

# News Release

For Immediate Release

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## Summit State Bank Reports Second Quarter Earnings

**Santa Rosa, CA** – August 16, 2006 – Summit State Bank (Nasdaq GM: SSBI) today reported net income of \$683,000 or \$.20 per diluted share for the quarter ended June 30, 2006. This compares to net income of \$770,000 or \$.23 per diluted share for the second quarter of 2005. For the six months ended June 30, 2006, net income was \$1,433,000 or \$.42 per diluted share as compared to \$1,388,000 or \$.41 per diluted share one year ago. On May 22, 2006, the Board of Directors declared a 2-for-1 stock split of its outstanding shares of common stock. Earnings and dividends per share information for all periods presented give effect to the split.

Annualized return on average equity was 9.93% and 10.50% for the three and six months ended June 30, 2006, as compared to 11.93% and 10.88% for the same periods one year ago. Annualized return on average tangible equity was 11.67% and 12.35% for the three and six months ended June 30, 2006, as compared to 14.19% and 12.96% for the same periods one year ago. Annualized return on average assets was .94% and .96% for the three and six months ended June 30, 2006, as compared to 1.19% and 1.09% for the same periods one year ago.

The Bank experienced a decline in net income during the three months ended June 30, 2006 when compared to the same period in 2005, primarily due to a decline in noninterest income and increase in operating expenses, which was partially offset by an increase in net interest income. Noninterest income declined primarily due to reduced guaranteed loan sales, reduced service charge income and reduced real estate exchange fees. Operating expenses increased due to increased staffing to support the growth of the Bank.

Net income increased for the six months ended June 30, 2006 when compared to the same period in 2005, as the increase in net interest income was sufficient to offset the decline in noninterest income and increase in operating expenses.

### Net Interest Income

Net interest income increased \$101,000 or 4% to \$2,692,000 during the second quarter of 2006 compared to \$2,591,000 for the same quarter of 2005. The net interest margin declined to 3.94% for the three months ended June 30, 2006, compared to 4.28% for the three months ended June 30, 2005. The decline in the Bank's net interest margin was due to the general rise in interest rates between the two periods which affects the yield on earning assets and the cost of funds by varying amounts. While the net interest margin declined, net interest income increased due to the increase in earning assets. Average interest earning assets increased 13% to \$273,804,000 from \$242,561,000 for the three months ended June 30, 2006 and 2005.

Net interest income increased \$598,000 or 12% to \$5,494,000 during the first six months of 2006 compared to \$4,896,000 for the same period of 2005, resulting in a net interest margin of 3.92% for the six months ended June 30, 2006, a decrease from the net interest margin of 4.14% for the six months ended June 30, 2005. While the net interest margin declined, growth in the volume of earning assets and a modest change in the mix of earning assets was sufficient to overcome the declining margin, as average interest earning assets increased 19% to \$282,862,000 from \$238,249,000 for the six months ended June 30, 2006 and 2005.

### Noninterest Income

For the second quarter 2006, non-interest income totaled \$334,000, as compared to \$469,000 for the second quarter of 2005. While lease income increased \$19,000 to \$167,000, in the quarter over quarter comparison, most of the change is related to service charges on deposit accounts, which decreased \$148,000 to \$78,000 as a result of the discontinuance of a deposit product line and the loss of a large national account.

Other non- interest income sources included Real Estate 1031 Exchange Fees, which decreased \$28,000 to \$7,000 in the comparison with second quarter 2005 and SBA Guaranteed Loan Sales, which decreased \$23,000 to \$5,000 during the same period. Rising short term interest rates have reduced the volume in both product lines.

Total non-interest income for the first six months of 2006 decreased \$216,000 to \$656,000 for the same reasons outlined above. Because the Headquarters Office was fully leased in 2006, Lease Income increased \$75,000 to \$318,000 in the comparison with the first six months of 2005. Most of the decrease is represented by the \$206,000 decrease in service charges to \$162,000, for 2006.

### Noninterest Expenses

For the second quarter 2006, non-interest expenses increased \$85,000 to \$1,725,000, compared to the same period in 2005. While general operating expenses decreased \$116,000 in the second quarter comparison with 2005, human resources expense increased \$136,000 to \$890,000 and premises and equipment related expenses increased \$65,000 to \$339,000. The increase in expense relates to additional staffing, training and positioning for growth in deposits and assets.

While total non-interest expenses increased \$272,000 to \$3,458,000, in comparison with the first six months of 2005, the 9% increase in expenses compares to a 17% increase in average assets for the period. The key components of change, in comparison with 2005, were the \$59,000 decrease in general operating expenses, \$221,000 increase in human resources related expenses, and the \$110,000 increase in premises and equipment related expenses.

### Loan and Deposit Activity

Total loans as of June 30, 2006 were \$250,349,000, an increase of \$29,682,000 or 13%, compared to total loans of \$220,667,000 at June 30, 2005.

Total deposits were \$236,395,000 at June 30, 2006, an increase of \$23,235,000 or 11%, compared to \$213,160,000 at June 30, 2005.

Total assets were \$299,409,000 at June 30, 2006, an increase of \$33,794,000 or 13%, compared to \$265,615,000 at June 30, 2005. Total assets declined \$46,443,000 compared to December 31, 2005 as a result of fluctuations in deposits from the Real Estate 1031 Exchange program.

#### Nonperforming Assets

Loans on nonaccrual were \$958,000 or 0.4% of gross loans at June 30, 2006 and consisted of three loans. There were no loans past due 90 days and still accruing interest.

#### About Summit State Bank

Summit State Bank provides diverse financial products and services which are marketed through Sonoma County, California with offices located in Santa Rosa, Rohnert Park and Windsor. Summit State Bank stock is traded on the Nasdaq Global Market under the symbol SSBI.

#### Forward-looking Statements

Except for historical information contained herein, the statements contained in this news release, are 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. These forward-looking statements are subject to risks and uncertainties. Actual results may differ materially from those set forth in or implied by forward-looking statements. These risks are described from time to time in Summit State Bank's filings with the Federal Deposit Insurance Corporation, including its Registration Statement on Form 10 and quarterly reports on Form 10-Q. Summit State Bank disclaims any intent or obligation to update these forward-looking statements.

**For the Three Months Ended June 30, 2006 and 2005 and the Six Months Ended June 30, 2006 and 2005**  
(Dollars in thousands except for earnings per share and share data)

	Three Months Ended		Six Months Ended	
	June 30, 2006 (Unaudited)	June 30, 2005 (Unaudited)	June 30, 2006 (Unaudited)	June 30, 2005 (Unaudited)
Interest income:				
Interest and fees on loans	\$ 4,554	\$ 3,510	\$ 8,824	\$ 6,642
Interest on Federal funds sold	4	43	244	103
Interest on investment securities and deposits in banks	362	265	723	457
Total interest income	<u>4,920</u>	<u>3,818</u>	<u>9,791</u>	<u>7,202</u>
Interest expense:				
Deposits	1,759	1,008	3,625	1,863
Short-term borrowings	323	111	419	228
Long-term debt	146	108	253	215
Total interest expense	<u>2,228</u>	<u>1,227</u>	<u>4,297</u>	<u>2,306</u>
Net interest income before provision for loan losses	2,692	2,591	5,495	4,896
Provision for loan losses	<u>111</u>	<u>111</u>	<u>222</u>	<u>222</u>
Net interest income after provision for loan losses	<u>2,581</u>	<u>2,480</u>	<u>5,272</u>	<u>4,674</u>
Non-interest income:				
Service charges	78	226	162	368
Office leases	167	148	318	243
Gain on sale of loans	5	29	22	120
Real estate exchange fees	7	36	23	61
Loan servicing	13	18	31	34
Other income	64	12	100	46
Total non-interest income	<u>334</u>	<u>469</u>	<u>656</u>	<u>872</u>
Other expenses:				
Salaries and employee benefits	890	754	1,767	1,546
Occupancy and equipment	339	274	661	551
Other expenses	496	612	1,030	1,089
Total other expenses	<u>1,725</u>	<u>1,640</u>	<u>3,458</u>	<u>3,186</u>
Income before provision for income taxes	1,190	1,309	2,470	2,359
Provision for Income taxes	<u>507</u>	<u>539</u>	<u>1,037</u>	<u>971</u>
Net income	<u>\$ 683</u>	<u>\$ 770</u>	<u>\$ 1,433</u>	<u>\$ 1,388</u>
Basic earnings per share	<u>\$ 0.20</u>	<u>\$ 0.23</u>	<u>\$ 0.43</u>	<u>\$ 0.41</u>
Diluted earnings per share	<u>\$ 0.20</u>	<u>\$ 0.23</u>	<u>\$ 0.42</u>	<u>\$ 0.41</u>
Basic weighted average shares of common stock outstanding	<u>3,361,579</u>	<u>3,361,430</u>	<u>3,361,505</u>	<u>3,361,430</u>
Diluted weighted average shares of common stock outstanding	<u>3,393,798</u>	<u>3,377,530</u>	<u>3,377,530</u>	<u>3,361,430</u>

**LIABILITIES AND  
SHAREHOLDERS' EQUITY**

Deposits:			
Demand	\$ 10,490	\$ 11,291	\$ 12,014
NOW	13,168	14,247	13,761
Savings	42,666	112,399	34,832
Money market	37,855	53,867	59,831
Certificates of deposit, \$100,000 and over	76,305	59,187	49,320
Other certificates of deposit	55,910	50,764	43,402
Total deposits	236,394	301,755	213,160
Short-term borrowings	14,466	5,175	15,804
Long-term debt	20,200	10,200	10,200
Accrued interest payable and other liabilities	679	1,679	313
Total liabilities	271,739	318,809	239,477
Shareholders' equity			
Common stock	17,402	17,395	17,395
Retained earnings	10,743	9,914	8,776
Accumulated other comprehensive loss, net of taxes	(475)	(266)	(33)
Total shareholders' equity	27,670	27,043	26,138
Total liabilities and shareholders' equity	\$ 299,409	\$ 345,852	\$ 265,615

Selected Other Data and Ratios

	Three Months Ended		Six Months Ended	
	<u>June 30,2006</u>	<u>June 30,2005</u>	<u>June 30,2006</u>	<u>June 30,2005</u>
(Ratios are annualized)				
Return on average assets	0.94%	1.19%	0.96%	1.09%
Return on average equity	9.93%	11.93%	10.50%	10.88%
Return on average tangible equity	11.67%	14.19%	12.35%	12.96%
Efficiency ratio	57.01%	53.59%	56.23%	55.25%
Net interest margin	3.94%	4.28%	3.92%	4.14%