FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C. 20429

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

FDIC Certificate No.32203

Summit State Bank

(exact name of registrant as specified in its charter)

94-2878925
(I.R.S Employer Identification No.)

California
(State or other jurisdiction of incorporation or organization)

500 Bicentennial Way, Santa Rosa, CA 95403 Telephone: 707-568-6000
(Address of principal executive offices) (Zip Code) (Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated 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 whether the registrant is a shell company, in Rule 12b(2) of the Exchange Act. Yes [ ] No [x]

As of November 10, 2008 there were 4,744,720 shares of common stock outstanding.

Summit State Bank

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Part I Financial Information
Item 1 Financial Statements

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

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Cash and due from banks	$ 3,783	$ 5,695
Federal funds sold	-	7,110
Total cash and cash equivalents	3,783	12,805
Time deposits in banks	-	80
Available-for-sale investment securities - amortized cost of $41,744 in 2008 and $35,404 in 2007	41,157	35,426
Held-to-maturity investment securities - market value of $5,000 in 2007	-	5,000
Loans, less allowance for loan losses of $3,871 in 2008 and $3,621 in 2007	284,425	267,067
Bank premises and equipment, net	7,899	8,463
Investment in Federal Home Loan Bank stock, at cost	3,383	2,850
Goodwill	4,119	4,119
Accrued interest receivable and other assets	5,020	4,383
Total assets	$ 349,786	$ 340,193
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand - non interest-bearing	$ 11,659	$ 10,297
Demand - interest-bearing	12,785	12,421
Savings	10,126	12,460
Money market	34,830	29,858
Time deposits, $100,000 and over	84,761	103,995
Other time deposits	103,753	79,988
Total deposits	257,914	249,019
Federal Home Loan Bank (FHLB) advances	44,740	42,600
Accrued interest payable and other liabilities	779	859
Total liabilities	303,433	292,478
Shareholders' equity		
Preferred stock, no par value; 20,000 shares authorized; none issued	-	-
Common stock, no par value; shares authorized - 30,000; shares issued and outstanding 4,745 at September 30, 2008 and December 31, 2007	36,238	36,244
Retained earnings	10,419	11,455
Accumulated other comprehensive income (loss), net of taxes	(304)	16
Total shareholders' equity	46,353	47,715
Total liabilities and shareholders' equity	$ 349,786	$ 340,193

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

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except for earnings per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2008 (Unaudited)	September 30, 2007 (Unaudited)	September 30, 2008 (Unaudited)	September 30, 2007 (Unaudited)
Interest income:				
Interest and fees on loans	$ 4,738	$ 5,213	$ 14,122	$ 15,161
Interest on Federal funds sold	-	1	69	3
Interest on investment securities and deposits in banks	664	580	1,921	1,712
Dividends on FHLB stock	39	28	107	86
Total interest income	5,441	5,822	16,219	16,962
Interest expense:				
Deposits	1,654	2,613	5,669	7,384
Securities sold under repurchase agreements	-	-	-	2
FHLB advances	496	478	1,550	1,446
Total interest expense	2,150	3,091	7,219	8,832
Net interest income before provision for loan losses	3,291	2,731	9,000	8,130
Provision for loan losses	130	159	465	490
Net interest income after provision for loan losses	3,161	2,572	8,535	7,640
Non-interest income:				
Service charges	96	76	310	256
Office leases	179	184	488	516
Gains on sales of loans	-	-	-	41
Securities impairment	(2,262)	-	(2,323)	-
Loan servicing, net	10	22	44	58
Other income	7	8	22	26
Total non-interest income	(1,970)	290	(1,459)	897
Non-interest expense:				
Salaries and employee benefits	1,066	957	3,397	2,913
Occupancy and equipment	450	431	1,292	1,187
Other expenses	649	607	1,978	1,877
Total non-interest expense	2,165	1,995	6,667	5,977
Income (loss) before provision for income taxes	(974)	867	409	2,560
Provision (benefit) for Income taxes	(405)	358	164	1,059
Net income (loss)	$ (569)	$ 509	$ 245	$ 1,501
Basic earnings (loss) per share	$ (0.12)	$ 0.11	$ 0.05	$ 0.31
Diluted earnings (loss) per share	$ (0.12)	$ 0.10	$ 0.05	$ 0.31
Basic weighted average shares of common stock outstanding	4,745	4,845	4,745	4,840
Diluted weighted average shares of common stock outstanding	4,745	4,853	4,745	4,848

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

SUMMIT STATE BANK AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Nine Months Ended September 30,2008 (Unaudited) and the Year Ended December 31, 2007
(In thousands, except dividends per share)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss) (Net of Taxes)	Total Shareholders' Equity	Total Compre-hensive Income
	Shares	Amount				
Balance, January 1, 2007	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	
Comprehensive income (loss):						
Net income			245		245	$ 245
Other comprehensive loss, net of tax:						
Net change in unrealized gains (losses) on available-for-sale investment securities				(320)	(320)	(320)
Total comprehensive income (loss)						$ (75)
Stock-based compensation expense		3			3	
Stock purchases and retirements		(9)			(9)	
Cash dividends - $.27 per share			(1,281)		(1,281)	
Balance, September 30, 2008	4,745	$ 36,238	$ 10,419	$ (304)	$ 46,353	

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

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Nine Months Ended September 30, 2008 (Unaudited)	Nine Months Ended September 30, 2007 (Unaudited)
Cash flows from operating activities:		
Net income	$ 245	$ 1,501
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	674	565
Other than temporary impairment on investment securities	2,323	-
Loss on disposal of bank premises and equipment	9	31
Net increase in deferred loan fees	101	157
Net loss on sale of foreclosed real estate	-	4
Provision for loan losses	465	490
Gains on sales of loans	-	(41)
Loans originated for sale	-	(661)
Proceeds from sales of loans held for sale	-	702
Dividends on Federal Home Loan Bank stock	(107)	(87)
Net change in accrued interest receivable and other assets	(348)	150
Net change in accrued interest payable and other liabilities	(80)	278
Stock-based compensation expense	3	2
Net cash from operating activities	3,285	3,091
Cash flows from investing activities:		
Decrease in time deposits in banks	80	297
Purchases of available-for-sale investment securities	(24,731)	(10,000)
Proceeds from calls and maturities of available-for-sale investment securities	16,068	895
Proceeds from calls of held to maturity investment securities	5,000	-
Purchase of Federal Home Loan Bank stock	(880)	(1,721)
Proceeds from the redemption of Federal Home Loan Bank stock	454	1,304
Net change in loans	(17,924)	(23,485)
Purchases of bank premises and equipment, net	(119)	(998)
Proceeds from sale of foreclosed real estate	-	917
Net cash from investing activities	(22,052)	(32,791)

(Continued)

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Nine Months Ended September 30, 2008 (Unaudited)	2007 (Unaudited)
Cash flows from financing activities:		
Net increase (decrease) in demand, NOW, savings and money market deposits	4,364	(22,009)
Net change in certificates of deposit	4,531	35,721
Net change in securities sold under repurchase agreements	-	(253)
Net change in short term FHLB advances	19,740	3,510
Proceeds from long term FHLB advances	-	15,000
Repayment of long term FHLB advances	(17,600)	(7,600)
(Repurchase) issuance of common stock	(9)	257
Dividends paid on common stock	(1,281)	(1,308)
Net cash from financing activities	9,745	23,318
Net change in cash and cash equivalents	(9,022)	(6,382)
Cash and cash equivalents at beginning of year	12,805	10,606
Cash and cash equivalents at end of period	$ 3,783	$ 4,224
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 7,363	$ 8,742
Income taxes	$ 510	$ 795
Noncash investing activities:		
Transfer from loans to other real estate owned	$ -	$ 921

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

SUMMIT STATE BANK AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

On January 15, 1999, Summit State Bank (the "Bank" or "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 consolidated financial statements as of September 30, 2008 and for the nine months ended September 30, 2008 and 2007 are unaudited. In the opinion of management, these unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring accruals necessary to present fairly the consolidated financial statements of the Bank.

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles for interim financial information and Article 10 of Regulation S-X of the Securities and Exchange Commission. Operating results for the nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. These unaudited consolidated financial statements do not include all disclosures associated with the Bank's consolidated annual financial statements and notes thereto and accordingly, should be read in conjunction with the consolidated financial statements and notes thereto included in the Bank's Annual Report for the year ended December 31, 2007 on Form 10-K on file with the FDIC (Form 10-K may be found at www.summitstatebank.com).

The accompanying accounting and reporting policies of the Bank and subsidiary conform to U.S. Generally Accepted Accounting Principles and prevailing practices within the banking industry.

Principles of Consolidation

The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiary, Alto Service Corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

Some items in the prior period consolidated financial statements have been reclassified to conform with the current period presentation.

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles 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.

Earnings (loss) Per Share

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

The factors used in the earnings (loss) per share computation follow:

(in thousands except earnings per share)	Three Months Ended		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Basic				
Net income (loss)	$ (569)	$ 509	$ 245	$ 1,501
Weighted average comon shares outstanding	4,745	4,845	4,745	4,840
Basic earnings (loss) per common share	$ (0.12)	$ 0.11	$ 0.05	$ 0.31
Diluted				
Net income (loss)	$ (569)	$ 509	$ 245	$ 1,501
Weighted average common shares outstanding for basic earnings (loss) per common share	4,745	4,845	4,745	4,840
Add: Dilutive effects of assumed exercises of stock options	-	8	-	8
Average shares and dilutive potential common shares	4,745	4,853	4,745	4,848
Diluted earnings (loss) per common share	$ (0.12)	$ 0.10	$ 0.05	$ 0.31

Recent Accounting Pronouncements

On March 19, 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an Amendment of FASB Statement 133*. Statement 161 enhances required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding how: (*a*) an entity uses derivative instruments; (*b*) derivative instruments and related hedged items are accounted for under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*; and (c) derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Statement 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Management does not anticipate this Statement to have a material impact on the Bank's consolidated financial condition or results of operations.

On October 10, 2008 the FASB issued FSP 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset Is Not Active*, which provides an example that illustrates key considerations in determining the fair value of a financial asset when the market for that asset is not active. The FSP does not change existing generally accepted accounting principles. The FSP provides clarification for how to consider various inputs in determining fair value under current market conditions consistent with the principles of FAS 157. The FSP includes only one example, as the FASB emphasized the need to apply reasonable judgment to each specific fact pattern. Several additional concepts addressed in the FSP included distressed sales; the use of 3rd party pricing information, the use of internal assumptions and the relevance of observable data, among others. The FSP was effective upon issuance, including prior periods for which financial statements have not yet been issued. Therefore, it first applies to September 30, 2008 interim and annual financial statements. The impact of adoption was not material to the Bank's consolidated financial condition or results of operations.

2. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is made up of net income (loss) plus other comprehensive income or loss. Other comprehensive income or loss, net of taxes, includes unrealized gains (losses) on available-for-sale investment

securities of $78,000 and $290,000 for the three months ended September 30, 2008 and 2007 and $(320,000) and $(32,000) for the nine months ended September 30, 2008 and 2007. Total comprehensive income (loss) was $(491,000) and $799,000 for the three months ended September 30, 2008 and 2007 and $(75,000) and $1,469,000 for the nine months ended September 30, 2008 and 2007.

3. REGULATORY CAPITAL

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

	September 30, 2008	
	Amount	**Ratio**
Tier 1 Leverage Ratio		
Summit State Bank	$ 42,491,000	12.5%
Minimum requirement for "Well-Capitalized" institution	$ 17,033,000	5.0%
Minimum regulatory requirement	$ 13,626,000	4.0%
Tier 1 Risk-Based Capital Ratio		
Summit State Bank	$ 42,491,000	15.5%
Minimum requirement for "Well-Capitalized" institution	$ 16,423,000	6.0%
Minimum regulatory requirement	$ 10,949,000	4.0%
Total Risk-Based Capital Ratio		
Summit State Bank	$ 45,918,000	16.8%
Minimum requirement for "Well-Capitalized" institution	$ 27,371,000	10.0%
Minimum regulatory requirement	$ 21,897,000	8.0%

4. STOCK OPTIONS

The shareholders approved the 2007 stock option plan ("Plan") on May 21, 2007. The Plan reserved 150,000 shares of common stock for issuance to directors and employees. The Plan requires that the option exercise price may not be less than the fair market value of the stock at the date the option is granted. The option expiration dates are determined by the Board of Directors, but may not be later than ten years from the date of grant. In June 2007, 20,000 shares were granted at an exercise price of $10.92 and a term of ten years. In August 2008, 10,000 shares were granted at an exercise price of $6.99 and a term of ten years. Options on 5,000 shares were cancelled in the second quarter of 2008.

5. COMMITMENTS AND 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 consolidated financial position or results of operations of the Bank.

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 to be obtained as necessary to meet the Bank's relative risk criteria for each borrower. The Bank's collateral for the lending portfolio consists primarily of real estate, accounts receivable, inventory and other financial instruments.

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 sheet.

Commitments to extend credit, which totaled $27,297,000 and $40,437,000 at September 30, 2008 and December 31, 2007, respectively, 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, which totaled $197,000 and $48,000 at September 30, 2008 and December 31, 2007, respectively, 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 September 30, 2008 and December 31, 2007. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

6. FAIR VALUE

Statement 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

> Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available-for-sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements at September 30, 2008 Using		
	September 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale securities	$41,157,000	$88,000	$41,069,000	$ -

7. SECURITIES IMPAIRMENT

The Bank recorded $2,262,000 for the third quarter and $2,323,000 for the nine months ended September 30, 2008, in other than temporary impairment charges on its investments in preferred stocks of Freddie Mac and Fannie Mae and debt securities of various Corporations. The remaining recorded book value of the impaired securities was $445,000 at September 30, 2008

8. SUBSEQUENT EVENT

Cash Dividend

On October 27, 2008, the Board of Directors declared a $.09 per share cash dividend to shareholders of record at the close of business on November 12, 2008, to be paid on November 21, 2008.

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion provides additional information about the financial condition of the Bank at September 30, 2008 and December 31, 2007, and results of operations for the three and nine months ended September 30, 2008 and 2007. The following analysis should be read in conjunction with the consolidated financial statements of the Bank and the notes thereto appearing elsewhere in the report, which were prepared in accordance with U.S. Generally Accepted Accounting Principles. The interim financial information provided as of and for the three and nine months ended September 30, 2008 and 2007 are unaudited. In the opinion of management of the Bank, the interim financial information presented reflects all adjustments (consisting solely of normal recurring accruals) considered necessary for a fair representation of the results of such periods.

All references to yields, cost of liabilities and net interest margin are annualized for the periods discussed.

Forward Looking Statements. This discussion includes forward-looking statements within the meaning of the "safe harbor" provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on the current beliefs of the Bank management as well as assumptions made by and information currently available to the Bank's management. When used in this discussion, the words "anticipate," "believe," "estimate," "expect," "should," "intend," "project," "may," "will," "would," variations of such words and words or phrases of similar meaning constitute forward-looking statements. Although the Bank believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct.

These forward-looking statements relate to, among other things, expectations regarding the business environment in which the Bank operates, projections of future performance, potential future performance, potential future credit experience, perceived opportunities in the market, and statements regarding the Bank's mission and vision. Factors which may cause actual results to vary from forward-looking statements include, but are not limited to, changes in interest rates, general economic and business conditions, changes in business strategy or development plans, changes in credit quality, the availability of capital to fund the expansion of our business, legislative and regulatory changes, government monetary and fiscal policies, real estate valuations, competition in the financial services industry, demographic changes, civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type, outbreak or escalation of hostilities in which the United States is involved, any declaration of war by the U.S. Congress or any other national or international calamity, crisis or emergency, and other risks referenced in this discussion.

This discussion contains certain forward-looking information about us. All statements other than statements of historical fact are forward-looking statements. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond our control. We caution readers that a number of important factors could cause actual results to differ materially from those expressed in, implied or projected by, such forward-looking statements. Risks and uncertainties include, but are not limited to:

- lower revenues than expected;
- credit quality deterioration which could cause an increase in the provision for credit losses;
- competitive pressure among depository institutions increases significantly;
- the cost of additional capital is more than expected;
- a change in the interest rate environment reduces interest margins;
- asset/liability repricing risks and liquidity risks;
- legislative or regulatory requirements or changes adversely affecting our business;
- changes in the securities markets;
- general economic conditions, either nationally or in the market areas in which we do or anticipate doing business, are less favorable than expected;

- the economic and regulatory effects of the continuing war on terrorism and other events of war, including the war in Iraq;
- our ability to complete any future acquisitions, to successfully integrate acquired entities, or to achieve expected synergies and operating efficiencies within expected time-frames or at all;
- the integration of any future acquired businesses costs more, takes longer or is less successful than expected; and
- regulatory approvals for announced or future acquisitions cannot be obtained on the terms expected or on the anticipated schedule.

Also, other important factors that could cause actual results to differ materially from the Bank's expectations are disclosed under Item 1A. "RISK FACTORS," in our Registration Statement on Form 10, as amended (the "Form 10"), and in our Annual Report on Form 10-K on file with the Federal Deposit Insurance Corporation ("FDIC") and below under this "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – *Critical Accounting Policies*" and elsewhere in this report.

If any of these risks or uncertainties materializes, or if any of the assumptions underlying such forward-looking statements proves to be incorrect, our results could differ materially from those expressed in, implied or projected by, such forward-looking statements. We assume no obligation to update such forward-looking statements.

We caution that these statements are further qualified by important factors, in addition to those under "Risk Factors" in our Form 10 and in our Annual Report on Form 10-K and elsewhere in this report, which could cause actual results to differ significantly from those in the forward-looking statements, including, among other things, economic conditions and other risks.

Forward-looking statements are not guarantees of performance. By their nature, they involve 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. Any such statement speaks only as of the date of this discussion, regardless of the time of delivery of this document. We do not undertake any obligation to update or release any revisions to any forward-looking statements, to report any new information, future event or other circumstances after the date of this filing or to reflect the occurrence of unanticipated events, except as required by law. However, your attention is directed to any further disclosures made on related subjects in any subsequent reports we may file with the FDIC, including on Forms 10-K, 10-Q and 8-K.

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 and fair values of available-for –sale investment securities and consideration of potential other than temporary impairment.

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 assigning probable loss percentages to each credit based on 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 $3,871,000 at September 30, 2008 and $3,621,000 at December 31, 2007.

The fair values of available-for-sale investment securities are determined in accordance with FAS Statement 157 using quoted prices when available or significant observable inputs. Other than temporary impairment is based on a determination of potential change in expected cash flows and significant deterioration of the credit quality of the securities.

Earnings Summary
(In Thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2008	**September 30, 2007**	**September 30, 2008**	**September 30, 2007**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Statement of Income Data:				
Net interest income	$ 3,291	$ 2,731	$ 9,000	$ 8,130
Provision for loan losses	130	159	465	490
Non-interest income	(1,970)	290	(1,459)	897
Non-interest expense	2,165	1,995	6,667	5,977
Provision (benefit) for Income taxes	(405)	358	164	1,059
Net income (loss)	$ (569)	$ 509	$ 245	$ 1,501
Selected per Share Data:				
Basic earnings (loss) per share	$ (0.12)	$ 0.11	$ 0.05	$ 0.31
Diluted earnings (loss) per share	$ (0.12)	$ 0.10	$ 0.05	$ 0.31
Book value per share (2)	$ 9.77	$ 9.96	$ 9.77	$ 9.96
Selected Ratios:				
Return on average assets (1)	-0.65%	0.61%	0.10%	0.62%
Return on average equity (1)	-4.79%	4.20%	0.69%	4.17%
Return on average tangible equity (1)	-5.25%	4.60%	0.75%	4.56%
Efficiency ratio	NM	66.04%	88.41%	66.21%
Net interest margin (1)	4.06%	3.45%	3.79%	3.54%
Dividend payout ratio	NM	85.66%	522.86%	87.14%
Average equity to average assets	13.65%	14.43%	14.07%	14.76%
Nonperforming loans to total loans (2)	0.31%	0.12%	0.31%	0.12%
Nonperforming assets to total assets (2)	0.25%	0.10%	0.25%	0.10%
Allowance for loan losses to total loans (2)	1.34%	1.21%	1.34%	1.21%
Allowance for loan losses to nonperforming loans (2)	438.39%	1009.61%	438.39%	1009.61%

(1) Annualized.
(2) As of period end

Results of Operations

Three and nine months ended September 30, 2008 and September 30, 2007

Net Income

For the three months ended September 30, 2008 net loss was $569,000, or $0.12 per diluted share. This compares with earnings of $509,000, or $0.10 per diluted share, for the three months ended September 30, 2007. The period-over-period earnings decline of $1,078,000 is primarily attributable to other than temporary impairment (OTTI) charges on investment securities.

Net income for the nine months ended September 30, 2008 was $245,000, or $0.05 per diluted share compared to $1,501,000 or $0.31 per diluted share for the same period in 2007. The decline in net income for the nine month period was primarily due to the OTTI charges and increased non-interest expense which included $267,000 for severance expenses related to changes in senior management and core data processor conversion expenses of $311,000 (see “Non-interest Expense” below). Exclusion of these expenses and OTTI charges and the related 42% tax impacts, would have resulted in net income of $1,928,000 or $0.41 per diluted share for the nine months ended September 30, 2008.

Net Interest Income and Net Interest Margin

Net interest income increased $560,000 or 21% to $3,291,000 for the third quarter of 2008 compared to $2,731,000 for the same quarter of 2007. The annualized net interest margin increased to 4.06% for the third quarter of 2008, compared to 3.45% for the third quarter of 2007. The net interest margin improved as the cost of funds declined primarily due to the repricing of renewing time deposits and lower rates on Federal Home Loan Bank advances.

Average earning assets were $321,275,000 for the third quarter of 2008, as compared to $314,341,000 for the same quarter of 2007. The annualized yield on average earning assets was 6.72% and the annualized cost of average interest-bearing liabilities was 2.98% for the third quarter of 2008, as compared to the annualized yield on average earning assets of 7.35% and annualized cost of interest-bearing liabilities of 4.51% for the same quarter of 2007.

Net interest income increased $870,000, or 11% to $9,000,000 for the nine months ended September 30, 2008 compared to $8,130,000 for the same period in 2007. The annualized net interest margin was 3.79% for the 2008 period compared to 3.54% for the same period in 2007.

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. Nonaccrual loans are included in loans with any interest collected reflected on a cash basis.

Average Balance Sheet and Analysis of Net Interest Income
(Dollars in thousands)

	Three Months Ended September 30, 2008			Three Months Ended September 30, 2007		
	Average Balance	Interest Income/ Expense	Average Rate (4)	Average Balance	Interest Income/ Expense	Average Rate (4)
Assets						
Interest earning assets:						
Interest bearing deposits with banks	$ 10	$ 1	0.00%	$ 205	$ 3	5.81%
Taxable investment securities	47,498	702	5.87%	42,109	605	5.70%
Federal funds sold	-	-	0.00%	23	1	3.66%
Loans, net (1)	273,767	4,738	6.87%	272,004	5,213	7.60%
Total earning assets/interest income	321,275	5,441	6.72%	314,341	5,822	7.35%
Non-earning assets	28,819			21,852		
Allowance for loan losses	(3,926)			(3,240)		
Total assets	$ 346,168			$ 332,953		
Liabilities and Shareholders' Equity						
Interest bearing liabilities:						
Deposits:						
Interest bearing transaction	$ 12,954	26	0.77%	$ 12,426	24	0.77%
Savings and money market	33,970	183	2.14%	45,133	373	3.28%
Time deposits	180,303	1,445	3.18%	176,141	2,216	4.99%
Repurchase agreements	-	-		39	-	2.27%
FHLB advances	58,737	496	3.35%	38,121	478	4.97%
Total interest bearing liabilities/interest expense	285,963	2,150	2.98%	271,860	3,091	4.51%
Non-interest bearing deposits	12,076			12,074		
Other liabilities	871			983		
Total liabilities	298,911			284,917		
Shareholders' equity	47,257			48,036		
Total liabilities and shareholders' equity	$ 346,168			$ 332,953		
Net interest income and margin (2)		$ 3,291	4.06%		$ 2,731	3.45%
Net interest spread (3)			3.74%			2.84%

(1) The net amortization of deferred fees and costs on loans included in interest income was $(49,000) and $57,000 for the three months ended September 30, 2008 and 2007, 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.
(4) Annualized.

Average Balance Sheet and Analysis of Net Interest Income
(Dollars in thousands)

	Nine Months Ended September 30, 2008			Nine Months Ended September 30, 2007		
	Average Balance	Interest Income/ Expense	Average Rate (4)	Average Balance	Interest Income/ Expense	Average Rate (4)
Assets						
Interest earning assets:						
Interest bearing deposits with banks	$ 5	$ 1	0.00%	$ 213	$ 6	3.77%
Taxable investment securities	48,665	2,027	5.56%	41,708	1,792	5.74%
Federal funds sold	3,185	69	2.89%	75	3	5.35%
Loans, net (1)	265,415	14,122	7.11%	265,089	15,161	7.65%
Total earning assets/interest income	317,270	16,219	6.83%	307,085	16,962	7.38%
Nonearning assets	25,277			22,491		
Allowance for loan losses	(3,761)			(3,468)		
Total assets	$ 338,786			$ 326,108		
Liabilities and Shareholders' Equity						
Interest bearing liabilities:						
Deposits:						
Interest bearing transaction	$ 12,904	76	0.79%	$ 12,575	70	0.74%
Savings and money market	39,262	681	2.32%	53,604	1,386	3.46%
Time deposits	174,170	4,912	3.77%	159,576	5,928	4.97%
Repurchase agreements	-	-		114	2	2.35%
FHLB advances	51,907	1,550	3.99%	38,765	1,446	4.99%
Total interest bearing liabilities/interest expense	278,243	7,219	3.47%	264,634	8,832	4.46%
Noninterest bearing deposits	11,962			12,003		
Other liabilities	924			1,341		
Total liabilities	291,129			277,978		
Shareholders' equity	47,657			48,130		
Total liabilities and shareholders' equity	$ 338,786			$ 326,108		
Net interest income and margin (2)		$ 9,000	3.79%		$ 8,130	3.54%
Net interest spread (3)			3.36%			2.92%

(1) The net amortization of deferred fees and costs on loans included in interest income was $224,000 and $179,000 for the nine months ended September 30, 2008 and 2007, 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.
(4) Annualized.

The following table shows the change in interest income and interest expense and the amount of change attributable to variances in volume and rates. Changes not attributable solely to volume or rates are allocated proportionately between both variances.

Volume and Yield/Rate Variances
(Dollars in thousands)

	2008 Compared to 2007 for the Quarter Ended September 30,		
	Change Due to		
	Net	Volume	Yield/Rate
Interest income:			
Interest bearing deposits with banks	$ (2)	$ (5)	$ 3
Taxable investment securities	97	79	18
Federal funds sold	(1)	(1)	-
Loans, net	(475)	34	(509)
Total interest income	(381)	107	(488)
Interest expense:			
Interest-bearing transaction	2	1	1
Savings and money market	(190)	(79)	(111)
Time deposits	(771)	52	(823)
Repurchase agreements	-	-	-
FHLB advances	18	206	(188)
Total interest expense	(941)	180	(1,121)
Increase (decrease) in net interest income	$ 560	$ (73)	$ 633

Volume and Yield/Rate Variances
(Dollars in thousands)

	2008 Compared to 2007 For The Nine Months Ended September 30,		
	Change Due to		
	Net	Volume	Yield/ Rate
Interest income:			
Interest bearing deposits with banks	$ (5)	$ (11)	$ 6
Taxable investment securities	235	290	(55)
Federal funds sold	66	68	(2)
Loans, net	(1,039)	19	(1,058)
Total interest income	(743)	366	(1,109)
Interest expense:			
Interest-bearing transaction	6	2	4
Savings and money market	(705)	(316)	(389)
Time deposits	(1,016)	507	(1,523)
Repurchase agreements	(2)	(2)	0
FHLB advances	104	429	(325)
Total interest expense	(1,613)	620	(2,233)
Increase (decrease) in net interest income	$ 870	$ (254)	$ 1,124

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 probable 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.

For the three months ended September 30, 2008, the provision for loan losses was $130,000 and it was $159,000 for three months ended September 30, 2007. The provision for loan losses was $465,000 for the nine months ended September 30, 2008 compared to $490,000 for the same period in 2007. The provision for loan losses reflects changes in the general real estate economy and adjustments in various qualitative factors related to measurement of the adequacy of the allowance for loan losses. There were $111,000 in loan recoveries for the three and nine month periods of 2008 and $28,000 in loan recoveries for the three and nine month periods in 2007. There were $183,000 in loans charged-off for the third quarter of 2008 and $326,000 in loans charged off for the first nine months of 2008. There were $0 and $892,000 in loans charged-off in the third quarter and nine month period of 2007. The provisions for loan losses for the periods reflect management's assessment of the negative current economic trends. See Balance Sheet Activity – Nonperforming Assets and Allowance for Loan Losses for additional discussion.

Non-interest Income

Non-interest income totaled $(1,970,000) and $290,000 for the third quarters of 2008 and 2007. For the nine month periods, non-interest income was $(1,459,000) and $897,000 for 2008 and 2007, respectively. Non-interest income consists primarily of service charges on deposit accounts, office lease income and for 2008, OTTI charges for securities impairment. Service charges on deposit accounts were $96,000 and $310,000 for the third quarter and nine month period of 2008 compared to $76,000 and $256,000 for the same periods in 2007. Office lease income was $179,000 and $488,000 for the third quarter and nine month period of 2008 compared to $184,000 and $516,000 for the same periods in 2007.

In the third quarter and nine month periods of 2008, non-interest income included an OTTI impairment write down of $2,262,000 and $2,323,000 on investment securities. (see "Nonperforming Assets" for a discussion of these OTTI impairment charges.)

Non-interest Expense

For the third quarter of 2008, non-interest expense increased $170,000, or 9%, to $2,165,000, compared to $1,995,000 for the same quarter in 2007. The increase in expenses between the quarters was primarily attributable to expense incurred in the conversion of the Bank's core data processor. For the nine month periods, non-interest expense increased $690,000 or 12% to $6,667,000 in 2008 compared to $5,977,000 in 2007. In the first quarter of 2008, Thomas Duryea was appointed President and Chief Executive Officer, Terrance Davis resigned as President and Chief Operating Officer and John Lewis retired as Chief Executive Officer, but continues as Chairman of the Board. Also the Bank entered into a contract to convert its core data processing system to a new vendor. During the first nine months of 2008, the Bank expensed $267,000 related to employee severance and $311,000 in expense related to the conversion of the core data processing system. Excluding the employee severance expenses, salaries and employee benefits expense would have increased $217,000, or 7%, to $3,130,000 for the nine months ended September 30, 2008 over the same period of 2007. Other expenses, excluding the core data processor change expense would have decreased $210,000, or 11%, for the first nine months of 2008 as compared to the first nine months of 2007.

Occupancy and equipment expenses increased $19,000, or 4% for the quarterly periods and $105,000, or 9% for the nine month periods in 2008 compared to 2007. The increase in occupancy and equipment expenses primarily relates to the lease for the Petaluma office which commenced in the third quarter of 2007.

Provision for Income Taxes

The Bank accrues income tax expense based on the anticipated tax rates during the financial period covered. The provision for income taxes for the three months ended September 30, 2008 and 2007 were $405,000 in tax benefit and $358,000 in tax expense, and for the nine month periods were $164,000 and $1,059,000 in tax expense for 2008 and 2007. The combined effective Federal and State corporate income tax rates for the three months ended September 30, 2008 and 2007 were 41.6% and 41.3%, and for the nine month periods of 2008 and 2007 were 40.1% and 41.4%.

Balance Sheet Activity

At September 30, 2008 and December 31, 2007

Investment Portfolio

Securities classified as available-for-sale for accounting purposes are recorded at their fair value on the balance sheet. Available-for-sale investment securities carried at fair value totaled $41,157,000 at September 30, 2008 and comprised 12% of total assets compared to amortized cost of $41,744,000. There were no securities classified as held-to-maturity at September 30, 2008 as the $5,000,000 in securities classified as held-to-maturity at December 31, 2007 were called during the first quarter of 2008. At December 31, 2007, investment securities comprised 12% of total assets. At December 31, 2007 there were securities classified as held-to-maturity of $5,000,000 and securities classified as available-for-sale of $35,426,000. 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, net of tax, within shareholders' equity until realized.

There were no investment security purchases in the third quarter of 2008 and $2,000,000 in investment securities were called in the third quarter of 2008. The Bank recorded OTTI charges in the third quarter of 2008 in the amount of $2,262,000. (see "Nonperforming Assets" for a discussion of these OTTI impairment charges)

The Bank utilizes the investment portfolio to manage liquidity and attract funding that requires collateralization. At September 30, 2008 investment securities with a market value of $18,788,000, or 46% of the investment portfolio, were pledged to secure time deposits from the State of California. At December 31, 2007, investment securities with a market value of $19,771,000, or 49% of the investment portfolio, were pledged. At September 30, 2008, securities with a par value of $34,010,000 were callable within one year.

The Bank does 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 shareholders' equity at the time of purchase.

Loan Portfolio

The following table shows the composition of the loan portfolio by amount, percentage of total loans for each major loan category and the dollar volume and percentage change between the dates indicated.

(in thousands)	September 30, 2008		%	December 31, 2007		%	Net Change		Percent Change
Commercial & Agricultural	$	65,404	22.6%	$	54,846	20.2%	$	10,558	19.25%
Real Estate - Commercial		109,849	38.0%		114,775	42.3%		(4,926)	-4.29%
Real Estate-Construction		10,715	3.7%		27,085	10.0%		(16,370)	-60.44%
Real Estate - Single family units		52,525	18.2%		40,940	15.1%		11,585	28.30%
Real Estate-Multifamily & Land		38,612	13.4%		20,545	7.6%		18,067	87.94%
Consumer		5,034	1.7%		5,711	2.1%		(677)	-11.85%
Lease Financing		6,767	2.4%		7,295	2.7%		(528)	-7.24%
		288,906	100%		271,197	100%		17,709	6.53%
LESS:									
Allowance for Loan Losses		(3,871)			(3,621)			(250)	6.90%
Deferred Loan Fees		(610)			(509)			(101)	19.84%
Total Loans, Net	$	284,425		$	267,067		$	17,358	6.50%

Real estate construction loans outstanding have declined since December 31, 2007 due to pay-offs and lower volume of new construction loan originations. Multifamily and land loans increased during 2008 partly due to the extension of permanent financing on completed projects as were agreed to under the original construction commitment. Single family residential loans increased through local originations of predominantly jumbo mortgage loans.

At September 30, 2008, the Bank had approximately $27,297,000 in undisbursed loan commitments, of which approximately $3,019,000 related to real estate construction, land and commercial real estate loans. Standby letters of credit amounting to $197,000 were in place at September 30, 2008.

At December 31, 2007, the Bank had approximately $40,437,000 in undisbursed loan commitments, of which approximately $10,669,000 related to real estate construction loans and commercial real estate loans. At December 31, 2007, there was $48,000 in standby letters of credit outstanding.

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. Nonperforming loans at September 30, 2008 were $883,000 or 0.3% of gross loans. The nonperforming loans included $615,000 in loans partially guaranteed by the Small Business Administration. There was no other real estate owned at September 30, 2008.

In addition to the nonperforming loans discussed above, the Bank recorded $2,323,000 in OTTI charges on available-for-sale investment securities during the nine months ended September 30, 2008. The OTTI charges represented a write down of the securities to the current market or fair value at September 30, 2008. The following were the impaired securities: (in thousands)

Security (in thousands)	Original Book Value	Impairment Charge	Current Book Value
Freddie Mac Preferred Stock	$1,031	$965	$66
Fannie Mae Preferred Stock	250	228	22
Fannie Mae Common Stock	1	1	-
Lehman Brothers Holding Debt	738	738	-
GMAC Debt	499	234	265
ALESCO Preferred Funding IX, LTD	249	157	92
Totals	$2,768	$2,323	$445

At September 30, 2008, there were loan relationships primarily secured by commercial real estate totaling $12,347,000 with respect to loans that were not classified as nonperforming and that have shown some weakness but continue to perform according to the terms of the loans.

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 for loan losses 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 evaluates 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-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 a migration analysis of historical losses and recoveries for the prior eight quarters.

In addition to the allowance for loan losses, the Bank maintains an allowance for undisbursed loan commitments of $30,000 reported in other liabilities on the consolidated balances sheet as of September 30, 2008.

The allowance for loan losses was $3,871,000 at September 30, 2008 compared to $3,621,000 at December 31, 2007. The activity in the allowance for loan losses during the third quarter and first nine months of 2008 included a provision for loan losses of $130,000 and $465,000. There were $111,000 in loan recoveries and $183,000 in loan charge-offs in the third quarter and $111,000 in loan recoveries and $326,000 in loan charge-offs in the first nine months of 2008. At September 30, 2008, June 30, 2008 and December 31, 2007, the Bank’s allowance for loan losses was 1.34%, 1.38% and 1.34% of outstanding loans, respectively.

The following table summarizes the activity in the Allowance for Loan Losses during the periods indicated.

SUMMARY OF ACTIVITY IN ALLOWANCE FOR LOAN LOSSES
(Dollars in thousands)

	Nine months ended September 30, 2008	Year Ended December 31, 2007
Balance at beginning of period	$ 3,621	$ 3,736
Charge-offs:		
Commercial and agricultural	324	331
Real estate--construction and land development	-	561
Real estate--mortgage	-	-
Installment loans to individuals	2	-
Total loans charged-off	326	892
Recoveries:		
Commercial and agricultural	111	28
Real estate--construction and land development	-	-
Real estate--mortgage	-	-
Installment loans to individuals	-	-
Total recoveries	111	28
Net loans charged-off	215	864
Provision for loan losses	465	749
Allowance for loan losses - end of period	$ 3,871	$ 3,621
Loans:		
Average loans outstanding during period, net of unearned income	$ 265,415	$ 268,310
Total loans at end of period, net of unearned income	$ 288,297	$ 270,688
Ratios:		
Net loans charged-off to average net loans (1)	0.11%	0.32%
Net loans charged-off to total loans (1)	0.10%	0.32%
Allowance for loan losses to average net loans	1.46%	1.35%
Allowance for loan losses to total loans	1.34%	1.34%
Net loans charged-off to beginning allowance for loan losses (1)	7.93%	23.13%
Net loans charged-off to provision for loan losses	46.24%	115.35%

(1) Annualized for nine months ended September 30, 2008

Allowance For Loan Losses

(in thousands)	September 30, 2008 Allowance Allocation	September 30, 2008 Amount of Category Loans to Total Loans	December 31, 2007 Allowance Allocation	December 31, 2007 Amount of Category Loans to Total Loans
Commercial & agricultural	$ 682	22.6%	$ 450	20.2%
Real estate - commercial	397	38.0%	1,156	42.3%
Real estate - construction	474	3.7%	749	10.0%
Real estate - single family units	84	18.2%	67	15.1%
Real estate - multifamily & land	452	13.4%	126	7.6%
Consumer	260	1.7%	66	2.1%
Lease financing	68	2.4%	79	2.7%
Other qualitative factors	735		756	
Unallocated	719		172	
Total	$ 3,871	100%	$ 3,621	100%

The allowance allocation to real estate loan categories is highly dependent on the estimated real estate collateral values that secure specific troubled loans. The specific loans being evaluated at one period versus another can result in variations in the allocations.

The allocation of the allowance for loan losses to the other qualitative factors category is due to management's assessment of various qualitative factors. 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. An unallocated allowance can arise from fluctuations in the amount of classified and nonperforming loans ("changes in credit grades") between periods.

Deposits

At September 30, 2008, the Bank had a deposit mix of 73% in time deposits, 17% in money market and savings accounts, and 10% in demand accounts. 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 demand accounts.

At September 30, 2008 and December 31, 2007, the State of California had $40,000,000 and $38,000,000 in time deposits with the Bank with maturities of 3 to 6 months and collateralized by investment securities, letters of credit issued by the Federal Home Loan Bank and mortgage loans. These deposits are received through a program run by the Treasurer of the State of California to place public deposits with community banks. At September 30, 2008, the Bank had $56,431,000 in brokered time deposits, this compares to $20,842,000 in brokered time deposits at December 31, 2007.

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 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 and investment securities sales are sources of asset liquidity. Deposit growth and access to credit lines established with correspondent banks and market sources of funds 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. The policy of the Board of Directors is to maintain sufficient capital at not less than the "well-capitalized" thresholds established by banking regulators. Management believes that the Bank maintains adequate sources of liquidity to meet its liquidity needs.

The Bank's liquid assets, defined as cash and cash equivalents, time deposits in banks and the carrying value of unpledged available-for-sale investment securities, totaled $26,152,000 at September 30, 2008 and constituted 7% of total assets at that date compared to $28,540,000 or 8% of total assets at December 31, 2007.

Although the Bank's sources of liquidity include liquid assets, the Bank maintains lines of credit with the Federal Home Loan Bank and other correspondent banks. The total of these lines of credit were $96,938,000 at September 30, 2008 and $93,818,000 at December 31, 2007, of which $51,340,000 in Federal Home Loan Bank advances and letter of credit were outstanding at September 30, 2008 and $49,200,000 was outstanding at December 31,2007. The Bank actively utilizes its borrowing capacity with the Federal Home Loan Bank to manage liquidity as well as to provide a funding alternative to time deposits if the Federal Home Loan Bank's interest rates and terms are more favorable. The advances from the Federal Home Loan Bank can have maturities from overnight to multiple years. At September 30, 2008, $21,740,000 was due within one year and $23,000,000 had maturities greater than a year.

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 less goodwill) of at least 4.0% of total qualifying capital. The Bank had total and Tier 1 risk-based capital ratios of 16.8% and 15.5% at September 30, 2008, and was "well-capitalized" under the regulatory guidelines.

In addition, regulators have adopted a minimum leverage ratio standard for Tier 1 capital to average total 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 September 30, 2008, the Bank's leverage ratio was 12.5%. Capital levels for the Bank remain above established regulatory capital requirements.

Recent Regulatory Matters

On October 3, 2008, Congress passed the Emergency Economic Stabilization Act of 2008 (EESA), which provides the United States Secretary of the Treasury with broad authority to implement certain actions to help restore stability and liquidity to U.S. markets. One of the provisions resulting from the Act is the Treasury Capital Purchase Program (CPP), which provides direct equity investment of perpetual preferred stock by the Treasury in qualified financial institutions. The program is voluntary and requires an institution to comply with a number of restrictions and provisions, including limits on executive compensation, stock redemptions and declaration of dividends. Applications must be submitted by November 14, 2008 and are subject to approval by the Treasury. The CPP provides for a minimum investment of 1 percent of Total Risk-Weighted Assets, with a maximum investment equal to the lesser of 3 percent of Total Risk-Weighted Assets or $25 billion. The perpetual preferred stock investment will have a dividend rate of 5% per year, until the fifth anniversary of the Treasury investment, and a dividend of 9%, thereafter. The CPP also requires the Treasury to receive warrants for common stock equal to 15% of the capital invested by the Treasury. It is unclear how the CPP will apply to the Company in view of its mutual holding company structure. The Company is evaluating whether to apply for participation in the CPP. Participation in the program is not automatic and is subject to approval by the Treasury.

On October 14, 2008, the Federal Deposit Insurance Corporation (FDIC) announced the creation of the Temporary Liquidity Guarantee Program (TLGP) as part of a larger government effort to strengthen confidence and encourage liquidity in the nation's banking system. All eligible institutions are automatically enrolled in the program for the first 30 days at no cost. Organizations that do not wish to participate in the TLGP must opt out by December 5, 2008. After that time, participating entities will be charged fees. This program has two components. One guarantees newly issued senior unsecured debt of the participating organizations, within a certain limit, issued between October 14, 2008 and June 30, 2009. For such debts maturing beyond June 30, 2009, the guarantee will remain in effect until June 30, 2012. An annualized fee of 75 basis points multiplied by the amount of debt issued from October 14, 2008 (and still outstanding on December 6, 2008), through June 30, 2009 will be charged. The other component provides full FDIC insurance coverage for non-interest bearing transaction deposit accounts, regardless of dollar amount until December 31, 2009. An annualized 10 basis point assessment on balances in noninterest-bearing transaction accounts that exceed the existing deposit insurance limit of $250,000 will be assessed on a quarterly basis to insured depository institutions that have not opted out of the TLGP. The Company has decided to participate in the TLGP.

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 non-interest expenses has not been significant for the periods presented.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

Proper management of the rate sensitivity and maturities of assets and liabilities is required to provide an optimum and stable net interest margin. Interest rate sensitivity spread management is an important tool for achieving this objective and for developing ways in which to improve profitability. Management has assessed its market risk at September 30, 2008, and believes that there have been no material changes since December 31, 2007.

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 sudden shock (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.

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.

Item 4 Controls and Procedures

Under the supervision and with the participation of the Bank's management, including its chief executive officer and chief financial officer, the Bank conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as defined by Rule 13a-15(e) under the Securities Exchange Act of 1934.

Based on the evaluation, the chief executive officer and chief financial officer concluded that as of the end of the period covered by this report the disclosure controls and procedures were adequate and effective, and that the material information required to be included in this report, including information from the Bank's consolidated subsidiary, was properly recorded, processed, summarized and reported, and was made known to the chief executive officer and chief financial officer by others within the Bank in a timely manner, particularly during the period when this quarterly report on Form 10-Q was being prepared.

There was no change in the Bank's internal control over financial reporting that occurred during the most recent fiscal quarter that materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

PART II OTHER INFORMATION

Item 1 Legal Proceedings

There is no pending, or to management's knowledge any threatened, material legal proceedings to which the Bank is a party or to which any of the Bank's properties are subject.

Item 1A Risk Factors

As of September 30, 2008, there were no material changes to the "Risk Factors" disclosed in the Company's Annual Report for the year ended December 31, 2007 on Form 10-K filed on March 31, 2008, except as set forth below:

Our Expenses Will Increase As A Result Of Increases In FDIC Insurance Premiums

The Federal Deposit Insurance Corporation ("FDIC") imposes an assessment against institutions for deposit insurance. This assessment is based on the risk category of the institution and ranges from 5 to 43 basis points of the institution's deposits. Federal law requires that the designated reserve ratio for the deposit insurance fund be established by the FDIC at 1.15% to 1.50% of estimated insured deposits. If this reserve ratio drops below 1.15% or the FDIC expects it to do so within six months, the FDIC must, within 90 days, establish and implement a plan to restore the designated reserve ratio to 1.15% of estimated insured deposits within five years (absent extraordinary circumstances).

Recent bank failures coupled with deteriorating economic conditions have significantly reduced the deposit insurance fund's reserve ratio. As of June 30, 2008, the designated reserve ratio was 1.01% of estimated insured deposits at March 31, 2008. As a result of this reduced ratio, on October 16, 2008, the FDIC published a proposed rule that would restore the reserve ratios to its required level. The proposed rule would raise the current deposit insurance assessment rates uniformly for all institutions by 7 basis points (to a range from 12 to 50 basis points) for the first quarter of 2009. The proposed rule would also alter the way the FDIC calculates federal deposit insurance assessment rates beginning in the second quarter of 2009 and thereafter.

Under the proposed rule, the FDIC would first establish an institution's initial base assessment rate. This initial base assessment rate would range, depending on the risk category of the institution, from 10 to 45 basis points. The FDIC would then adjust the initial base assessment (higher or lower) to obtain the total base assessment rate. The adjustments to the initial base assessment rate would be based upon an institution's levels of unsecured debt, secured liabilities, and brokered deposits. The total base assessment rate would range from 8 to 77.5 basis points of the institution's deposits. There can be no assurance that the proposed rule will be implemented by the FDIC or implemented in its proposed form.

In addition, the Emergency Economic Stabilization Act of 2008 (EESA) temporarily increased the limit on FDIC insurance coverage for deposits to $250,000 through December 31, 2009, and the FDIC took action to provide coverage for newly-issued senior unsecured debt and non-interest bearing transaction accounts in excess of the $250,000 limit, for which institutions will be assessed additional premiums.

These actions will significantly increase the Company's non-interest expense in 2009 and in future years as long as the increased premiums are in place.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3 Defaults Upon Senior Securities

None.

Item 4 Submission of Matters to a Vote of Security Holders

None.

Item 5 Other Information

None.

Item 6 Exhibits

The exhibits filed as part of this report are listed on the Exhibit Index filed as part of this report.

SIGNATURES

Pursuant to the requirements 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
(registrant)

November 12, 2008 — */s/ Thomas M. Duryea*

Date — Thomas M. Duryea, President & Chief Executive Officer

November 12, 2008 — */s/ Dennis E. Kelley*

Date — Dennis E. Kelley, SVP & Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description
31.01	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002
31.02	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002
32.01	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002

Exhibit 31.01

Certification of Principal Executive Officer 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., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit State Bank (the registrant) for the quarter ended September 30, 2008;
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 its consolidated subsidiary, 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 conclusion about the effectiveness of the disclosure controls 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 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 the registrant's board of directors:

(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.

November 12, 2008____________/s/ Thomas M. Duryea

Date

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

Exhibit 31.02

Certification of Principal Financial Officer 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, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit State Bank (the registrant) for the quarter ended September 30, 2008;
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 its consolidated subsidiary, 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 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 the registrant's board of directors:

(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.

November 12, 2008 /s/ *Dennis E. Kelley*

Date Dennis E. Kelley
Senior Vice President
& Chief Financial Officer
Summit State Bank

EXHIBIT 32.01

Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report on Form 10-Q of Summit State Bank (the Registrant) for the quarter ended September 30, 2008, 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-Q 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-Q fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

*November 12, 2008*_____________ */s/ Thomas M. Duryea*
Thomas M. Duryea, Chief Executive Officer

*November 12, 2008*____________ */s/ Dennis E. Kelley*
Dennis E. Kelley, Chief Financial Officer

This certification accompanies each report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Registrant for purposes of §18 of the Securities Exchange Act of 1934, as amended.