

# News Release

For Immediate Release

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## **Summit State Bank Reports 15% Increase in Profitability and Declaration of Dividend**

SANTA ROSA, CA – (October 31, 2013) – Summit State Bank (Nasdaq: SSBI) today reported net income for the quarter ended September 30, 2013 of \$1,121,000 and earnings per share of \$0.23, an increase of 15% in net income and 21% in earnings per share over the quarter ended September 30, 2012. The regular quarterly dividend of \$0.11 per share was declared for common shareholders.

### Dividend

The Board of Directors today declared an \$0.11 quarterly common stock dividend to be paid on November 25 to shareholders of record on November 15.

### Net Income and Results of Operations

The Bank had net income of \$1,121,000 and net income available for common stockholders of \$1,087,000, or \$0.23 per diluted share, for the quarter ended September 30, 2013 compared to net income of \$977,000 and net income available for common stockholders of \$883,000, or \$0.19 per diluted share, for the quarter ended September 30, 2012.

For the nine months ended September 30, 2013, net income available for common stockholders was \$2,934,000 and diluted earnings per share was \$0.61 compared to \$1,986,000 and diluted earnings per share of \$0.42, for the nine months ended September 30, 2012.

“We experienced a nice uptick in loan and core deposit growth in the third quarter resulting from the addition of a number of high quality new banking relationships through the hard work and focus of our community banking team. Establishing and building customer relationships that include loans and core deposits as part of our *Summit Way* focus remains our top goal, which will continue to drive our long term success and further increase franchise value,” said Tom Duryea, President & CEO.

Net interest income increased 2% to \$4,078,000 in the third quarter and \$12,263,000 for the nine months ended September 30, 2013 compared to prior year periods as more earning assets offset the declines experienced in the net interest margin. Average earning assets increased 5.7% between the quarters and 9.4% for the nine month periods while the net interest margin declined to 3.82% for the third quarter and 3.87% for the first nine months of 2013 compared to 3.96% and 4.15% in the 2012 periods.

Noninterest income was \$450,000 in the third quarter of 2013 compared to \$1,737,000 in the third quarter of 2012. The third quarter of 2012 included income recorded from a property defect settlement in the amount of \$1,363,000.

As credit quality has improved, loan loss allocation requirements have significantly declined positively impacting our net income. There was no provision for loan losses for the third quarter and \$50,000 for the first nine months of 2013 compared to \$1,500,000 and \$3,360,000 for the same periods in 2012.

Total assets increased 7% to \$459,272,000 at September 30, 2013 compared to \$429,722,000 at September 30, 2012. The third quarter had strong loan growth of 7% in total loans to \$290,589,000 at September 30, 2013 compared to \$271,796,000 at June 30, 2013.

“We brought on board some significant new relationships in the third quarter through our *\$50,000,000 Small Business Lending Program* in a very competitive loan environment. Problem loans continue to moderate and are below year ago levels and up slightly from previous quarter,” said Bill Fogarty, Chief Credit Officer.

Demand deposits increased 40% to \$110,006,000 at September 30, 2013 compared to September 30, 2012, now representing over 30% of total deposits. Core Deposits, defined as demand, savings and money market, as a percentage of total deposits grew to 55% at September 30, 2013 compared to 48% at September 30, 2012.

The Bank’s efficiency ratio, which expresses operating costs as a percentage of operating revenues, was 58% for the third quarter of 2013 compared to 62% for the same quarter in 2012. For the nine months ended September 30, 2013 and 2012, efficiency ratio was 60%. Operating expenses increased between the quarters by 2.3% and increased 4% for nine month periods.

The allowance for loan losses to total loans represented 2.06% and 2.23% at September 30, 2013 and 2012. Nonperforming assets at September 30, 2013 included \$6,556,000 in loans on non-accrual and \$5,564,000 in foreclosed real estate of which \$4,771,000 is in two properties that receive rental income. This compares to \$4,214,000 in non-accrual loans and \$5,654,000 in foreclosed real estate at June 30, 2013 and \$8,210,000 in loans on non-accrual and \$4,845,000 in foreclosed real estate at September 30, 2012. The increase in non-accrual loans from the second quarter of 2013 was four loans which are collateralized by real estate.

The Bank’s regulatory capital remains well above the required capital ratios.

#### About Summit State Bank

Summit State Bank has total assets of \$459 million and total equity of \$61 million at September 30, 2013. 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. 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](http://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 for earnings per share data)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u> <u>2013</u> <u>(Unaudited)</u>	<u>September 30,</u> <u>2012</u> <u>(Unaudited)</u>	<u>September 30,</u> <u>2013</u> <u>(Unaudited)</u>	<u>September 30,</u> <u>2012</u> <u>(Unaudited)</u>
Interest income:				
Interest and fees on loans	\$ 3,476	\$ 3,718	\$ 10,597	\$ 11,190
Interest on investment securities and deposits in banks	870	725	2,612	2,410
Dividends on FHLB stock	32	3	64	8
Total interest income	<u>4,378</u>	<u>4,446</u>	<u>13,273</u>	<u>13,608</u>
Interest expense:				
Deposits	270	441	933	1,450
FHLB advances	30	16	77	155
Total interest expense	<u>300</u>	<u>457</u>	<u>1,010</u>	<u>1,605</u>
Net interest income before provision for loan losses	4,078	3,989	12,263	12,003
Provision for loan losses	-	1,500	50	3,360
Net interest income after provision for loan losses	<u>4,078</u>	<u>2,489</u>	<u>12,213</u>	<u>8,643</u>
Non-interest income:				
Service charges on deposit accounts	149	137	426	390
Office leases	130	122	386	376
Net securities gains (losses)	(7)	1	74	750
Net gain (loss) on other real estate owned	17	-	(31)	-
Loan servicing, net	3	6	10	23
Building legal settlement	-	1,363	-	1,363
Other income	158	108	340	317
Total non-interest income	<u>450</u>	<u>1,737</u>	<u>1,205</u>	<u>3,219</u>
Non-interest expense:				
Salaries and employee benefits	1,248	1,342	3,939	3,975
Occupancy and equipment	371	351	1,127	1,088
Other expenses	1,003	871	2,987	2,675
Total non-interest expense	<u>2,622</u>	<u>2,564</u>	<u>8,053</u>	<u>7,738</u>
Income before provision for income taxes	1,906	1,662	5,365	4,124
Provision for income taxes	785	685	2,212	1,700
Net income	<u>\$ 1,121</u>	<u>\$ 977</u>	<u>\$ 3,153</u>	<u>\$ 2,424</u>
Less: preferred dividends	34	94	219	438
Net income available for common stockholders	<u>\$ 1,087</u>	<u>\$ 883</u>	<u>\$ 2,934</u>	<u>\$ 1,986</u>
Basic earnings per common share	\$ 0.23	\$ 0.19	\$ 0.62	\$ 0.42
Diluted earnings per common share	\$ 0.23	\$ 0.19	\$ 0.61	\$ 0.42
Basic weighted average shares of common stock outstanding	4,754	4,745	4,751	4,745
Diluted weighted average shares of common stock outstanding	4,791	4,746	4,781	4,746

**SUMMIT STATE BANK AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS**

(In thousands except share and per share data)

	<u>September 30, 2013</u> (Unaudited)	<u>December 31, 2012</u>	<u>September 30, 2012</u> (Unaudited)
<b>ASSETS</b>			
Cash and due from banks	\$ 20,429	\$ 19,979	\$ 21,916
Total cash and cash equivalents	<u>20,429</u>	<u>19,979</u>	<u>21,916</u>
Time deposits with banks	1,985	2,977	2,977
Investment securities:			
Held-to-maturity, at amortized cost	15,558	-	-
Available-for-sale (at fair market value; amortized cost of \$114,844, \$123,026 and \$98,403)	<u>111,958</u>	<u>125,714</u>	<u>100,750</u>
Total investment securities	<u>127,516</u>	<u>125,714</u>	<u>100,750</u>
Loans, less allowance for loan losses of \$5,991, \$5,749 and \$6,454	284,598	275,877	283,318
Bank premises and equipment, net	5,209	5,160	5,325
Investment in Federal Home Loan Bank stock, at cost	2,578	2,265	2,265
Goodwill	4,119	4,119	4,119
Other Real Estate Owned	5,564	4,845	4,845
Accrued interest receivable and other assets	<u>7,274</u>	<u>3,960</u>	<u>4,207</u>
Total assets	<u>\$ 459,272</u>	<u>\$ 444,896</u>	<u>\$ 429,722</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits:			
Demand - non interest-bearing	\$ 66,937	\$ 58,548	\$ 51,840
Demand - interest-bearing	43,069	29,059	26,808
Savings	26,760	23,257	21,800
Money market	55,675	56,669	59,693
Time deposits, \$100 thousand and over	120,625	128,785	124,300
Other time deposits	<u>38,978</u>	<u>44,686</u>	<u>47,981</u>
Total deposits	352,044	341,004	332,422
Federal Home Loan Bank (FHLB) advances	43,200	40,000	34,000
Accrued interest payable and other liabilities	<u>2,756</u>	<u>1,022</u>	<u>1,151</u>
Total liabilities	<u>398,000</u>	<u>382,026</u>	<u>367,573</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 4,775,270 in 2013 and 4,744,720 in 2012	36,571	36,396	36,387
Retained earnings	12,710	11,250	10,735
Accumulated other comprehensive income (loss), net of taxes	<u>(1,675)</u>	<u>1,558</u>	<u>1,361</u>
Total shareholders' equity	<u>61,272</u>	<u>62,870</u>	<u>62,149</u>
Total liabilities and shareholders' equity	<u>\$ 459,272</u>	<u>\$ 444,896</u>	<u>\$ 429,722</u>

**Earnings Summary**  
(In Thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Statement of Income Data:</b>				
Net interest income	\$ 4,078	\$ 3,989	\$ 12,263	\$ 12,003
Provision for loan losses	-	1,500	50	3,360
Non-interest income	450	1,737	1,205	3,219
Non-interest expense	2,622	2,564	8,053	7,738
Provision for income taxes	785	685	2,212	1,700
Net income	<u>\$ 1,121</u>	<u>\$ 977</u>	<u>\$ 3,153</u>	<u>\$ 2,424</u>
Less: preferred dividends	34	94	219	438
Net income available for common stockholders	<u>\$ 1,087</u>	<u>\$ 883</u>	<u>\$ 2,934</u>	<u>\$ 1,986</u>
<b>Selected per Common Share Data:</b>				
Basic earnings per common share	\$ 0.23	\$ 0.19	\$ 0.62	\$ 0.42
Diluted earnings per common share	\$ 0.23	\$ 0.19	\$ 0.61	\$ 0.42
Dividend per share	\$ 0.11	\$ 0.09	\$ 0.31	\$ 0.27
Book value per common share (2)(3)	\$ 10.01	\$ 10.22	\$ 10.01	\$ 10.22
<b>Selected Balance Sheet Data:</b>				
Assets	\$ 459,272	\$ 429,722	\$ 459,272	\$ 429,722
Loans, net	284,598	283,318	284,598	283,318
Deposits	352,044	332,422	352,044	332,422
Average assets	439,417	415,966	437,466	403,041
Average earning assets	423,564	400,834	423,123	386,638
Average shareholders' equity	61,160	61,879	62,662	61,463
Average common shareholders' equity	47,494	48,213	48,996	47,797
Nonperforming loans	6,556	8,210	6,556	8,210
Other real estate owned	5,564	4,845	5,564	4,845
Total nonperforming assets	12,120	13,055	12,120	13,055
Troubled debt restructures (accruing)	4,742	7,144	4,742	7,144
<b>Selected Ratios:</b>				
Return on average assets (1)	1.01%	0.93%	0.96%	0.80%
Return on average common equity (1)	9.08%	7.29%	8.01%	5.55%
Efficiency ratio (4)(5)(7)	58.03%	62.27%	59.99%	60.19%
Net interest margin (1)	3.82%	3.96%	3.87%	4.15%
Tier 1 leverage capital ratio	13.5%	13.8%	13.5%	13.8%
Tier 1 risk-based capital ratio	17.1%	17.0%	17.1%	17.0%
Total risk-based capital ratio	18.3%	18.2%	18.3%	18.2%
Common dividend payout ratio (6)	48.30%	48.36%	50.27%	64.50%
Average equity to average assets	13.92%	14.88%	14.32%	15.25%
Nonperforming loans to total loans (2)	2.26%	2.83%	2.26%	2.83%
Nonperforming assets to total assets (2)	2.64%	3.04%	2.64%	3.04%
Allowance for loan losses to total loans (2)	2.06%	2.23%	2.06%	2.23%
Allowance for loan losses to nonperforming loans (2)	91.38%	78.62%	91.38%	78.62%

(1) Annualized

(2) As of period end

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

(4) Noninterest expenses to net interest and noninterest income

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

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

(7) Excludes building legal settlement in 2012