

# News Release

For Immediate Release

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## **Summit State Bank Reports 23% Increase in Profitability and Declaration of Dividend**

SANTA ROSA, CA – (July 29, 2013) – Summit State Bank (Nasdaq: SSBI) today reported net income for the quarter ended June 30, 2013 of \$1,031,000 and earnings per share of \$0.21, an increase of 23% in net income and 50% in earnings per share over the quarter ended June 30, 2012. The regular quarterly dividend of \$0.11 per share was declared for common shareholders.

### Dividend

The Board of Directors today declared a \$0.11 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 \$1,031,000 and net income available for common stockholders of \$986,000, or \$0.21 per diluted share, for the quarter ended June 30, 2013 compared to 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.

For the six months ended June 30, 2013, net income available for common stockholders was \$1,849,000 and diluted earnings per share was \$0.39 compared to \$1,104,000 and diluted earnings per share of \$0.23, for the six months ended June 30, 2012.

“We continue to gain an increasing number of full banking relationships earned through our team’s successful execution of the *Summit Way* service standards and deep support and care of our local Sonoma County community resulting in increasing profitability. A key part of these full banking relationships include Core Deposits that are an essential driver of the bank’s long term sustainability to properly support the needs of our clients and community from which our shareholders will continue to be rewarded.” said Tom Duryea, President & CEO.

Net interest income increased 2% to \$4,069,000 in the second quarter and \$8,185,000 for the six months ended June 30, 2013 compared to prior year periods as more earning assets offset the declines experienced in the net interest margin. Average earning assets increased 9% between the quarters and 11% for the six month periods while the net interest margin declined to 3.87% for the second quarter and 3.90% for the first six months of 2013 compared to 4.16% and 4.25% in 2012.

“Net interest margin compression has resulted due to the long duration of the low interest rate environment.” said Dennis Kelley, Chief Financial Officer.

The provision for loan losses was \$50,000 for second quarter and first six months of 2013 compared to \$410,000 and \$1,860,000 for the same periods in 2012. As credit quality has improved, loan loss allocation requirements have significantly declined positively impacting our net income.

Noninterest income was \$396,000 in the second quarter of 2013 compared to \$412,000 in the second quarter of 2012. The changes in noninterest income were increases in property rents, deposit fees and security gains and declines in write-downs and rental income on foreclosed commercial property.

The Bank’s efficiency ratio, which expresses operating costs as a percentage of revenues, was 60% for the second quarter of 2013 compared to 59% for the same quarter in 2012. For the six months ended June 30, 2013 and 2012, efficiency ratio was 61% and 59%. Operating expenses increased between the quarters by 3.4% and increased 5% for the six month periods.

Demand deposits increased 39% to \$100,957,000 at June 30, 2013 compared to June 30, 2012. Core Deposits as defined as demand, savings and money market as a percentage of total deposits grew to 53% at June 30, 2013 compared to 46% at June 30, 2012 and 37% at June 30, 2011.

“The Bank has been able to significantly increase funding from Core Deposits versus time deposits. This has been a major objective since 2008 when Core Deposits as a percentage of total deposits represented 24% at December 31, 2008. This positive change in the deposit mix will play a significant role as interest rates start to rise.” stated Linda Bertauche, Chief Operations Officer.

The allowance for loan losses to total loans represented 2.20% and 2.46% at June 30, 2013 and 2012. Nonperforming assets at June 30, 2013 included \$4,214,000 in loans on non-accrual and \$5,654,000 in foreclosed real estate of which \$4,771,000 is in two properties that receive rental income. This compares to \$4,973,000 in non-accrual loans and \$4,983,000 in foreclosed real estate at March 31, 2013 and \$12,009,000 in loans on non-accrual and \$5,101,000 in foreclosed real estate at June 30, 2012. Nonaccrual loans consisted of 12 loans to 8 relationships and foreclosed real estate consisted of four properties.

Total assets increased 6% to \$432,067,000 at June 30, 2013 compared to \$407,059,000 at June 30, 2012. Total loans were \$271,796,000 at June 30, 2013 compared to \$278,139,000 at June 30, 2012. The Bank’s regulatory capital remains well above the required capital ratios.

“We have increased lending as part of our focus on gaining full banking relationships through our *\$50,000,000 Small business Lending* program. Successful work outs of problem credits and loan repayments have resulted in the decline in loan totals in a very competitive market,” said Bill Fogarty, Chief Credit Officer.

## About Summit State Bank

Summit State Bank has total assets of \$432 million and total equity of \$61 million at June 30, 2013. Headquartered in Sonoma County, the Bank provides diverse financial products and services throughout Sonoma, Napa, San Francisco, and Marin Counties. Summit State Bank received the 2012 Community Bank Award from the American Bankers Association for its nonprofit work. In addition, Summit has been recognized as one of the Top 75 Corporate Philanthropists in the Bay Area by the San Francisco Business Times, 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 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)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30, 2013</b> <b>(Unaudited)</b>	<b>June 30, 2012</b> <b>(Unaudited)</b>	<b>June 30, 2013</b> <b>(Unaudited)</b>	<b>June 30, 2012</b> <b>(Unaudited)</b>
Interest income:				
Interest and fees on loans	\$ 3,511	\$ 3,683	\$ 7,121	\$ 7,473
Interest on investment securities and deposits in banks	874	839	1,742	1,684
Dividends on FHLB stock	19	3	32	6
Total interest income	<u>4,404</u>	<u>4,525</u>	<u>8,895</u>	<u>9,163</u>
Interest expense:				
Deposits	313	484	664	1,009
FHLB advances	22	51	46	140
Total interest expense	<u>335</u>	<u>535</u>	<u>710</u>	<u>1,149</u>
Net interest income before provision for loan losses	4,069	3,990	8,185	8,014
Provision for loan losses	50	410	50	1,860
Net interest income after provision for loan losses	<u>4,019</u>	<u>3,580</u>	<u>8,135</u>	<u>6,154</u>
Non-interest income:				
Service charges on deposit accounts	139	130	277	253
Office leases	132	118	257	254
Net securities gains	80	47	81	749
Net gain (loss) on other real estate owned	(48)	-	(48)	-
Loan servicing, net	3	11	7	17
Other income	90	106	183	209
Total non-interest income	<u>396</u>	<u>412</u>	<u>757</u>	<u>1,482</u>
Non-interest expense:				
Salaries and employee benefits	1,259	1,290	2,691	2,633
Occupancy and equipment	347	366	756	737
Other expenses	1,054	916	1,985	1,803
Total non-interest expense	<u>2,660</u>	<u>2,572</u>	<u>5,432</u>	<u>5,173</u>
Income before provision for income taxes	1,755	1,420	3,460	2,463
Provision for income taxes	724	585	1,427	1,015
Net income	<u>\$ 1,031</u>	<u>\$ 835</u>	<u>\$ 2,033</u>	<u>\$ 1,448</u>
Less: preferred dividends	45	172	184	344
Net income available for common stockholders	<u>\$ 986</u>	<u>\$ 663</u>	<u>\$ 1,849</u>	<u>\$ 1,104</u>
Basic earnings per common share	\$ 0.21	\$ 0.14	\$ 0.39	\$ 0.23
Diluted earnings per common share	\$ 0.21	\$ 0.14	\$ 0.39	\$ 0.23
Basic weighted average shares of common stock outstanding	4,748	4,745	4,747	4,745
Diluted weighted average shares of common stock outstanding	4,783	4,745	4,779	4,745

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

	<b>June 30, 2013</b>	<b>December 31, 2012</b>	<b>June 30, 2012</b>
	<b>(Unaudited)</b>		<b>(Unaudited)</b>
<b>ASSETS</b>			
Cash and due from banks	\$ 19,714	\$ 19,979	\$ 19,002
Total cash and cash equivalents	19,714	19,979	19,002
Time deposits with banks	1,985	2,977	2,977
Investment securities:			
Held-to-maturity, at amortized cost	15,558	-	-
Available-for-sale (at fair market value; amortized cost of \$106,926, \$123,026 and \$88,927)	105,129	125,714	90,616
Total investment securities	120,687	125,714	90,616
Loans, less allowance for loan losses of \$5,982, \$5,749 and \$6,842	265,814	275,877	271,297
Bank premises and equipment, net	4,987	5,160	6,452
Investment in Federal Home Loan Bank stock, at cost	2,578	2,265	2,265
Goodwill	4,119	4,119	4,119
Other Real Estate Owned	5,654	4,845	5,101
Accrued interest receivable and other assets	6,529	3,960	5,230
Total assets	\$ 432,067	\$ 444,896	\$ 407,059
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits:			
Demand - non interest-bearing	\$ 59,843	\$ 58,548	\$ 46,709
Demand - interest-bearing	41,114	29,059	25,975
Savings	23,331	23,257	20,735
Money market	57,326	56,669	56,331
Time deposits, \$100 thousand and over	118,443	128,785	129,259
Other time deposits	40,450	44,686	49,844
Total deposits	340,507	341,004	328,853
Federal Home Loan Bank (FHLB) advances	28,100	40,000	16,000
Accrued interest payable and other liabilities	2,221	1,022	905
Total liabilities	370,828	382,026	345,758
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 4,756,670, 4,744,720 and 4,744,720	36,466	36,396	36,376
Retained earnings	12,149	11,250	10,280
Accumulated other comprehensive income (loss), net of taxes	(1,042)	1,558	979
Total shareholders' equity	61,239	62,870	61,301
Total liabilities and shareholders' equity	\$ 432,067	\$ 444,896	\$ 407,059

**Earnings Summary**  
(In Thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Statement of Income Data:</b>				
Net interest income	\$ 4,069	\$ 3,990	\$ 8,185	\$ 8,014
Provision for loan losses	50	410	50	1,860
Non-interest income	396	412	757	1,482
Non-interest expense	2,660	2,572	5,432	5,173
Provision for income taxes	724	585	1,427	1,015
Net income	<u>\$ 1,031</u>	<u>\$ 835</u>	<u>\$ 2,033</u>	<u>\$ 1,448</u>
Less: preferred dividends	45	172	184	344
Net income available for common stockholders	<u>\$ 986</u>	<u>\$ 663</u>	<u>\$ 1,849</u>	<u>\$ 1,104</u>
<b>Selected per Common Share Data:</b>				
Basic earnings per common share	\$ 0.21	\$ 0.14	\$ 0.39	\$ 0.23
Diluted earnings per common share	\$ 0.21	\$ 0.14	\$ 0.39	\$ 0.23
Dividend per share	\$ 0.11	\$ 0.09	\$ 0.20	\$ 0.18
Book value per common share (2)(3)	\$ 10.02	\$ 10.04	\$ 10.02	\$ 10.04
<b>Selected Balance Sheet Data:</b>				
Assets	\$ 432,067	\$ 407,059	\$ 432,067	\$ 407,059
Loans, net	265,814	271,297	265,814	271,297
Deposits	340,507	328,853	340,507	328,853
Average assets	435,131	401,848	436,473	396,506
Average earning assets	421,486	385,822	422,898	379,461
Average shareholders' equity	63,649	61,255	63,426	61,253
Average common shareholders' equity	49,983	47,589	49,760	47,587
Nonperforming loans	4,214	12,009	4,214	12,009
Other real estate owned	5,654	5,101	5,654	5,101
Total nonperforming assets	9,868	17,110	9,868	17,110
Troubled debt restructures (accruing)	5,816	6,429	5,816	6,429
<b>Selected Ratios:</b>				
Return on average assets (1)	0.95%	0.84%	0.94%	0.73%
Return on average common equity (1)	7.91%	5.60%	7.49%	4.67%
Return on average common tangible equity (1)	8.62%	6.13%	8.17%	5.11%
Efficiency ratio (4)	60.00%	59.06%	60.97%	59.14%
Net interest margin (1)	3.87%	4.16%	3.90%	4.25%
Tier 1 leverage capital ratio	13.5%	14.1%	13.5%	14.1%
Tier 1 risk-based capital ratio	18.0%	17.9%	18.0%	17.9%
Total risk-based capital ratio	19.3%	19.1%	19.3%	19.1%
Common dividend payout ratio (5)	53.04%	64.40%	51.38%	77.36%
Average equity to average assets	14.63%	15.24%	14.53%	15.45%
Nonperforming loans to total loans (2)	1.55%	4.32%	1.55%	4.32%
Nonperforming assets to total assets (2)	2.28%	4.20%	2.28%	4.20%
Allowance for loan losses to total loans (2)	2.20%	2.46%	2.20%	2.46%
Allowance for loan losses to nonperforming loans (2)	141.94%	56.98%	141.94%	56.98%

(1) Annualized

(2) As of period end

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

(4) Excludes securities gains

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