

News Release

For Immediate Release

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Summit State Bank Reports 21% Increase in Profitability and Declaration of Dividend

SANTA ROSA, CA – (April 29, 2014) – Summit State Bank (Nasdaq: SSBI) today reported net income for the quarter ended March 31, 2014 of \$1,210,000, a 21% increase over the quarter ended March 31, 2013. A quarterly dividend of \$0.11 per share was declared for common shareholders.

Dividend

The Board of Directors declared an \$0.11 quarterly dividend to be paid on May 23, 2014 to shareholders of record on May 15, 2014.

Net Income and Results of Operations

The Bank had net income of \$1,210,000 and net income available for common stockholders of \$1,176,000, or \$0.24 per diluted share, for the quarter ended March 31, 2014 compared to net income of \$1,002,000 and net income available for common stockholders of \$862,000, or \$0.18 per diluted share, for the quarter ended March 31, 2013.

“Our stronger earnings continue to be driven by the quality of our team and its deep commitment and hard work to support our growing portfolio of quality customer relationships resulting in our best quarter to date,” said Tom Duryea, President & CEO.

Net interest income increased 3.8% at \$4,270,000 for the first quarter of 2014 compared to \$4,115,000 for the same quarter in 2013. The net interest margin was stable at 3.92% for the first quarter of 2014 compared to 3.93% in the first quarter of 2013.

Non-interest income was \$462,000 in the first quarter of 2014 compared to \$363,000 in the first quarter of 2013. The increase was primarily attributed to a gain realized on the sale of a foreclosed property.

Total assets increased 5% to \$460,133,000 at March 31, 2014 compared to \$438,266,000 at March 31, 2013. The asset growth was funded by a \$29,207,000 increase in demand, savings and money market deposits. The mix of deposits changed between the periods in favor of demand, savings and money market deposits now comprising 57% of total deposits at March 31, 2014 compared to 51% at March 31, 2013.

Return on average assets and average common equity for the quarter ended March 31, 2014 was 1.07% and 9.73% compared to 0.93% and 7.06% for the first quarter of 2013.

Gross loans were \$293,054,000 at March 31, 2014 compared to \$280,172,000 at March 31, 2013. Loan growth between the periods was predominantly in commercial real estate lending.

“Loan production picked up in the first quarter with annualized growth of 7%. This is a result of both the strong efforts of our community banking team and the steady and continuing improvement of the Sonoma County economy” said Linda Bertauche, Chief Operating Officer

The Bank’s efficiency ratio, which expresses operating costs as a percentage of revenues, was 57% for the first quarter of 2014 compared to 62% for the same quarter in 2013. Operating expense between the quarters declined 3.6% with \$2,673,000 in operating expense in 2014 compared to \$2,773,000 in 2013. The operating expense decline was due in part to lower occupancy costs and controlled overhead expenses.

The Bank recorded no provision for loan losses for the first quarters of 2014 and 2013. The coverage of allowance for loan losses to gross loans was 1.85% at March 31, 2014 compared to 2.13% at March 31, 2013. Nonperforming assets declined to \$9,445,000 from \$9,956,000 for March 31, 2014 compared to March 31, 2013. This represents a decline in the ratio of nonperforming assets to total assets to 2.05% compared to 2.27%. Nonperforming assets at March 31, 2014 included \$5,394,000 in loans on non-accrual, primarily secured by commercial real estate, and \$4,051,000 of income generating foreclosed property.

The Bank’s regulatory capital remains well above the required capital ratios with a Tier 1 capital leverage ratio of 13.3%, a Tier 1 risk-based capital ratio of 17.2% and a Total risk-based capital ratio of 18.5% at March 31, 2014.

About Summit State Bank

Summit State Bank has total assets of \$460 million and total equity of \$63 million at March 31, 2014. Headquartered in Sonoma County, the Bank provides diverse financial products and services throughout Sonoma, Napa, San Francisco, and Marin Counties. Summit has been recognized as one of the Top 75 Corporate Philanthropists in the Bay Area by the San Francisco Business Times and Top Corporate Philanthropist by the North Bay Business Journal. In addition, Summit State Bank received the 2013 Rising Star Award from the California Independent Bankers, the 2012 Community Bank Award from the American Bankers Association for its nonprofit work, and has been recognized as one of the North Bay’s Best Places to Work by the North Bay Business Journal. Summit has also been consistently recognized as a high performing bank by Findley Reports. Summit State Bank’s stock is traded on the Nasdaq Global Market under the symbol SSBI. Further information can be found at www.summitstatebank.com.

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. This release may contain forward-looking statements that are subject to risks and uncertainties. Such risks and uncertainties may include but are not necessarily limited to fluctuations in interest rates, inflation, government regulations and

general economic conditions, and competition within the business areas in which the Bank will be conducting its operations, including the real estate market in California and other factors beyond the Bank's control. Such risks and uncertainties could cause results for subsequent interim periods or for the entire year to differ materially from those indicated. You should not place undue reliance on the forward-looking statements, which reflect management's view only as of the date hereof. The Bank undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

(In thousands except earnings per share data)

	Three Months Ended	
	March 31, 2014	March 31, 2013
	(Unaudited)	(Unaudited)
Interest income:		
Interest and fees on loans	\$ 3,549	\$ 3,610
Interest on Federal funds sold	1	-
Interest on investment securities and deposits in banks	936	867
Dividends on FHLB stock	43	13
Total interest income	4,529	4,490
Interest expense:		
Deposits	222	351
FHLB advances	37	24
Total interest expense	259	375
Net interest income before provision for loan losses	4,270	4,115
Provision for loan losses	-	-
Net interest income after provision for loan losses	4,270	4,115
Non-interest income:		
Service charges on deposit accounts	134	139
Rental income	132	125
Net securities gains	-	2
Net gain on other real estate owned	73	-
Loan servicing, net	3	4
Other income	120	93
Total non-interest income	462	363
Non-interest expense:		
Salaries and employee benefits	1,368	1,432
Occupancy and equipment	292	408
Other expenses	1,013	933
Total non-interest expense	2,673	2,773
Income before provision for income taxes	2,059	1,705
Provision for income taxes	849	703
Net income	\$ 1,210	\$ 1,002
Less: preferred dividends	34	140
Net income available for common stockholders	\$ 1,176	\$ 862
Basic earnings per common share	\$ 0.25	\$ 0.18
Diluted earnings per common share	\$ 0.24	\$ 0.18
Basic weighted average shares of common stock outstanding	4,778	4,746
Diluted weighted average shares of common stock outstanding	4,821	4,776

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(In thousands except share and per share data)

	<u>March 31, 2014</u> (Unaudited)	<u>December 31, 2013</u>	<u>March 31, 2013</u> (Unaudited)
ASSETS			
Cash and due from banks	\$ 18,193	\$ 16,128	\$ 14,888
Federal funds sold	1,631	-	-
Total cash and cash equivalents	<u>19,824</u>	<u>16,128</u>	<u>14,888</u>
Time deposits with banks	1,985	1,985	2,977
Investment securities:			
Held-to-maturity, at amortized cost	15,558	15,558	17,055
Available-for-sale (at fair market value; amortized cost of \$114,722 \$116,947 and \$104,908)	113,016	113,568	107,706
Total investment securities	<u>128,574</u>	<u>129,126</u>	<u>124,761</u>
Loans, less allowance for loan losses of \$5,432, \$5,412 and \$5,967	287,622	282,667	274,205
Bank premises and equipment, net	5,790	5,505	5,009
Investment in Federal Home Loan Bank stock, at cost	2,578	2,578	2,265
Goodwill	4,119	4,119	4,119
Other Real Estate Owned	4,051	4,771	4,983
Accrued interest receivable and other assets	<u>5,590</u>	<u>7,195</u>	<u>5,059</u>
Total assets	<u>\$ 460,133</u>	<u>\$ 454,074</u>	<u>\$ 438,266</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 70,752	\$ 62,865	\$ 54,911
Demand - interest-bearing	48,693	43,879	39,237
Savings	26,086	25,740	23,272
Money market	57,307	55,971	56,211
Time deposits, \$100,000 and over	116,576	114,435	120,762
Other time deposits	<u>39,000</u>	<u>38,378</u>	<u>47,861</u>
Total deposits	358,414	341,268	342,254
Federal Home Loan Bank advances	37,400	48,500	30,000
Accrued interest payable and other liabilities	<u>1,062</u>	<u>2,676</u>	<u>2,579</u>
Total liabilities	<u>396,876</u>	<u>392,444</u>	<u>374,833</u>
Shareholders' equity			
Preferred stock, no par value; 20,000,000 shares authorized; shares issued and outstanding - 13,750 Series B; per share redemption of \$1,000 for total liquidation preference of \$13,750	13,666	13,666	13,666
Common stock, no par value; shares authorized - 30,000,000 shares; issued and outstanding 4,777,670, 4,777,670 and 4,752,586	36,615	36,608	36,459
Retained earnings	13,966	13,316	11,685
Accumulated other comprehensive income (loss)	<u>(990)</u>	<u>(1,960)</u>	<u>1,623</u>
Total shareholders' equity	<u>63,257</u>	<u>61,630</u>	<u>63,433</u>
Total liabilities and shareholders' equity	<u>\$ 460,133</u>	<u>\$ 454,074</u>	<u>\$ 438,266</u>

Earnings Summary
(In Thousands)

	Three Months Ended	
	March 31, 2014	March 31, 2013
	(Unaudited)	(Unaudited)
Statement of Income Data:		
Net interest income	\$ 4,270	\$ 4,115
Provision for loan losses	-	-
Non-interest income	462	363
Non-interest expense	2,673	2,773
Provision for income taxes	849	703
Net income	\$ 1,210	\$ 1,002
Less: preferred dividends	34	140
Net income available for common stockholders	\$ 1,176	\$ 862
 Selected per Common Share Data:		
Basic earnings per common share	\$ 0.25	\$ 0.18
Diluted earnings per common share	\$ 0.24	\$ 0.18
Dividend per share	\$ 0.11	\$ 0.09
Book value per common share (2)(3)	\$ 10.38	\$ 10.47
 Selected Balance Sheet Data:		
Assets	\$ 460,133	\$ 438,266
Loans, net	287,622	274,205
Deposits	358,414	342,254
Average assets	457,628	437,831
Average earning assets	441,671	424,328
Average shareholders' equity	62,679	63,201
Average common shareholders' equity	49,014	49,535
Nonperforming loans	5,394	4,973
Other real estate owned	4,051	4,983
Total nonperforming assets	9,445	9,956
Troubled debt restructures (accruing)	4,395	5,892
 Selected Ratios:		
Return on average assets (1)	1.07%	0.93%
Return on average common equity (1)	9.73%	7.06%
Efficiency ratio (4)(5)	57.37%	61.95%
Net interest margin (1)	3.92%	3.93%
Tier 1 leverage capital ratio	13.3%	13.3%
Tier 1 risk-based capital ratio	17.2%	17.4%
Total risk-based capital ratio	18.5%	18.7%
Common dividend payout ratio (6)	44.73%	49.54%
Average equity to average assets	13.70%	14.44%
Nonperforming loans to total loans (2)	1.84%	1.78%
Nonperforming assets to total assets (2)	2.05%	2.27%
Allowance for loan losses to total loans (2)	1.85%	2.13%
Allowance for loan losses to nonperforming loans (2)	100.72%	119.99%

(1) Annualized

(2) As of period end

(3) Total shareholders' equity, less preferred stock, divided by total common shares outstanding

(4) Non-interest expenses to net interest and non-interest income

(5) Excludes net gains (losses) on securities and other real estate owned

(6) Common dividends divided by net income available for common stockholders