

News Release

For Immediate Release

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Summit State Bank Reports 24% Increase in Profitability and Declaration of Dividend

SANTA ROSA, CA – (July 29, 2014) – Summit State Bank (Nasdaq: SSBI) today reported net income for the quarter ended June 30, 2014 of \$1,281,000, a 24% increase over the quarter ended June 30, 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 August 25, 2014 to shareholders of record on August 15, 2014.

Net Income and Results of Operations

The Bank had net income of \$1,281,000 and net income available for common stockholders of \$1,247,000, or \$0.26 per diluted share, for the quarter ended June 30, 2014 compared to net income of \$1,031,000 and net income available for common stockholders of \$986,000, or \$0.21 per diluted share, for the quarter ended June 30, 2013. For the six months ended June 30, 2014 and 2013 the net income available for common stockholders and diluted earnings per common share were \$2,422,000 or \$0.50 and \$1,849,000 or \$0.39.

“Our earnings continue to be driven by our team’s strong efforts in attracting like-minded local small businesses, their owners, individuals, and non-profits to our *Summit Way* brand of community banking,” said Tom Duryea, President and CEO.

Return on average assets for the quarter and first six months of 2014 were 1.12% and 1.10% compared to 0.95% and 0.94% for the same periods in 2013. Return on average common equity for the six months ended June 30, 2014 was 9.8% compared to 7.5% in the first six months of 2013.

The net interest margin declined to 3.76% from 3.87% between the second quarters of 2014 and 2013. The six month periods had a decline to 3.84% compared to 3.90% in 2013. However, net interest income increased for the 2014 periods as increased loan and investment volumes more than offset the declines in the net interest margin and the cost of funds continues to decline.

“A key driver in our ability to increase net interest income has been the tremendous growth in lower cost Relationship or Core deposits – DDA, Savings, and Money Market – from approximately \$60,000,000 at the beginning of 2009 to nearly \$200,000,000 at quarter end, reducing our cost of funds from the 68th percentile to approximately the 15th percentile. This

strong improvement has been primarily due to the increase in DDA from \$24,000,000 in 2009 to \$118,000,000 at quarter end, best reflecting the many new quality relationships gained by our strong Summit team,” said Linda Bertauche, Chief Operating Officer.

Non-interest operating expenses were relatively stable between the 2014 and 2013 periods. The efficiency ratio for the second quarters of 2014 and 2013 were 61.0% and 60.0%. For the six month periods the ratios were 59.2% and 61.0% in 2014 compared to 2013.

Total assets increased 7% to \$463,470,000 at June 30, 2014 compared to \$432,067,000 at June 30, 2013. The increase in assets was predominantly loans with a 9% or \$23,043,000 increase and investments with a 9% or \$10,965,000 increase. The asset growth was funded by a \$17,602,000 increase in demand, savings and money market deposits and a \$10,100,000 increase in borrowings from the Federal Home Loan Bank.

The Bank reversed \$400,000 of the allowance for loan losses in the second quarter of 2014 as there is continued improvement in nonperforming assets. The provision for loan losses was a \$400,000 reversal for the six months ended June 30, 2014 compared to a \$50,000 expense in 2013. The coverage of allowance for loan losses to gross loans was 1.69% at June 30, 2014 compared to 2.20% at June 30, 2013. Nonperforming assets declined to \$8,529,000 from \$9,868,000 for June 30, 2014 compared to June 30, 2013. This represents a decline in the ratio of nonperforming assets to total assets to 1.84% compared to 2.28%. Nonperforming assets at June 30, 2014 included \$4,478,000 in loans on non-accrual, primarily secured by commercial real estate, and \$4,051,000 of income generating foreclosed property.

Summit State Bank continues to concentrate on its location in the heart of the California wine country of Sonoma County, which has provided a diverse economic base for its banking activities. Strategic plans have focused on supporting the net interest margin by lowering the Bank’s cost of funds by increasing the funding by core or transactional deposit accounts. The increased earning asset base has offset the decline in net interest margin that is being experienced in the industry. Continued focus on controlling expenses has resulted in period over period favorable comparisons and is aided with the ability to offer bank customers functional mobile and internet banking access.

“Summit has been able to control costs while increasing our assets despite the competition in the banking community and the challenges of a slowly improving local economy. We continue to attract commercial customer relationships based on our responsive and relationship focused culture,” said Mr. Duryea.

About Summit State Bank

Summit State Bank has total assets of \$463 million and total equity of \$65 million at June 30, 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		Six Months Ended	
	June 30, 2014 (Unaudited)	June 30, 2013 (Unaudited)	June 30, 2014 (Unaudited)	June 30, 2013 (Unaudited)
Interest income:				
Interest and fees on loans	\$ 3,454	\$ 3,511	\$ 7,002	\$ 7,121
Interest on Federal funds sold	1	-	1	-
Interest on investment securities and deposits in banks	914	874	1,851	1,742
Dividends on FHLB stock	43	19	87	32
Total interest income	<u>4,412</u>	<u>4,404</u>	<u>8,941</u>	<u>8,895</u>
Interest expense:				
Deposits	218	313	440	664
FHLB advances	44	22	81	46
Total interest expense	<u>262</u>	<u>335</u>	<u>521</u>	<u>710</u>
Net interest income before provision for loan losses	4,150	4,069	8,420	8,185
Provision for loan losses	<u>(400)</u>	<u>50</u>	<u>(400)</u>	<u>50</u>
Net interest income after provision for loan losses	<u>4,550</u>	<u>4,019</u>	<u>8,820</u>	<u>8,135</u>
Non-interest income:				
Service charges on deposit accounts	152	139	286	277
Rental income	130	132	262	257
Net securities gains	13	80	13	81
Net gain (loss) on other real estate owned	-	(48)	73	(48)
Loan servicing, net	3	3	7	7
Other income	95	90	214	183
Total non-interest income	<u>393</u>	<u>396</u>	<u>855</u>	<u>757</u>
Non-interest expense:				
Salaries and employee benefits	1,372	1,259	2,740	2,691
Occupancy and equipment	321	347	613	756
Other expenses	<u>1,072</u>	<u>1,054</u>	<u>2,085</u>	<u>1,985</u>
Total non-interest expense	2,765	2,660	5,438	5,432
Income before provision for income taxes	2,178	1,755	4,237	3,460
Provision for income taxes	<u>897</u>	<u>724</u>	<u>1,746</u>	<u>1,427</u>
Net income	<u>\$ 1,281</u>	<u>\$ 1,031</u>	<u>\$ 2,491</u>	<u>\$ 2,033</u>
Less: preferred dividends	<u>34</u>	<u>45</u>	<u>69</u>	<u>184</u>
Net income available for common stockholders	<u>\$ 1,247</u>	<u>\$ 986</u>	<u>\$ 2,422</u>	<u>\$ 1,849</u>
Basic earnings per common share	\$ 0.26	\$ 0.21	\$ 0.51	\$ 0.39
Diluted earnings per common share	\$ 0.26	\$ 0.21	\$ 0.50	\$ 0.39
Basic weighted average shares of common stock outstanding	4,778	4,748	4,778	4,747
Diluted weighted average shares of common stock outstanding	4,824	4,783	4,822	4,779

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

	June 30, 2014 (Unaudited)	December 31, 2013	June 30, 2013 (Unaudited)
ASSETS			
Cash and due from banks	\$ 18,225	\$ 16,128	\$ 19,714
Federal funds sold	1,893	-	-
Total cash and cash equivalents	<u>20,118</u>	<u>16,128</u>	<u>19,714</u>
Time deposits with banks	1,240	1,985	1,985
Investment securities:			
Held-to-maturity, at amortized cost	15,558	15,558	15,558
Available-for-sale (at fair market value; amortized cost of \$116,082, \$116,947 and \$106,926)	<u>116,094</u>	<u>113,568</u>	<u>105,129</u>
Total investment securities	<u>131,652</u>	<u>129,126</u>	<u>120,687</u>
Loans, less allowance for loan losses of \$4,966, \$5,412 and \$5,982	288,857	282,667	265,814
Bank premises and equipment, net	5,877	5,505	4,987
Investment in Federal Home Loan Bank stock, at cost	2,701	2,578	2,578
Goodwill	4,119	4,119	4,119
Other Real Estate Owned	4,051	4,771	5,654
Accrued interest receivable and other assets	<u>4,855</u>	<u>7,195</u>	<u>6,529</u>
Total assets	<u>\$ 463,470</u>	<u>\$ 454,074</u>	<u>\$ 432,067</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 70,609	\$ 62,865	\$ 59,843
Demand - interest-bearing	47,272	43,879	41,114
Savings	25,232	25,740	23,331
Money market	56,103	55,971	57,326
Time deposits, \$100,000 and over	116,727	114,435	118,443
Other time deposits	<u>43,327</u>	<u>38,378</u>	<u>40,450</u>
Total deposits	<u>359,270</u>	<u>341,268</u>	<u>340,507</u>
Federal Home Loan Bank advances	38,200	48,500	28,100
Accrued interest payable and other liabilities	<u>1,009</u>	<u>2,676</u>	<u>2,221</u>
Total liabilities	<u>398,479</u>	<u>392,444</u>	<u>370,828</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 4,778,370, 4,777,670 and 4,756,670	36,631	36,608	36,466
Retained earnings	14,687	13,316	12,149
Accumulated other comprehensive income (loss)	<u>7</u>	<u>(1,960)</u>	<u>(1,042)</u>
Total shareholders' equity	<u>64,991</u>	<u>61,630</u>	<u>61,239</u>
Total liabilities and shareholders' equity	<u>\$ 463,470</u>	<u>\$ 454,074</u>	<u>\$ 432,067</u>

Earnings Summary
(In Thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Statement of Income Data:				
Net interest income	\$ 4,150	\$ 4,069	\$ 8,420	\$ 8,185
Provision for loan losses	(400)	50	(400)	50
Non-interest income	393	396	855	757
Non-interest expense	2,765	2,660	5,438	5,432
Provision for income taxes	897	724	1,746	1,427
Net income	<u><u>\$ 1,281</u></u>	<u><u>\$ 1,031</u></u>	<u><u>\$ 2,491</u></u>	<u><u>\$ 2,033</u></u>
Less: preferred dividends	34	45	69	184
Net income available for common stockholders	<u><u>\$ 1,247</u></u>	<u><u>\$ 986</u></u>	<u><u>\$ 2,422</u></u>	<u><u>\$ 1,849</u></u>
Selected per Common Share Data:				
Basic earnings per common share	\$ 0.26	\$ 0.21	\$ 0.51	\$ 0.39
Diluted earnings per common share	\$ 0.26	\$ 0.21	\$ 0.50	\$ 0.39
Dividend per share	\$ 0.11	\$ 0.11	\$ 0.22	\$ 0.20
Book value per common share (2)(3)	\$ 10.74	\$ 10.00	\$ 10.74	\$ 10.00
Selected Balance Sheet Data:				
Assets	\$ 463,470	\$ 432,067	\$ 463,470	\$ 432,067
Loans, net	288,857	265,814	288,857	265,814
Deposits	359,270	340,507	359,270	340,507
Average assets	457,740	435,131	457,684	436,473
Average earning assets	443,282	421,486	442,481	422,898
Average shareholders' equity	64,245	63,649	63,467	63,426
Average common shareholders' equity	50,579	49,983	49,801	49,760
Nonperforming loans	4,478	4,214	4,478	4,214
Other real estate owned	4,051	5,654	4,051	5,654
Total nonperforming assets	8,529	9,868	8,529	9,868
Troubled debt restructures (accruing)	4,099	5,816	4,099	5,816
Selected Ratios:				
Return on average assets (1)	1.12%	0.95%	1.10%	0.94%
Return on average common equity (1)	9.89%	7.91%	9.81%	7.49%
Efficiency ratio (4)(5)	61.04%	60.00%	59.18%	60.97%
Net interest margin (1)	3.76%	3.87%	3.84%	3.90%
Tier 1 leverage capital ratio	13.4%	13.5%	13.4%	13.5%
Tier 1 risk-based capital ratio	17.4%	18.0%	17.4%	18.0%
Total risk-based capital ratio	18.7%	19.3%	18.7%	19.3%
Common dividend payout ratio (6)	42.18%	53.04%	43.39%	51.38%
Average equity to average assets	14.04%	14.63%	13.87%	14.53%
Nonperforming loans to total loans (2)	1.52%	1.55%	1.52%	1.55%
Nonperforming assets to total assets (2)	1.84%	2.28%	1.84%	2.28%
Allowance for loan losses to total loans (2)	1.69%	2.20%	1.69%	2.20%
Allowance for loan losses to nonperforming loans (2)	110.90%	141.94%	110.90%	141.94%

(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 on securities and other real estate owned

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