

# News Release

For Immediate Release

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

## **Summit State Bank Reports a 25% increase in Earnings for 2013 and Declaration of Dividend**

SANTA ROSA, CA – (January 27, 2014) – Summit State Bank (Nasdaq: SSBI) today reported net income for the year ended December 31, 2013 of \$4,321,000, a 25% increase over 2012. Earnings per share increased to \$0.85 in 2013 from \$0.62 in 2012.

The quarterly dividend of \$0.11 per share was declared payable on February 24 with a record date of February 18, 2014.

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

The bank had for the year ended December 31, 2013, net income of \$4,321,000, net income available for common stockholders, which deducts the preferred dividends, of \$4,068,000, and \$0.85 diluted earnings per share, compared to net income of \$3,448,000, net income available for common stockholders of \$2,927,000, and \$0.62 diluted earnings per share, for the year ended December 31, 2012.

For the quarter ended December 31, 2013, Summit had net income of \$1,166,000, net income available for common stockholders of \$1,132,000, and diluted earnings per share of \$0.24 compared to \$1,024,000 in net income, \$941,000 net income available for common shareholders, or \$0.20 diluted earnings per share, for the same period in 2012.

“We are pleased 2013 was our most successful year to date as our community banking team continued to grow earnings to a new high and further expand existing high quality customer relationships,” said Tom Duryea, President and Chief Executive Officer.

Net interest income was \$16,566,000 for 2013, a 2.0% increase of \$317,000 compared to 2012. The fourth quarter 2013 net interest income was \$4,303,000, compared to \$4,247,000 for the fourth quarter of 2012. The increase in net interest income was primarily attributable to higher levels of core relationship deposits and increase in earning assets. The net interest margin was 3.88% for 2013 compared to 4.12% for 2012.

Return on average assets improved in 2013 to 0.98% from 0.84% in 2012 and return on average common equity was 8.33% for 2013 compared to 6.08% in 2012.

The efficiency ratio continued at 60% for 2013 and 2012.

One of the Bank’s key strategies has been to improve our funding mix by increasing relationship transactional deposit accounts in order to improve and provide stable

funding costs. Core deposits, defined as demand, savings and money market deposits, increased \$21,000,000 or 12% to \$188,455,000 at December 31, 2013 with the increase concentrated in demand deposits which increased by \$19,000,000 or 22% to \$106,744,000 at December 31, 2013.

Total assets increased to \$454,074,000 at December 31, 2013 compared to \$444,896,000 at December 31, 2012.

Nonperforming assets at December 31, 2013 was \$10,385,000 compared to nonperforming assets of \$12,120,000 at September 30, 2013 and \$9,685,000 at December 31, 2012. Nonperforming assets include \$4,771,000 in foreclosed commercial properties that are producing income for the bank. Nonperforming loans to total loans was 1.95% at December 31, 2013 compared to 2.26% at September 30, 2013 and 1.72% at December 31, 2012.

The provision for loan losses expense was \$50,000 for 2013 compared to \$3,360,000 in 2012. The allowance for loan losses to total loans declined to 1.88% at the end of 2013 compared to 2.04% at the end of 2012.

“We have been able to sharply scale back our loan loss provision expense as we prudently built the allowance for loan losses during the economic downturn and were able to resolve many problem loans without the use of the allocated reserves,” said Bill Fogarty, SVP and Chief Credit Officer.

The Bank’s regulatory capital remains well above the required capital ratios with a Tier 1 capital leverage ratio of 13.2%, a Tier 1 risk-based capital ratio of 17.4% and a Total risk-based capital ratio of 18.6% at December 31, 2013.

#### About Summit State Bank

Summit State Bank has total assets of \$454 million and total equity of \$62 million at December 31, 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>Twelve Months Ended</u>	
	<u>December 31, 2013</u> <u>(Unaudited)</u>	<u>December 31, 2012</u> <u>(Unaudited)</u>	<u>December 31, 2013</u> <u>(Unaudited)</u>	<u>December 31, 2012</u> <u>(Unaudited)</u>
Interest income:				
Interest and fees on loans	\$ 3,603	\$ 3,832	\$ 14,201	\$ 15,022
Interest on Federal funds sold	-	-	-	-
Interest on investment securities and deposits in banks	928	824	3,539	3,234
Dividends on FHLB stock	37	14	101	22
Total interest income	<u>4,568</u>	<u>4,670</u>	<u>17,841</u>	<u>18,278</u>
Interest expense:				
Deposits	227	396	1,160	1,847
FHLB advances	38	27	115	182
Total interest expense	<u>265</u>	<u>423</u>	<u>1,275</u>	<u>2,029</u>
Net interest income before provision for loan losses	4,303	4,247	16,566	16,249
Provision for loan losses	-	-	50	3,360
Net interest income after provision for loan losses	<u>4,303</u>	<u>4,247</u>	<u>16,516</u>	<u>12,889</u>
Non-interest income:				
Service charges on deposit accounts	140	129	566	519
Rental income	130	122	516	499
Net securities gains (losses)	6	(23)	80	728
Net gain (loss) on other real estate owned	65	(69)	34	(89)
Loan servicing, net	4	5	14	29
Building legal settlement	-	-	-	1,363
Other income	117	112	458	449
Total non-interest income	<u>462</u>	<u>276</u>	<u>1,668</u>	<u>3,498</u>
Non-interest expense:				
Salaries and employee benefits	1,388	1,329	5,327	5,303
Occupancy and equipment	326	420	1,453	1,509
Other expenses	1,067	1,032	4,053	3,709
Total non-interest expense	<u>2,781</u>	<u>2,781</u>	<u>10,833</u>	<u>10,521</u>
Income before provision for income taxes	1,984	1,742	7,351	5,866
Provision for income taxes	818	718	3,030	2,418
Net income	<u>\$ 1,166</u>	<u>\$ 1,024</u>	<u>\$ 4,321</u>	<u>\$ 3,448</u>
Less: preferred dividends	34	83	253	521
Net income available for common stockholders	<u>\$ 1,132</u>	<u>\$ 941</u>	<u>\$ 4,068</u>	<u>\$ 2,927</u>
Basic earnings per common share	\$ 0.24	\$ 0.20	\$ 0.85	\$ 0.62
Diluted earnings per common share	\$ 0.24	\$ 0.20	\$ 0.85	\$ 0.62
Basic weighted average shares of common stock outstanding	4,777	4,745	4,761	4,745
Diluted weighted average shares of common stock outstanding	4,814	4,749	4,794	4,746

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

(In thousands except share and per share data)

	<b>December 31, 2013</b>	<b>December 31, 2012</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Cash and due from banks	\$ 16,128	\$ 19,979
Total cash and cash equivalents	16,128	19,979
Time deposits with banks	1,985	2,977
Investment securities:		
Held-to-maturity, at amortized cost	15,558	-
Available-for-sale (at fair market value; amortized cost of \$116,947 in 2013 and \$123,026 in 2012)	113,568	125,714
Total investment securities	129,126	125,714
Loans, less allowance for loan losses of \$5,412 in 2013 and \$5,749 in 2012	282,667	275,877
Bank premises and equipment, net	5,505	5,160
Investment in Federal Home Loan Bank stock, at cost	2,578	2,265
Goodwill	4,119	4,119
Other Real Estate Owned	4,771	4,845
Accrued interest receivable and other assets	7,195	3,960
Total assets	\$ 454,074	\$ 444,896
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Demand - non interest-bearing	\$ 62,865	\$ 58,548
Demand - interest-bearing	43,879	29,059
Savings	25,740	23,257
Money market	55,971	56,669
Time deposits, \$100,000 and over	114,435	128,785
Other time deposits	38,378	44,686
Total deposits	341,268	341,004
Federal Home Loan Bank (FHLB) advances	48,500	40,000
Accrued interest payable and other liabilities	2,676	1,022
Total liabilities	392,444	382,026
Shareholders' equity		
Preferred stock, no par value; 20,000,000 shares authorized; shares issued and outstanding - 13,750 Series B in 2013 and 2012; 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 and outstanding 4,777,670 in 2013 and 4,744,720 in 2012	36,608	36,396
Retained earnings	13,316	11,250
Accumulated other comprehensive income (loss)	(1,960)	1,558
Total shareholders' equity	61,630	62,870
Total liabilities and shareholders' equity	\$ 454,074	\$ 444,896

**Earnings Summary**  
(In Thousands)

	Three Months Ended		Twelve Months Ended	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Statement of Income Data:</b>				
Net interest income	\$ 4,303	\$ 4,247	\$ 16,566	\$ 16,249
Provision for loan losses	-	-	50	3,360
Non-interest income	462	276	1,668	3,498
Non-interest expense	2,781	2,781	10,833	10,521
Provision for income taxes	818	718	3,030	2,418
Net income	<u>\$ 1,166</u>	<u>\$ 1,024</u>	<u>\$ 4,321</u>	<u>\$ 3,448</u>
Less: preferred dividends	<u>34</u>	<u>83</u>	<u>253</u>	<u>521</u>
Net income available for common stockholders	<u>\$ 1,132</u>	<u>\$ 941</u>	<u>\$ 4,068</u>	<u>\$ 2,927</u>
<b>Selected per Common Share Data:</b>				
Basic earnings per common share	\$ 0.24	\$ 0.20	\$ 0.85	\$ 0.62
Diluted earnings per common share	\$ 0.24	\$ 0.20	\$ 0.85	\$ 0.62
Dividend per share	\$ 0.11	\$ 0.09	\$ 0.42	\$ 0.36
Book value per common share (2)(3)	\$ 10.04	\$ 10.37	\$ 10.04	\$ 10.37
<b>Selected Balance Sheet Data:</b>				
Assets	\$ 454,074	\$ 444,896	\$ 454,074	\$ 444,896
Loans, net	282,667	275,877	282,667	275,877
Deposits	341,268	341,004	341,268	341,004
Average assets	453,801	431,882	441,583	410,291
Average earning assets	437,822	415,690	426,819	393,941
Average shareholders' equity	61,937	62,851	62,480	61,812
Average common shareholders' equity	48,271	49,185	48,814	48,146
Nonperforming loans	5,614	4,839	5,614	4,839
Other real estate owned	4,771	4,845	4,771	4,845
Total nonperforming assets	10,385	9,684	10,385	9,684
Troubled debt restructures (accruing)	4,465	6,393	4,465	6,393
<b>Selected Ratios:</b>				
Return on average assets (1)	1.02%	0.94%	0.98%	0.84%
Return on average common equity (1)	9.30%	7.61%	8.33%	6.08%
Efficiency ratio (4)(5)(7)	59.25%	61.17%	59.78%	60.45%
Net interest margin (1)	3.90%	4.06%	3.88%	4.12%
Tier 1 leverage capital ratio	13.2%	13.4%	13.2%	13.4%
Tier 1 risk-based capital ratio	17.4%	17.1%	17.4%	17.1%
Total risk-based capital ratio	18.6%	18.4%	18.6%	18.4%
Common dividend payout ratio (6)	46.47%	45.38%	49.19%	58.35%
Average equity to average assets	13.65%	14.55%	14.15%	15.07%
Nonperforming loans to total loans (2)	1.95%	1.72%	1.95%	1.72%
Nonperforming assets to total assets (2)	2.29%	2.18%	2.29%	2.18%
Allowance for loan losses to total loans (2)	1.88%	2.04%	1.88%	2.04%
Allowance for loan losses to nonperforming loans (2)	96.40%	118.80%	96.40%	118.80%

(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