

# News Release

For Immediate Release

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## **Summit State Bank Announces Dividend Increase and Reports a 27% Increase in Earnings for 2014**

SANTA ROSA, CA – (January 27, 2015) – Summit State Bank (Nasdaq: SSBI) today reported net income for the year ended December 31, 2014 of \$5,485,000, a 27% increase over 2013. Earnings per share increased to \$1.12 in 2014 from \$0.85 in 2013.

The quarterly dividend was declared and increased to \$0.12 per share, representing a 9% increase, payable on February 24, 2015 with a record date of February 18, 2015.

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

For the year ended December 31, 2014, net income was \$5,485,000, net income available for common stockholders, which deducts the preferred dividends, of \$5,347,000, and \$1.11 diluted earnings per share, compared to net income of \$4,321,000, net income available for common stockholders of \$4,068,000, and \$0.85 diluted earnings per share, for the year ended December 31, 2013.

For the quarter ended December 31, 2014, Summit had net income of \$1,810,000, net income available for common stockholders of \$1,776,000, and diluted earnings per share of \$0.37 compared to \$1,166,000 in net income, \$1,132,000 net income available for common stockholders, or \$0.24 diluted earnings per share, for the same period in 2013.

Net income for the year and fourth quarter of 2014 benefitted from the reversal of the provision for loan losses of \$1,400,000 for the year and \$1,000,000 for the quarter. The reversal of the provision was attributable to net loan recoveries for the year of \$1,132,000 and the significant reduction in nonperforming loans.

Return on average assets improved in 2014 to 1.19% from 0.98% in 2013 and return on average common equity was 10.44% for 2014 compared to 8.33% in 2013. Without the positive impact of the provision for loan loss reversal the return on average assets and average common equity was 1.01% and 8.84% for the year ended December 31, 2014.

“We are pleased with our 2014 results as we continued to drive new full relationships into our local Sonoma County based community bank. Our strong performance was a result of our ongoing increase in relationship core deposits that continues to lower our cost of funds, efficient management of our resources, and significant reduction in our problem assets. In 2015 we plan to increase our commitment to our community with our new *\$100,000,000 Small Business Lending Program*,” said Thomas Duryea, President and CEO.

Net interest income was \$16,917,000 for 2014, a 2.1% increase of \$351,000 compared to 2013. The fourth quarter 2014 net interest income was \$4,167,000, compared to \$4,303,000 for the fourth quarter of 2013. The net interest margin was 3.79% for the 2014 year compared to 3.88% for 2013.

“We continue to lower our cost of funding by attracting more local relationship based core deposits to help offset the net interest margin decline due primarily to the lower rates on new and refinanced loans in this prolonged low interest rate market environment,” said Dennis Kelley, Chief Financial Officer.

The efficiency ratio was 59.04% for the year ended December 31, 2014 compared to 59.78% in 2013. Operating expense increased 1.4% year over year and declined 3.3% fourth quarter 2014 compared to the fourth quarter of 2013.

One of the Bank’s key strategies has been to improve its funding mix by increasing relationship based core deposit accounts in order to improve and provide stable funding costs to sustain our long term viability to support our customers and local community. Core deposits, defined as demand, savings and money market deposits, increased \$25 million or 13% to \$213,490,000 at December 31, 2014 which follows a \$21 million or 12% increase in 2013. The most important Demand Deposits now represent 36% of our total deposits.

Total assets increased to \$459,675,000 at December 31, 2014 compared to \$454,074,000 at December 31, 2013. Net loans declined to \$279,798,000 at December 31, 2014 compared to \$282,667,000 at December 31, 2013. The decline in loans was due to early payoffs and the successful efforts to workout problem loans. Summit originated \$77 million in loans and commitments during 2014.

Nonperforming assets declined to \$5,866,000 at December 31, 2014 compared to nonperforming assets of \$10,385,000 at December 31, 2013. Nonperforming assets include \$4,051,000 in a foreclosed commercial property that is producing income for the Bank. Nonperforming loans to total loans improved to 0.64% at December 31, 2014 compared to 1.95% at December 31, 2013. The allowance for loan losses to total loans was 1.81% compared to 1.88% for December 31, 2014 and 2013.

“We start the new year with a strong commercial loan pipeline supporting our client’s growth, which strengthens and sustains the Sonoma County communities we are fortunate to serve. Significantly reducing our non-performers, should free up resources to be even more outwardly focused in our community,” said Brandy Seppi, Chief Credit Officer.

The Bank’s regulatory capital remains well above the required capital ratios with a Tier 1 capital leverage ratio of 13.7%, a Tier 1 risk-based capital ratio of 18.3% and a Total risk-based capital ratio of 19.6% at December 31, 2014.

## About Summit State Bank

Summit State Bank has total assets of \$460 million and total equity of \$68 million at December 31, 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](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 earnings per share data)

	<u>Three Months Ended</u>		<u>Year Ended</u>	
	<u>December 31, 2014</u> <u>(Unaudited)</u>	<u>December 31, 2013</u> <u>(Unaudited)</u>	<u>December 31, 2014</u> <u>(Unaudited)</u>	<u>December 31, 2013</u> <u>(Unaudited)</u>
Interest income:				
Interest and fees on loans	\$ 3,434	\$ 3,603	\$ 14,048	\$ 14,201
Interest on Federal funds sold	1	-	3	-
Interest on investment securities and deposits in banks	919	928	3,696	3,539
Dividends on FHLB stock	50	37	186	101
Total interest income	<u>4,404</u>	<u>4,568</u>	<u>17,933</u>	<u>17,841</u>
Interest expense:				
Deposits	194	227	849	1,160
FHLB advances	43	38	167	115
Total interest expense	<u>237</u>	<u>265</u>	<u>1,016</u>	<u>1,275</u>
Net interest income before provision for loan losses	4,167	4,303	16,917	16,566
Provision for loan losses	<u>(1,000)</u>	<u>-</u>	<u>(1,400)</u>	<u>50</u>
Net interest income after provision for loan losses	<u>5,167</u>	<u>4,303</u>	<u>18,317</u>	<u>16,516</u>
Non-interest income:				
Service charges on deposit accounts	169	140	614	566
Rental income	131	130	523	516
Net securities gain	165	6	239	80
Net gain on other real estate owned	-	65	73	34
Loan servicing, net	3	4	12	14
Other income	131	117	534	458
Total non-interest income	<u>599</u>	<u>462</u>	<u>1,995</u>	<u>1,668</u>
Non-interest expense:				
Salaries and employee benefits	1,377	1,388	5,530	5,327
Occupancy and equipment	351	326	1,347	1,453
Other expenses	961	1,067	4,105	4,053
Total non-interest expense	<u>2,689</u>	<u>2,781</u>	<u>10,982</u>	<u>10,833</u>
Income before provision for income taxes	3,077	1,984	9,330	7,351
Provision for income taxes	<u>1,267</u>	<u>818</u>	<u>3,845</u>	<u>3,030</u>
Net income	<u>\$ 1,810</u>	<u>\$ 1,166</u>	<u>\$ 5,485</u>	<u>\$ 4,321</u>
Less: preferred dividends	<u>34</u>	<u>34</u>	<u>138</u>	<u>253</u>
Net income available for common stockholders	<u>\$ 1,776</u>	<u>\$ 1,132</u>	<u>\$ 5,347</u>	<u>\$ 4,068</u>
Basic earnings per common share	\$ 0.37	\$ 0.24	\$ 1.12	\$ 0.85
Diluted earnings per common share	\$ 0.37	\$ 0.24	\$ 1.11	\$ 0.85
Basic weighted average shares of common stock outstanding	4,778	4,777	4,778	4,761
Diluted weighted average shares of common stock outstanding	4,837	4,814	4,831	4,794

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

	<b>December 31, 2014</b>	<b>December 31, 2013</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Cash and due from banks	\$ 21,313	\$ 16,128
Federal funds sold	2,000	-
Total cash and cash equivalents	23,313	16,128
Time deposits with banks	1,240	1,985
Investment securities:		
Held-to-maturity, at amortized cost	9,977	15,558
Available-for-sale (at fair market value; amortized cost of \$115,491 in 2014 and \$116,947 in 2013)	124,723	113,568
Total investment securities	134,700	129,126
Loans, less allowance for loan losses of \$5,143 in 2014 and \$5,412 in 2013	279,798	282,667
Bank premises and equipment, net	5,803	5,505
Investment in Federal Home Loan Bank stock, at cost	2,701	2,578
Goodwill	4,119	4,119
Other Real Estate Owned	4,051	4,771
Accrued interest receivable and other assets	3,950	7,195
Total assets	\$ 459,675	\$ 454,074
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Demand - non interest-bearing	\$ 73,707	\$ 62,865
Demand - interest-bearing	55,377	43,879
Savings	25,587	25,740
Money market	58,819	55,971
Time deposits, \$100,000 and over	103,704	114,435
Other time deposits	38,065	38,378
Total deposits	355,259	341,268
Federal Home Loan Bank (FHLB) advances	35,000	48,500
Accrued interest payable and other liabilities	1,835	2,676
Total liabilities	392,094	392,444
Shareholders' equity		
Preferred stock, no par value; 20,000,000 shares authorized; shares issued and outstanding - 13,750 Series B in 2014 and 2013; 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 4,778,370 in 2014 and 4,777,670 in 2013	36,646	36,608
Retained earnings	16,561	13,316
Accumulated other comprehensive income (loss)	708	(1,960)
Total shareholders' equity	67,581	61,630
Total liabilities and shareholders' equity	\$ 459,675	\$ 454,074

**Financial Summary**  
**(In Thousands)**

	Three Months Ended		Year Ended	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Statement of Income Data:</b>				
Net interest income	\$ 4,167	\$ 4,303	\$ 16,917	\$ 16,566
Provision for loan losses	(1,000)	-	(1,400)	50
Non-interest income	599	462	1,995	1,668
Non-interest expense	2,689	2,781	10,982	10,833
Provision for income taxes	1,267	818	3,845	3,030
Net income	<u>\$ 1,810</u>	<u>\$ 1,166</u>	<u>\$ 5,485</u>	<u>\$ 4,321</u>
Less: preferred dividends	34	34	138	253
Net income available for common stockholders	<u>\$ 1,776</u>	<u>\$ 1,132</u>	<u>\$ 5,347</u>	<u>\$ 4,068</u>
<b>Selected per Common Share Data:</b>				
Basic earnings per common share	\$ 0.37	\$ 0.24	\$ 1.12	\$ 0.85
Diluted earnings per common share	\$ 0.37	\$ 0.24	\$ 1.11	\$ 0.85
Dividend per share	\$ 0.11	\$ 0.11	\$ 0.44	\$ 0.42
Book value per common share (2)(3)	\$ 11.28	\$ 10.04	\$ 11.28	\$ 10.04
<b>Selected Balance Sheet Data:</b>				
Assets	\$ 459,675	\$ 454,074	\$ 459,675	\$ 454,074
Loans, net	279,798	282,667	279,798	282,667
Deposits	355,259	341,268	355,259	341,268
Average assets	461,514	453,801	460,774	441,583
Average earning assets	447,769	437,822	445,977	426,819
Average shareholders' equity	66,766	61,937	64,864	62,480
Average common shareholders' equity	53,100	48,271	51,198	48,814
Nonperforming loans	1,815	5,614	1,815	5,614
Other real estate owned	4,051	4,771	4,051	4,771
Total nonperforming assets	5,866	10,385	5,866	10,385
Troubled debt restructures (accruing)	5,555	4,465	5,555	4,465
<b>Selected Ratios:</b>				
Return on average assets (1)	1.56%	1.02%	1.19%	0.98%
Return on average common equity (1)	13.27%	9.30%	10.44%	8.33%
Efficiency ratio (4)(5)	58.44%	59.25%	59.04%	59.78%
Net interest margin (1)	3.69%	3.90%	3.79%	3.88%
Tier 1 leverage capital ratio	13.7%	13.2%	13.7%	13.2%
Tier 1 risk-based capital ratio	18.3%	17.4%	18.3%	17.4%
Total risk-based capital ratio	19.6%	18.6%	19.6%	18.6%
Common dividend payout ratio (6)	29.62%	46.47%	39.31%	49.19%
Average equity to average assets	14.47%	13.65%	14.08%	14.15%
Nonperforming loans to total loans (2)	0.64%	1.95%	0.64%	1.95%
Nonperforming assets to total assets (2)	1.28%	2.29%	1.28%	2.29%
Allowance for loan losses to total loans (2)	1.81%	1.88%	1.81%	1.88%
Allowance for loan losses to nonperforming loans (2)	283.39%	96.40%	283.39%	96.40%

(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