

# News Release

For Immediate Release

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## **Summit State Bank Reports a 55% increase in Earnings for 2012 and Declaration of Dividend**

SANTA ROSA, CA – (January 28, 2013) – Summit State Bank (Nasdaq: SSBI) today reported net income for the year ended December 31, 2012 of \$3,448,000, a 55% increase over 2011. Earnings per share increased to \$0.62 in 2012 from \$0.33 in 2011.

The quarterly dividend of \$0.09 per share was declared payable on February 23 with a record date of February 15, 2013.

### **Net Income and Results of Operations**

The bank had for the year ended December 31, 2012, net income of \$3,448,000, net income available for common stockholders, which deducts the preferred dividends, of \$2,927,000, and \$0.62 per diluted share, compared to net income of \$2,228,000, net income available for common stockholders of \$1,577,000, and \$0.33 per diluted share, for the year ended December 31, 2011

For the quarter ended December 31, 2012, Summit had net income of \$1,024,000, net income available for common stockholders of \$941,000, and diluted earnings per share of \$0.20 compared to \$552,000 in net income, \$379,000 net income available for common shareholders, or \$0.08 per diluted share, for the same period in 2011.

“Our continuing profitability growth, with 2012 being the best year yet in our 38 year history of serving Sonoma County, is the result of our ongoing success in earning more and more full relationships through the high level of service and care our Summit team is providing our customers, and increasing referrals from our satisfied customers. This has in turn produced strong growth in core deposits, largely demand deposits, providing us the proper funding to meet the lending needs of our community through our *\$50,000,000 Small Business Lending* program,” said Thomas Duryea, President and CEO.

Net interest income was \$16,249,000 for 2012, a 3.2% increase of \$499,000 compared to 2011. The fourth quarter 2012 net interest income was \$4,247,000, a 17% increase of \$628,000 compared to the fourth quarter of 2011. The increase in net interest income was primarily attributable to higher levels of core relationship deposits and increase in earning assets.

Core deposits, defined as demand, savings and money market deposits, increased \$43,000,000 or 35% to \$167,533,000 at December 31, 2012 from \$124,421,000 at

December 31, 2011 with demand deposits increasing by \$30,842,000 or 54% from \$56,765,000 to \$87,607,000.

Total assets increased to \$444,896,000 at December 31, 2012 compared to \$387,625,000 at December 31, 2011.

Nonperforming assets at December 31, 2012 declined to \$9,684,000 compared to nonperforming assets of \$13,055,000 at September 30, 2012 and \$13,366,000 at December 31, 2011. Nonperforming assets include a \$4,100,000 foreclosed commercial property that is producing income for the bank. Non-performing loans to total loans decreased to 1.72% from 2.83% at September 30, 2012 and 4.46% at December 31, 2011.

The provision for loan losses expense declined by \$290,000 to \$3,360,000 in 2012 compared to \$3,650,000 in 2011. As a result of the decline in nonperforming loans, Summit did not make a provision for loan losses in the fourth quarter of 2012 compared to a \$650,000 provision in the fourth quarter of 2011.

“As we have made meaningful progress in problem loan resolution in 2012 with non-performing loans as percentage of total loans ranking favorably to our peers, we have accordingly been able to reduce our loan loss provisions producing more available income for our shareholders,” said Bill Fogarty, SVP and Chief Credit Officer.

The allowance for loan losses was \$5,749,000 at December 31, 2012 compared to \$5,411,000 at December 31, 2011. The ratio of the allowance for loan losses to total loans was 2.04% at December 31, 2012 compared to 1.96% at December 31, 2011. Changes in the allowance for loan losses between December 31, 2012 and 2011 included provision for loan losses expense of \$3,360,000 and net loan charge-offs of \$3,022,000.

The Bank's efficiency ratio, which expresses operating costs as a percentage of revenues, held steady at 60% for the year 2012 and 2011. The efficiency ratio excludes net gains or losses on securities and in 2012 the proceeds from a legal settlement of which \$1,515,000 was recorded in the income statement in the third quarter. The efficiency ratio includes expenses related to problem loan resolutions.

The Bank's net interest margin was 4.12% for the year ended December 31, 2012, compared to 4.34% in 2011. For the fourth quarter of 2012, the Bank's net interest margin was 4.06% compared to 3.82% for the fourth quarter of 2011. The declines in net interest margin in 2012 were primarily due to an increase in investment securities to augment the Bank's growth and the lower interest rate environment.

The Bank's regulatory capital remains well above the required capital ratios with a Tier 1 capital leverage ratio of 13.4%, a Tier 1 risk-based capital ratio of 17.1% and a Total risk-based capital ratio of 18.4% at December 31, 2012.

## About Summit State Bank

Summit State Bank has total assets of \$445 million and total equity of \$63 million at December 31, 2012. Headquartered in Sonoma County, the Bank provides diverse financial products and services throughout Sonoma, Napa, San Francisco, and Marin Counties. Summit State Bank is a Top Performing Bank, earning the highest Findley Reports designation of all Sonoma County-based banks. Summit State Bank received the 2012 Community Bank Award from the American Bankers Association. In addition, Summit has been recognized with the Gold Medal award for Best Business Bank from the Northbay Biz Magazine and as one of the North Bay's Best Places to Work by the North Bay Business Journal. 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)

|   | Three Months Ended               |                                  | Twelve Months Ended              |                                  |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
|   | December 31, 2012<br>(Unaudited) | December 31, 2011<br>(Unaudited) | December 31, 2012<br>(Unaudited) | December 31, 2011<br>(Unaudited) |
| Interest income:  |                                  |                                  |                                  |                                  |
| Interest and fees on loans                                  | \$ 3,832                         | \$ 3,509                         | \$ 15,022                        | \$ 16,055                        |
| Interest on Federal funds sold                              | -                                | -                                | -                                | 5                                |
| Interest on investment securities and deposits in banks     | 824                              | 785                              | 3,234                            | 2,611                            |
| Dividends on FHLB stock                                     | 14                               | 2                                | 22                               | 7                                |
| Total interest income                                       | <u>4,670</u>                     | <u>4,296</u>                     | <u>18,278</u>                    | <u>18,678</u>                    |
| Interest expense:   |                                  |                                  |                                  |                                  |
| Deposits  | 396                              | 594                              | 1,847                            | 2,589                            |
| FHLB advances   | 27                               | 83                               | 182                              | 339                              |
| Total interest expense                                      | <u>423</u>                       | <u>677</u>                       | <u>2,029</u>                     | <u>2,928</u>                     |
| Net interest income before provision for loan losses        | 4,247                            | 3,619                            | 16,249                           | 15,750                           |
| Provision for loan losses                                   | -                                | 650                              | 3,360                            | 3,650                            |
| Net interest income after provision for loan losses         | <u>4,247</u>                     | <u>2,969</u>                     | <u>12,889</u>                    | <u>12,100</u>                    |
| Non-interest income:  |                                  |                                  |                                  |                                  |
| Service charges on deposit accounts                         | 129                              | 126                              | 519                              | 514                              |
| Office leases   | 122                              | 139                              | 499                              | 534                              |
| Net securities gains (losses)                               | (23)                             | 99                               | 728                              | 754                              |
| Net gains (losses) on sale of other real estate owned       | (69)                             | 75                               | (89)                             | 75                               |
| Loan servicing, net   | 5                                | 6                                | 29                               | 26                               |
| Other income  | 112                              | 5                                | 1,812                            | 23                               |
| Total non-interest income                                   | <u>276</u>                       | <u>450</u>                       | <u>3,498</u>                     | <u>1,926</u>                     |
| Non-interest expense:                                       |                                  |                                  |                                  |                                  |
| Salaries and employee benefits                              | 1,329                            | 1,288                            | 5,303                            | 5,135                            |
| Occupancy and equipment                                     | 420                              | 387                              | 1,509                            | 1,601                            |
| Other expenses  | 1,032                            | 801                              | 3,709                            | 3,498                            |
| Total non-interest expense                                  | <u>2,781</u>                     | <u>2,476</u>                     | <u>10,521</u>                    | <u>10,234</u>                    |
| Income before provision for income taxes                    | 1,742                            | 943                              | 5,866                            | 3,792                            |
| Provision for income taxes                                  | 718                              | 391                              | 2,418                            | 1,564                            |
| Net income  | <u>\$ 1,024</u>                  | <u>\$ 552</u>                    | <u>\$ 3,448</u>                  | <u>\$ 2,228</u>                  |
| Less: preferred dividends                                   | 83                               | 173                              | 521                              | 651                              |
| Net income available for common stockholders                | <u>\$ 941</u>                    | <u>\$ 379</u>                    | <u>\$ 2,927</u>                  | <u>\$ 1,577</u>                  |
| Basic earnings per common share                             | \$ 0.20                          | \$ 0.08                          | \$ 0.62                          | \$ 0.33                          |
| Diluted earnings per common share                           | \$ 0.20                          | \$ 0.08                          | \$ 0.62                          | \$ 0.33                          |
| Basic weighted average shares of common stock outstanding   | 4,745                            | 4,745                            | 4,745                            | 4,745                            |
| Diluted weighted average shares of common stock outstanding | 4,749                            | 4,745                            | 4,746                            | 4,745                            |

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

|   | <b>December 31,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|---|------------------------------|------------------------------|
|   | <b>(Unaudited)</b>           |                              |
| <b>ASSETS</b>   |                              |                              |
| Cash and due from banks   | \$ 19,979                    | \$ 8,290                     |
| Federal funds sold  | -                            | -                            |
| Total cash and cash equivalents   | 19,979                       | 8,290                        |
| Time deposits with banks  | 2,977                        | -                            |
| Available-for-sale investment securities - amortized cost of \$123,026<br>in 2012 and \$87,001 in 2011  | 125,714                      | 88,660                       |
| Loans, less allowance for loan losses of \$5,749<br>in 2012 and \$5,411 in 2011   | 275,877                      | 269,963                      |
| Bank premises and equipment, net  | 5,160                        | 6,731                        |
| Investment in Federal Home Loan Bank stock, at cost   | 2,265                        | 2,190                        |
| Goodwill  | 4,119                        | 4,119                        |
| Other Real Estate Owned   | 4,845                        | 1,074                        |
| Accrued interest receivable and other assets  | 3,960                        | 6,598                        |
| Total assets  | \$ 444,896                   | \$ 387,625                   |
| <b>LIABILITIES AND<br/>SHAREHOLDERS' EQUITY</b>   |                              |                              |
| Deposits:   |                              |                              |
| Demand - non interest-bearing   | \$ 58,548                    | \$ 31,022                    |
| Demand - interest-bearing   | 29,059                       | 25,743                       |
| Savings   | 23,257                       | 20,201                       |
| Money market  | 56,669                       | 47,455                       |
| Time deposits, \$100 thousand and over  | 128,785                      | 140,680                      |
| Other time deposits   | 44,686                       | 46,957                       |
| Total deposits  | 341,004                      | 312,058                      |
| Federal Home Loan Bank (FHLB) advances  | 40,000                       | 13,750                       |
| Accrued interest payable and other liabilities  | 1,022                        | 808                          |
| Total liabilities   | 382,026                      | 326,616                      |
| Shareholders' equity  |                              |                              |
| Preferred stock, no par value; 20,000,000 shares authorized;<br>shares issued and outstanding - 13,750 series B in 2012 and 2011;<br>per share redemption of \$1,000 for total liquidation preference of \$13,750 | 13,666                       | 13,666                       |
| Common stock, no par value; shares authorized - 30,000,000 shares; issued<br>and outstanding 4,744,720 at December 31, 2012 and December 31, 2011   | 36,396                       | 36,352                       |
| Common stock warrant  | -                            | -                            |
| Retained earnings   | 11,250                       | 10,030                       |
| Accumulated other comprehensive income, net of taxes  | 1,558                        | 961                          |
| Total shareholders' equity  | 62,870                       | 61,009                       |
| Total liabilities and shareholders' equity  | \$ 444,896                   | \$ 387,625                   |

**Earnings Summary  
(In Thousands)**

|  | Three Months Ended |                   | Twelve Months Ended |                   |
|--|--------------------|-------------------|---------------------|-------------------|
|  | December 31, 2012  | December 31, 2011 | December 31, 2012   | December 31, 2011 |
|  | (Unaudited)        | (Unaudited)       | (Unaudited)         | (Unaudited)       |
| <b>Statement of Income Data:</b>                     |                    |                   |                     |                   |
| Net interest income                                  | \$ 4,247           | \$ 3,619          | \$ 16,249           | \$ 15,750         |
| Provision for loan losses                            | -                  | 650               | 3,360               | 3,650             |
| Non-interest income                                  | 276                | 450               | 3,498               | 1,926             |
| Non-interest expense                                 | 2,781              | 2,476             | 10,521              | 10,234            |
| Provision for income taxes                           | 718                | 391               | 2,418               | 1,564             |
| Net income   | <u>\$ 1,024</u>    | <u>\$ 552</u>     | <u>\$ 3,448</u>     | <u>\$ 2,228</u>   |
| Less: preferred dividends                            | 83                 | 173               | 521                 | 651               |
| Net income available for common stockholders         | <u>\$ 941</u>      | <u>\$ 379</u>     | <u>\$ 2,927</u>     | <u>\$ 1,577</u>   |
| <b>Selected per Common Share Data:</b>               |                    |                   |                     |                   |
| Basic earnings per common share                      | \$ 0.20            | \$ 0.08           | \$ 0.62             | \$ 0.33           |
| Diluted earnings per common share                    | \$ 0.20            | \$ 0.08           | \$ 0.62             | \$ 0.33           |
| Dividend per share                                   | \$ 0.09            | \$ 0.09           | \$ 0.36             | \$ 0.36           |
| Book value per common share (2)(3)                   | \$ 10.37           | \$ 9.98           | \$ 10.37            | \$ 9.98           |
| <b>Selected Balance Sheet Data:</b>                  |                    |                   |                     |                   |
| Assets   | \$ 444,896         | \$ 387,625        | \$ 444,896          | \$ 387,625        |
| Loans, net   | 275,877            | 269,963           | 275,877             | 269,963           |
| Deposits   | 341,004            | 312,058           | 341,004             | 312,058           |
| Average assets                                       | 431,882            | 390,639           | 410,291             | 377,126           |
| Average earning assets                               | 415,690            | 375,861           | 393,941             | 363,042           |
| Average shareholders' equity                         | 62,851             | 61,224            | 61,812              | 58,109            |
| Average common shareholders' equity                  | 49,185             | 47,558            | 48,146              | 47,287            |
| Nonperforming loans                                  | 4,839              | 12,292            | 4,839               | 12,292            |
| Other real estate owned                              | 4,845              | 1,074             | 4,845               | 1,074             |
| Total nonperforming assets                           | 9,684              | 13,366            | 9,684               | 13,366            |
| Troubled debt restructures (accruing)                | 6,393              | 5,995             | 6,393               | 5,995             |
| <b>Selected Ratios:</b>                              |                    |                   |                     |                   |
| Return on average assets (1)                         | 0.94%              | 0.56%             | 0.84%               | 0.59%             |
| Return on average common equity (1)                  | 7.61%              | 3.16%             | 6.08%               | 3.33%             |
| Efficiency ratio (4)                                 | 61.17%             | 62.37%            | 60.45%              | 60.48%            |
| Net interest margin (1)                              | 4.06%              | 3.82%             | 4.12%               | 4.34%             |
| Tier 1 leverage capital ratio                        | 13.4%              | 14.5%             | 13.4%               | 14.5%             |
| Tier 1 risk-based capital ratio                      | 17.1%              | 18.6%             | 17.1%               | 18.6%             |
| Total risk-based capital ratio                       | 18.4%              | 19.8%             | 18.4%               | 19.8%             |
| Common dividend payout ratio (5)                     | 45.38%             | 112.7%            | 58.35%              | 108.31%           |
| Average equity to average assets                     | 14.55%             | 15.67%            | 15.07%              | 15.41%            |
| Nonperforming loans to total loans (2)               | 1.72%              | 4.46%             | 1.72%               | 4.46%             |
| Nonperforming assets to total assets (2)             | 2.18%              | 3.45%             | 2.18%               | 3.45%             |
| Allowance for loan losses to total loans (2)         | 2.04%              | 1.96%             | 2.04%               | 1.96%             |
| Allowance for loan losses to nonperforming loans (2) | 118.80%            | 44.02%            | 118.80%             | 44.02%            |

(1) Annualized

(2) As of period end

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

(4) Excludes securities gains and for the twelve months of 2012, the building legal settlement

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