

News Release

For Immediate Release

Contact: Thomas Duryea, President and CEO, Summit State Bank (707) 568-4920

Summit State Bank Reports 6% Increase in Profitability and Declaration of Dividend

SANTA ROSA, CA – (October 28, 2014) – Summit State Bank (Nasdaq: SSBI) today reported net income for the quarter ended September 30, 2014 of \$1,183,000, a 6% increase over the quarter ended September 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 November 25, 2014 to shareholders of record on November 17, 2014.

Net Income and Results of Operations

The Bank had net income of \$1,183,000 and net income available for common stockholders of \$1,149,000, or \$0.24 per diluted share, for the quarter ended September 30, 2014 compared to 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. For the nine months ended September 30, 2014 and 2013 the net income available for common stockholders and diluted earnings per common share were \$3,572,000 or \$0.74 and \$2,934,000 or \$0.61.

“Our performance continues to be driven by our strong community banking team and its deep sense of care for our growing customer base of local small businesses, their owners, individuals, and nonprofits who are increasingly attracted to our high *Summit Way* customer service standards,” said Tom Duryea, President and CEO.

Return on average assets for the quarter and first nine months of 2014 were 1.01% and 1.07% compared to 1.01% and 0.96% for the same periods in 2013. Return on average common equity for the nine months ended September 30, 2014 was 9.5% compared to 8.0% in the first nine months of 2013.

The net interest margin remained relatively unchanged at 3.81% compared to 3.82% between the third quarters of 2014 and 2013 and the nine month periods of 3.83% compared to 3.87% in 2013. However, net interest income increased 6% and 4% for the 2014 periods as loan and investment volumes increased 1.4% between September 30, 2014 and 2013.

“Net interest income increase is tied to the continuing growth in our lower cost Relationship or Core deposits – Demand, Savings, and Money Market deposits – from approximately \$60,000,000 at the beginning of 2009 to nearly \$210,000,000 at quarter end, reducing our cost

of funds to approximately the 15th percentile of Peer banks. This strong improvement has been primarily due to the increase in Demand Deposits from \$24,000,000 in 2009 to \$125,000,000 at quarter end, which now represents 34% of our total deposits, reflecting the many new quality relationships that our strong Summit team continues to attract,” said Linda Bertauche, Chief Operating Officer.

Non-interest operating expenses increased in the third quarter of 2014 compared to the same quarter of 2013 by 8.9% primarily attributable to less deferred costs from loan originations. The efficiency ratios for the third quarters of 2014 and 2013 were 59.4% and 58.0%. For the nine month periods the ratios were 59.2% and 60.0% in 2014 compared to 2013.

Total assets were \$463,376,000 at September 30, 2014 compared to \$459,272,000 at September 30, 2013. The increase in assets was predominantly investments with a 4.4% or \$5,643,000 increase. The asset growth was funded by a \$14,780,000 or 13.4% increase in demand deposits between the quarters.

The coverage of allowance for loan losses to gross loans was 1.71% at September 30, 2014 compared to 2.06% at September 30, 2013. Nonperforming assets declined to \$7,385,000 from \$12,120,000 for September 30, 2014 compared to September 30, 2013. This represents a decline in the ratio of nonperforming assets to total assets to 1.59% compared to 2.64%. Nonperforming assets at September 30, 2014 included \$3,334,000 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 Sonoma Wine Country, 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 through increased funding of core or relationship based 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 gaining greater operating efficiencies has resulted in period over period favorable comparisons and is aided with the ability to offer bank customers industry leading 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 customer centric culture,” said Dennis Kelley, Chief Financial Officer.

About Summit State Bank

Summit State Bank has total assets of \$463 million and total equity of \$66 million at September 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)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30, 2014</u>	<u>September 30, 2013</u>	<u>September 30, 2014</u>	<u>September 30, 2013</u>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest income:				
Interest and fees on loans	\$ 3,612	\$ 3,476	\$ 10,614	\$ 10,597
Interest on Federal funds sold	1	-	2	-
Interest on investment securities and deposits in banks	926	870	2,778	2,612
Dividends on FHLB stock	49	32	135	64
Total interest income	<u>4,588</u>	<u>4,378</u>	<u>13,529</u>	<u>13,273</u>
Interest expense:				
Deposits	215	270	655	933
FHLB advances	43	30	124	77
Total interest expense	<u>258</u>	<u>300</u>	<u>779</u>	<u>1,010</u>
Net interest income before provision for loan losses	<u>4,330</u>	<u>4,078</u>	<u>12,750</u>	<u>12,263</u>
Provision for loan losses	-	-	(400)	50
Net interest income after provision for loan losses	<u>4,330</u>	<u>4,078</u>	<u>13,150</u>	<u>12,213</u>
Non-interest income:				
Service charges on deposit accounts	159	149	445	426
Rental income	130	130	392	386
Net securities gains	60	(7)	73	74
Net gain (loss) on other real estate owned	-	17	73	(31)
Loan servicing, net	3	3	9	10
Other income	188	158	403	340
Total non-interest income	<u>540</u>	<u>450</u>	<u>1,395</u>	<u>1,205</u>
Non-interest expense:				
Salaries and employee benefits	1,412	1,248	4,152	3,939
Occupancy and equipment	383	371	996	1,127
Other expenses	1,060	1,003	3,144	2,987
Total non-interest expense	<u>2,855</u>	<u>2,622</u>	<u>8,292</u>	<u>8,053</u>
Income before provision for income taxes	<u>2,015</u>	<u>1,906</u>	<u>6,253</u>	<u>5,365</u>
Provision for income taxes	832	785	2,578	2,212
Net income	<u>\$ 1,183</u>	<u>\$ 1,121</u>	<u>\$ 3,675</u>	<u>\$ 3,153</u>
Less: preferred dividends	34	34	103	219
Net income available for common stockholders	<u>\$ 1,149</u>	<u>\$ 1,087</u>	<u>\$ 3,572</u>	<u>\$ 2,934</u>
Basic earnings per common share	\$ 0.24	\$ 0.23	\$ 0.75	\$ 0.62
Diluted earnings per common share	\$ 0.24	\$ 0.23	\$ 0.74	\$ 0.61
Basic weighted average shares of common stock outstanding	4,778	4,754	4,778	4,751
Diluted weighted average shares of common stock outstanding	4,834	4,791	4,827	4,781

SUMMIT STATE BANK AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(In thousands except share and per share data)

	<u>September 30, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>
	(Unaudited)		(Unaudited)
ASSETS			
Cash and due from banks	\$ 20,004	\$ 16,128	\$ 20,429
Federal funds sold	1,900	-	-
Total cash and cash equivalents	<u>21,904</u>	<u>16,128</u>	<u>20,429</u>
Time deposits with banks	1,240	1,985	1,985
Investment securities:			
Held-to-maturity, at amortized cost	13,951	15,558	15,558
Available-for-sale (at fair market value; amortized cost of \$118,969, \$116,947 and \$114,844)	119,208	113,568	111,958
Total investment securities	<u>133,159</u>	<u>129,126</u>	<u>127,516</u>
Loans, less allowance for loan losses of \$4,973, \$5,412 and \$5,991	285,809	282,667	284,598
Bank premises and equipment, net	5,880	5,505	5,209
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	5,564
Accrued interest receivable and other assets	4,513	7,195	7,274
Total assets	<u>\$ 463,376</u>	<u>\$ 454,074</u>	<u>\$ 459,272</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 73,224	\$ 62,865	\$ 66,937
Demand - interest-bearing	51,562	43,879	43,069
Savings	25,313	25,740	26,760
Money market	58,877	55,971	55,675
Time deposits, \$100,000 and over	112,879	114,435	120,625
Other time deposits	43,041	38,378	38,978
Total deposits	<u>364,896</u>	<u>341,268</u>	<u>352,044</u>
Federal Home Loan Bank advances	31,000	48,500	43,200
Accrued interest payable and other liabilities	1,724	2,676	2,756
Total liabilities	<u>397,620</u>	<u>392,444</u>	<u>398,000</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 4,775,270	36,640	36,608	36,571
Retained earnings	15,311	13,316	12,710
Accumulated other comprehensive income (loss)	139	(1,960)	(1,675)
Total shareholders' equity	<u>65,756</u>	<u>61,630</u>	<u>61,272</u>
Total liabilities and shareholders' equity	<u>\$ 463,376</u>	<u>\$ 454,074</u>	<u>\$ 459,272</u>

Earnings Summary
(In Thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Statement of Income Data:				
Net interest income	\$ 4,330	\$ 4,078	\$ 12,750	\$ 12,263
Provision for loan losses	-	-	(400)	50
Non-interest income	540	450	1,395	1,205
Non-interest expense	2,855	2,622	8,292	8,053
Provision for income taxes	832	785	2,578	2,212
Net income	<u>\$ 1,183</u>	<u>\$ 1,121</u>	<u>\$ 3,675</u>	<u>\$ 3,153</u>
Less: preferred dividends	34	34	103	219
Net income available for common stockholders	<u>\$ 1,149</u>	<u>\$ 1,087</u>	<u>\$ 3,572</u>	<u>\$ 2,934</u>
Selected per Common Share Data:				
Basic earnings per common share	\$ 0.24	\$ 0.23	\$ 0.75	\$ 0.62
Diluted earnings per common share	\$ 0.24	\$ 0.23	\$ 0.74	\$ 0.61
Dividend per share	\$ 0.11	\$ 0.11	\$ 0.33	\$ 0.31
Book value per common share (2)(3)	\$ 10.90	\$ 9.97	\$ 10.90	\$ 9.97
Selected Balance Sheet Data:				
Assets	\$ 463,376	\$ 459,272	\$ 463,376	\$ 459,272
Loans, net	285,809	284,598	285,809	284,598
Deposits	364,896	352,044	364,896	352,044
Average assets	466,107	439,417	460,523	437,466
Average earning assets	451,062	423,564	445,373	423,123
Average shareholders' equity	65,711	61,160	64,223	62,662
Average common shareholders' equity	52,044	47,494	50,557	48,996
Nonperforming loans	3,334	6,556	3,334	6,556
Other real estate owned	4,051	5,564	4,051	5,564
Total nonperforming assets	7,385	12,120	7,385	12,120
Troubled debt restructures (accruing)	4,960	4,742	4,960	4,742
Selected Ratios:				
Return on average assets (1)	1.01%	1.01%	1.07%	0.96%
Return on average common equity (1)	8.76%	9.08%	9.45%	8.01%
Efficiency ratio (4)(5)	59.36%	58.03%	59.23%	59.99%
Net interest margin (1)	3.81%	3.82%	3.83%	3.87%
Tier 1 leverage capital ratio	13.3%	13.5%	13.3%	13.5%
Tier 1 risk-based capital ratio	17.7%	17.1%	17.7%	17.1%
Total risk-based capital ratio	19.0%	18.3%	19.0%	18.3%
Common dividend payout ratio (6)	45.78%	48.30%	44.15%	50.27%
Average equity to average assets	14.10%	13.92%	13.95%	14.32%
Nonperforming loans to total loans (2)	1.15%	2.26%	1.15%	2.26%
Nonperforming assets to total assets (2)	1.59%	2.64%	1.59%	2.64%
Allowance for loan losses to total loans (2)	1.71%	2.06%	1.71%	2.06%
Allowance for loan losses to nonperforming loans (2)	149.17%	91.38%	149.17%	91.38%

(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