shares may be granted from time to time.

Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans:			
Not approved by security holders	30,666	$7.26	0
Approved by security holders	20,000	10.92	130,000

Information regarding security ownership of certain beneficial owners and management and related shareholder matters will appear under the caption “EQUITY COMPENSATION PLAN INFORMATION,” “SECURITY OWNERSHIP OF MANAGEMENT” AND “PRINCIPAL SHAREHOLDERS” in the Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions will appear under the caption “TRANSACTIONS WITH RELATED PERSONS” in the Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding fees paid to our independent registered public accounting firm, will appear under the caption —Proposal 2. Ratification of Selection of Independent Public Accounts “FEES PAID TO INDEPENDENT PUBLIC ACCOUNTANTS” in the Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. *Financial Statements*

The following documents are filed as part of this report:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets at December 31, 2007 and 2006
Consolidated Statements of Income for each of the years in the three-year period ended December 31, 2007
Consolidated Statements of Changes in Shareholders' Equity for each of the years in the three-year period ended December 31, 2007
Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2007
Notes to Consolidated Financial Statements

2. *Financial Statement Schedules*

Not applicable

3. *Exhibits*

(b) *Exhibits Required by Item 601 of Regulation S-K*

Reference is made to the Exhibit Index on pages 81 through 82 for exhibits filed as part of this report.

(c) *Additional Financial Statements*

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Summit State Bank

By */s/ Dennis E. Kelley* March 26, 2008

Dennis E. Kelley
Senior Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

Summit State Bank

By */s/ Thomas M. Duryea* March 26, 2008

Thomas M. Duryea
President and
Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Members of the Board of Directors

Dated: *3/26/08*	*/s/ Thomas M. Duryea* Thomas M. Duryea President and Chief Executive Officer
Dated: *3/26/08*	*/s/ John F. DeMeo* John F. DeMeo
Dated: *3/26/08*	*/s/ Michael J. Donovan* Michael J. Donovan
Dated: *3/26/08*	*/s/ Richard A. Dorr* Richard A. Dorr
Dated: *3/19/08*	*/s/ Todd R. Fry* Todd R. Fry
Dated:	George I. Hamamoto
Dated:	Allan J. Hemphill
Dated:	Jeanne D. Hubbard
Dated: *3/26/08*	*/s/ Dennis E. Kelley* Dennis E. Kelley Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
Dated: *3/26/08*	*/s/ John C. Lewis* John C. Lewis Chairman of the Board
Dated: *3/26/08*	*/s/ Ronald A. Metcalfe* Ronald A. Metcalfe
Dated: *3/19/08*	*/s/ Marshall T. Reynolds* Marshall T. Reynolds
Dated: *3/26/08*	*/s/ Robert B. St. Clair* Robert B. St. Clair
Dated: *3/26/08*	*/s/ Eugene W. Traverso* Eugene W. Traverso

EXHIBIT INDEX

EXHIBIT NO.	EXHIBIT
3.1	Articles of Incorporation of the registrant (1) (2) (3)
3.2	By-laws of the registrant (1) (2) (3)
4.1	Specimen of the registrant's common stock certificate (1) (2) (3)
4.2	The total amount of the registrant's long-term debt does not exceed 10 percent of the total assets of the registrant and its subsidiaries on a consolidated basis. Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the registrant agrees to file any instrument with respect to such long-term debt upon request of the FDIC.
10.1	Commercial property lease between the registrant and Countrywide Home Loans, Inc. dated June 2004 (1) (2) (3)
10.2	Commercial property lease between the registrant and Fidelity National Title Company dated August 19, 2003 (1) (2) (3)
10.3	Commercial property lease between the registrant and Kaiser foundation Hospitals dated September 2004 (1) (2) (3)
10.4	Lease between Montgomery Village Limited Partnership and the registrant dated May 28, 2002 (1) (2) (3)
10.5	Lease between Codding Enterprises and the registrant dated June 5, 2003, as amended (1) (2) (3)
10.6	Lease between Lakewood Conolly Associates and the registrant Dated June 14, 1991, as amended(1) (2) (3)
10.7	FPS Gold On-Line Computer Service Agreement between the registrant and DHI Computing, Inc. dated October 23, 2003, as amended (1) (2) (3)
10.8	1999 Non-qualified Stock Option Plan, as amended by First Amendment dated September 25, 2002 (1) (2) (3)
10.9	Lease between Parkway Plaza,LLC and the registrant dated September 20, 2006)(6)
10.10	2007 Stock Option Plan(7
14.1	Code of Ethics(8)
16.1	Letter regarding change in certifying accountant (5)
21.1	Subsidiaries of the registrant (1)
31.1	Rule 13a-14(a)/15d-14(a) Certification
31.2	Rule 13a-14(a)/15d-14(a) Certification
32.1	Section 1350 certifications

1. Incorporated by reference from Summit State Bank's Form 10 filed with the FDIC on June 19, 2006.
2. Incorporated by reference from Summit State Bank's Form 10/A Amendment No. 1 filed with the FDIC on July 12, 2006.
3. Incorporated by reference from Summit State Bank's Form 10/A Amendment No.2 filed with the FDIC on July 13, 2006.
4. Incorporated by reference from Summit State Bank's Form 8-K filed with the FDIC on July 13, 2006.
5. Incorporated by reference from Summit State Bank's Form 8-K filed with the FDIC on October 24, 2006.
6. Incorporated by reference from Summit State Bank's Form 10-Q filed with the FDIC on November 13, 2006.
7. Incorporated by reference from Summit State Bank's Definitive Proxy Statement filed with the FDIC on April 27, 2007.
8. Incorporated by reference from Summit State Bank's Form 10-K filed with the FDIC on March 28, 2007.

EXHIBIT 31.1
Certification pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.

I, Thomas M. Duryea, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Summit State Bank (the Registrant);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant , including this consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's Board of Directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: *3/26/08* */s/ Thomas M. Duryea*
Thomas M. Duryea
Chief Executive Officer

EXHIBIT 31.2
Certification pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.

I, Dennis E. Kelley, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Summit State Bank (the Registrant);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including this consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's Board of Directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Dated: *3/26/08* * /s/ Dennis E. Kelley*
Dennis E. Kelley
Chief Financial Officer

EXHIBIT 32.1
Certification pursuant to 18 U.S.C. §1350

In connection with the annual report on Form 10-K of Summit State Bank (the Registrant) for the year ended December 31, 2007, as filed with the Federal Deposit Insurance Corporation, the undersigned hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1) such Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: *3/26/08*

/s/ Thomas M. Duryea
Thomas M. Duryea
Chief Executive Officer

Dated: *3/26/08*

/s/ Dennis E. Kelley
Dennis E. Kelley
Chief Financial Officer