

News Release

For Immediate Release

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Summit State Bank Reports Increase in Profitability and Declaration of Dividend

SANTA ROSA, CA – (July 30, 2012) – Summit State Bank (Nasdaq: SSBI) today reported net income for the quarter ended June 30, 2012 of \$835,000, a 5.7% increase over the quarter ended June 30, 2011 and a 36% increase over the quarter ended March 31, 2012. The regular quarterly dividend of \$0.09 per share was declared for common shareholders.

Dividend

The Board of Directors today declared a \$0.09 quarterly common stock dividend to be paid on August 23 to shareholders of record on August 15.

Net Income and Results of Operations

The Bank had net income of \$835,000 and net income available for common stockholders of \$663,000, or \$0.14 per diluted share, for the quarter ended June 30, 2012 compared to net income of \$790,000 and net income available for common stockholders of \$652,000, or \$0.14 per diluted share, for the quarter ended June 30, 2011. For the six months ended June 30, 2012 and 2011, net income available for common stockholders was \$1,104,000 and \$991,000 and diluted earnings per share was \$0.23 and \$0.21.

“We have been able to improve our profitability by growing earning assets and building our core deposit base as we continue to earn more full banking relationships through our customer service and support of our local Sonoma County community,” said Thomas Duryea, President and CEO. “While the present economy continues to reflect low interest rates and softer loan demand, we are starting to see an increase in lending through our *\$50,000,000 Small Business Lending* program that will benefit our margin and interest income.”

Net interest income declined to \$3,990,000 for the second quarter of 2012 compared to \$4,315,000 for the same quarter in 2011. The second quarter of 2011 included \$250,000 in interest income on the resolution of a nonaccrual loan and \$120,000 in interest on a loan subsequently transferred to other real estate owned, with the similar amount recognized as rental income in the current quarter. The net interest margin was 4.16%

for the second quarter of 2012 compared to 4.82% in the second quarter of 2011 and 4.34% for the quarter ended March 31, 2012.

“Net interest margin maintenance will be a challenge in this historical low rate environment with the decline in yields on new investments and loans, which will be partially offset by a decline in deposit costs. We continue to promote lending and attraction of noninterest-bearing demand deposits to stabilize the net interest margin,” said Dennis Kelley, Chief Financial Officer

Noninterest-bearing demand deposits increased 53% to \$46,709,000 at June 30, 2012 compared to June 30, 2011. Core deposits defined as demand, money market and savings deposits represented 46% of total deposits at June 30, 2012 compared to 37% at June 30, 2011. “We are pleased with our progress in increasing the core deposit relationships of the bank reflecting further attraction of full banking relationships lowering our cost of funds,” stated Thomas Duryea.

Noninterest income was \$412,000 in the second quarter of 2012 compared to \$281,000 in the second quarter of 2011. The increase in noninterest income is from rental income on foreclosed commercial property of \$100,000 and investment gains of \$47,000.

The Bank’s efficiency ratio, which expresses operating costs as a percentage of revenues, was 59% for the second quarter of 2012 compared to 57% for the same quarter in 2011. For the six months ended June 30, 2012 and 2011, efficiency ratio was 59%, respectively. Operating expense between the quarters remained flat with \$2,572,000 in operating expense in 2012 compared to \$2,638,000 in 2011.

Total assets increased 6% to \$407,059,000 at June 30, 2012 compared to \$383,524,000 at June 30, 2011.

The provision for loan losses was \$410,000 for second quarter of 2012 compared to \$600,000 for the same quarter in 2011. The allowance for loan losses to total loans represented 2.46% and 2.61% at June 30, 2012 and 2011. Nonperforming assets at June 30, 2012 included \$12,009,000 in loans on non-accrual and \$5,101,000 in foreclosed real estate. This compares to nonperforming assets of \$11,462,000 at June 30, 2011 and \$13,366,000 at December 31, 2011. Nonaccrual loans consisted of 16 loans to 12 relationships and foreclosed real estate consisted of three properties. Nonaccrual loans with a balance of \$5,274,000 were current as to their contractual terms however are on nonaccrual status due to underlying weakness in the debtors financial condition.

“Although the economy and real estate valuations continue to affect selective loans in our portfolio, we are encouraged with the continued payment performance on many of the nonperforming loans,” said Bill Fogarty, Chief Credit Officer.

The Bank’s regulatory capital remains well above the required capital ratios with a Tier 1 capital leverage ratio of 14%, a Tier 1 risk-based capital ratio of 18% and a Total risk-based capital ratio of 19% at June 30, 2012.

About Summit State Bank

Summit State Bank has total assets of \$407 million and total equity of \$61 million at June 30, 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

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		Six Months Ended	
	June 30, 2012 (Unaudited)	June 30, 2011 (Unaudited)	June 30, 2012 (Unaudited)	June 30, 2011 (Unaudited)
Interest income:				
Interest and fees on loans	\$ 3,683	\$ 4,386	\$ 7,473	\$ 8,631
Interest on Federal funds sold	-	-	-	5
Interest on investment securities and deposits in banks	839	680	1,684	1,116
Dividends on FHLB stock	3	2	6	4
Total interest income	4,525	5,068	9,163	9,756
Interest expense:				
Deposits	484	668	1,009	1,326
FHLB advances	51	85	140	172
Total interest expense	535	753	1,149	1,498
Net interest income before provision for loan losses	3,990	4,315	8,014	8,258
Provision for loan losses	410	600	1,860	1,400
Net interest income after provision for loan losses	3,580	3,715	6,154	6,858
Non-interest income:				
Service charges on deposit accounts	130	131	253	248
Office leases	118	141	254	279
Net securities gains	47	-	749	-
Loan servicing, net	11	7	17	14
Other income	106	2	209	2
Total non-interest income	412	281	1,482	543
Non-interest expense:				
Salaries and employee benefits	1,290	1,308	2,633	2,630
Occupancy and equipment	366	450	737	840
Other expenses	916	880	1,803	1,760
Total non-interest expense	2,572	2,638	5,173	5,230
Income before provision for income taxes	1,420	1,358	2,463	2,171
Provision for income taxes	585	568	1,015	904
Net income	\$ 835	\$ 790	\$ 1,448	\$ 1,267
Less: preferred dividends	172	138	344	276
Net income available for common stockholders	\$ 663	\$ 652	\$ 1,104	\$ 991
Basic earnings per common share	\$ 0.14	\$ 0.14	\$ 0.23	\$ 0.21
Diluted earnings per common share	\$ 0.14	\$ 0.14	\$ 0.23	\$ 0.21
Basic weighted average shares of common stock outstanding	4,745	4,745	4,745	4,745
Diluted weighted average shares of common stock outstanding	4,745	4,794	4,745	4,794

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

	June 30, 2012 (Unaudited)	December 31, 2011	June 30, 2011 (Unaudited)
ASSETS			
Cash and due from banks	\$ 19,002	\$ 8,290	\$ 20,702
Federal funds sold	-	-	-
Total cash and cash equivalents	<u>19,002</u>	<u>8,290</u>	<u>20,702</u>
Time deposits with banks	2,977	-	-
Available-for-sale investment securities - amortized cost of \$88,927			
in 2012 and \$87,001 in 2011	90,616	88,660	68,004
Loans, less allowance for loan losses of \$6,842			
in 2012 and \$5,411 in 2011	271,297	269,963	272,581
Bank premises and equipment, net	6,452	6,731	7,028
Investment in Federal Home Loan Bank stock, at cost	2,265	2,190	2,403
Goodwill	4,119	4,119	4,119
Other Real Estate Owned	5,101	1,074	-
Accrued interest receivable and other assets	5,230	6,598	8,687
Total assets	<u>\$ 407,059</u>	<u>\$ 387,625</u>	<u>\$ 383,524</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 46,709	\$ 31,022	\$ 30,553
Demand - interest-bearing	25,975	25,743	24,609
Savings	20,735	20,201	20,839
Money market	56,331	47,455	39,038
Time deposits, \$100 thousand and over	129,259	140,680	143,226
Other time deposits	49,844	46,957	55,147
Total deposits	<u>328,853</u>	<u>312,058</u>	<u>313,412</u>
Federal Home Loan Bank (FHLB) advances	16,000	13,750	12,000
Accrued interest payable and other liabilities	905	808	1,787
Total liabilities	<u>345,758</u>	<u>326,616</u>	<u>327,199</u>
Shareholders' equity			
Preferred stock, no par value; 20,000,000 shares authorized;			
shares issued and outstanding - 13,750 series B in 2012 and 2011;			
per share redemption of \$1,000 for total liquidation preference of \$13,750	13,666	13,666	8,181
Common stock, no par value; shares authorized - 30,000,000 shares; issued			
and outstanding 4,744,720 at June 30, 2012 and December 31, 2011	36,376	36,352	36,332
Common stock warrant	-	-	622
Retained earnings	10,280	10,030	10,297
Accumulated other comprehensive income, net of taxes	979	961	893
Total shareholders' equity	<u>61,301</u>	<u>61,009</u>	<u>56,325</u>
Total liabilities and shareholders' equity	<u>\$ 407,059</u>	<u>\$ 387,625</u>	<u>\$ 383,524</u>

Earnings Summary
(In Thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Statement of Income Data:				
Net interest income	\$ 3,990	\$ 4,315	\$ 8,014	\$ 8,258
Provision for loan losses	410	600	1,860	1,400
Non-interest income	412	281	1,482	543
Non-interest expense	2,572	2,638	5,173	5,230
Provision for income taxes	585	568	1,015	904
Net income	<u>\$ 835</u>	<u>\$ 790</u>	<u>\$ 1,448</u>	<u>\$ 1,267</u>
Less: preferred dividends	172	138	344	276
Net income available for common stockholders	<u>\$ 663</u>	<u>\$ 652</u>	<u>\$ 1,104</u>	<u>\$ 991</u>
Selected per Common Share Data:				
Basic earnings per common share	\$ 0.14	\$ 0.14	\$ 0.23	\$ 0.21
Diluted earnings per common share	\$ 0.14	\$ 0.14	\$ 0.23	\$ 0.21
Book value per common share (2)(3)	\$ 10.04	\$ 10.15	\$ 10.04	\$ 10.15
Selected Balance Sheet Data:				
Assets	\$ 407,059	\$ 383,524	\$ 407,059	\$ 383,524
Loans, net	271,297	272,581	271,297	272,581
Deposits	328,853	313,412	328,853	313,412
Average assets	401,848	373,058	396,506	365,158
Average earning assets	385,822	359,206	379,461	351,151
Average shareholders' equity	61,255	55,915	61,253	55,709
Average common shareholders' equity	47,589	47,133	47,587	46,948
Nonperforming loans	12,009	10,145	12,009	10,145
Total nonperforming assets	17,110	11,462	17,110	11,462
Selected Ratios:				
Return on average assets (1)	0.84%	0.85%	0.73%	0.70%
Return on average common equity (1)	5.60%	5.55%	4.67%	4.26%
Efficiency ratio (excludes net securities gains)	59.06%	57.40%	59.14%	59.43%
Net interest margin (1)	4.16%	4.82%	4.25%	4.74%
Tier 1 leverage capital ratio	14.1%	13.9%	14.1%	13.9%
Tier 1 risk-based capital ratio	17.9%	17.5%	17.9%	17.5%
Total risk-based capital ratio	19.1%	18.8%	19.1%	18.8%
Common dividend payout ratio (4)	64.40%	65.5%	77.36%	86.18%
Average equity to average assets	15.24%	14.99%	15.45%	15.26%
Nonperforming loans to total loans (2)	4.32%	3.62%	4.32%	3.62%
Nonperforming assets to total assets (2)	4.20%	2.99%	4.20%	2.99%
Allowance for loan losses to total loans (2)	2.46%	2.61%	2.46%	2.61%
Allowance for loan losses to nonperforming loans (2)	56.98%	72.14%	56.98%	72.14%

(1) Annualized

(2) As of period end

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

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