SUMMIT
STATE BANK

2013 Annual Report on Form 10-K

To Our Shareholders and Friends:

Summit State Bank experienced many accomplishments in 2013, including increased net income, earnings and core deposits. We are proud to share the following highlights with you:

- Net income available for common stockholders for 2013 increased to $4,068,000 from $2,927,000 in 2012. This represented an increase in earnings per share to $0.85 in 2013 from $0.62 in 2012.

- The increase in earnings in 2013 was even more significant as 2012 included a legal settlement regarding construction defects in our headquarters building with a $2,515,000 cash settlement. $1,515,000 of the settlement was recorded as income or expense recovery, which equals $0.19 in earnings per share in 2012.

- We experienced significant growth in our delivery platforms. Our local core deposits serviced in our five community banking offices grew year over year by 12% with over 85% of growth in DDA. This resulted in a more stable and lower cost of funding and further reduction in higher cost institutional deposits.

- As the first community bank in California to introduce Mobile Deposit capture in June 2011, our robust remote deposit platform now services over 50% of our total core deposits.

- Through our nonprofit initiatives, we earned significant nonprofit banking relationships with a total of 130 organizations, compared to 101 in 2012. We attribute this increase to our team's active community involvement and our Nonprofit Partner Donation Program. As a result, we were honored as one of the Top 75 Corporate Philanthropists in the San Francisco Bay Area.

- With the continued resolution of nonperforming loans, we were able to significantly reduce the provision for loan losses in 2013 from the levels expensed during the years following the economic crisis of 2008.

- We increased our regular quarterly dividend by 22% to $0.11 per quarter and have seen a significant rise in Summit State Bank's common stock value during 2013.

We look forward to further capitalizing on the many opportunities that await us in 2014. We have seen an increase in local loan demand and an uptick in local optimism regarding the economy. In the lending area, we continue to focus on small business lending and a greater presence in Sonoma County's wine industry.

The low interest rate environment will continue to be a challenge at maintaining our operating margins; however, we will continue to focus on attracting local core deposit relationships at a lower cost, providing the stable funding source that is the foundation for our continuing success in increasing franchise value.

The Directors and staff of Summit State Bank appreciate your support as our shareholders during these past years. We look forward to prospering together in 2014 and beyond!

Sincerely,

Allan J. Hemphill	Thomas M. Duryea
Chairman	President and Chief Executive Officer

Directors:

Jeffery B. Allen
President
Allen Land Design

James E. Baxter II
Chairman
Baxter Fentriss & Company

James E. Brush
Business Consultant

Josh C. Cox, Jr
Banking Consultant
Josh Cox & Associates

John F. DeMeo
Attorney
DeMeo DeMeo & West

Michael J. Donovan
Attorney

Thomas M. Duryea
President and Chief Executive Officer
Summit State Bank

Todd R. Fry
Chief Financial Officer
Champion Industries, Inc.

Allan J. Hemphill
President
Hemphill and Associates

Samuel G. Kapourales
Real Estate Investor

Ronald A. Metcalfe
Principal
Call & Metcalfe Certified Public Accountants, P.C.

Richard E. Pope
Environmental and Engineering Consultant
Codding Investments, Inc.

Nicholas J. Rado
President
Rado Consulting Services

Marshall T. Reynolds
Chairman and Chief Executive Officer
Champion Industries, Inc.

Eugene W. Traverso
Director
Summit State Bank

Executive Officers:

Thomas M. Duryea
President and Chief Executive Officer

Dennis E. Kelley
Senior Vice President and Chief Financial Officer

William Fogarty
Senior Vice President and Chief Credit Officer

Linda Bertauche
Senior Vice President and Chief Operating Officer

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Investor Relations

SUMMIT STATE BANK
ANNUAL REPORT ON FORM 10-K

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Selected Financial Data

(in thousands except per share data)	2013	2012	2011	2010	2009
	Year Ended December 31				
Income statement data:					
Interest income	$ 17,841	$ 18,278	$ 18,678	$ 18,886	$ 20,653
Net interest income	16,566	16,249	15,750	15,333	15,093
Provision for loan losses	50	3,360	3,650	3,860	3,650
Total non-interest income	1,668	3,498	1,926	1,263	1,099
Total non-interest expense	10,833	10,521	10,234	9,553	8,999
Income before income taxes	7,351	5,866	3,792	3,183	3,543
Income taxes	3,030	2,418	1,564	1,376	1,462
Net income	$ 4,321	$ 3,448	$ 2,228	$ 1,807	$ 2,081
Preferred dividend	253	521	651	552	510
Net income available to common stockholders	$ 4,068	$ 2,927	$ 1,577	$ 1,255	$ 1,571
Selected balance sheet data:					
Assets	$ 454,074	$ 444,896	$ 387,625	$ 347,933	$ 340,400
Loans, net	282,667	275,877	269,963	280,398	288,277
Earning assets	433,283	426,414	374,427	330,652	323,356
Deposits	341,268	341,004	312,058	279,977	264,253
Federal Home Loan Bank advances	48,500	40,000	13,750	12,000	20,120
Shareholders' equity	61,630	62,870	61,009	55,309	55,505
Balance sheet data - average					
Assets	$ 441,583	$ 410,291	$ 377,126	$ 351,386	$ 353,790
Loans, net	279,326	275,505	279,405	287,929	299,932
Earning assets	426,819	393,941	363,042	336,905	337,705
Deposits	342,406	324,428	307,031	278,593	260,507
Federal Home Loan Bank advances	35,437	22,545	10,763	15,727	36,052
Shareholders' equity	62,480	61,812	58,109	56,197	56,190
Selected per common share data:					
Earnings per common share - basic	$ 0.85	$ 0.62	$ 0.33	$ 0.26	$ 0.33
Earnings per common share - diluted	$ 0.85	$ 0.62	$ 0.33	$ 0.26	$ 0.33
Weighted average shares used to calculate earnings per common share - basic	4,761	4,745	4,745	4,745	4,745
Weighted average shares used to calculate earnings per common share - diluted	4,794	4,746	4,745	4,779	4,766
Common shares oustanding at year end	4,778	4,745	4,745	4,745	4,745
Cash dividends per share	$ 0.42	$ 0.36	$ 0.36	$ 0.36	$ 0.36
Book value per common share	$ 10.04	$ 10.37	$ 9.98	$ 9.95	$ 10.01
Tangible book value per common share (1)	$ 9.18	$ 9.50	$ 9.11	$ 9.08	$ 9.15
Selected ratios:					
Return on average common equity	8.33%	6.08%	3.33%	2.64%	3.30%
Return on average assets	0.98%	0.84%	0.59%	0.51%	0.59%
Common dividend payout ratio	49.19%	58.35%	108.31%	136.18%	108.72%
Net interest margin	3.88%	4.12%	4.34%	4.55%	4.47%
Efficiency ratio (2)	59.78%	60.45%	60.48%	58.00%	55.61%
Average equity to average assets	14.15%	15.07%	15.41%	15.99%	15.88%
Leverage capital ratio	13.22%	13.37%	14.46%	14.62%	15.13%
Nonperforming assets to total assets	2.29%	2.18%	3.45%	3.87%	3.44%
Nonperforming loans to total loans	1.95%	1.72%	4.46%	4.70%	3.98%
Net charge-offs to average loans	0.14%	1.10%	1.54%	0.88%	0.98%
Allowance for loan losses to total loans	1.88%	2.04%	1.96%	2.11%	1.62%

(1) Common tangible equity excludes goodwill.

(2) Noninterest expenses to net interest and noninterest income, net of securities gains (losses) and building legal settlement.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from those expressed in, or implied by, our forward-looking statements. Words such as "expects," "anticipates," "believes," "estimates" and other similar expressions or future or conditional verbs such as "will," "should," "would" and "could" are intended to identify such forward-looking statements. Readers of this annual report of the Summit State Bank (also referred to as we, us or our) should not rely solely on the forward-looking statements and should consider all uncertainties and risks throughout the report.

Forward-looking statements, by their nature, are subject to risks, uncertainties and assumptions. Our future results and shareholder values may differ significantly from those expressed in these forward-looking statements. You are cautioned not to put undue reliance on any forward-looking statement. The statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement. However, your attention is directed to any further disclosures made on related subjects in any subsequent reports we may file with the Federal Deposit Insurance Corporation ("FDIC"), including on Forms 10-K, 10-Q and 8-K, in the event we become required to make such filings.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides additional information about the financial condition of Summit State Bank ("the Bank") at December 31, 2013 and 2012 and results of operations for the years ended December 31, 2013, 2012 and 2011. The following analysis should be read in conjunction with the consolidated financial statements of the Bank and the notes thereto prepared in accordance with accounting principles generally accepted in the United States.

Critical Accounting Policies

The discussion and analysis of the Bank's results of operations and financial condition are based upon financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Bank's management to make estimates and judgments that affect the reported amounts of assets and liabilities, income and expense, and the related disclosures of contingent assets and liabilities at the date of these financial statements.

The Bank believes these estimates and assumptions to be reasonably accurate; however, actual results may differ from these estimates under different assumptions or circumstances. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, consideration of goodwill impairment and consideration of "other than temporary impairment" of investment securities.

Allowance for Loan Losses. The allowance for loan losses is determined first and foremost by promptly identifying potential credit weaknesses that could jeopardize repayment. The Bank's process for evaluating the adequacy of the allowance for loan losses includes determining estimated loss percentages for each credit based on the Bank's historical loss experience and other factors in the Bank's credit grading system and accompanying risk analysis for determining an adequate level of the allowance. The risks are assessed by rating each account based upon paying habits, loan to collateral value ratio, financial condition and level of classifications. The allowance for loan losses was $5,412,000 at December 31, 2013 compared to $5,749,000 at December 31, 2012.

The Bank maintains the allowance for loan losses to provide for probable incurred losses in the loan portfolio. Additions to the allowance for loan losses are established through a provision charged to expense. All loans which are judged to be uncollectible are charged against the allowance while any recoveries are credited to the allowance. The Bank's policy is to charge off any known losses at the time of determination. Any unsecured loan more than 90 days delinquent in payment of principal or interest and not in the process of collection is charged off in total. Secured loans are evaluated on a case by case basis to determine the ultimate loss potential to us subsequent to the liquidation of collateral. In those cases where we believe we are inadequately protected, a charge-off will generally be made to reduce the loan balance to a level equal to the liquidation value of the collateral unless we believe the collateral deficiency may be overcome by borrower cash flows.

The Bank's loan policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, to enable the Bank to assess such credit risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for loan losses. The Bank conducts an assessment of the allowance on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors will examine and formally approve the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and any recent regulatory examination, estimated potential loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and non-accrual loans, trends in loan volume, effects of any changes in lending policies and procedures, changes in lending personnel, current economic conditions at the local, state and national level and historical losses and recoveries.

Goodwill. We assess the carrying value of our goodwill at least annually in order to determine if this intangible asset is impaired. In reviewing the carrying value of our goodwill, we assess the recoverability of such assets by evaluating the fair value of the related business unit. If the carrying amount of goodwill exceeds its fair value, an impairment loss is recognized for the amount of the excess and the carrying value of goodwill is reduced accordingly. Any impairment would be required to be recorded during the period identified.

Accounting standards require an annual evaluation of goodwill for impairment using various estimates and assumptions. The market price of the Bank's common stock at the close of business on December 31, 2013 was $10.50 per common share compared to a book value of $10.04 per common share.

Investment Securities. We are obligated to assess, at each reporting date, whether there is an "other-than-temporary" impairment to our investment securities. Such impairment, if related to credit losses, must be recognized in current earnings rather than in other comprehensive income or loss, net of tax. We examine all individual securities that are in an unrealized loss position at each reporting date for other-than-temporary impairment (OTTI). Specific investment level factors we examine to assess impairment include, the severity and duration of the unrealized loss, the nature, financial condition and results of operations of the issuers of the securities and whether there has been any cause for default on the securities or any adverse change in the rating of the securities by the various rating agencies, as well as whether the decline in value is credit or liquidity related. Additionally, we reexamine our financial resources and our overall intent and ability to hold the securities until their fair values recover. There were no OTTI recorded in 2013, 2012 or 2011. We do not believe that we have any investment securities with material unrealized losses that would be deemed to be "other-than-temporarily impaired" as of December 31, 2013. Investment securities are discussed in more detail under "Investment Portfolio."

Overview

The Bank is a community bank serving Sonoma, Napa, San Francisco and Marin Counties in California. It operates through five offices located in Santa Rosa, Petaluma, Rohnert Park and Healdsburg. The Bank was founded as a savings and loan in 1982 under the name Summit Savings. On January 15, 1999, the Bank converted its charter to a California state-chartered commercial bank and thereby became subject to regulation, supervision and examination by the California Department of Financial Institutions and the FDIC.

Results of Operations

Years Ended December 31, 2013, 2012 and 2011

The Bank's primary source of income is net interest income, which is the difference between interest income and fees derived from earning assets and interest paid on liabilities which fund those assets. Net interest income, expressed as a percentage of total average interest earning assets, is referred to as the net interest margin. The Bank's net interest income is affected by changes in the volume and mix of interest earning assets and interest bearing liabilities. It is also affected by changes in yields earned on interest earning assets and rates paid on interest bearing deposits and other borrowed funds. The Bank also generates non-interest income, including transactional fees, service charges, office lease income, gains and losses on investment securities and gains on sold SBA guaranteed loans originated by the Bank. Non-interest expenses consist primarily of employee compensation and benefits, occupancy and equipment expenses and other operating expenses. The Bank's results of operations are also affected by its provision for loan losses. Results of operations may also be significantly affected by other factors including general economic and competitive conditions, mergers and acquisitions of other financial institutions within the Bank's market area, changes in market interest rates, government policies, and actions of regulatory agencies.

Net Income

The Bank had net income of $4,321,000 and net income available for common stockholders, which deducts the preferred dividends, of $4,068,000, or $0.85 per diluted share, for the year ended December 31, 2013 compared to net income of $3,448,000 and net income available for common stockholders of $2,927,000, or $0.62 per diluted share, for the year ended December 31, 2012, and net income of $2,228,000 and net income available for common stockholders of $1,577,000, or $0.33 per diluted share, for the year ended December 31, 2011.

The Return on average assets was 0.98%, 0.84% and 0.59% for the years ended December 31, 2013, 2012 and 2011, respectively. Although various factors effected the change in net income between the years which are discussed in the following sections of this Management's Discussion and Analysis, the years 2012 and 2011 were significantly impacted by additional loan loss provisions to the allowance for loan losses. See "Provision for Loan Losses" below.

Net Interest Income and Net Interest Margin

Net interest income was $16,566,000 and the net interest margin was 3.88% for the year ended December 31, 2013, which represented a $317,000 or 2.0% increase over 2012. For the year ended December 31, 2012, net interest income was $16,249,000 and the net interest margin was 4.12%, which was an increase of $499,000 or 3.2% over 2011. For the year ended December 31, 2011, net interest income was $15,750,000 and the net interest margin was 4.34%. At December 31, 2013, approximately 62.3% of the Bank's assets were comprised of net loans and 28.4% of investment securities compared to 62.0% of net loans and 28.3% of investment securities at December 31, 2012. The declining net interest margin for the years 2011 through 2013 was primarily due to the decline in market interest rates.

The yield on average interest earning assets declined from 2012 to 2013 and 2011 to 2012. The yield on average interest earning assets was 4.18% for the year ended December 31, 2013, 4.64% for the year ended December 31, 2012 and 5.14% for the year ended December 31, 2011. The changes in the overall yield on average earning assets between the years was primarily attributable to the changes in general market interest rates with the changes in rates impacting the re-pricing of the Bank's variable rate loan portfolio and calls on higher yielding government agency securities. The Bank increased its liquid assets by increasing investment securities in 2011 through 2013, which are lower yielding assets than loans, and this also had an impact on the decline in yields of earning assets in 2013 and 2012.

In 2013, average earning assets increased 8.3% with average investment securities increasing 24.8% and average loans increasing 1.4%. In 2012, average earning assets increased 8.5% and average loans declined 1.4% compared to 2011. The decline in loans was due to reductions in the portfolio from pay downs and resolution of problem loans that were unable to be offset with new loan demand.

For the year ended December 31, 2013, the cost of average interest bearing liabilities was 0.40% compared with a cost of average interest bearing liabilities 0.67% for the year ended December 31, 2012 and 1.01% for the year ended December 31, 2011. The changes in cost of funds have been driven by the changing market interest rates over the periods. Additionally, the Bank experienced growth in lower cost demand, savings and money market deposits, in 2011 through 2013.

The following table presents condensed average balance sheet information for the Bank, together with interest rates earned and paid on the various sources and uses of its funds for each of the periods presented. Average balances are based on daily average balances. Nonaccrual loans are included in loans with any interest collected reflected on a cash basis.

Average Balance Sheets and Analysis of net Interest Income

	Year Ended December 31,								
	2013			2012			2011		
(in thousands)	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
Assets									
Interest earning assets:									
Interest bearing deposits in banks	$ 17,429	40	0.23%	$ 14,644	$ 32	0.22%	$ 13,524	$ 30	0.22%
Time deposits with banks	2,452	26	1.06%	1,566	15	0.97%	-	-	0.00%
Taxable investment securities	127,612	3,574	2.80%	102,226	3,209	3.14%	68,043	2,588	3.80%
Federal funds sold	-	-	0.00%	-	-	0.00%	2,070	5	0.24%
Loans, net of unearned income (1)	279,326	14,201	5.08%	275,505	15,022	5.45%	279,405	16,055	5.75%
Total earning assets/interest income	426,819	17,841	4.18%	393,941	18,278	4.64%	363,042	18,678	5.14%
Nonearning assets	20,803			22,675			21,019		
Allowance for loan losses	(6,039)			(6,325)			(6,934)		
Total assets	$ 441,583			$ 410,291			$ 377,127		
Liabilities and Shareholders' Equity									
Interest bearing liabilities:									
Deposits:									
Interest bearing demand deposits	$ 41,684	29	0.07%	$ 27,117	30	0.11%	$ 25,298	57	0.23%
Savings and money market	80,678	160	0.20%	74,555	233	0.31%	61,814	343	0.55%
Time deposits	161,987	971	0.60%	177,026	1,584	0.89%	191,515	2,189	1.14%
FHLB advances	35,437	115	0.32%	22,545	182	0.81%	10,763	339	3.15%
Total interest bearing liabilities/interest expense	319,786	1,275	0.40%	301,243	2,029	0.67%	289,390	2,928	1.01%
Noninterest bearing deposits	58,057			45,730			28,404		
Other liabilities	1,260			1,505			1,224		
Total liabilities	379,103			348,478			319,018		
Shareholders' equity	62,480			61,812			58,109		
Total liabilities and shareholders' equity	$ 441,583			$ 410,290			$ 377,127		
Net interest income and margin (2)		$ 16,566	3.88%		$ 16,249	4.12%		$ 15,750	4.34%
Net interest spread (3)			3.78%			3.97%			4.13%

(1) The net amortization of deferred fees and costs on loans included in interest income was $149,000, $199,000 and $286,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

(2) Net interest margin is computed by dividing net interest income by average total earning assets.

(3) Net interest spread is the difference between the average rate earned on average total earning assets and the average rate paid on average total interest bearing liabilities.

The following table shows the change in interest income and interest expense and the amount of change attributable to variances in volume and rates. The unallocated change in rate or volume variance has been allocated between the rate and volume variances in proportion to the absolute dollar amount in the change of each.

Volume and Yield/Rate Variances

	2013 Compared to 2012			2012 Compared to 2011		
	Change Due to			Change Due to		
(Dollars in thousands)	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Interest bearing deposits in banks	$ 6	$ 2	$ 8	$ 2	$ -	$ 2
Time deposits with banks	9	2	11	15	-	15
Taxable investment securities	737	(372)	365	1,132	(511)	621
Federal funds sold	-	-	-	(5)	-	(5)
Loans, net	206	(1,027)	(821)	(227)	(806)	(1,033)
Total interest income	958	(1,395)	(437)	917	(1,317)	(400)
Interest expense:						
Interest-bearing demand deposits	13	(14)	(1)	4	(31)	(27)
Savings and money market	18	(91)	(73)	61	(171)	(110)
Time deposits	(144)	(469)	(613)	(175)	(430)	(605)
FHLB advances	74	(141)	(67)	207	(364)	(157)
Total interest expense	(39)	(715)	(754)	97	(996)	(899)
Increase (decrease) in net interest income	$ 997	$ (680)	$ 317	$ 820	$ (321)	$ 499

Provision for Loan Losses

The Bank maintains an allowance for loan losses for probable incurred losses that are expected as an incidental part of the banking business. Write-offs of loans are charged against the allowance for loan losses, which is adjusted periodically to reflect changes in the volume of outstanding loans and estimated losses due to changes in the financial condition of borrowers or the value of property securing nonperforming loans, or changes in general economic conditions and other qualitative factors. Additions to the allowance for loan losses are made through a charge against income referred to as the “provision for loan losses.”

The Bank’s loan policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, to enable management to assess such credit risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for loan losses. Management conducts an assessment of the allowance for loan losses on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors evaluates and formally approves the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and regulatory examination, estimated probable loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and non-accrual loans, trends in loan volume, effects of any changes in the lending policies and procedures, changes in lending personnel, current economic conditions at the local, state and national level, and a migration analysis of historical losses and recoveries for the prior twelve quarters.

At December 31, 2013, the Bank's allowance for loan losses totaled $5,412,000 or 1.88% of outstanding loans, compared with an allowance for loan losses of $5,749,000, or 2.04% of outstanding loans at December 31, 2012 and $5,411,000, or 1.96% of outstanding loans at December 31, 2011. There were $387,000 in net loans charged-off to the allowance for loan losses during 2013, $3,022,000 in net charge-offs to the allowance in 2012 and $4,297,000 in net charge-offs in 2011. For the year ended December 31, 2013, the provision for loan losses amounted to $50,000 and for the years ended December 31, 2012 and 2011, the provision for loan losses amounted to $3,360,000 and $3,650,000, respectively. The provision for loan losses is dependent on the change in loans outstanding, the mix of types of loans within the portfolio, net charge-offs recorded against the allowance, the volumes of loans past due or on non-accrual status and economic factors. See "Allowance for Loan Losses" below.

Non-interest Income

The following table summarizes non-interest income recorded for the years indicated.

Non-interest Income

	Year Ended December 31,		
(in thousands)	2013	2012	2011
Service charges on deposit accounts	$ 566	$ 519	$ 514
Rental income	516	499	534
Net securities gains	80	728	754
Net gains (losses) on other real estate owned	34	(89)	75
Loan servicing, net	14	29	26
Building legal settlement	-	1,363	-
Other income	458	449	23
Total non-interest income	$ 1,668	$ 3,498	$ 1,926

Service charges on deposit accounts were $566,000 for the year ended December 31, 2013, compared to $519,000 and $514,000 for the years ended December 31, 2012 and 2011, respectively. The Bank has experienced an increase in demand deposits, and the increase in service charges has primarily resulted from the addition of commercial analysis checking accounts and increased debit card transactions.

The Bank owns its headquarters building with approximately half of the office space leased to nonaffiliated tenants. The building was fully leased at December 31, 2013. Lease income from this office building was $516,000, $499,000 and $534,000 for the years ended December 31, 2013, 2012 and 2011, respectively. The leases have annual rent increases. The decline in lease income in 2012 was attributable to lower lease rates as certain leases renewed during the period.

Net securities gains can vary significantly from year to year based on the amount of securities sold or called and the net gain realized. Additionally, gains or losses are highly dependent on the interest rate environment and its impacts on the fair market value of investment securities. In 2013, 2012 and 2011, the Bank sold or had calls on various government agency and corporate bonds with a net gain of $80,000 in 2013, $728,000 in 2012 and $754,000 in 2011.

Other income in 2012 included income recognition of a non-recurring legal settlement concerning the Bank's headquarters building. Net proceeds received from the settlement were $2,515,000 of which $1,363,000 was recorded as other income, $152,000 was recovery of legal expense and $1,000,000 was recorded as a reduction in the building's cost basis. Additionally, other income in 2013 and 2012 included $425,000 and $431,000 in rental income received from foreclosed properties, respectively.

Non-interest Expenses

The following table summarizes non-interest expenses recorded for the years indicated.

Non-interest Expenses

	Year Ended December 31,		
(in thousands)	2013	2012	2011
Salaries and employee benefits	$ 5,327	$ 5,303	$ 5,135
Occupancy and equipment	1,453	1,509	1,601
Other expenses	4,053	3,709	3,498
Total	$ 10,833	$ 10,521	$ 10,234

Non-interest expenses, or also referred to as operating expenses, is commonly expressed as a percentage of average assets for the period and as a percentage of operating revenues, or the efficiency ratio. The efficiency ratio divides the non-interest expenses by total revenues, which is defined as net interest income plus non-interest income, excluding net security gains, and for 2012, the income from the building settlement. The non-interest expenses as a percent of annual average assets for 2013 was 2.5% and were 2.6% for 2012 and 2.7% for 2011. The efficiency ratio for 2013 was 59.8% and were 60.5% and 2012 and 2011.

Salaries and employee benefits expense was relatively unchanged in 2013 compared to 2012 and increased 3.3% in 2012 compared to 2011. The increases were primarily due to salary increases and increased health insurance premiums. Full time equivalent employee levels were 58, 57 and 60 at December 31, 2013, 2012 and 2011.

Occupancy and equipment expenses decreased 3.7% in 2013 compared to 2012 and declined 5.7% in 2012 compared to 2011. Occupancy expenses include costs incurred with the Bank's owned headquarters building and four leased branch office buildings. The declines in expenses were due to lower rental rates and reduced depreciation expense.

The following table summarizes the categories of other expenses.

Other Expenses

	Year Ended December 31,		
(in thousands)	2013	2012	2011
Data processing	$ 845	$ 693	$ 544
Professional fees	519	562	675
Director fees and expenses	635	554	520
Advertising and promotion	620	525	546
Deposit and other insurance premiums	481	478	496
Telephone and postage	71	62	67
Other expenses	882	835	650
	$ 4,053	$ 3,709	$ 3,498

Data processing expenses continue to increase each year as the Bank implements new electronic delivery platforms such as mobile banking, and per account and transaction expenses from the Bank's third party data service provider increase, corresponding to the increase in the number of new deposit and loan customers.

Professional fees vary depending on the use of legal, audit and consulting services. Legal services utilized by the Bank increased in 2011 and 2012 as a result of problem loan resolutions, but declined in 2013. Director fees and expenses increased as a result of an increase in the number of directors and travel expenses incurred by directors for attendance of Board meetings. Miscellaneous other expenses increased from 2011 through 2013, primarily as a result of increased costs of general operations.

Provision for Income Taxes

The Bank accrues income tax expense based on the anticipated tax rates during the financial period covered. The provision for income taxes for the years ended December 31, 2013, 2012 and 2011, was $3,030,000 $2,418,000 and $1,564,000, respectively. The combined effective Federal and State corporate income tax rates for the years ended December 31, 2013, 2012 and 2011 were 41.2%.

Investment Portfolio

Securities classified as available-for-sale for accounting purposes are recorded at their fair value on the balance sheet. Securities classified as held-to-maturity are recorded at amortized cost. At December 31, 2013, investment securities comprised 28.5% of total assets and 30.0% of earning assets. At December 31, 2012, investment securities comprised 28.3% of total assets and 29.5% of earning assets. At December 31, 2013, there were $15,558,000 in investment securities classified as held-to-maturity and none at December 31, 2012. Securities classified as available-for-sale were $113,569,000 and $125,714,000 for the 2013 and 2012 respective year ends. Changes in the fair value of available-for-sale securities (e.g., unrealized holding gains or losses) are reported as “other comprehensive income (loss),” net of tax, and carried as accumulated other comprehensive income or loss within shareholders’ equity until realized. The accumulated other comprehensive income or loss was an unrealized loss position of $1,960,000 at December 31, 2013 and an unrealized gain position of $1,558,000 at December 31, 2012. The change from a gain to a loss position was primarily due to the increase in long term interest rates that occurred in 2013.

The Bank utilizes the investment portfolio to manage liquidity and attract funding that requires collateralization. At December 31, 2013, investment securities with a fair value of $51,069,000, or 40% of the portfolio, were pledged to secure State of California deposits. This compares to $37,752,000, or 30% of the portfolio pledged at December 31, 2012. At December 31, 2013 and 2012, securities with a par value of $71,347,000 and $61,790,000, respectively, were callable within one year.

Investment Securities

	December 31,		
(in thousands)	2013	2012	2011
Held-to-maturity:			
Government agencies	$ 15,558	$ -	$ -
Available-for-sale:			
Government agencies	$ 63,105	$ 71,676	$ 57,626
Mortgage-backed securities - residential	5,184	3,470	3,823
Corporate debt	44,543	50,263	27,211
Municipal securities	736	305	-
Total available-for-sale	113,568	125,714	88,660
Total investment securities	$ 129,126	$ 125,714	$ 88,660

The composition of the investment portfolio by major category and contracted maturities or repricing of debt investment securities at December 31, 2013 are shown below.

Contractual Maturity or Repricing Schedule and Weighted Average Yields of Securities
As of December 31, 2013

(in thousands)	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Held-to-maturity:								
Government agencies	$ -	-	$ 2,000	0.75%	$ 6,558	1.00%	$ 7,000	1.79%
Available-for-sale:								
Government agencies	$ -	-	$ 7,929	1.48%	$ 40,836	2.30%	$ 14,340	3.31%
Mortgage-backed securities - residential	-	-	-	-	-	-	5,184	3.29%
Corporate debt	497	3.66%	11,765	3.55%	32,281	3.82%	-	-
Municipal securities	-	-	-	-	-	-	736	5.49%
Total available-for-sale	497	3.66%	19,694	2.72%	73,117	2.97%	20,260	3.38%
Total investment securities	$ 497	3.66%	$ 21,694	2.54%	$ 79,675	2.81%	$ 27,260	2.97%

As of December 31, 2013 the Bank did not own securities of any single issuer (other than U.S. Government agencies) whose aggregate book value was in excess of 10% of the Bank's total equity at the time of purchase.

Loan Portfolio

Loan categories used in presentations in this report conform to the categorizations used by regulatory Called Reports as described by the instructions issued by the Federal Financial Interagency Examination Council (FFIEC).

The following table shows the composition of the Bank's loan portfolio by amount and percentage of total loans for each major loan category at the dates indicated.

Loans

(in thousands)	December 31, 2013	%	2012	%	2011	%	2010	%	2009	%
Commercial & agricultural (1)	$ 63,769	22.1%	$ 66,245	23.4%	$ 58,809	21.3%	$ 64,375	22.4%	$ 69,520	23.7%
Real Estate - commercial	151,073	52.3%	134,481	47.6%	125,964	45.6%	112,608	39.2%	113,203	38.6%
Real estate - construction and land	11,571	4.0%	10,784	3.8%	11,397	4.1%	17,052	5.9%	12,067	4.1%
Real Estate - single family	50,931	17.6%	51,659	18.3%	55,183	20.0%	62,584	21.8%	64,914	22.1%
Real Estate - multifamily	11,412	4.0%	18,990	6.7%	23,214	8.4%	27,685	9.6%	28,967	9.9%
Consumer & lease financing	144	0.0%	556	0.2%	1,786	0.6%	2,808	1.0%	4,865	1.7%
	288,900	100%	282,715	100%	276,353	100%	287,112	100%	293,536	100%
LESS:										
Allowance for Loan Losses	(5,412)		(5,749)		(5,411)		(6,058)		(4,737)	
Deferred Loan Fees	(821)		(1,089)		(979)		(656)		(521)	
Total Loans, Net	$ 282,667		$ 275,877		$ 269,963		$ 280,398		$ 288,278	

(1) Includes loans secured by farmland.

The Bank experienced increased loan demand in 2013, primarily for financing owner occupied commercial real estate.

At December 31, 2013, the Bank had approximately $13,163,000 in undisbursed loan commitments, of which approximately $7,072,000 related to real estate loan types. This compares with undisbursed commitments of approximately $13,102,000 at December 31, 2012, of which approximately $7,566,000 related to real estate loan types. At December 31, 2013 and 2012, there were $2,176,000 and $2,025,000, respectively, in standby letters of credit outstanding.

The following table shows the maturity distribution of Real Estate Construction and Land and Commercial & Agricultural loans, including rate repricing intervals on variable rate loans, at December 31, 2013. In the following table, the term variable (generally referring to loans for which the interest rate will change immediately given a change in the underlying index) also includes loans with adjustable rates (loans for which the rate may change, but which are also limited in occurrence).

Loan Portfolio Maturity Structure at December 31, 2013

(in thousands)	Within One Year	After One But Within Five Years	After Five Years	Total
Real Estate - construction and land	$ 2,993	$ 4,553	$ 4,025	$ 11,571
Commercial & agricultural	12,701	25,958	25,110	63,769
Total	$ 15,694	$ 30,511	$ 29,135	$ 75,340
Loans with:				
Fixed interest rates	$ 6,979	$ 18,692	$ 4,955	$ 30,626
Floating interest rates	8,715	11,819	24,180	44,714
Total	$ 15,694	$ 30,511	$ 29,135	$ 75,340

Loan Policies and Procedures

The Bank’s underwriting practices include an analysis of the borrower’s management, current economic factors, the borrower’s ability to respond and adapt to economic changes outside its direct control and verification of primary and secondary sources of repayment. Risk within the loan portfolio is managed through the Bank’s loan policies and underwriting. These policies are reviewed and approved annually by the Board of Directors.

- Management administers the loan policy, ensures proper loan documentation is maintained and develops the methodology for monitoring loan quality and the level of the allowance for loan losses and reports on these matters to the Board of Directors' Internal Asset Review Committee and the Board of Directors.

- The Board of Directors' Internal Asset Review Committee meets regularly to evaluate problem assets and the adequacy of the allowance for loan losses. The Committee also reviews and makes recommendations to the Board of Directors regarding the adequacy of the allowance for loan losses, and is responsible for ensuring that an independent third party reviews the loan portfolio at least annually. Resultant reports are sent to this Committee and to the Audit Committee.

- The Board of Directors' Loan Committee is responsible for enforcement of the loan policy and has additional responsibilities which include approving loans or loan relationships for a customer that, when considered in the aggregate, exceed management's level of loan authority for that customer.

- The Board of Directors' Audit Committee also engages a third party to perform a review of management's asset and liability practices to ensure compliance with the Bank's policies.

- The Board of Directors retains overall responsibility for all loan functions and reviews material loan relationships.

Loan approvals are granted according to established policies, and lending officers are assigned approval authorities within their levels of training and experience. Interest rates reflect the risk inherent in loans and collateral is generally taken for purchase-money financing. Collateral may consist of accounts receivable, direct assignment of contracts, inventory, equipment and real estate. Unsecured loans may be made when warranted by the financial strength of the borrower. The Bank has approximately $126 million in loans (44% of the gross loan portfolio at December 31, 2013) with fixed interest rates or variable interest rates where the current interest rate is at the contractual floor rate which is above the fully indexed rate that mature in over 5 years. Guarantees are generally required to help assure repayment. Management believes that pricing is commensurate with risk for both new and existing customers.

Nonperforming Assets

Nonperforming assets consist of nonperforming loans, investment securities with deferred interest payments and other real estate owned. Nonperforming loans are those for which the borrower fails to perform under the original terms of the obligation and consist of nonaccrual loans and accruing loans past due 90 days or more. Additionally, loans may be restructured due to deteriorating financial conditions and classified as troubled debt restructurings (TDRs). The TDR’s may or may not be the same as those listed as nonaccrual or 90 days or more past due loans.

The following are the nonperforming assets for the respective periods:

Nonperforming Assets

(in thousands)	December 31, 2013	2012	2011	2010	2009
Nonaccrual loans	$ 5,614	$ 4,840	$ 12,292	$ 13,472	$ 10,587
Accruing loans past due 90 days or more	-	-	-	-	1,066
Total nonperforming loans	5,614	4,840	12,292	13,472	11,653
Other real estate owned	4,771	4,845	1,074	-	-
Investment securities	-	-	-	-	44
Total nonperforming assets	$ 10,385	$ 9,685	$ 13,366	$ 13,472	$ 11,697
Nonperforming loans to total loans	1.95%	1.72%	4.46%	4.70%	3.98%
Nonperforming assets to total assets	2.29%	2.18%	3.45%	3.87%	3.44%
Allowance for loan losses to nonperforming loans	96.40%	118.80%	44.02%	44.97%	40.65%

Nonperforming loans at December 31, 2013, consisted of 15 loans to 11 customers. Nonperforming loans included commercial real estate loans totaling $4,527,000, loans collateralized by single and multifamily properties totaling $658,000 and $429,000 in commercial and agricultural loans. The Bank had $355,000 in specific allocated allowance for loan losses to these loans.

Other real estate owned at December 31, 2013 consisted of two commercial properties currently leased.

The Bank actively works with customers to facilitate collection of the loans that are impacted in the current economic downturn. The Bank may modify terms of the loans to provide the borrower with relief. These modifications may classify the loan as a TDR. Loans that are classified as TDRs were $7,801,000 at December 31, 2013, of which $4,465,000 were considered performing loans and $3,336,000 are nonperforming loans and are included in the table above. The $4,465,000 in TDRs that were considered performing loans are primarily collateralized by single family residential or commercial real estate properties.

Allowance for Loan Losses

The Bank maintains the allowance for loan losses to provide for inherent losses in the loan portfolio. Additions to the allowance for loan losses are established through a provision charged to expense. All loans which are judged to be uncollectible are charged against the allowance while any recoveries are credited to the allowance. The Bank's policy is to charge off any known losses at the time of determination. Any unsecured loan more than 90 days delinquent in payment of principal or interest and not in the process of collection is charged off in total. Secured loans are evaluated on a case by case basis to determine the ultimate loss potential to us subsequent to the liquidation of collateral. In those cases where we believe we are inadequately protected, a charge-off will be made to reduce the loan balance to a level equal to the liquidation value of the collateral.

The Bank's loan policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, to enable management to assess such credit risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for loan losses. Management conducts an assessment of the allowance for loan losses on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors evaluates and formally approves the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and regulatory examination, estimated probable loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and non-accrual loans, trends in loan volume, effects of any changes in lending policies and procedures, changes in lending personnel, current economic conditions at the local, state and national level and a migration analysis of historical losses and recoveries for the prior twelve quarters.

The following table sets forth an analysis of the allowance for loan losses and provision for loan losses for the periods indicated.

Summary of Activity in the Allowance for Loan Losses

(Dollars in thousands)	Year Ended December 31				
	2013	2012	2011	2010	2009
Balance at beginning of period	$ 5,749	$ 5,411	$ 6,058	$ 4,737	$ 4,016
Charge-offs:					
Commercial & agricultural	49	83	82	1,987	2,147
Real estate - commercial	835	1,157	2,250	-	-
Real estate - construction and land	-	871	1,081	270	-
Real Estate - single family	-	971	33	242	807
Real Estate - multifamily	-	-	784	-	-
Consumer & lease financing	-	64	104	56	31
Total loans charged-off	884	3,146	4,334	2,555	2,985
Recoveries:					
Commercial & agricultural	459	31	12	-	56
Real estate - commercial	-	56	-	-	-
Real estate - construction and land	-	-	25	14	-
Real Estate - single family	26	25	-	-	-
Real Estate - multifamily	-	-	-	-	-
Consumer & lease financing	12	12	-	2	-
Total recoveries	497	124	37	16	56
Net loans charged-off	387	3,022	4,297	2,539	2,929
Provision for loan losses	50	3,360	3,650	3,860	3,650
Allowance for loan losses - end of period	$ 5,412	$ 5,749	$ 5,411	$ 6,058	$ 4,737
Loans:					
Average loans outstanding during period, net of unearned income	$ 279,326	$ 275,505	$ 279,405	$ 287,929	$ 299,932
Total loans at end of period, net of unearned income	$ 288,079	$ 281,626	$ 275,374	$ 286,456	$ 293,014
Ratios:					
Net loans charged-off to average net loans	0.14%	1.10%	1.54%	0.88%	0.98%
Net loans charged-off to total loans	0.13%	1.07%	1.55%	0.89%	1.00%
Allowance for loan losses to average net loans	1.94%	2.09%	1.94%	2.10%	1.58%
Allowance for loan losses to total loans	1.88%	2.04%	1.96%	2.11%	1.62%
Net loans charged-off to beginning allowance for loan losses	6.73%	55.85%	70.93%	53.60%	72.93%
Net loans charged-off to provision for loan losses	774.00%	89.94%	117.73%	65.78%	80.25%

The following table summarizes the allocation of the allowance for loan losses by loan category and the amount of loans in each category as a percentage of total loans in each category as of the end of each year presented. The allocated and unallocated portions of the allowance for loan losses are available to the entire portfolio.

Allocation of Allowance for Loan Losses

	Year Ended December 31,									
	2013		2012		2011		2010		2009	
(in thousands)	**Allowance Allocation**	**Amount of Category Loans to Total Loans**	**Allowance Allocation**	**Amount of Category Loans to Total Loans**	**Allowance Allocation**	**Amount of Category Loans to Total Loans**	**Allowance Allocation**	**Amount of Category Loans to Total Loans**	**Allowance Allocation**	**Amount of Category Loans to Total Loans**
Commercial & agricultural	$ 562	22.1%	$ 734	23.4%	$ 852	21.3%	$ 1,485	22.4%	$ 1,634	23.7%
Real estate - commercial	2,955	52.3%	2,547	47.6%	3,230	45.6%	1,402	39.2%	1,094	38.6%
Real estate - construction and land	379	4.0%	148	3.8%	180	4.1%	1,891	5.9%	94	4.1%
Real estate - single family	214	17.6%	251	18.3%	91	20.0%	63	21.8%	379	22.1%
Real estate - multifamily	272	4.0%	82	6.7%	82	8.4%	87	9.6%	176	9.9%
Consumer & lease financing	15	0.0%	6	0.2%	16	0.6%	60	1.0%	104	1.7%
Other qualitative factors (1)			960		960		960		960	
Unallocated	1,015		1,021		-		110		296	
Total	$ 5,412	100%	$ 5,749	100%	$ 5,411	100%	$ 6,058	100%	$ 4,737	100%

(1) At December 31, 2013, the Bank allocated the allowance for other qualitative factors by portfolio segment. The other qualitative factors allocation was not identifiable to separate portfolio segments in prior years.

The changes from year to year for the allocation by loan category are attributable to the growth of the category and management's assessment of the quality of the individual loans within the category. The other qualitative factors allocation represents various qualitative factors in the determination of the adequacy of the allowance for loan losses. Qualitative factors included the size of individual credits, concentrations and general economic conditions. Management considers these qualitative factors in their evaluation of the adequacy of the allowance for loan losses.

The increase in the allowance allocations for the commercial real estate category at December 31, 2013 compared to December 31, 2012 was primarily attributable to the increase of that category of loans. Additionally, the allocation for other qualitative factors was allocated to each portfolio segment in 2013 resulting in increases compared to prior periods.

An unallocated allowance can arise from fluctuations in the amount of classified ("credit grades") and specific allocations to nonperforming loans between periods. Management and the Internal Asset Review Committee reviews the amount and reasons for unallocated allowances and whether it has arisen due to periodic fluctuations in the credit grades or has arisen due to changes in qualitative factors or changes in lending strategies. If the unallocated allowance has arisen from other than periodic fluctuations in credit grades or other than potential temporary factors, then the Internal Asset Review Committee may determine that a portion of the allowance for loan losses should be reversed. Nonperforming loans declined significantly in 2012 which gave rise to an increase in unallocated allowance. As nonperforming loan trends and charge-off histories support the positive trend in credit quality, the unallocated allowance will be adjusted.

In addition to the allowance for loan losses, the Bank maintains an allowance for losses for undisbursed loan commitments, which is reported in other liabilities on the consolidated balance sheets. This allowance was $30,000 at December 31, 2013 and 2012.

Deposits

Deposits are the Bank's primary source of funds. The Bank employs business development officers and branch office personnel to solicit commercial demand deposits. The Bank focuses on obtaining deposits from the communities it serves but occasionally may accept deposits from outside its market area or receive brokered deposits.

The following table sets forth total deposits by type.

Deposits by Type

	Year Ended December 31,			
	2013		2012	
	Balance	% of Total	Balance	% of Total
Demand Accounts	$ 106,744	31.28%	$ 87,607	25.69%
Savings and Money Market	81,711	23.94%	79,926	23.44%
Time Deposits	152,813	44.78%	173,471	50.87%
Total Deposits	$ 341,268		$ 341,004	

The Bank has executed a strategy to increase demand and money market accounts as a percentage of total deposits. Funding provided by time deposits are replaced by FHLB advances when the interest rates of advances are lower. The change in the mix of the deposit composition will enable the Bank to lower the cost of funds and provide less sensitivity to rising interest rates.

The Bank offers local depositors with deposits in excess of $250,000 and who are concerned with FDIC insurance limits, a deposit placement service through a program called CDARS and ICS. Through this program amounts in excess of $250,000 can be placed in certificates of deposit or demand accounts at other institutions and the Bank receives reciprocal deposits from other institutions within the network. At December 31, 2013 and 2012, there were $14,226,000 and $21,387,000 in CDARS time deposits and $14,449,000 and $0 in ICS demand deposits, respectively. Although the originating depositors are local customers of the Bank, this exchange of deposits for the purposes of FFIEC Called Reports, are classified as brokered deposits. In addition to these deposits, the Bank had $19,538,000 and $19,823,000 at December 31, 2013 and 2012 in brokered deposits.

Certain time deposits are received through a program run by the Treasurer of the State of California to place public deposits with community banks. At December 31, 2013 and 2012, the State of California had $43,500,000 and $36,500,000 in time deposits with the Bank with maturities of up to six months and collateralized by investment securities or mortgage loans.

The following table sets forth the average balances by deposit category and the interest cost for the periods indicated.

Average Deposit Balances and Rates Paid

	Year Ended December 31,					
	2013		2012		2011	
(in thousands)	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Non-interest-bearing demand deposits	$ 58,057		$ 45,730		$ 28,404	
Interest-bearing demand deposits	41,684	0.07%	27,117	0.11%	25,298	0.23%
Savings and money market	80,678	0.20%	74,555	0.31%	61,814	0.55%
Time certificates under $100,000	40,847	0.90%	46,570	1.42%	57,445	1.68%
Time certificates $100,000 or over	121,140	0.50%	130,456	0.70%	134,070	0.91%
Total deposits	$ 342,406	0.34%	$324,428	0.57%	$307,031	0.84%

The following table sets forth the maturities of time certificates of deposit of $100,000 or more outstanding at December 31, 2013 and 2012.

Maturity of Time Deposits of $100,000 or More

(in thousands)	December 31, 2013	December 31, 2012
Time deposits of $100,000 or more maturing in:		
Three months or less	$ 50,945	$ 52,518
Over three though six months	26,312	36,430
Over six to twelve months	20,210	15,828
Over twelve months	16,968	24,009
Total time deposits of $100,000 or more	$ 114,435	$ 128,785

Borrowings

Borrowings were $48,500,000 and $40,000,000 at December 31, 2013 and 2012. Borrowings consisted of FHLB advances. At December 31, 2013 there was $33,500,000 due within one year. Management utilizes FHLB advances when the terms are deemed advantageous compared to raising time deposits and to manage overall liquidity.

Quantitative and Qualitative Disclosures about Market Risk

The Bank monitors earning asset and deposit levels, developments and trends in interest rates, liquidity, capital adequacy and marketplace opportunities. Risks associated with interest rate changes and market risk are managed through the Bank's Asset Liability and Investment Policies. These policies are reviewed and approved annually by the Board of Directors, and oversight is provided by the Asset Liability and Investment Committee of the Board. Management responds to all of these to protect and possibly enhance net interest income, while managing risks within acceptable levels as set forth in the Bank's policies. In addition, alternative business plans and transactions are contemplated for their potential impact. This process is known as asset/liability management and is carried out by changing the maturities and relative proportions of the various types of loans, investments, deposits and borrowings in the ways described above.

The tool most commonly used to manage and analyze the interest rate sensitivity of a bank is known as a computer simulation model. To quantify the extent of risks in both the Bank's current position and in transactions it might make in the future, the Bank uses a model to simulate the impact of different interest rate scenarios on net interest income. The hypothetical impact of both sudden (up to an immediate change in interest rates of +/- 4.00%) and smaller incremental interest rate changes are modeled at least quarterly, representing the primary means the Bank uses for interest rate risk management decisions.

The Bank is liability sensitive during a one year period meaning that during one year, more liabilities will reprice than loans. Liability sensitive banks would expect an increase in the net interest margin if interest rates decline and the net interest margin to decline when rates increase. However various factors influence the change in the Bank's margin when general market interest rates change. These factors include, but are not limited to, the growth and mix of new assets, deposit liabilities and borrowings, the extension or contraction of maturities of new and renewed assets and liabilities, the particular shape of the general economic yield curve, and the general influence on pricing by competition in the local market for loans and deposits. Additionally, when economic rates change, there is an immediate impact from loans that are tied to a daily "prime lending or other index rate." The repricing of liabilities to offset this change requires time for deposits to mature and renew. Based strictly on maturing time deposits and borrowings, and without the other factors listed above, it normally will take three months for the Bank to reprice liabilities to offset a prime rate change.

At December 31, 2013, the computer simulation model for a +2.00% interest rate shock, results in the Bank's net interest income for a twelve month period to decrease by 7.7% or $1,273,000. As current interest rates are at low levels, no meaningful projection is made for a rate reduction. Computer simulation models use information from the Bank's loan and deposit system at a static point in time and bases the repricing of assets and liabilities on contractual terms, and certain assumptions as to movements of various rate indexes and management decisions regarding when to reprice certain portfolios not linked to an index. The actual results experienced from interest rate changes can vary from the results of the simulation.

The Bank monitors a ratio called the economic value of equity which is the theoretical projected change in fair values of financial assets (loans, investment securities, deposits and borrowings) that may impact equity for a given change in interest rates. Major assumptions used in determining the fair values include maturities, repricing periods, and decay rates of non-maturity deposits. As the calculation is highly dependent on assumptions, as well as the change in the shape of the yield curve being modeled, it is not considered to be an exact calculation, but is used as an interest rate risk monitoring tool. The computer simulation model for a +2.00% interest rate shock results in an 18.8% decline in the economic value of equity.

When preparing its modeling, the Bank makes significant assumptions about the lag in the rate of change and impacts of optionality in various asset and liability categories. The Bank bases its assumptions on past experience and comparisons with other banks, and tests the validity of its assumptions by reviewing actual results with past projected expectations annually. As the impact of changing interest rates depends on assumptions, actual experience can materially differ from projections. The purpose of the model is to forecast the likely impact in order for management to monitor exposures to interest rate risk and make adjustments to the balance sheet if needed.

Liquidity and Capital Resources

Maintenance of adequate liquidity requires that sufficient resources be available at all times to meet cash flow requirements of the Bank. Liquidity in a banking institution is required primarily to provide for deposit withdrawals and the credit needs of customers and to take advantage of lending and investment opportunities as they arise. A bank may achieve desired liquidity from both assets and liabilities. Cash and deposits held in other banks, federal funds sold, other short term investments, maturing loans and investments, payments of principal and interest on loans and investments, and potential loan sales are sources of asset liquidity. Deposit growth and access to credit lines established with correspondent banks, primarily with the FHLB, Federal Reserve and access to brokered certificates of deposits are sources of liability liquidity. The Bank reviews its liquidity position on a regular basis based upon its current position and expected trends of loans and deposits. Management believes that the Bank maintains adequate sources of liquidity to meet its liquidity needs.

The Bank's liquid assets, defined as cash, deposits with banks, Federal funds sold and unpledged investment securities, totaled \$96,170,000 and \$109,916,000 at December 31, 2013 and December 31, 2012, respectively, and constituted 21.2% and 24.7%, respectively, of total assets on those dates. The decrease in liquid assets was attributable to an increase in loans and additional investment securities pledged.

At December 31, 2013 the Bank had \$152,222,000 in borrowing lines of credit from the FHLB and correspondent banks with \$48,500,000 in outstanding advances from the FHLB. At December 31, 2012, these lines of credit available were \$128,917,000 with \$40,000,000 in FHLB advances outstanding.

The Board of Directors recognizes that a strong capital position is vital to growth, continued profitability, and depositor and investor confidence. The policy of the Board of Directors is to maintain sufficient capital at not less than the "well-capitalized" thresholds established by banking regulators. However, in the current economic and regulatory environment the Bank has maintained capital ratios in excess of regulatory requirements.

Shareholders' equity also includes the Bank's accumulated other comprehensive income or (loss), net of taxes of \$(1,960,000) at December 31, 2013 and \$1,558,000 at December 31, 2012. Other comprehensive income (loss) reflects the fair value adjustment, net of tax, of investment securities classified as available-for-sale. This will fluctuate based on the amount of securities classified as available-for-sale and changes in market interest rates. Total shareholders' equity was $61,630,000 at December 31, 2013, $62,870,000 at December 31, 2012.

Federal regulations establish guidelines for calculating "risk-adjusted" capital ratios and minimum ratio requirements. Under these regulations, banks are required to maintain a total risk-based capital ratio of 8.0% and Tier 1 risk-based capital (primarily shareholders' equity) of at least 4.0% of risk-weighted assets. The Bank had total and Tier 1 risk-based capital ratios of 18.6% and 17.4%, respectively, at December 31, 2013, and was "well-capitalized" under the regulatory guidelines. The Bank's total and Tier 1 risk-based capital ratios were 18.4% and 17.1%, respectively, at December 31, 2012.

In addition, regulators have adopted a minimum leverage ratio standard for Tier 1 capital to average assets. The minimum ratio for top-rated institutions may be as low as 3%. However, regulatory agencies have stated that most institutions should maintain ratios at least 1 to 2 percentage points above the 3% minimum. As of December 31, 2013, the Bank's leverage ratio was 13.2%, while as of December 31, 2012, the Bank's leverage ratio was 13.4%. Capital levels for the Bank remain above established regulatory capital requirements.

On August 4, 2011, as part of the Small Business Lending Fund ("SBLF"), the Bank entered into a Small Business Lending Fund Securities Purchase Agreement ("SBLF Purchase Agreement") with the United States Department of the Treasury ("Treasury"). Under the SBLF Purchase Agreement, the Bank received $13,750,000 and issued 13,750 shares of preferred stock series B to the Treasury. $8,500,000 of the funds was used to redeem the outstanding Series A shares. The preferred stock series B shares qualify as Tier 1 capital and will pay quarterly dividends. The initial dividend was 5%. The dividend rate fluctuated between 1% and 5% until December 31, 2013 based on the growth in qualified small business loans. After December 31, 2013, the dividend was fixed at 1% annually until February 2016 at which time it increases to an annual rate of 9%.

Quarterly dividends are paid out of retained earnings. The Bank has paid $0.42 or $2,002,000 in dividends on common stock during 2013. The California Financial Code restricts total dividend payment of any bank in any calendar year without permission of the California Department of Financial Institutions, to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. The Bank is not subject to this restriction based on its current dividend levels as of December 31, 2013.

Although the Bank's regulatory capital ratios are in excess of requirements and notwithstanding the requirements of the California Financial Code, the Board of Directors reviews and declares dividends on a quarterly basis and there is no assurance that future dividends will be declared.

Impact of Inflation

The primary impact of inflation on the Bank is its effect on interest rates. The Bank's primary source of income is net interest income, which is affected by changes in interest rates. The Bank attempts to limit the impact of inflation on its net interest margin through management of rate-sensitive assets and liabilities and analyses of interest rate sensitivity. The effect of inflation on premises and equipment as well as on non-interest expenses has not been significant for the periods presented.

SUMMIT STATE BANK AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2013 AND 2012

AND FOR THE YEARS ENDED

DECEMBER 31, 2013, 2012 AND 2011

AND

REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Summit State Bank

We have audited the accompanying consolidated balance sheets of Summit State Bank (the "Bank") as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Bank is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Summit State Bank as of December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Francisco, California
March 13, 2014

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Summit State Bank and Subsidiary
Santa Rosa, California

We have audited the accompanying consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows of Summit State Bank and Subsidiary for the year ended December 31, 2011. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. Summit State Bank and Subsidiary is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Summit State Bank and Subsidiary for the year ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

Crowe Horwath LLP

Crowe Horwath LLP

Sherman Oaks, California
March 19, 2012

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

	December 31, 2013	December 31, 2012
ASSETS		
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
LIABILITIES AND SHAREHOLDERS' EQUITY		
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

The accompanying notes are an integral part of these audited consolidated financial statements.

SUMMIT STATE BANK AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(In thousands except per share data)

(In thousands except for earnings per share data)	Year Ended December 31, 2013	2012	2011
Interest income:			
Interest and fees on loans	$ 14,201	$ 15,022	$ 16,055
Interest on federal funds sold	-	-	5
Interest on investment securities and deposits in banks	3,539	3,234	2,611
Dividends on FHLB stock	101	22	7
Total interest income	17,841	18,278	18,678
Interest expense:			
Deposits	1,160	1,847	2,589
FHLB advances	115	182	339
Total interest expense	1,275	2,029	2,928
Net interest income before provision for loan losses	16,566	16,249	15,750
Provision for loan losses	50	3,360	3,650
Net interest income after provision for loan losses	16,516	12,889	12,100
Non-interest income:			
Service charges on deposit accounts	566	519	514
Rental income	516	499	534
Net securities gains	80	728	754
Net gains (losses) on other real estate owned	34	(89)	75
Loan servicing, net	14	29	26
Building legal settlement	-	1,363	-
Other income	458	449	23
Total non-interest income	1,668	3,498	1,926
Non-interest expense:			
Salaries and employee benefits	5,327	5,303	5,135
Occupancy and equipment	1,453	1,509	1,601
Other expenses	4,053	3,709	3,498
Total non-interest expense	10,833	10,521	10,234
Income before provision for income taxes	7,351	5,866	3,792
Provision for income taxes	3,030	2,418	1,564
Net income	$ 4,321	$ 3,448	$ 2,228
Less: preferred dividends	253	521	651
Net income available for common stockholders	$ 4,068	$ 2,927	$ 1,577
Basic earnings per common share	$ 0.85	$ 0.62	$ 0.33
Diluted earnings per common share	$ 0.85	$ 0.62	$ 0.33
Basic weighted average shares of common stock outstanding	4,761	4,745	4,745
Diluted weighted average shares of common stock outstanding	4,794	4,746	4,745

The accompanying notes are an integral part of these audited consolidated financial statements.

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	December 31, 2013	December 31, 2012	December 31, 2011
Net income	$ 4,321	$ 3,448	$ 2,228
Change in securities available-for-sale:			
Unrealized holding gains (losses) on available-for-sale securites arising during the period	(5,986)	1,757	2,243
Reclassification adjustment for (gains) realized in net income on available-for-sale securities	(80)	(728)	(754)
Net unrealized gains (losses)	(6,066)	1,029	1,489
Income tax (expense) benefit	2,548	(432)	(626)
Total other comprehensive income (loss)	(3,518)	597	863
Comprehensive income	$ 803	$ 4,045	$ 3,091

The accompanying notes are an integral part of these audited consolidated financial statements.

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands except per share data)

	Preferred Stock and Common Stock Warrant Amount	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2011	$ 8,739	4,745	$ 36,311	$ 10,161	$ 98	$ 55,309
Net income				2,228		2,228
Other comprehensive income					863	863
Stock-based compensation expense			41			41
Preferred stock dividends				(587)		(587)
Redemption of preferred stock and retirement of warrants	(8,803)					(8,803)
Issuance of preferred stock, net of issuance costs	13,666					13,666
Accretion of preferred stock discount	64			(64)		-
Cash dividends - $.36 per share				(1,708)		(1,708)
Balance, December 31, 2011	13,666	4,745	36,352	10,030	961	61,009
Net income				3,448		3,448
Other comprehensive income					597	597
Stock-based compensation expense			44			44
Preferred stock dividends				(521)		(521)
Cash dividends - $.36 per share				(1,707)		(1,707)
Balance, December 31, 2012	13,666	4,745	36,396	11,250	1,558	62,870
Net income				4,321		4,321
Other comprehensive income					(3,518)	(3,518)
Stock-based compensation expense			43			43
Preferred stock dividends				(253)		(253)
Exercise of stock options		33	169			169
Cash dividends - $0.42 per share				(2,002)		(2,002)
Balance, December 31, 2013	$ 13,666	4,778	$ 36,608	$ 13,316	$ (1,960)	$ 61,630

The accompanying notes are an integral part of these audited consolidated financial statements.

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Year Ended December 31, 2013	2012	2011
Cash flows from operating activities:			
Net income	$ 4,321	$ 3,448	$ 2,228
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	617	710	1,078
Securities amortization and accretion, net	670	591	-
Building legal settlement	-	(1,515)	-
Net increase (decrease) in deferred loan fees	(177)	110	323
Provision for loan losses	50	3,360	3,650
(Gain) Loss on sale of other real estate owned	(34)	89	(75)
Net securities gains	(80)	(728)	(754)
Net change in accrued interest receivable and other assets	(687)	2,206	150
Net change in accrued interest payable and other liabilities	1,654	214	161
Stock-based compensation expense	43	44	41
Net cash from operating activities	6,377	8,529	6,802
Cash flows from investing activities:			
Decrease (Increase) in time deposits in banks	992	(2,977)	-
Purchases of held-to-maturity investment securities	(3,000)	-	-
Purchases of available-for-sale investment securities	(21,222)	(111,315)	(85,985)
Proceeds from sales of available-for-sale investment securities	3,964	5,197	5,270
Proceeds from calls of held-to-maturity investment securities	4,497	-	-
Proceeds from calls and maturities of available-for-sale investment securities	5,693	70,230	27,625
Purchase of Federal Home Loan Bank stock	(313)	(180)	-
Proceeds from the redemption of Federal Home Loan Bank stock	-	105	424
Net change in loans	(7,520)	(15,754)	2,281
Purchases of bank premises and equipment, net	(962)	(139)	(190)
Proceeds on sale of other real estate owned	965	2,510	3,182
Proceeds from building legal settlement	-	2,515	-
Net cash from (used in) investing activities	(16,906)	(49,808)	(47,393)

(Continued)

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Year Ended December 31, 2013	2012	2011
Cash flows from financing activities:			
Net change in demand, savings and money market deposits	20,922	43,112	22,494
Net change in certificates of deposit	(20,658)	(14,166)	9,587
Net change in short term FHLB advances	(6,500)	33,250	1,750
Issuance of long term FHLB advances	15,000	-	-
Repayment of long term FHLB advances	-	(7,000)	-
Issuance of preferred series B, net	-	-	13,678
Redemption of preferred series A, net	-	-	(8,500)
Retirement of warrants	-	-	(315)
Dividends paid on common stock	(2,002)	(1,707)	(1,708)
Dividends paid on preferred stock	(253)	(521)	(587)
Proceeds from issuance of common stock	169		
Net cash from financing activities	6,678	52,968	36,399
Net change in cash and cash equivalents	(3,851)	11,689	(4,192)
Cash and cash equivalents at beginning of year	19,979	8,290	12,482
Cash and cash equivalents at end of period	$ 16,128	$ 19,979	$ 8,290
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$ 1,266	$ 2,077	$ 2,954
Income taxes	$ 3,274	$ -	$ 1,470
Noncash investing activities:			
Transfer from loans to other real estate owned	$ 857	$ 6,370	$ 4,181
Transfer from investments available-for-sale to held-to-maturity	$ 15,558	$ -	$ -

The accompanying notes are an integral part of these audited consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

On January 15, 1999, Summit State Bank (the "Bank") received authority to transact business as a California state-chartered commercial bank and is subject to regulation, supervision and examination by the California Department of Financial Institutions and the Federal Deposit Insurance Corporation. The Bank was organized under a charter granted by the Department of Savings and Loan of the State of California under the name Summit Savings. The Bank was incorporated on December 20, 1982. The Bank converted to a federal savings bank under a charter granted by the Office of Thrift Supervision on May 24, 1990. The Bank provides a variety of banking services to individuals and businesses in its primary service area of Sonoma County, California. The Bank's branch locations include Santa Rosa, Petaluma, Rohnert Park and Healdsburg. The Bank offers depository and lending services primarily to meet the needs of its business and individual clientele. These services include a variety of transaction, money market, savings and time deposit account alternatives. The Bank's lending activities are directed primarily towards commercial real estate, construction and business loans. The Bank utilizes its subsidiary Alto Service Corporation for its deed of trust services.

The accounting and reporting policies of the Bank and its subsidiary conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Principles of Consolidation

The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiary, Alto Service Corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassification

Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The allowance for loan losses, goodwill impairment and fair values of investment securities and other financial instruments are particularly subject to change.

Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, the Bank considers cash and due from banks with original maturities under 90 days and Federal funds sold to be cash equivalents. Generally, Federal funds are sold for one-day periods. Net cash flows are reported for customer loan and deposit transactions, time deposits in banks and short-term borrowings with an original maturity of 90 days or less.

Investment Securities

Investments are classified into the following categories:

- Available-for-sale securities, reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.

- Held-to-maturity securities, which management has the positive intent and ability to hold to maturity, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value.

Gains or losses on the sale of investment securities are recorded on the trade date and are computed on the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums on the level yield method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement for available-for-sale and held-to-maturity investments and 2) OTTI related to other factors, which is recognized in other comprehensive income or (loss) for available-for-sale investments. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Investment in Federal Home Loan Bank Stock

In order to borrow from the Federal Home Loan Bank of San Francisco (FHLB), the Bank is required to maintain an investment in the capital stock of the FHLB. The investment is carried at cost and is generally redeemable at par. Both cash and stock dividends are reported as income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are stated at principal balances outstanding, net of deferred loan origination fees and costs and the allowance for loan losses, adjusted for accretion of discounts or amortization of premiums. Interest is accrued daily based upon outstanding loan balances. However, for all loan classes, when in the opinion of management, loans are considered to be impaired and the future collectability of interest and principal is in serious doubt, loans are placed on nonaccrual status and the accrual of interest income is suspended. Any interest previously accrued, but unpaid, is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. Subsequent payments on these loans, or payments received on nonaccrual loans for which the ultimate collectability of principal is not in doubt, are applied first to earned but unpaid interest and then to principal.

Substantially all loan origination fees, commitment fees, direct loan origination costs and purchase premiums and discounts on loans are deferred and recognized in interest income using the level yield method, to be amortized to interest income over the contractual term of the loan. The unamortized balance of deferred fees and costs is reported as a component of net loans.

Non-accrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to non-accrual status in accordance with the Bank's policy, typically after 90 days of non-payment.

For loans whose contractual terms have been restructured in a manner which grants a concession to a borrower experiencing financial difficulties ("troubled debt restructuring"), they are returned to accrual status when there has been a sustained period of repayment performance (generally, six consecutive monthly payments) according to the modified terms and there is reasonable assurance of repayment and of performance.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the un-collectability of a loan balance is confirmed. Loans or portions of loans are charged off when there is a distinct probability of loss identified. A distinct probability of loss exists when it has been determined that any remaining sources of repayment are not sufficient to cover all outstanding principal. The probable loss is immediately calculated based on the value of the remaining sources of repayment and charged to the allowance for loan losses. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Commercial & agricultural, real estate-commercial, real estate-construction and land, and real estate-multifamily loans are individually evaluated for impairment. Large groups of smaller balance homogeneous loans such as real estate-single family units and consumer & lease financing are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Impaired loans are measured on the present value of expected future cash flows discounted at the loan's original effective interest rate. As a practical expedient, impairment may be measured based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through an allocation of a portion of the allowance for loan losses. Loans, for which the terms have been modified granting concessions to the borrower that the Bank would not otherwise consider, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective interest rate at inception.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers loans that are both non-impaired and non-classified and is based on historical loss experience adjusted for qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Bank over the most recent three years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: commercial & agricultural, real estate mortgage loans and consumer & lease financing. Real estate mortgage loans have been further classified according to the following risk characteristics: commercial, construction and land, single family units and multifamily units. Loan categories used in presentations in this report conform to the categorizations used by regulatory Called Reports as described by the instructions issued by the Federal Financial Interagency Examination Council (FFIEC).

Commercial & Agricultural Loans - Commercial & Agricultural credit is extended to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or other projects. The majority of these borrowers are customers doing business within our geographic regions. These loans are generally underwritten individually and secured with the assets of the company and the personal guarantee of the business owners. Commercial & Agricultural loans are made based primarily on the historical and projected cash flow of the borrower and the underlying collateral provided by the borrowers. This category includes loans secured by farmland.

Commercial & Multifamily Real Estate Loans - Commercial & multifamily real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the property. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and property type.

Construction and Land Real Estate Loans - Construction and Land Real Estate Loans are extended to qualified commercial and individual customers and are underwritten and secured by the assets of the company or individual. Commercial construction credits may also be secured with personal guarantees of the business owner. Credits are underwritten to meet the general credit policy criteria for current and projected cash flow coverage and loan-to-value. Terms for Construction and Land loans are typically of shorter duration and have more restrictive advance rates than similar commercial credit or single family residences. Both types of credit may be refinanced to a long –term loan upon completion of construction. The majority of these credits are with customers doing business within the Bank’s geographic region.

Consumer & Lease Financing Loans - Consumer and Lease Financing loans are primarily comprised of loans made directly to consumers. These loans have a specific underwriting matrix which consists of several factors including debt to income, type of collateral and loan to collateral value, credit history and relationship to the borrower. Consumer and Lease Financing lending uses risk-based pricing in the underwriting process.

Single Family Residential Loans - Single family residential mortgage loans represent loans to consumers for the purchase or refinance of a residence. These loans are generally financed up to 30 years, and in most cases, are extended to borrowers to finance their primary residence. Real estate market values at the time of origination directly affect the amount of credit extended, and in the event of default, subsequent changes in these values may impact the severity of losses. Additionally, commercial loans may be categorized as Single Family Residential if the loan is secured by a mortgage on a home. These loans are underwritten as described in Commercial and Agricultural Loans above and have terms such as interest rates and maturities as a standard Commercial Loan.

The Bank is subject to periodic examinations by its federal and state regulatory examiners and may be required by such regulators to recognize additions to the allowance for loan losses based on their assessment of credit information available to them at the time of their examinations. The process of assessing the adequacy of the allowance for loan losses is necessarily subjective. Further, and particularly in times of economic downturns, it is reasonably possible that future credit losses may exceed historical loss levels and may also exceed management’s current estimates of incurred credit losses inherent within the loan portfolio. As such, there can be no assurance that future charge-offs will not exceed management’s current estimate of what constitutes a reasonable allowance for credit losses.

Loan Servicing

Accounting standards require separately recognized servicing assets and servicing liabilities to be initially measured at fair value, The Bank has elected to continue to amortize its servicing assets over the loan service period with periodic impairment assessment. The Bank’s servicing assets at December 31, 2013 and

2012 were $17,000 and $23,000 respectively, and consist of the servicing of loans guaranteed by the Small Business Administration (SBA) totaling $1,552,000 and $2,153,000 at December 31, 2013 and 2012, respectively.

Servicing fee income which is reported on the income statement as loan servicing, net is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of SBA loan servicing rights is netted against loan servicing fee income. Gross servicing fees totaled $14,000, $29,000 and $26,000 for the years ended December 31, 2013, 2012 and 2011. Late fees and ancillary fees related to loan servicing are not material.

Valuation of Goodwill

Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Bank has selected September 30 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Management assesses the carrying value of our goodwill at least annually in order to determine if this intangible asset is impaired. In reviewing the carrying value of our goodwill, we assess the recoverability of such assets by evaluating the fair value of the related business unit. If the carrying amount of goodwill exceeds its fair value, an impairment loss is recognized for the amount of the excess and the carrying value of goodwill is reduced accordingly. Any impairment would be required to be recorded during the period identified.

The annual evaluation of goodwill for impairment uses various estimates and assumptions. The market price of the Bank's common stock at the close of business on December 31, 2013 was $10.50 per common share compared to a book value of $10.04 per common share. Management performed an assessment of qualitative factors to determine if it is more likely than not that the fair value of the Bank is less than its carrying value. Based on the assessment it was determined that the implied fair value for the Bank is sufficiently above the book value to support the current carrying value of goodwill.

Other Real Estate

Other real estate includes real estate acquired in full or partial settlement of loan obligations. When property is acquired, any excess of the Bank's recorded investment in the loan balance and accrued interest income over the estimated fair market value of the property, less costs to sell, is charged against the allowance for loan losses. A valuation allowance for losses on other real estate, if needed, is maintained to provide for declines in value. The allowance is established through a provision for losses on other real estate which is included in other expenses. Subsequent gains or losses on sales or write-downs resulting from impairment are recorded in other income or expenses as incurred. Operating costs after acquisition are expensed and any rental income from the properties are recorded as income. There was $4,771,000 and $4,845,000 in other real estate owned at December 31, 2013 and 2012, respectively.

Bank Premises and Equipment

Land is carried at cost. Buildings, furniture, fixtures, and equipment are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of buildings are estimated to be 39 years and furniture, fixtures and equipment are estimated to be 3 to 15 years. Leasehold improvements are amortized over the estimated useful life of the asset or the term of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

The Bank evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Income Taxes

The Bank files its income taxes on a consolidated basis with its subsidiary. The allocation of income tax expense (benefit) represents each entity's proportionate share of the consolidated provision for income taxes. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Bank recognizes interest and/or penalties related to income tax matters in income tax expense. The Bank has not accrued any potential interest and penalties as of December 31, 2013 and December 31, 2012 and for the three years ended December 31, 2013 for uncertainties related to income taxes.

Earnings Per Common Share

Basic earnings per common share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if contracts to issue common stock, such as stock options, result in the issuance of common stock which shares in the earnings of the Bank. Stock options for 86,742, 160,166 and 179,319 shares of common stock were not considered in computing diluted earnings per share for 2013, 2012 and 2011 because they were anti-dilutive. No warrant for shares of common stock was considered in computing diluted earnings per share for 2012 and 2011 because it was anti-dilutive. The warrant was retired in 2012 with no common stock issued.

The factors used in the earnings per common share computation follow:

(in thousands except earnings per share)	2013	2012	2011
Basic			
Net income available for common shareholders	$ 4,068	$ 2,927	$ 1,577
Weighted average common shares outstanding	4,761	4,745	4,745
Basic earnings per common share	$ 0.85	$ 0.62	$ 0.33
Diluted			
Net income available for common shareholders	$ 4,068	$ 2,927	$ 1,577
Weighted average common shares outstanding for basic earnings per common share	4,761	4,745	4,745
Add: Dilutive effects of assumed exercises of stock options and warrants	33	1	-
Average shares and dilutive potential common shares	4,794	4,746	4,745
Diluted earnings per common share	$ 0.85	$ 0.62	$ 0.33

Stock Based Compensation

Compensation cost is recognized for stock options granted to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Adoption of New Accounting Standards

In July 2012, the FASB issued an accounting standard update, AU 2012-02 – Intangibles – Goodwill and Other (Topic 350). The amendments in this Update allow an entity to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. Under these amendments, an entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on qualitative assessment, that it is not more likely than not, the indefinite-lived intangible asset is impaired. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. In fiscal year 2012, the Bank performed an assessment of qualitative factors and determined it was not necessary to perform a quantitative impairment test over goodwill.

In February 2013, the FASB issued an accounting standard update, AU 2013-02 – Other Comprehensive Income (Topic 220). The amendments in this Update supersede and replace the presentation requirements for reclassifications out of accumulated other comprehensive income in ASUs 2011-05 (issued in June 2011) and 2011-12 (issued in December 2011) for all public and private organizations. The amendments would require an entity to provide additional information about reclassifications out of accumulated other comprehensive income. This Accounting Standards Update is the final version of Proposed Accounting Standards Update 2012-240 – Comprehensive Income (Topic 220) which has been deleted. This guidance is effective prospectively for reporting periods beginning after December 15, 2012.

Operating segments

While the Bank's chief decision makers monitor the revenue streams of the Bank's various products and services, operations are managed and financial performance is evaluated on a bank-wide basis. Operating segments are aggregated into one segment as operating results for all segments are similar.

2. INVESTMENT SECURITIES

The amortized costs and estimated fair value of investment securities at December 31, 2013 and 2012 consisted of the following:

	December 31, 2013			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-maturity:				
Government agencies	$ 15,558	$ -	$ (921)	$ 14,637
Available-for-sale:				
Government agencies	$ 67,146	$ 167	$ (4,208)	$ 63,105
Mortgage-backed securities - residential	5,327	58	(221)	5,164
Corporate debt	43,700	1,429	(586)	44,543
Municipal securities	774	-	(38)	736
Total available-for-sale	116,947	1,654	(5,053)	113,548
Total investment securities	$ 132,505	$ 1,654	$ (5,974)	$ 128,185

	December 31, 2012			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
Government agencies	$ 71,271	$ 535	$ (130)	$ 71,676
Mortgage-backed securities - residential	3,304	166	-	3,470
Corporate debt	48,140	2,301	(178)	50,263
Municipal securities	311	-	(6)	305
Total available-for-sale	$ 123,026	$ 3,002	$ (314)	$ 125,714

The activity related to recorded gains and losses of investment securities for the year ended December 31, 2013 is reflected in the table below:

	Year Ended December 31		
(in thousands)	2013	2012	2011
Proceeds from sales	$ 3,964	$ 5,197	$ 5,270
Proceeds from calls	10,190	5,284	2,000
Gross realized gains on sales and calls	103	750	754
Gross realized losses on sales and calls	23	22	-

Net unrealized gains or (losses) on available-for-sale investment securities totaling $(3,378,000), $2,684,000 and $1,659,000 are recorded, net of $(1,418,000), $1,130,000 and $698,000 in tax expense or (benefit), as accumulated other comprehensive income within shareholders' equity at December 31, 2013, 2012 and 2011, respectively.

There were 11 investment securities in a continuous unrealized loss position greater than 12 months at December 31, 2013. At December 31, 2013, the Bank held 91 investment securities which were in an unrealized loss position for less than twelve months. Management periodically evaluates each investment security for other than temporary impairment, relying primarily on industry analyst reports and observation of market conditions and interest rate fluctuations. All of the impairment appearing in the investment securities portfolio valuations is considered to be temporary. The measured impairment in the securities values is primarily attributable to changes in long-term interest rates, market shifts of the Treasury yield curve and other variable market and economic conditions. The measured impairment in securities values did not result from any significant or persistent deterioration in the underlying credit quality of any of the investments. The securities portfolio consists primarily of debt securities with non-contingent contractual cash flows. Full realization of the principal balance is expected upon final maturity. Management has the intent and ability to hold the securities until recovery of the carrying value, which could be at the final maturity. Investment securities with unrealized losses at December 31, 2013 and 2012 are summarized and classified according to the duration of the loss period as follows:

	December 31, 2013					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt Securities:						
Held-to-maturity:						
Government agencies	$ 14,637	$ (921)	$ -	$ -	$ 14,637	$ (921)
Available-for-sale:						
Government agencies	$ 55,414	$ (4,017)	$ 1,809	$ (191)	$ 57,223	$ (4,208)
Mortgage-backed securities - residential	3,879	(201)	-	-	3,879	(201)
Corporate debt	10,785	(451)	2,540	(135)	13,325	(586)
Municipal securities	736	(38)	-	-	736	(38)
Total available-for-sale	70,814	(4,707)	4,349	(326)	75,163	(5,033)
Total investment securities	$ 85,451	$ (5,628)	$ 4,349	$ (326)	$ 89,800	$ (5,954)

	December 31, 2012					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt Securities:						
Government agencies	$ 28,403	$ (130)	$ -	$ -	$ 28,403	$ (130)
Corporate debt	8,978	(152)	464	(26)	9,442	(178)
Municipal securities	305	(6)	-	-	305	(6)
Total investment securities	$ 37,686	$ (288)	$ 464	$ (26)	$ 38,150	$ (314)

The amortized cost and estimated fair value of investment securities at December 31, 2013 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

(in thousands)	Investment Securities: Amortized Cost	Investment Securities: Estimated Fair Value
Within one year	$ 485	$ 497
After one year through five years	21,286	21,669
After five years through ten years	82,246	79,387
After ten years	23,160	21,468
	127,177	123,021
Investment securities not due at a single maturity date:		
Mortgage-backed securities - residential	5,328	5,184
	$ 132,505	$ 128,205

Investment securities with amortized costs totaling $54,038,000 and $38,280,000 and estimated fair values totaling $51,069,000 and $38,754,000 were pledged to secure State of California deposits at December 31, 2013 and 2012 (see Note 6).

3. LOANS

Outstanding loans are summarized as follows:

(in thousands)	December 31, 2013	December 31, 2012
Commercial & agricultural	$ 63,769	$ 66,245
Real estate - commercial	151,073	134,481
Real estate - construction and land	11,571	10,784
Real estate - single family	50,931	51,659
Real estate - multifamily	11,412	18,990
Consumer & lease financing	144	556
	288,900	282,715
Deferred loan fees, net	(821)	(1,089)
Allowance for loan losses	(5,412)	(5,749)
	$ 282,667	$ 275,877

Changes in the allocation of allowance for loan losses by loan class for the years ended December 31, 2013, 2012 and 2011 are as follows:

(in thousands)	Year Ended December 31, 2013				
	Balance at December 31, 2012	Provision for loan losses	Charge-offs	Recoveries	Balance at December 31, 2013
Commercial & agricultural	$ 734	$ (582)	$ (49)	$ 459	$ 562
Real estate - commercial	2,547	1,243	(835)	-	2,955
Real estate - construction and land	148	231	-	-	379
Real estate - single family	251	(63)	-	26	214
Real estate - multifamily	82	190	-	-	272
Consumer & lease financing	6	(3)	-	12	15
Other qualitative factors (1)	960	(960)	-	-	-
Unallocated	1,021	(6)	-	-	1,015
Total	$ 5,749	$ 50	$ (884)	$ 497	$ 5,412

(in thousands)	Year Ended December 31, 2012				
	Balance at December 31, 2011	Provision for loan losses	Charge-offs	Recoveries	Balance at December 31, 2012
Commercial & agricultural	$ 852	$ (66)	$ (83)	$ 31	$ 734
Real estate - commercial	3,230	418	(1,157)	56	2,547
Real estate - construction and land	180	839	(871)	-	148
Real estate - single family	91	1,106	(971)	25	251
Real estate - multifamily	82	-	-	-	82
Consumer & lease financing	16	42	(64)	12	6
Other qualitative factors (1)	960	-	-	-	960
Unallocated	-	1,021	-	-	1,021
Total	$ 5,411	$ 3,360	$ (3,146)	$ 124	$ 5,749

(in thousands)	Year Ended December 31, 2011				
	Balance at December 31, 2010	Provision for loan losses	Charge-offs	Recoveries	Balance at December 31, 2011
Commercial & agricultural	$ 1,485	$ (563)	$ (82)	$ 12	$ 852
Real estate - commercial	1,402	4,078	(2,250)	-	3,230
Real estate - construction and land	1,891	(655)	(1,081)	25	180
Real estate - single family	63	61	(33)	-	91
Real estate - multifamily	87	779	(784)	-	82
Consumer & lease financing	60	60	(104)	-	16
Other qualitative factors (1)	960	-	-	-	960
Unallocated	110	(110)	-	-	-
Total	$ 6,058	$ 3,650	$ (4,334)	$ 37	$ 5,411

(1) At December 31, 2013, the Bank allocated the allowance for other qualitative factors by portfolio segment. The other qualitative factors allocation was not identifiable to separate portfolio segments at December 31, 2012 and 2011.

The following table presents the balance in the allowance for loan losses and loan balances by class and based on impairment method as of December 31, 2013 and 2012:

(in thousands)	December 31, 2013					
	Allowance for Loan Losses:			Loans:		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Ending Allowance Balance	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total Ending Loans Balance
Commercial & agricultural	$ 369	$ 193	$ 562	$ 1,662	$ 62,107	$ 63,769
Real estate - commercial	1,486	1,469	2,955	13,274	137,799	151,073
Real estate - construction and land	-	379	379	29	11,542	11,571
Real estate - single family	5	209	214	2,502	48,429	50,931
Real estate - multifamily	-	272	272	209	11,203	11,412
Consumer & lease financing	-	15	15	-	144	144
Unallocated	-	1,015	1,015	-	-	-
Total	$ 1,860	$ 3,552	$ 5,412	$ 17,676	$ 271,224	$ 288,900

(in thousands)	December 31, 2012					
	Allowance for Loan Losses:			Loans:		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Ending Allowance Balance	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total Ending Loans Balance
Commercial & agricultural	$ -	$ 734	$ 734	$ 1,575	$ 64,670	$ 66,245
Real estate - commercial	1,709	838	2,547	12,624	121,857	134,481
Real estate - construction and land	-	148	148	288	10,496	10,784
Real estate - single family	175	76	251	3,063	48,596	51,659
Real estate - multifamily	-	82	82	-	18,990	18,990
Consumer & lease financing	-	6	6	-	556	556
Other qualitative factors (1)	-	960	960	-	-	-
Unallocated	-	1,021	1,021	-	-	-
Total	$ 1,884	$ 3,865	$ 5,749	$ 17,550	$ 265,165	$ 282,715

(1) At December 31, 2013, the Bank allocated the allowance for other qualitative factors by portfolio segment. The other qualitative factors allocation was not identifiable to separate portfolio segments at December 31, 2012.

The recorded investment in the aforementioned disclosure and the next several disclosures do not include accrued interest receivable and net deferred fees because such amounts are not considered material. Accrued interest receivable for the total loan portfolio was $1,005,000 and $1,034,000 and net deferred loan fees was $821,000 and $1,089,000 as of December 31, 2013 and 2012.

The following table presents impaired loans individually evaluated for impairment by class of loans:

(in thousands)	Commercial & agricultural	Real estate - commercial	Real estate - construction and land	Real estate - single family	Real estate - multifamily	Consumer & lease financing	Total
December 31, 2013							
Recorded investment in impaired loans:							
With no related allowance recorded	$ 1,293	$ 3,885	$ 29	$ 2,152	$ 209	$ -	$ 7,568
With an allowance recorded	369	9,389	-	350	-	-	10,108
Total recorded investment in impaired loans	$ 1,662	$ 13,274	$ 29	$ 2,502	$ 209	$ -	$ 17,676
Unpaid principal balance of impaired loans:							
With no related allowance recorded	$ 1,293	$ 4,720	$ 29	$ 2,879	$ 209	$ -	$ 9,130
With an allowance recorded	369	9,389	-	350	-	-	10,108
Total unpaid principal balance of impaired loans	$ 1,662	$ 14,109	$ 29	$ 3,229	$ 209	$ -	$ 19,238
Allowance for loan losses allocation	$ 369	$ 1,486	$ -	$ 5	$ -	$ -	$ 1,860
Average recorded investment in impaired loans during the year ended December 31, 2013	1,738	12,341	277	2,561	140	-	17,057
Interest income recognized on impaired loans during the year ended December 31, 2013	77	342	17	91	-	-	527
December 31, 2012							
Recorded investment in impaired loans:							
With no related allowance recorded	$ 1,575	$ 4,086	$ 288	$ 1,081	$ -	$ -	$ 7,030
With an allowance recorded	-	8,538	-	1,982	-	-	10,520
Total recorded investment in impaired loans	$ 1,575	$ 12,624	$ 288	$ 3,063	$ -	$ -	$ 17,550
Unpaid principal balance of impaired loans:							
With no related allowance recorded	$ 1,575	$ 4,086	$ 288	$ 1,132	$ -	$ -	$ 7,081
With an allowance recorded	-	8,538	-	2,681	-	-	11,219
Total unpaid principal balance of impaired loans	$ 1,575	$ 12,624	$ 288	$ 3,813	$ -	$ -	$ 18,300
Allowance for loan losses allocation	$ -	$ 1,709	$ -	$ 175	$ -	$ -	$ 1,884
Average recorded investment in impaired loans during the year ended December 31, 2012	5,135	12,243	1,065	3,356	-	5	21,804
Interest income recognized on impaired loans during the year ended December 31, 2012	161	332	13	133	-	-	639
Average recorded investment in impaired loans during the year ended December 31, 2011	5,563	16,651	1,098	2,532	-	69	25,913
Interest income recognized on impaired loans during the year ended December 31, 2011	320	846	18	95	-	4	1,283

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still accruing by class of loans as of December 31, 2013 and 2012:

(in thousands)	December 31, 2013 Nonaccrual	December 31, 2013 Loans Past Due Over 90 Days Still Accruing	December 31, 2012 Nonaccrual	December 31, 2012 Loans Past Due Over 90 Days Still Accruing
Commercial & agricultural	$ 429	$ -	$ 482	$ -
Real Estate - commercial	4,527	-	4,122	-
Real estate - construction and land	-	-	46	-
Real Estate - single family	449	-	190	-
Real estate - multifamily	209	-	-	-
Consumer & lease financing	-	-	-	-
Total	$ 5,614	$ -	$ 4,840	$ -

The following table presents the aging of the recorded investment in past due loans as of December 31, 2013 by class of loans:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial & agricultural	$ -	$ -	$ -	$ -	$ 63,769	$ 63,769
Real Estate - commercial	-	-	2,362	2,362	148,711	151,073
Real estate - construction and land	-	-	-	-	11,571	11,571
Real Estate - single family	-	57	42	99	50,832	50,931
Real estate - multifamily	209	-	-	209	11,203	11,412
Consumer & lease financing	-	-	-	-	144	144
Total	$ 209	$ 57	$ 2,404	$ 2,670	$ 286,230	$ 288,900

The following table presents the aging of the recorded investment in past due loans as of December 31, 2012 by class of loans:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial & agricultural	$ 175	$ 355	$ -	$ 530	$ 65,715	$ 66,245
Real Estate - commercial	6,318	-	2,087	8,405	126,076	134,481
Real estate - construction and land	-	-	-	-	10,784	10,784
Real Estate - single family	-	72	190	262	51,397	51,659
Real estate - multifamily	214	-	-	214	18,776	18,990
Consumer & lease financing	14	-	-	14	542	556
Total	$ 6,721	$ 427	$ 2,277	$ 9,425	$ 273,290	$ 282,715

A loan is considered past due if a scheduled payment of interest or principal that is due is unpaid for 30 days or more.

Troubled Debt Restructurings

From time to time, the Bank may agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). At December 31, 2013 and 2012, loans modified in a TDR totaled $7,801,000 and $9,628,000 which are included in the impaired loan disclosures above. The total TDRs includes $3,336,000 and $3,235,000 that are also included in nonperforming loans at December 31, 2013 and 2012. TDRs had specific loss allocations of $1,042,000 and $1,252,000 as of December 31, 2013 and 2012.

The terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan.

There were no loans modified as troubled debt restructurings during the year ended December 31, 2013 and resulted in no additional allowances or charge-offs during the year ended December 31, 2013. The troubled debt restructurings described below resulted in additional allowances or charge-offs of $774,000 during the year ended December 31, 2012. There were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the years ended December 31, 2013 and 2012. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

The following table presents loans by class modified as troubled debt restructurings that occurred during the year ending December 31, 2012:

	Year Ended December 31, 2012		
(Dollars in thousands)	Number Of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings:			
Commercial & agricultural	1	$ 10	$ 10
Real Estate - commercial	1	1,409	1,409
Real estate - construction and land	1	53	53
Real Estate - single family	2	2,864	2,091
Real estate - multifamily	-	-	-
Consumer & lease financing	-	-	-
Total	5	$ 4,336	$ 3,563

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank's internal underwriting policy.

Credit Quality Indicators

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis for loans in excess of $250,000. Smaller balances are graded at origination and updated based on payment status and other information obtained from borrowers. The Bank uses the following definitions for risk ratings:

SPECIAL MENTION- Loans in this category are considered "criticized" from a regulatory point of view but are not considered "classified" until the risk classification becomes substandard or worse. Loans in this category represent above average risk and potential weakness which may, if not corrected, weaken the loan and threaten repayment at some future date.

SUBSTANDARD- Loans in this category have well defined weakness that jeopardize full repayment of the debt, although loss does not seem likely. Loss potential does not have to exist in individual loans in the

Substandard classification, but will be apparent in the aggregate. Typically, these loans have not met repayment plans as agreed. The primary source of repayment may have failed to materialize; repayment may be dependent on collateral liquidation or other secondary sources. Bankrupt borrowers and those with continuously past due payments are considered substandard.

DOUBTFUL- Loans in this category have all the characteristics of substandard loans with the added weakness that payment in full or liquidation in full is highly questionable and improbable**.** The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the strengthening of the loan, its classification as an estimated loss is deferred until the amount of the loss may be more accurately determined.

PASS- Loans not meeting any of the three criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

Based on recent analysis performed, the risk category of loans by class of loans is as follows:

2013 (in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial & agricultural	$ 56,626	$ 5,971	$ 1,172	$ -	$ -	$ 63,769
Real estate - commercial	136,197	3,095	11,781	-	-	151,073
Real estate - construction and land	11,332	239	-	-	-	11,571
Real estate - single family	48,720	578	1,633	-	-	50,931
Real estate - multifamily	11,203	-	209	-	-	11,412
Consumer & lease financing	144	-	-	-	-	144
Total	$ 264,222	$ 9,883	$ 14,795	$ -	$ -	$ 288,900

2012 (in thousands)	Pass	Special Mention	Substandard	Doubtful	Not Rated	Total
Commercial & agricultural	$ 60,448	$ 4,874	$ 923	$ -	$ -	$ 66,245
Real estate - commercial	121,172	8,121	5,188	-	-	134,481
Real estate - construction and land	9,938	558	288	-	-	10,784
Real estate - single family	47,951	1,065	2,505	138	-	51,659
Real estate - multifamily	18,776	-	214	-	-	18,990
Consumer & lease financing	556	-	-	-	-	556
Total	$ 258,841	$ 14,618	$ 9,118	$ 138	$ -	$ 282,715

Salaries and employee benefits totaling $824,000, $238,000, and $223,000 have been deferred as loan origination costs for the years ended December 31, 2013, 2012 and 2011, respectively.

Loans totaling $170,586,000 and $189,014,000 were pledged to secure borrowings with the Federal Home Loan Bank or State of California time deposits at December 31, 2013 and 2012, respectively (see Notes 6 and 8).

4. OTHER REAL ESTATE OWNED

Other real estate owned (OREO) at year end December 31, 2013 and 2012 was $4,771,000 and $4,845,000. No valuation allowance was recorded against the properties. Sales of OREO properties resulted in net gains of $34,000 in 2013, net losses of $89,000 in 2012 and net gains of $75,000 in 2011.

Operating income, net of rental expenses on OREO was $145,000, $216,000 and ($93,000) for the years ended December 31, 2013, 2012 and 2011.

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following:

	December 31,	
(in thousands)	2013	2012
Land	$ 1,184	$ 1,184
Building	6,401	6,354
Furniture, fixtures and equipment	2,631	2,995
Leasehold improvements	1,355	1,177
	11,571	11,710
Less accumulated depreciation and amortization	(6,066)	(6,550)
	$ 5,505	$ 5,160

Depreciation and amortization included in occupancy and equipment expense totaled $617,000, $710,000 and $763,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

6. INTEREST-BEARING DEPOSITS

The aggregate amount of maturities of all time deposits is as follows:

Year Ending December 31,	(in thousands)
2014	$ 118,678
2015	21,633
2016	9,626
2017	2,140
2018	736
	$ 152,813

Interest expense recognized on interest-bearing deposits was as follows:

	Year Ended December 31,		
(in thousands)	2013	2012	2011
Interest bearing demand	$ 29	$ 30	$ 57
Savings	12	27	76
Money market	148	206	267
Time deposits	971	1,584	2,189
	$ 1,160	$ 1,847	$ 2,589

Time deposits, $100,000 and over included $43,500,000 and $36,500,000 at December 31, 2013 and 2012 of public deposits from the State of California with maturity terms of three to six months. Brokered deposits included in deposits were $48,213,000 and $41,210,000 at December 31, 2013 and 2012.

7. BORROWINGS

The Bank has a total of $16,000,000 in Federal funds lines of credit with three correspondent banks at December 31, 2013. The Bank maintains a letter of credit facility totaling $4,000,000 with a correspondent bank to guarantee international letters of credit issued to certain customers. There were guarantees of $2,176,000 and $2,025,000 under this facility as of December 31, 2013 and 2012, respectively. There were no borrowings outstanding under the Federal funds lines of credit as of December 31, 2013 or 2012.

8. FEDERAL HOME LOAN BANK ADVANCES

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $166,336,000 and $182,849,000 of loans under a blanket lien arrangement at year-end 2013 and 2012. Based on this collateral the Bank was eligible to borrow up to a total of $90,370,000 and $128,917,000 of which $42,035,000 and $88,917,000 was available for additional advances as of December 31, 2013 and 2012.

Advances from the Federal Home Loan Bank were $48,500,000 at December 31, 2013, with maturities from January 2013 through June 2016 and fixed rates from 0.06% to 1.05%, averaging 0.31%. Advances were $40,000,000 at December 31, 2012, with maturities from January 2013 through June 2013 and fixed rates from 0.28% to 0.35%, averaging 0.32%.

9. INCOME TAXES

The provision for income taxes for the years ended December 31, 2013, 2012 and 2011 consisted of the following:

(in thousands)

2013	Federal	State	Total
Current	$ 1,135	$ 470	$ 1,605
Deferred	1,097	328	1,425
Change in valuation allowance	-	-	-
Provision for income taxes	$ 2,232	$ 798	$ 3,030
2012	**Federal**	**State**	**Total**
Current	$ 1,729	$ 703	$ 2,432
Deferred	52	(66)	(14)
Change in valuation allowance	-	-	-
Provision for income taxes	$ 1,781	$ 637	$ 2,418
2011	**Federal**	**State**	**Total**
Current	$ 416	$ 319	$ 735
Deferred	736	101	837
Change in valuation allowance	-	(8)	(8)
Provision for income taxes	$ 1,152	$ 412	$ 1,564

Deferred tax assets (liabilities) are comprised of the following:

(in thousands)	December 31, 2013	December 31, 2012
Deferred tax assets:		
Allowance for loan losses	$ 1,356	$ 1,264
Future benefit of state tax deduction	287	276
Bank premises and equipment	144	1,245
Capital loss carryover	82	82
Net unrealized losses on available-for-sale investment securities	1,390	-
Other accruals	163	519
Total deferred tax assets	3,422	3,386
Deferred tax liabilities:		
Federal Home Loan Bank stock dividends	(89)	(99)
Net unrealized gains on available-for-sale investment securities	-	(1,130)
Prepaid expenses and other	(57)	-
Total deferred tax liabilities	(146)	(1,229)
Valuation allowance	(82)	(82)
Net deferred tax assets	$ 3,194	$ 2,075

A deferred tax asset valuation allowance of $82,000 was established for capital losses from other than temporary impairment charges for California state income tax purposes in 2011. The capital loss carryover of $1,144,000, which can be used to offset future capital gain income, expires on December 31, 2016.

The provision for income taxes differs from amounts computed by applying the statutory Federal income tax rates to operating income before income taxes. The significant items comprising these differences for the years ended December 31, 2013, 2012 and 2011 consisted of the following:

	2013		2012		2011	
(in thousands)	Amount	Rate %	Amount	Rate %	Amount	Rate %
Federal income tax expense, at statutory rate	$ 2,499	34.0%	$ 1,994	34.0%	$ 1,289	34.0%
State franchise tax expense, net of Federal tax effect and other	531	7.2%	424	7.2%	283	7.4%
Change in deferred tax asset valuation allowance	-	0.00%	-	0.00%	(8)	(0.20%)
Total income tax expense	$ 3,030	41.2%	$ 2,418	41.2%	$ 1,564	41.2%

The Bank does not have any unrecognized tax benefits at December 31, 2013 and 2012. The Bank does not expect a significant change in unrecognized tax benefits in the next twelve months. The Bank and its subsidiary are subject to U.S. federal income tax as well as income tax of the State of California. The Bank is no longer subject to examination by federal taxing authorities for tax years 2009 and prior and by California taxing authorities for tax years 2008 and prior.

10. COMMITMENTS AND CONTINGENCIES

Leases

The Bank leases various equipment and branch offices in Santa Rosa, Rohnert Park, Petaluma and Healdsburg under non-cancelable operating leases. These leases include various renewal and termination options and rental adjustment provisions. Rental expense included in occupancy and equipment expense totaled $327,000, $296,000, and $282,000 for the years ended December 31, 2013, 2012 and 2011, respectively. Future minimum lease payments for the next five years are as follows:

Year Ending December 31,	(in thousands)
2014	$ 224
2015	193
2016	98
2017	62
2018	64
	$ 641

The Bank has operating leases with third parties for office space in its head office building. The leases are for periods from two to four years and contain renewal options. Rental income totaled $516,000, $499,000, and $534,000 for the years ended December 31, 2013, 2012 and 2011 respectively. Minimum future rental income from these operating leases are as follows:

Year Ending December 31,	(in thousands)
2014	$ 507
2015	518
2016	372
2017	274
2018	247
	$ 1,918

Federal Reserve Requirements

Banks are required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits less vault cash. The reserve requirement was $2,426,000 and $525,000 as of December 31, 2013 and 2012.

Financial Instruments with Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its clients and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and standby letters of credit as it does for loans included on the consolidated balance sheets.

The contractual amounts of financial instruments with off-balance-sheet risk at year end were as follows:

(in thousands)	December 31, 2013 Fixed Rate	2013 Variable Rate	2012 Fixed Rate	2012 Variable Rate
Commitments to make loans	$ 6,238	$ 50	$ -	$ -
Unused lines of credit	3,579	9,584	3,149	9,953
Standby letters of credit	-	2,176	-	2,025

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each client's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of the credit, is based on management's credit evaluation of the borrower. Collateral held relating to these commitments varies, but may include securities, equipment, accounts receivable, inventory and deeds of trust on residential real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a client to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to clients. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2013 and 2012. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

At December 31, 2013, real estate loan commitments represent 54% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%. Commercial loan commitments represent approximately 46% of total commitments and are generally secured by collateral other than real estate or are unsecured. The majority of the Bank's commitments have variable interest rates.

Concentrations of Credit Risk

The Bank's business activity is primarily with clients located within Northern California. Although the Bank has a diversified loan portfolio, a significant portion of its clients' ability to repay loans is dependent upon the real estate market and various economic factors within Sonoma County. Generally, loans are secured by various forms of collateral. The Bank's loan policy requires sufficient collateral be obtained as necessary to meet the Bank's relative risk criteria for each borrower. The Bank's collateral consists primarily of real estate, accounts receivable, inventory and other financial instruments.

Correspondent Banking Agreements

The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements, and $1,892,000 in deposits were uninsured at December 31, 2013.

Contingencies

The Bank is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the consolidated financial condition or results of operations of the Bank.

11. SHAREHOLDERS' EQUITY

Regulatory Capital

The Bank is subject to certain regulatory capital requirements administered by the Federal Deposit Insurance Corporation (FDIC). Failure to meet these minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. Management believes that the Bank met all its capital adequacy requirements as of December 31, 2013 and 2012.

The most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth below. There are no conditions or events since the last notification by the FDIC that management believes have changed the Bank's category.

The Bank's actual and required capital amounts and ratios consisted of the following:

	2013		2012	
(in thousands)	Amount	Ratio	Amount	Ratio
Tier 1 Leverage Ratio				
Summit State Bank	$ 59,454	13.2%	$ 57,170	13.4%
Minimum requirement for "Well-Capitalized" institution	$ 22,483	5.0%	$ 21,387	5.0%
Minimum regulatory requirement	$ 17,987	4.0%	$ 17,110	4.0%
Tier 1 Risk-Based Capital Ratio				
Summit State Bank	$ 59,454	17.4%	$ 57,170	17.1%
Minimum requirement for "Well-Capitalized" institution	$ 20,562	6.0%	$ 20,050	6.0%
Minimum regulatory requirement	$ 13,708	4.0%	$ 13,367	4.0%
Total Risk-Based Capital Ratio				
Summit State Bank	$ 63,752	18.6%	$ 61,367	18.4%
Minimum requirement for "Well-Capitalized" institution	$ 34,270	10.0%	$ 33,417	10.0%
Minimum regulatory requirement	$ 27,416	8.0%	$ 26,733	8.0%

Dividends

Upon declaration by the Board of Directors, all shareholders of record will be entitled to receive dividends. The California Financial Code restricts the total dividend payment of any bank in any calendar year without permission of the California Department of Financial Institutions, to the lesser of (1) the bank's retained earnings or (2) the Bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. At December 31, 2013, future dividends are subject to the foregoing restrictions and approval. Further dividend restrictions are contained in the Preferred Stock purchase agreement as explained below.

Preferred Stock

On August 4, 2011, the Bank redeemed all shares of its Fixed Rate Non-cumulative Perpetual Preferred Stock, Series A and related warrant for common stock. On December 19, 2008, the Bank received $8,500,000 and issued 8,500 shares of Fixed Rate Non-cumulative Perpetual Preferred Stock, Series A and a warrant representing the purchase rights to 239,212 shares of common stock (the "Warrant") to the United States Department of the Treasury (the "Treasury") as part of the Treasury's Capital Purchase Program ("CPP"). All requirements under the CPP were terminated with the redemption of the preferred stock and warrant.

On August 4, 2011, as part of the Small Business Lending Fund ("SBLF"), the Bank entered into a Small Business Lending Fund Securities Purchase Agreement ("SBLF Purchase Agreement") with the United States Department of the Treasury ("Treasury"). Under the SBLF Purchase Agreement, the Bank received $13,750,000 and issued 13,750 shares of preferred stock Series B to the Treasury, of which $8,500,000 was used to redeem Series A shares. The preferred stock Series B shares qualify as Tier 1 capital and will pay quarterly dividends. The initial dividend is 5%. The dividend rate fluctuated between 1% and 5% until September 30, 2013, when it was fixed at an annual rate of 1% until February 4, 2016 when it will increase to an annual rate of 9%.

Stock Options

In 1999, the Bank established a stock option plan for which 100,000 shares of common stock are reserved for issuance to directors and officers under non-statutory agreements. The plan requires that the option price may not be less than the fair market value of the stock at the date the option is granted, and the stock must be paid in full at the time the option is exercised. Payment in full for the option price must be made in cash or with Bank common stock previously acquired by the optionee and held by the optionee for a period of at least six months. The options expire on dates determined by the Board of Directors, but not later than ten years from the date of grant. Options vest over a three to five year period. The 1999 stock option plan has been cancelled with the adoption of the 2007 stock option plan, except for the current options that were granted under this plan, which totaled 4,000 and 10,666 shares at December 31, 2013 and December 31, 2012.

The Bank has a 2007 and a 2013 Stock Option Plan (stock option plan or the Plan), which are shareholder-approved, with each Plan permitting the grant of share options to its employees for up to 150,000 shares of common stock. Option awards are generally granted with an exercise price equal to the market price of the Bank's common stock at the date of grant; those option awards have vesting periods of 5 years unless otherwise approved by the Board of Directors and have 10-year contractual terms. As of December 31, 2013, there were 150,000 shares available for future grants under the 2013 Plan.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. Expected volatilities are based on historical volatilities of an index consisting of financial institution stocks which should approximate the future volatility of the Bank's common stock. The Bank uses historical data to estimate option exercise and post-vesting termination behavior. Employee and management options are tracked separately. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of options granted was determined using the following weighted-average assumptions as of the grant date. There were no options granted in 2013 or 2012.

	2011
Risk-free interest rate	1.3%
Expected term	7 years
Expected stock price volatility	50%
Dividend yield	6.7%

A summary of the activity in the stock option plan for 2013 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of the year	160,166	$ 6.24		
Granted	-	-		
Exercised	(37,950)	5.67		
Forfeited or expired	(2,800)	5.50		
Outstanding at end of the year	119,416	$ 6.44	6 years	$ 491,000
Vested or expected to vest	119,416	$ 6.44	6 years	$ 491,000
Exercisable at end of year	66,916	$ 7.13	5 years	$ 232,000

Information related to the stock option plan follows:

	2013	2012	2011
Intrinsic value of options exercised	$142,000	$ -	$ -
Cash received from option exercises	169,000	-	-
Tax benefit realized from option exercises	9,000	-	-
Weighted average fair value of options granted	-	-	1.70

As of December 31, 2013, there was $93,000 of total unrecognized compensation costs related to non-vested stock options granted under the Plan.

12. OTHER INCOME

Other income in 2012 included income recognition of a legal settlement concerning the Bank's headquarters building. Net proceeds received from the settlement were $2,515,000 of which $1,363,000 was recorded as other income, $152,000 was recovery of legal expense and $1,000,000 was recorded as a reduction in the building's cost basis.

13. OTHER EXPENSES

Other expenses consisted of the following:

(in thousands)	Year Ended December 31, 2013	2012	2011
Data processing	$ 845	$ 693	$ 544
Professional fees	519	562	675
Director fees and expenses	635	554	520
Advertising and promotion	620	525	546
Deposit and other insurance premiums	481	478	496
Telephone and postage	71	62	67
Other expenses	882	835	650
	$ 4,053	$ 3,709	$ 3,498

14. EMPLOYEE BENEFIT PLAN

401(k) Employee Savings Plan

The Bank has a 401(k) Employee Savings Plan (the "Plan"), qualified under the Internal Revenue Code (Code), whereby participants may defer a percentage of their compensation, but not in excess of the maximum allowed under the Code. Bank contributions, as determined by the Board of Directors, are discretionary and vest immediately. Contributions by the Bank totaled $80,000, $77,000, and $86,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

15. RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into loans with related parties, including executive officers and directors. Other changes are the result of changes in related parties during the year. The following is a summary of the aggregate activity involving related party borrowers during 2013:

(in thousands)	2013	2012
Balance, January 1	$ 9,129	$ 2,233
New borrowings	727	8,695
Amounts repaid	(476)	(1,799)
Balance, December 31	$ 9,380	$ 9,129
Undisbursed commitments to related parties, December 31, 2013	$ 255	$ 233

16. FAIR VALUE

Accounting standards establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

> Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of most securities available for sale are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The fair value of impaired loans that are collateral dependent are generally based on real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Bank's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

Because no active market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

The following methods and assumptions were used by the Bank to estimate the fair value of its financial instruments at December 31, 2013 and 2012:

Cash and cash equivalents: For cash and cash equivalents consisting of cash, due from banks and federal funds sold, the carrying amount is estimated to be fair value.

Time deposits with banks: Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow analysis using interest rates being offered at each reporting date for certificates with similar maturities.

Investment securities: For investment securities, fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are estimated using quoted market prices for similar securities and indications of value provided by brokers. The carrying amount of accrued interest receivable approximates its fair value.

Loans, net of allowance: For variable-rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness (without considering widening credit spreads due to market illiquidity). The allowance for loan losses is considered to be a reasonable estimate of discount for credit risk. The carrying amount of accrued interest receivable approximates its fair value.

Federal Home Loan Bank stock: The fair value for Federal Home Loan Bank Stock is subject to restrictions on its transferability. It is redeemable only by the Federal Home Loan Bank at par value of $100 per share.

Deposits: The fair values for demand deposits are, by definition, equal to the amount payable on demand at the reporting date represented by their carrying amount. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow analysis using interest rates being offered at each reporting date for certificates with similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Short-term borrowings and long-term debt: The fair values of fixed rate borrowings are estimated using a discounted cash flow analysis that applies interest rates being offered on similar debt instruments. The fair values of variable rate borrowings are based on carrying value. The carrying amount of accrued interest payable approximates its fair value.

Commitments to fund loans/standby letters of credit: The fair values of commitments are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The differences between the carrying value of commitments to fund loans or standby letters of credit and their fair value are not significant and, therefore, are not included in the following table.

The following table presents a summary of the carrying value and fair value by level of financial instruments on the Bank's balance sheet at December 31, 2013 and 2012 (in thousands):

	December 31, 2013			December 31, 2012		
(in thousands)	Carrying Amount	Fair Value	Fair Value Hierarchy	Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets:						
Cash and due from banks	$ 16,128	$ 16,128	Level 1	$ 19,979	$ 19,979	Level 1
Time deposits	1,985	1,985	Level 2	2,977	2,977	Level 2
Investment securities - held-to-maturity	15,558	14,637	Level 2	-	-	Level 2
Investment securities - available-for-sale	113,568	113,568	Level 2	125,714	125,714	Level 2
Loans, net of allowance	282,667	291,388	Level 3	275,877	299,197	Level 3
Investment in FHLB stock	2,578	2,578	Level 2	2,265	2,265	Level 2
Accrued interest receivable	2,041	2,041	Level 2	2,020	2,020	Level 2
Financial liabilities:						
Deposits	$ 341,268	$ 341,237	Level 2	$ 341,004	$ 341,474	Level 2
FHLB advances	48,500	48,597	Level 2	40,000	40,000	Level 2
Accrued interest payable	41	41	Level 2	49	49	Level 2

Assets Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements at December 31, 2013 (In thousands)		
	December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available-for-sale:				
Government agencies	$ 63,105	$ -	$ 63,105	$ -
Mortgage-backed securities - residential	5,164	-	5,164	-
Municipal securities	44,543	-	44,543	-
Corporate debt	736	-	736	-
Total securities available-for-sale	$ 113,548	$ -	$ 113,548	$ -

		Fair Value Measurements at December 31, 2012 (In thousands)		
	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available-for-sale:				
Government agencies	$ 71,676	$ -	$ 57,626	$ -
Mortgage-backed securities - residential	3,470	-	3,823	-
Corporate debt	50,263	-	27,211	-
Municipal securities	305	-		-
Total securities available-for-sale	$ 125,714	$ -	$ 88,660	$ -

There were no significant transfers between Level 1 and Level 2 or Level 3 during 2013 and 2012.

Assets Measured on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis are summarized below:

		Fair Value Measurements at December 31, 2013 (In thousands)		
	December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Commercial & agricultural	$ -	$ -	$ -	$ -
Real estate - commercial	7,903	-	-	7,903
Real estate - construction and land	-	-	-	-
Real estate - single family	345	-	-	345
Real estate - multifamily	-	-	-	-
Consumer & lease financing	-	-	-	-
Impaired loans with specific loss allocations	$ 8,248	$ -	$ -	$ 8,248

		Fair Value Measurements at December 31, 2012 (In thousands)		
	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Commercial & agricultural	$ -	$ -	$ -	$ -
Real estate - commercial	6,829	-	-	6,829
Real estate - construction and land	-	-	-	-
Real estate - single family	1,807	-	-	1,807
Real estate - multifamily	-	-	-	-
Consumer & lease financing	-	-	-	-
Impaired loans with specific loss allocations	$ 8,636	$ -	$ -	$ 8,636

The following tables present the valuation techniques covering the majority of Level 3 non-recurring fair value measurements and the most significant unobservable inputs used in those measurements as of December 31, 2013 and 2012:

(in thousands)

As of December 31, 2013	Fair Value	Methodology	Input	Low	High	Weighted average
Real estate loans	$ 8,248	Price-based	Appraised value	$ 318	$ 5,814	$ 1,650

As of December 31, 2012	Fair Value	Methodology	Input	Low	High	Weighted average
Real estate loans	$ 8,636	Price-based	Appraised value	$ 253	$ 5,686	$ 1,439

Fair value estimates are determined as of a specific point in time utilizing quoted market prices, where available, or various assumptions and estimates. As the assumptions and estimates change, the fair value of the financial instruments will change. The use of assumptions and various techniques, as well as the absence of secondary markets for certain financial instruments, will likely reduce the comparability of value disclosures between companies.

Impaired loans are valued at the fair value less estimated disposal costs of collateral. Impaired loans with specific loss allocations had a principal balance of $10,108,000 with a valuation allowance of $1,860,000 at December 31, 2013. Impaired loans with specific loss allocations had a principal balance of $10,520,000 with a valuation allowance of $1,884,000 at December 31, 2012.

17. SUBSEQUENT EVENT

Subsequent events are events or transactions that occur after the consolidated balance sheet date but before the consolidated financial statements are issued. The Bank recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including these estimates inherent in the process of preparing the consolidated financial statements. The Bank's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before consolidated financial statements are available to be issued. The Bank has evaluated subsequent events after December 31, 2013 for potential recognition and disclosure matters.

On January 27, 2014, the Board of Directors declared a $0.11 per common share cash dividend to shareholders of record at the close of business on February 18, 2014, to be paid on February 24, 2014.

18. QUARTERLY FINANCIAL DATA (Unaudited)

	2013				
				Earnings Per Common Share	
(in thousands except EPS data)	Interest Income	Net Interest Income	Net Income	Basic	Diluted
First quarter	$ 4,490	$ 4,115	$ 1,002	$ 0.18	$ 0.18
Second quarter	4,404	4,069	1,031	0.21	0.21
Third quarter	4,378	4,078	1,121	0.23	0.23
Fourth quarter	4,569	4,304	1,167	0.23	0.23

	2012				
				Earnings Per Common Share	
	Interest Income	Net Interest Income	Net Income	Basic	Diluted
First quarter	$ 4,637	$ 4,023	$ 613	$ 0.09	$ 0.09
Second quarter	4,525	3,990	835	0.14	0.14
Third quarter	4,446	3,989	977	0.19	0.19
Fourth quarter	4,670	4,247	1,024	0.20	0.20

FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C. 20429

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the Fiscal Year Ended December 31, 2013

[ ] Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ___ to ___.

FDIC Certificate Number 32203

Summit State Bank
(Exact name of registrant as specified in its charter)

California	94-2878925
(State of incorporation)	(I.R.S. Employee Identification No.)

500 Bicentennial Way, Santa Rosa, California 95403
(Address of principal executive offices)
(707) 568-6000
(registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act::
Common Stock, no par value, registered on the NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a no accelerated filer or smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act). (Check one)
Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [X]

Indicate by check mark if the registrant is a shell company, in Rule 12b(2) of the Exchange Act. Yes [ ] No [X]

The aggregate market value of the Common Stock held by nonaffiliated was approximately $28,783,000 (based upon the closing price of shares of the registrant's Common Stock, no par value, as reported by the NASDAQ Stock Market, LLC on June 28, 2013). The number of shares outstanding of the registrant's common stock (no par value) at the close of business March 13, 2014 was 4,777,670.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2013 Annual Meeting of Shareholders to be filed within 120 days of the fiscal year ended December 31, 2013 are incorporated by reference into Part III.

SUMMIT STATE BANK
CROSS REFERENCE INDEX

PART I

PART II

PART III

PART IV

SUMMIT STATE BANK

ANNUAL REPORT ON FORM 10-K

PART I

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from those expressed in, or implied by, our forward-looking statements. Words such as “expects,” “anticipates,” “believes,” “estimates” and other similar expressions or future or conditional verbs such as “will,” “should,” “would” and “could” are intended to identify such forward-looking statements. Readers of this annual report of the Summit State Bank (also referred to as we, us or our) should not rely solely on the forward-looking statements and should consider all uncertainties and risks throughout the report.

Forward-looking statements, by their nature, are subject to risks, uncertainties and assumptions. Our future results and shareholder values may differ significantly from those expressed in these forward-looking statements. You are cautioned not to put undue reliance on any forward-looking statement. The statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement. However, your attention is directed to any further disclosures made on related subjects in any subsequent reports we may file with the Federal Deposit Insurance Corporation (“FDIC”), including on Forms 10-K, 10-Q and 8-K, in the event we become required to make such filings.

ITEM 1. BUSINESS

INFORMATION ABOUT SUMMIT STATE BANK

General

Summit State Bank (the “Bank”) is a state-chartered commercial bank operating a traditional community banking business within our primary service area of Sonoma County in California, however we consider loans from Marin, Napa and San Francisco counties. We operate through five offices located in Santa Rosa, Rohnert Park, Healdsburg and Petaluma.

The Bank was incorporated on December 20, 1982 and commenced operations as a California state-chartered savings and loan in 1982. On January 15, 1999, the Bank received authority to convert its charter to a California state-chartered commercial bank. On July 13, 2006, the Bank completed an underwritten initial public offering and listed its stock on the Nasdaq Global Market under the symbol SSBI. The Bank’s deposits are insured by the FDIC in accordance with the Federal Deposit Insurance Act and the related regulations.

We provide a broad array of financial services to small-to medium-sized businesses, and their owners and employees, professionals and professional associations, entrepreneurs, high net worth families, foundations, estates and to individual consumers. We believe that our principal competitive advantages are personal service, flexibility and responsiveness to customer needs. Our lending activities are primarily focused on commercial real estate, construction, and business loans to our targeted clientele.

We emphasize relationship banking and we believe we offer our customers many of the management capabilities of a large financial institution, together with the resourcefulness and superior customer service of a community bank. Through our branches and the use of technology, we offer a broad array of deposit products and services for both commercial and consumer customers, including electronic banking, cash management services and electronic bill payment. We provide a comprehensive set of loan products, such as commercial loans and leases, lines of credit, commercial real estate loans, Small Business Administration, or SBA, loans, residential mortgage loans, home equity lines of credit and construction loans. We believe that local decision making ensures that our lending process is fast, efficient, and focused on maintaining our high credit quality and underwriting standards.

The Bank's only subsidiary is ALTO Service Corporation, which is a wholly owned subsidiary, incorporated in California. Its purpose is to act as trustee on the Bank's deeds of trust and perform reconveyances. The assets of ALTO Service Corporation consist exclusively of cash on deposit with the Bank. It has no employees and its operations and balance sheet are not material to the Bank's consolidated operating income or financial condition.

Services and Financial Products

Deposit Products

The Bank offers a wide range of deposit accounts designed to attract commercial businesses, professionals, and residents in its primary service area. These accounts include personal and business checking accounts, money market accounts, time certificates of deposit, sweep accounts and specialized deposit accounts, including professional accounts, small business "packaged" accounts, and tiered accounts designed to attract larger deposits, and Keogh and IRA accounts.

Lending Products

The Bank also offers a full complement of lending products designed to meet the specialized needs of its customers, including commercial and industrial lines of credit and term loans, credit lines to individuals, equipment loans, real estate and construction loans, small business loans of which a portion may be guaranteed by the SBA, and business lines of credit. The Bank has the designation of "Preferred Lender" by the SBA, which allows for expedited loan approval and funding. The Bank also offers consumer loans, including auto loans, mortgage loans, home improvement loans, and home equity lines of credit. The Bank offers loans in amounts which exceed the Bank's lending limits through participation arrangements with correspondent banks. On a selective basis, the Bank also offers loans for accounts receivable and inventory financing, loans to agriculture-related businesses, and equipment and expansion financing programs.

Brokered Deposits and CDARS

The Bank will accept brokered deposits when it is determined to be advantageous over other time deposits through its branch system. The Bank is a member of a special network (Promontory Interfinancial Network) offering a time deposit product called CDARS and demand deposit product called ICS. When a customer places a large deposit with the Bank as a network member, the Bank can place the funds into certificates of deposit or demand accounts issued by other banks in the network in increments of less than $250,000, so that both principal and interest are eligible for complete FDIC protection. Other banks do the same thing with their customer funds. The network banks exchange deposits on a dollar-for-dollar basis, bringing the full amount of the original deposit back to the originating bank. Because the originating bank comes out "whole," it can make the full amount of deposits received available for community lending purposes or other initiatives of its choosing. Deposits placed using CDARS and ICS meet the pass-through insurance coverage guidelines established by the FDIC and the depositor can obtain up to $25 million in FDIC insurance coverage. The deposits received by the Bank from other network members in exchange for the Bank's customers' deposits placed in the program are reported as brokered deposits for FFIEC Call Report purposes. Deposit funding raised through the CDARS products can vary significantly between financial reporting periods. CDARS, ICS and other brokered deposits totaled $48,213,000 or 14% of deposits at December 31, 2013, and $41,210,000 or 12% of deposits at December 31, 2012.

State of California Approved Depository

The Bank is an approved depositary for the deposit of funds of the State of California. These time deposits are placed by the Treasurer of the State of California and have maturities of three to six months, and are collateralized by investment securities, mortgage loans or letters of credit issued by the Federal Home Loan Bank ("FHLB"). These deposits totaled $43,500,000 and $36,500,000 or 11% of deposits at December 31, 2013 and 2012.

Internet and Telephone Banking Services

The Bank offers a computerized internet banking system, accessible on the Internet at the Bank's website www.summitstatebank.com, that enables its customers to view account information, access cash management services (including the initiation of automated clearinghouse payments), make transfers between accounts, pay bills, make loan payments, pre-schedule deposit transfers and request loan draws, and view both the front and back of cleared deposit items. The Bank also offers telephone banking services that enable customers to obtain account information, make transfers between accounts, make stop payments, check cleared items, and pre-schedule deposit transfers and loan payments. The Bank has an "app" for cellular phones that allows check image deposits, account inquiries and account transfers.

Other Services

Other services which the Bank offers include banking by appointment, online banking services, direct payroll and social security deposits, letters of credit, access to national automated teller machine networks, courier services, safe deposit boxes, night depository facilities, notary services, travelers checks, lockbox, and banking by mail.

Management evaluates the Bank’s services on an ongoing basis, and adds or discontinues services based upon customer needs, competitive factors, and the financial and other capabilities of the Bank. Future services may also be significantly influenced by improvements and developments in technology and evolving state and federal regulations.

Sources of Business

In marketing its services, the Bank capitalizes on its identity as a local, community bank, with officers, Directors and shareholders who have business and personal ties to the community. Small to medium-sized businesses are targeted, as well as nonprofit charities.

The Bank competes with other financial institutions in its service area through localized promotional activities, personalized service, and personal contact with potential customers by Executive Officers, Directors, employees and shareholders. Promotional activities include media advertising, community advisory groups and Officer participation in community business and civic groups. Officers and Directors are active members of the community who call personally on their business contacts and acquaintances in the Sonoma County area to become customers.

The Bank employs business development officers to solicit loans and deposits from local businesses and professionals.

Competition

The banking business in California generally, and in the Bank’s service area in particular, is highly competitive with respect to both loans and deposits and is dominated by a relatively small number of major banks that have offices operating over wide geographic areas. The Bank competes for deposits and loans with these banks as well as with savings and loan associations, credit unions, mortgage companies, money market funds, stock brokerage firms, insurance companies, and other traditional and non-traditional financial institutions.

Major financial institutions with offices in the service area include Bank of America, Wells Fargo Bank, and JP Morgan Chase. Regional and independent financial institutions with offices in our service area include, among others, Sonoma Bank (part of Sterling Savings Bank), Luther Burbank Savings, Exchange Bank, and Westamerica Bank.

The major banks and some of the other institutions have the ability to finance extensive advertising campaigns and to shift their resources to regions or activities of greater potential profitability. Many of the competing banks and other institutions offer diversified financial services which may not be directly offered by the Bank. The major banks also have substantially more capital and higher lending limits.

The Bank competes for customers’ funds with governmental and private entities issuing debt or equity securities or other forms of investments which may offer different or higher yields than those available through bank deposits.

Existing and future state and federal legislation could significantly affect the Bank’s cost of doing business, its range of permissible activities, and the competitive balance among major, regional and independent banks, and other financial institutions. Management cannot predict the impact these matters may have on commercial banking in general or on the business of the Bank in particular.

To compete with the financial institutions operating in the Bank’s service area, the Bank relies upon its independent status to provide flexibility and personalized service to its customers. The Bank emphasizes personal contacts with potential customers by Executive Officers, Directors and employees, develops local promotional activities, and seeks to develop specialized or streamlined services for customers. To the extent customers desire loans in excess of its lending limits or services not offered by the Bank, the Bank attempts to assist customers in obtaining such loans or other services through participations with other banks or assistance from correspondent banks.

Our Address, Telephone Number and Internet Website

Our principal executive offices are located at 500 Bicentennial Way, Santa Rosa, California 95403, and our telephone number is (707) 568-6000. Information about us is available at www.summitstatebank.com. The information on our website is not incorporated by reference into and does not form a part of this report.

REGULATION AND SUPERVISION

Overview

The Bank is extensively regulated by federal and state authorities. As a California state-chartered commercial bank with deposit accounts insured by the FDIC to the maximum amount permitted by law, the Bank is regulated, supervised and examined by the Commissioner of the California Department of Financial Institutions (“the Commissioner”) and the FDIC. The Bank must also comply with certain regulations issued by the FRB. The regulations of the Commissioner, the FRB and the FDIC govern most aspects of the Bank’s business, including the making of periodic reports by the Bank, as well as the Bank’s activities relating to dividends, investments, loans, borrowings, capital requirements, certain check-clearing activities, branching, mergers and acquisitions, reserves against deposits, the issuance of securities and numerous other areas. The Bank is also subject to the requirements and restrictions of various consumer laws and regulations, as well as applicable provisions of California law, insofar as they do not conflict with and are not preempted by federal banking laws. Supervision, legal action and examination of the Bank by the regulatory agencies are generally intended to protect depositors and are not intended for the protection of shareholders.

Statutes, regulations and policies affecting the banking industry are frequently under review by the U.S. Congress and state legislatures, and by the federal and state agencies charged with supervisory and examination authority over banking institutions. Changes in the banking and financial services industry can be expected to occur in the future. Some of the changes may create opportunities for the Bank to compete in financial markets with less regulation. However, these changes also may create new competitors in geographic and product markets which have historically been limited by law to insured depository institutions such as the Bank. Changes in the statutes, regulations or policies that affect the Bank cannot be predicted and may have a material effect on the Bank's business and earnings. In addition, the regulatory agencies which have jurisdiction over the Bank have broad discretion in exercising their supervisory powers. For example, the FDIC has authority under federal law to prohibit a state bank from engaging in banking practices which it considers unsafe and unsound.

The laws of the State of California affect the Bank's business and operations. The California Financial Code provides that if the Commissioner believes that a bank is violating its articles of incorporation or state law, or is engaging in unsafe or injurious business practices, the Commissioner can order that bank to comply with the law or to cease the unsafe or injurious practices and has authority to impose civil money penalties. The Commissioner has the power to suspend or remove bank officers, directors and employees who violate any law or regulation relating to the business of the bank or breach any fiduciary duty to the bank, engage in any unsafe and unsound practices related to the business of the bank, or are charged with or convicted of a felony involving dishonesty or breach of trust. The Commissioner also has authority to take possession of and to liquidate a bank, to appoint a conservator for a bank and to appoint the FDIC as receiver for a bank.

The FDIC can pursue an enforcement action against a bank for unsafe and unsound practices in conducting its business, or for violations of any law, rule or regulation or provision, any consent order with any agency, any condition imposed in writing by the agency, or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, cease-and-desist orders and written agreements, the termination of insurance of deposits, the imposition of civil money penalties and removal and prohibition orders against institution-affiliated parties.

In addition to the regulation and supervision outlined above, banks must be prepared for judicial scrutiny of their lending and collection practices. For example, some banks have been found liable for exercising remedies which their loan documents authorized upon the borrower's default. This has occurred in cases where the exercise of those remedies was determined to be inconsistent with the previous course of dealing between those banks and the borrowers. As a result, banks have had to exercise increased caution, incur greater expense and face increased exposure to liability when dealing with defaulting loans.

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law. The Dodd-Frank Act was intended to effect a fundamental restructuring of federal banking regulation. Among other things, the Dodd-Frank Act created a new Financial Stability Oversight Council to identify systemic risks in the financial system and gives federal regulators new authority to take control of and liquidate financial firms. The Dodd-Frank Act also created a new independent federal regulator to administer federal consumer protection laws. The Dodd-Frank Act is expected to have a significant impact on our business operations as its provisions take effect. Among the provisions that are likely to affect us are the following:

Deposit Insurance. The Dodd-Frank Act permanently increased the maximum deposit insurance amount for banks, savings institutions and credit unions to $250,000 per depositor and, at the time, extended unlimited deposit insurance to non-interest bearing transaction accounts through December 31, 2012. The Dodd-Frank Act also broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution, rather than on deposits as in the past. Assessment rates would be reduced to a range of 2.5 to 9 basis points on the broader assessment base for banks in the lowest risk category ("well capitalized" and CAMELS I or II) up to 30 to 45 basis points for banks in the highest risk category. The Dodd-Frank Act requires the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. The Dodd-Frank Act also eliminated the federal statutory prohibition against the payment of interest on business checking accounts.

Consumer Financial Protection Bureau. The Dodd-Frank Act created a new, independent federal agency called the Consumer Financial Protection Bureau ("CFPB"), which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions will be subject to rules promulgated by the CFPB but will continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB will have authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, the Dodd-Frank Act will allow borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

Corporate Governance. The Dodd-Frank Act requires publicly traded companies to give shareholders a non-binding vote on executive compensation at their first annual meeting taking place six months after the date of enactment and at least every three years thereafter and on so-called "golden parachute" payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders. The new legislation also authorizes the SEC to promulgate rules that would allow shareholders to nominate their own candidates using a company's proxy materials. The Dodd-Frank Act directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1.0 billion, regardless of whether the company is publicly traded or not. See "Guidance on Sound Incentive

Compensation Policies” below. It also gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

Transactions with Affiliates and Insiders. The Dodd-Frank Act expands the definition of affiliate for purposes of quantitative and qualitative limitations of Section 23A of the Federal Reserve Act to include mutual funds advised by a depository institution or its affiliates. The Dodd-Frank Act applies Section 23A and Section 22(h) of the Federal Reserve Act (governing transactions with insiders) to derivative transactions, repurchase agreements and securities lending and borrowing transactions that create credit exposure to an affiliate or an insider. Any such transactions with affiliates must be fully secured. The previous exemption from Section 23A for transactions with financial subsidiaries has been eliminated.

Capital Requirements. The Dodd-Frank Act requires the FRB to apply consolidated capital requirements to depository institution holding companies that are no less stringent than those currently applied to depository institutions. Under these standards, trust preferred securities will be excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by a bank holding company with less than $15 billion in assets. The Dodd-Frank Act also requires capital requirements to be countercyclical so that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction, consistent with safety and soundness. See “Capital Adequacy Guidelines” below.

Interstate Branching. The Dodd-Frank Act authorizes national and state banks to establish branches in other states to the same extent as a bank chartered by that state would be permitted to branch. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Accordingly, banks will be able to enter new markets more freely.

Limits on Derivatives. The Dodd-Frank Act prohibits state-chartered banks from engaging in derivatives transactions unless the loans to one borrower limits of the state in which the bank is chartered take into consideration credit exposure to derivatives transactions. For this purpose, derivative transaction includes any contract, agreement, swap, warrant, note or option that is based in whole or in part on the value of, any interest in, or any quantitative measure or the occurrence of any event relating to, one or more commodities securities, currencies, interest or other rates, indices or other assets.

Guidance on Sound Incentive Compensation Policies

In 2010, the federal bank regulators jointly issued final guidance on sound incentive compensation policies ("SICP") intended to ensure that the incentive compensation policies of banking organizations do not undermine safety and soundness by encouraging excessive risk-taking. The SICP guidance, which covers all employees who have the ability to materially affect the risk profile of an organization, is based on the principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Any deficiencies in compensation practices that are identified may be incorporated into the organization's supervisory ratings, and result in enforcement actions.

Troubled Asset Relief Program and Related Measures

On October 3, 2008, Congress adopted the Emergency Economic Stabilization Act ("EESA"), including a Troubled Asset Relief Program ("TARP"). TARP gave the United States Treasury Department ("Treasury") authority to deploy up to $700 billion into the financial system for the purpose of improving liquidity in capital markets. On October 14, 2008, Treasury announced plans to direct $250 billion of this authority into preferred stock investments in banks and bank holding companies through a Capital Purchase Program ("CPP").

The Bank elected to participate in the CPP by issuing $8,500,000 in non-cumulative preferred stock to Treasury along with a warrant to purchase up to 239,212 shares of common stock at an exercise price of $5.33 per share. The transaction was completed in December 2008. In August 2011, the Bank repurchased this non-cumulative preferred stock in connection with its participation in Treasury's Small Business Lending Fund program. See "Small Business Lending Fund." The Bank repurchased the warrant on September 14, 2011.

The American Recovery and Reinvestment Act of 2009 ("ARRA") was signed into law on February 17, 2009. ARRA included a wide variety of programs intended to stimulate the economy. In addition, ARRA imposed new executive compensation and expenditure limits on TARP CPP recipients and expanded the class of employees to whom the limits and restrictions apply. ARRA also provided the opportunity for additional repayment flexibility for existing TARP CPP recipients.

Small Business Lending Fund

In July 2010, the U.S. Congress passed the Small Business Jobs and Credit Act of 2010, which establishment a Small Business Lending Fund ("SBLF"). The SBLF is a $30 billion fund to be used by Treasury to make preferred stock investments in banks and bank holding companies to stimulate small business lending. The initial dividend rate on the preferred stock issued under the SBLF program will be 5% but is subject to a reduction to as low as 1% during the first four years after the investment depending on the amount of increase in the institution's qualified small business lending following its issuance of the preferred stock to the U.S. Treasury. After the initial four-and-a-half year period the dividend rate will increase to 9%. Under the SBLF, small business lending means lending as defined by and reported in an eligible institution's quarterly call report, where each loan comprising such lending is one of the following types: (i) commercial and industrial loans; (ii) owner-occupied nonfarm, nonresidential real estate loans; (iii) loans to finance agricultural production and other loans to farmers; and (iv) loans secured by farmland. Loans greater than $10 million or to businesses with more than $50 million in revenue are excluded. If any part of the loan is guaranteed by a U.S. government agency or enterprise, the guaranteed portion is subtracted from the loan amounts.

The Bank elected to participate in the SBLF program and, on August 4, 2011, sold 13,750 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series B (the "SBLF Preferred

Stock") to Treasury for a purchase price of $13,750,000. As required by the terms of the SBLF program, the Bank used $8,593,264 of these proceeds to repurchase 8,500 shares of preferred stock sold to Treasury under the CPP. The terms of the SBLF Preferred Stock limit the Bank's ability to pay dividends to holders of common stock in certain circumstances. See "Limitations on Dividends" on page 78.

Deposit Insurance Premiums

The FDIC has developed a risk-based assessment system providing that the assessment rate for an insured depository institution varies according to the level of risk incurred in its activities. Institutions are classified into one of four risk categories. The FDIC is able to assess higher rates to institutions with a significant reliance on secured liabilities or a significant reliance on brokered deposits but, for well-managed and well-capitalized institutions, only when accompanied by rapid asset growth.

Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution, rather than on deposits as in the past. Assessment rates range from 2.5 to 9 basis points on the broader assessment base for banks in the lowest risk category ("well capitalized" and CAMELS I or II) and up to 30 to 45 basis points for banks in the highest risk category.

Brokered Deposit Restrictions

Well-capitalized institutions are not subject to limitations on brokered deposits, while an adequately capitalized institution is able to accept, renew or roll over brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the yield paid on such deposits. Undercapitalized institutions are generally not permitted to accept, renew, or roll over brokered deposits.

Limitations on Dividends

Under California law the holders of the Bank's common stock are entitled to receive dividends out of funds legally available for the payment of dividends when and as declared by the Board of Directors, provided the conditions described below are satisfied.

The payment of cash dividends by the Bank depends on various factors, including the earnings and capital requirements of the Bank and other financial conditions. California law provides that, as a state-licensed bank, the Bank may not make a cash distribution to its shareholders in excess of the lesser of the following: (a) the Bank's retained earnings or (b) the Bank's net income for its last three fiscal years, less the amount of any distributions made by the Bank to its shareholders during that period. However, a bank such as the Bank, with the prior approval of the Commissioner, may make a distribution to its shareholders of an amount not to exceed the greatest of (1) the Bank's retained earnings, (2) the Bank's net income for its last fiscal year, or (3) the Bank's net income for the current fiscal year. If the Commissioner determines that the shareholders' equity of the Bank is inadequate or that the making of a distribution by the Bank would be unsafe or unsound, the Commissioner may order the Bank to refrain from making a proposed distribution.

The FDIC and the Commissioner have authority to prohibit a bank from engaging in business practices that are considered to be unsafe or unsound. Depending upon the financial condition of bank and upon other factors, the FDIC or the Commissioner could assert that payments of dividends or other payments by the Bank might be an unsafe or unsound practice.

Under the terms of SBLF Preferred Stock issued to Treasury in connection with the Bank's participation in the SBLF program, the Bank cannot pay dividends on its common stock unless it has paid the dividends accrued on the SBLF Preferred Stock for the three preceding quarterly dividend periods. In addition, under the terms of the Treasury preferred stock, the Bank may only declare and pay a dividend on its common stock or other stock junior to the SBLF Preferred Stock, or repurchase shares of any such class or series of stock, if, after payment of such dividend or repurchase, Bank's Tier 1 Capital would be at least 90% of the Signing Date Tier 1 capital, as set forth in the Certificate of Determination for the SBLF Preferred Stock, less any subsequent net charge-offs and any redemptions of the SBLF Preferred Stock (the "Tier 1 Dividend Threshold"). The Tier 1 Dividend Threshold is subject to reduction, beginning on the second anniversary of issuance and ending on the tenth anniversary, by 10% for each one percent increase in qualified small business lending over the baseline level as specified in the Certificate of Determination for the SBLF Preferred Stock.

Capital Adequacy Guidelines

Federal bank regulatory agencies have adopted risk-based capital guidelines for insured banks. A bank's total qualifying capital consists of two types of capital components: "core capital elements," known as Tier 1 capital, and "supplementary capital elements," known as Tier 2 capital. The Tier 1 component of a bank's qualifying capital must represent at least 50% of total qualifying capital. Tier 1 capital consists of common equity, non-cumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries. Tier 1 capital excludes goodwill and other specified intangibles, as well as the equity impact of adjusting available-for-sale securities to market value. In addition to the Tier 1 capital components, total capital also includes cumulative perpetual preferred stock, trust preferred stock, limited-life preferred stock, mandatory convertible securities, subordinated debt and general loan loss reserves up to a limit of 1.25% of risk-weighted assets.

The guidelines make regulatory capital requirements sensitive to the differences in risk profiles among banking institutions, take off-balance-sheet items into account when assessing capital adequacy, and minimize disincentives to holding liquid low-risk assets.

These guidelines require a minimum total risk-based capital ratio of 8% of risk-weighted assets, with at least 4% in the form of Tier 1 capital. Federal banking regulators also have instituted minimum leverage ratio guidelines for financial institutions. The leverage ratio guidelines require maintenance of a minimum ratio of 3% Tier 1 capital to adjusted quarterly average assets for the most highly rated bank holding company organizations. Less highly rated institutions and institutions that are anticipating significant growth or that face other significant risks are required to maintain capital levels ranging from 1% to 2% above the 3% minimum. In addition, all banks are generally expected to maintain capital above these minimums.

Federal banking agencies, including the FDIC, have adopted regulations implementing a system of prompt corrective action under the Federal Deposit Insurance Corporation Improvement Act. The regulations establish five capital categories with the following characteristics: (1) ”Well-capitalized,” consisting of institutions with a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater and a leverage ratio of 5% or greater and which are not operating under an order, written agreement, capital directive or prompt corrective action directive; (2) ”Adequately capitalized,” consisting of institutions with a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital of 4% or greater and a leverage ratio of 4% or greater and which do not meet the definition of a “well-capitalized” institution; (3) ”Undercapitalized,” consisting of institutions with a total risk-based capital ratio of less than 8%, a Tier 1 risk-based capital ratio of less than 4%, or a leverage ratio of less than 4%; (4) ”Significantly undercapitalized,” consisting of institutions with a total risk-based capital ratio of less than 6%, a Tier 1 risk-based capital ratio of less than 3%, or a leverage ratio of less than 3%; and (5) ”Critically undercapitalized,” consisting of institutions with a ratio of tangible equity to total assets that is equal to or less than 2%. Banks are subject to sanctions of increasing severity for failure to maintain capital ratios at well-capitalized or adequately-capitalized levels.

As of December 31, 2013, the Bank was well-capitalized and had a total risk-based capital ratio of 18.6%, a Tier-1 risk-based capital ratio of 17.4% and a leverage ratio of 13.2%.

United States banking regulators have issued proposals for enhanced capital requirements based on recommendations of an international committee of central banks and their supervisors, generally known as the Basel Committee. In November 2013, the FDIC adopted interim capital rules applicable to FDIC-insured banks to implement these proposals. The interim final rules are effective January 1, 2015, and, among other things:

- Impose more restrictive eligibility requirements for Tier 1 and Tier 2 capital;
- Create a new subset of Tier 1 capital known as common equity Tier 1 risk-based capital (CET1);
- Require minimum CET1 of 4.5%,
- Introduce a capital conservation buffer of an additional 2.5% of common equity to risk-weighted assets, to be phased in between 2015 and 2019;
- Increase the minimum Tier 1 risk-based capital ratio to 6.0% plus the capital conservation buffer;
- Increase the minimum total risk-based capital ratio to 8.0% plus the capital conservation buffer;
- Require a minimum Tier 1 leverage capital ratio of 4.0%;
- Introduce a countercyclical capital buffer of up to 2.5% of common equity or other fully loss absorbing capital for periods of excess credit growth.

Failure to satisfy the capital conservation buffer requirement will result in restrictions on amounts that can be paid as dividends and discretionary bonus compensation. These higher required capital levels will also apply to prompt corrective action categories. The minimum for the well-capitalized category will be a CET1 ratio of 6.5% and a Tier 1 ratio of 8.0%; for the adequately capitalized category it will be a CET1 ratio of 4.5% and a Tier 1 ratio of 6.0%, undercapitalized will mean less than a CET1 ratio of 4.5% or a Tier 1 ratio of 6.0%, severely undercapitalized will mean a CET1 ratio of less than 3.0% or a Tier 1 ratio of 4.0%; critically undercapitalized will continue to mean a ratio of tangible equity to tangible assets of less than 2.0%.

Programs to Mitigate Identity Theft

In November 2007, federal banking agencies together with the NCUA and FTC adopted regulations under the Fair and Accurate Credit Transactions Act of 2003 to require financial institutions and other creditors to develop and implement a written identity theft prevention program to detect, prevent and mitigate identity theft in connection with certain new and existing accounts. Covered accounts generally include consumer accounts and other accounts that present a reasonably foreseeable risk of identity theft. Each institution's program must include policies and procedures designed to: (i) identify indicators, or "red flags," of possible risk of identity theft; (ii) detect the occurrence of red flags; (iii) respond appropriately to red flags that are detected; and (iv) ensure that the program is updated periodically as appropriate to address changing circumstances. The regulations include guidelines that each institution must consider and, to the extent appropriate, include in its program.

Other Regulations

Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. The Bank's operations are also subject to federal laws applicable to credit and deposit transactions, such as:

- the federal Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- the Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- the Fair Credit Reporting Act of 1978, governing the use and provision of information to credit reporting agencies;
- the Fair Debt Collection Practices Act, governing the manner in which consumer debts may be collected by collection agencies;
- the Fair and Accurate Credit Transactions Act of 2003 and related regulation, requiring financial institutions to implement a written identity theft prevention program to detect, prevent and mitigate identity theft in connection with certain accounts, particularly consumer accounts;
- the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records;

- the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve Board to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services; and
- the rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

Legislation and Proposed Changes

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in Congress, in the California legislature and before various bank regulatory agencies. For example, from time to time Congress has considered various proposals to eliminate the federal thrift charter, create a uniform financial institutions charter, and conform holding company regulation. Typically, the intent of this type of legislation is to strengthen the banking industry. No prediction can be made as to the likelihood of any major changes or the impact that new laws or regulations might have on the Bank.

Employees

As of December 31, 2013, the Bank employed a total of 64 employees in various capacities, all located in California. The Bank’s employees are not represented by any union or covered by any collective bargaining agreement. The Bank considers its relationships with its employees to be good.

ITEM 1A. RISK FACTORS

The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This report is qualified in its entirety by these risk factors.

Current Market Developments May Adversely Affect Our Industry, Business and Results of Operations.

Dramatic declines in the housing market during the prior years, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative securities, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Many lenders and institutional investors, concerned about the stability of the financial markets generally and the strength of counterparties, have reduced or ceased to provide funding to borrowers, including other financial institutions. The resulting lack of available credit, lack of confidence in the financial sector, increased volatility in the financial markets and reduced business activity could materially and adversely affect our business, financial condition and results of operations.

Our Allowance for Loan Losses May Prove To Be Insufficient To Absorb Losses in Our Loan Portfolio.

Lending money is a substantial part of our business. Every loan carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things:

- cash flow of the borrower and/or the project being financed;
- the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan;
- the credit experience of a particular borrower;
- changes in economic and industry conditions; and
- the duration of the loan.

We maintain an allowance for loan losses, a reserve established through a provision for loan losses charged to expense, which we believe is appropriate to provide for probable losses in our loan portfolio. The amount of this allowance is determined by our management through a periodic review and consideration of several factors, including, but not limited to:

- our general reserve, based on our historical default and loss experience as well as current macroeconomic factors; and
- our specific reserve, based on our evaluation of non-performing loans and their underlying collateral.

The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, we may need additional provisions to replenish the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, most likely, capital, and may have a material negative effect on our financial condition and results of operations.

Recently enacted legislation, particularly the Dodd-Frank Act, could materially and adversely affect us by increasing compliance costs, heightening our risk of noncompliance with applicable regulations, and changing the competitive landscape in the banking industry.

From time to time, the U.S. Congress and state legislatures consider changing laws and enact new laws to further regulate the financial services industry. On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, into law. The Dodd-Frank Act has resulted in sweeping changes in the regulation of financial institutions. As discussed in the section entitled "Business-Regulatory Considerations," the Dodd-Frank Act contains numerous provisions that affect all banks and bank holding companies. The Dodd-Frank Act includes provisions that, among other things:

- changed the assessment base for federal deposit insurance from the amount of insured deposits to total consolidated assets less average tangible capital, eliminate the ceiling on the size of the federal deposit insurance fund, and increase the floor of the size of the federal deposit insurance fund;

- repealed the federal prohibitions on the payment of interest on demand deposits, thereby generally permitting the payment of interest on all deposit accounts;

- centralized responsibility for promulgating regulations under and enforcing federal consumer financial protection laws in a new Consumer Financial Protection Bureau;

- required the FDIC to seek to make its capital requirements for banks countercyclical;

- implemented corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, that apply to all public companies, not just financial institutions;

- established new rules and restrictions regarding the origination of mortgages; and

- permitted the Federal Reserve to prescribe regulations regarding interchange transaction fees, and limit them to an amount reasonable and proportional to the cost incurred by the issuer for the transaction in question.

Many of these and other provisions in the Dodd-Frank Act remain subject to regulatory rule-making or implementation of new regulations, the effects of which are not yet known. Although we cannot predict the specific impact and long-term effects that the Dodd-Frank Act and the regulations promulgated thereunder will have on us and our prospects, our target markets and the financial industry more generally, we believe that the Dodd-Frank Act and the regulations promulgated thereunder are likely to impose additional administrative and regulatory burdens that will obligate us to incur additional expenses and will adversely affect our margins and profitability. We will also have a heightened risk of noncompliance with the additional regulations. Finally, the impact of some of these new regulations is not known and may affect our ability to compete long-term with larger competitors.

Premiums for Federal Deposit Insurance Have Increased and May Increase More.

Bank failures during the recent recession caused the FDIC's deposit insurance fund to fall below the minimum balance required by law, forcing the FDIC to consider action to rebuild the fund by raising the insurance premiums assessed member banks. The FDIC increased premiums, provided for additional increases for institutions with greater risk profiles and revised the base on which premiums are charged. It also had an additional emergency assessment as of June 30, 2009. The Dodd-Frank Act changed the assessment base for FDIC premiums from insured deposits to total assets less tangible capital. The FDIC may further increase the assessment rate schedule in order to manage the DIF to prescribed statutory target levels. An increase in the Bank's risk category or in the assessment rates could have an adverse effect on the Bank's earnings. The FDIC may terminate deposit insurance if it determines the institution involved has engaged in or is engaging in unsafe or unsound banking practices, is in an unsafe or unsound condition, or has violated applicable laws, regulations or orders.

Our Share Price May Be Volatile

As of December 31, 2013, there were 4,777,670 shares of our common stock issued and outstanding. The Bank's common stock is listed on the Nasdaq Global Market under the symbol "SSBI." Factors such as announcements of developments related to the Bank's business, announcements by competitors, fluctuations in its financial results, general conditions in the banking industry, economic conditions in the areas in which the Bank does business, fluctuations in interest rates, and other factors could cause the trading price of the shares to fluctuate substantially. In addition, in recent years the stock market in general and the market for shares of small capitalization stocks and financial institutions in particular have experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. Such fluctuations could have a material adverse effect on the market price of the Shares.

The Bank Is Highly Dependent on Real Estate and Events that Negatively Impact the Real Estate Market Could Hurt Our Business.

A significant portion of our loan portfolio is dependent on real estate. At December 31, 2013, real estate served as the principal source of collateral with respect to approximately 78% of our loan portfolio. At December 31, 2013, we owned real estate, acquired through foreclosure or other judicial proceeding, in the amount of $4,771,000. A future decline in the value of the real estate securing our loans and real estate owned by us could adversely impact our financial condition. In addition, acts of nature, including earthquakes, brush fires and floods, which may cause uninsured damage and other loss of value to real estate that secures these loans, may also negatively impact our financial condition. This is particularly significant in light of the fact that substantially all of the real estate that makes up the collateral of our real estate secured loans is located in Northern California, where earthquakes and brush fires are common.

Our Growth or Future Losses May Require Us To Raise Additional Capital in the Future, but That Capital May Not Be Available When It Is Needed or the Cost of That Capital May Be Very High.

Under applicable government regulations, the Bank is permitted to make unsecured loans to any single borrower or group of related borrowers in an amount that will not exceed 15% of its shareholders' equity, plus the allowance for loan losses, capital notes and debentures, and secured loans in an amount that, when combined with unsecured loans made to the same borrower or group of related borrowers, will not exceed 25% of its shareholders' equity, plus the allowance for loan losses, capital notes and debentures ("Lending Limits"). Such Lending Limits make it more difficult for the Bank to attract borrowers who have lending requirements in excess of those Lending Limits and, as a result, the future success of the Bank depends on, among other things, its ability to increase capital (and thereby the amount of the loans it will be able to make to borrowers) by selling additional common stock, preferred stock or subordinated debt. The Bank has no plans at this time to sell any such securities (except upon issuance of options to directors and employees under its stock option plan). However, if the need to do so should arise, either because of the Bank's desire to make larger loans to accommodate customers or to meet regulatory capital requirements as a result of growth or losses, there is no assurance that the Bank's efforts to raise such additional capital will be successful or that the sale of additional shares will not dilute the ownership of current investors. Any dilution of current investors could be substantial. The Bank seeks the participation of other banks and lending institutions, as co-lenders with it, for loans that exceed the Bank's Lending Limits; however, there can be no assurance that other lending institutions will be interested in doing so.

The Bank's Business Is Highly Competitive.

In California generally, and in the Bank's service area specifically, major banks and regional banks dominate the commercial banking market. By virtue of their larger capital bases, such institutions have substantially greater financial, marketing and operational resources than the Bank and offer diversified services that might not be directly offered by the Bank. The Bank competes with these larger commercial banks and other financial institutions, such as savings and loan associations and credit unions, which offer services traditionally offered only by banks. In addition, the Bank competes with other institutions such as money market funds, brokerage firms, commercial finance companies, leasing companies, and even retail stores seeking to penetrate the financial services market. No assurance can be given, however, that the Bank's efforts to compete with other banks and financial institutions will continue to be successful. In addition, the costs of providing a high level of personal service could adversely affect the Bank's operating results. See "Information About Summit State Bank — Competition" on page 72.

The Bank Depends on Loan Originations to Grow Its Business.

The Bank's success depends on, among other things, its ability to originate loans. For several years, demand for loans by creditworthy borrowers has been relatively weak. The Bank's competitors may offer better terms or better service, or respond to changing capital and other regulatory requirements better than the Bank is able to do. Some of the Bank's competitors make loans on terms that the Bank is not willing to match. Success in competing for loans depends on such factors as:

- Quality of service to borrowers, especially the time it takes to process loans;
- Economic factors, such as interest rates;
- Terms of the loans offered, such as rate adjustment provisions, adjustment caps, loan maturities, loan-to-value ratios and loan fees; and
- Size of the loan.

The Soundness of Other Financial Institutions Could Negatively Affect Us.

Our ability to engage in routine funding and other transactions could be negatively affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. Defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and losses of depositor, creditor and counterparty confidence and could lead to losses or defaults by us or by other institutions. We could experience increases in deposits and assets as a result of the difficulties or failures of other banks, which would increase the capital we need to support our growth.

The Bank's Business is Subject to Extensive Government Regulation and Legislation.

The Bank is subject to extensive state and federal regulation, supervision and legislation, and the laws that govern the Bank and its operations are subject to change from time to time. Applicable laws and regulations provide for the regular examination and supervision of institutions; affect the cost of funds through reserve requirements and assessments on deposits; limit or prohibit the payment of interest on demand deposits; limit the kinds of investments a bank or bank holding company can make and the kinds of activities in which it can engage; and grant the regulatory agencies broad enforcement authority in case of violations. The laws and regulations increase the cost of doing business and have an adverse impact on the ability of the Bank to compete efficiently with other financial services providers that are not similarly regulated. There can be no assurance that future regulation or legislation will not impose additional requirements and restrictions on the Bank in a manner that will adversely affect its results of operations, financial condition and prospects. See "Information About Summit State Bank — "Competition" and "Regulation and Supervision" on pages 72 and 73.

The Bank's Business May Be Adversely Affected By General Economic Conditions Including Conditions in California.

The banking business is affected by general economic and political conditions, both domestic and international, and by governmental monetary and fiscal policies. Conditions such as inflation, recession, unemployment, volatile interest rates, money supply, scarce natural resources, weather, natural disasters such as earthquakes, international disorders, etc., and other factors beyond the Bank's control may adversely affect the profitability of the Bank.

A substantial majority of the Bank's assets and deposits are generated in Northern California. As a result, poor economic conditions in Northern California may cause the Bank to incur losses associated with higher default rates and decreased collateral values in its loan portfolio. Economic conditions in Northern California are subject to various uncertainties at this time, including the state's budget deficit and the depreciation of real estate. If economic conditions in California generally and Northern California in particular decline further, the Bank recognizes that its level of problem assets could increase accordingly.

Our Business is Subject to Liquidity Risk and Changes in Our Source of Funds May Affect Our Performance and Financial Condition.

Our ability to make loans is directly related to our ability to secure funding. In addition to local deposits, the Bank receives funding from FHLB advances, brokered deposits and State of California time deposits, when such alternatives are attractive compared to the cost of attracting additional local deposits. These alternative sources of funds, along with local time deposits, are sensitive to interest rates and can affect the cost of funds and net interest margin. Liquidity risk arises from the inability to meet obligations when they come due or to manage the unplanned decreases or changes in funding sources. Although we believe we can continue to successfully pursue a local deposit funding strategy, significant fluctuations in local deposit balances or if one of the alternative sources of funds becomes unavailable, an adverse effect on our financial condition and results of operations may be experienced.

Changes in interest rates may reduce our net income.

The income of the Bank depends to a great extent on the difference between the interest rates earned on its loans, securities and other interest-earning assets and the interest rates paid on its deposits and other interest-bearing liabilities. These rates are highly sensitive to many factors that are beyond the Bank's control, including general economic conditions and the policies of various governmental and regulatory agencies, in particular the Board of Governors of the Federal Reserve System ("FRB"). A change in interest rates could have a material adverse effect on the Bank's results of operations, financial condition and prospects by reducing the spread between income on interest earning assets and interest paid on interest bearing liabilities. Generally, the value of fixed-rate securities fluctuates inversely with changes in interest rates. Therefore, an increase in interest rates could cause the fair value of the Bank's securities investments to decrease. See "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources" on page 24.

Failure to Successfully Execute Our Strategy Could Adversely Affect Our Performance.

Along with the other factors listed herein, our financial performance and profitability depends on our ability to execute our corporate growth strategy. Continued growth may present operating and other problems that could adversely affect our business, financial condition and results of operations. Accordingly, there can be no assurance that we will be able to execute our growth strategy or maintain the level of profitability that we have recently experienced.

We Are Exposed to Risk of Environmental and Other Liabilities with Respect to Properties to Which We Take Title.

In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental or other liabilities with respect to these properties. We may be held liable to a governmental entity or to third persons for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or we may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, in the event we become the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition, liquidity and results of operations could be materially and adversely affected.

The Bank's Ability to Declare Future Dividends Is Subject to Certain Limitations.

The Bank's ability to pay dividends is limited by law, regulation, the terms of the preferred stock sold to the U.S. Department of the Treasury under the Small Business Lending Fund program and the financial condition of the Bank. There can be no assurance that the Bank will continue to pay dividends at the rate and frequency at which it has done so in the past or that any dividends will be declared and paid in the future at all. See "Regulation and Supervision-Limitations on Dividends" on page 78.

The Accuracy of the Bank's Judgments and Estimates about Financial and Accounting Matters Will Impact Operating Results and Financial Condition.

The Bank makes certain estimates and judgments in preparing its financial statements. The quality and accuracy of those estimates and judgments will have an impact on the Bank's operating results and financial condition. Three items that are subject to material estimates and judgments include the consideration of other than temporary impairment of investment securities, the recorded goodwill asset of $4,119,000 and the allowance for loan losses of $5,412,000 as of December 31, 2013. Although management supports its estimates and judgments by employing third party reviews there are no assurances that regulatory reviews may result in a different conclusion or future events may occur that impact the recorded values resulting in material fluctuations of financial results. See "MANAGEMENT'S DISCUSSION AND ANALYSIS-Critical Accounting Policies" beginning on page 4.

The Bank's Information Systems May Experience an Interruption or Breach in Security.

The Bank relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Bank's customer relationship management and systems. There can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately corrected by the Bank. The occurrence of any such failures, interruptions or security breaches could damage the Bank's reputation, result in a loss of customer business, subject the Bank to additional regulatory scrutiny, or expose the Bank to litigation and possible financial liability, any of which could have a material adverse effect on the Bank's financial condition and results of operations.

The Bank's Controls and Procedures May Fail or Be Circumvented.

Management regularly reviews and updates the Bank's internal control over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Bank's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Bank's business, results of operations and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Bank owns its head office building located at 500 Bicentennial Way, Santa Rosa, California. The building has approximately 31,000 square feet of usable space. The Bank occupies approximately 13,000 square feet as its headquarters. The remaining 18,000 square feet are currently leased to 3 tenants, with lease terms maturing from 2015 to 2018. The Bank also leases spaces for branch offices in three shopping centers and one commercial building. These leases expire at various dates from 2015 through 2019 and include renewal and termination options and rental adjustment provisions.

ITEM 3. LEGAL PROCEEDINGS

The nature of our business causes us to be involved in legal proceedings from time to time. As of the date of this report, the Bank is not a party to any litigation where management anticipates that the outcome will have a material effect on the consolidated financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There was no submission of matters to a vote of securities holders during the quarter ended December 31, 2013.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Bank's common stock trades on the NASDAQ under the symbol "SSBI." The quotations shown below reflect for the periods indicated the high and low closing sales prices for our common stock as reported by NASDAQ.

For the quarter ended	High	Low	Cash dividends declared
December 31, 2013	$ 10.52	$ 9.35	$ 0.11
September 30, 2013	10.44	9.36	0.11
June 30, 2013	9.48	8.10	0.11
March 31, 2013	9.25	6.81	0.09
December 31, 2012	7.50	6.00	0.09
September 30, 2012	6.86	5.74	0.09
June 30, 2012	6.45	5.56	0.09
March 31, 2012	6.32	5.26	0.09

There were 181 common stock shareholders of record at December 31, 2013.

There were no issuer purchases of equity securities for the three month period ended December 31, 2013.

ITEM 6. SELECTED FINANCIAL DATA

Information regarding Selected Financial Data appears on page 3 under the caption "SELECTED FINANCIAL DATA" and is incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information regarding Management's Discussion and Analysis of Financial Condition and Results of Operations appears on pages 4–26 under the caption "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information regarding Quantitative and Qualitative Disclosures About Market Risk appears on pages 22-24 under the caption "QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK" and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information regarding Financial Statements and Supplementary Data appears on pages 27-65 under the captions "REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, "CONSOLIDATED BALANCE SHEETS," "CONSOLIDATED STATEMENTS OF INCOME," "CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME," "CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY," "CONSOLIDATED STATEMENTS OF CASH FLOWS" and "NOTES TO CONSOLIDATED FINANCIAL STATEMENTS" and is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

(A) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2013. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, means controls and other procedures of a Bank that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files and submits under the Exchange Act is accumulated and communicated to the Bank's management, including its principal executive and principle financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of December 31, 2013, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, meets regularly with our independent registered public accounting firm, Moss Adams LLP, and representatives of management to review accounting, financial reporting, internal control and audit matters, as well as the nature and extent of the audit effort. The Audit Committee is responsible for the engagement of the independent auditors. The independent auditors have free access to the Audit Committee.

(B) Management's Annual Report on Internal Control over Financial Reporting

The Bank's management is responsible for establishing and maintaining adequate control over financial reporting for the Bank, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of the Bank's management, including our principal executive and principal financial officers, the Bank conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO Framework"). Based on this evaluation under the COSO Framework, management concluded that its internal control over financial reporting was effective as of December 31, 2013.

(C) Changes in Internal Control over Financial Reporting

During the quarter ended December 31, 2013, the Registrant did not make any significant changes in, nor take any corrective actions regarding, its internal control over financial reporting or other factors that has materially affected, or is reasonably likely to materially affect the registrants' internal control over financial reporting.

(D) Attestation Report of the Independent Registered Public Accounting Firm

This annual report does not include an attestation report of the Bank's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Bank's independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Bank to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We intend to file a definitive proxy statement for the 2013 Annual Meeting of Shareholders (or "the Proxy Statement") with the FDIC within 120 days of December 31, 2013. Information regarding directors of Summit State Bank will appear under the caption —Proposal 1: "Election of Directors" in the Proxy Statement and is incorporated herein by reference. Information about Summit State Bank's Audit Committee Financial Expert will appear under the caption "The Committees of the Board—Audit Committee" and is incorporated herein by reference. The Bank has adopted a code of ethics applicable to all of our directors and employees, including the principal executive officer, principal financial officer and principal accounting officer.

Information regarding section 16(a) filing requirements will appear under the caption "section 16(a). "BENEFICIAL OWNERSHIP REPORTING COMPLIANCE", in the Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation will appear under the captions "EXECUTIVE OFFICERS OF THE BANK," "EXECUTIVE COMPENSATION, EMPLOYMENT CONTRACTS" AND BOARD OF DIRECTORS' REPORT ON COMPENSATON," in the Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table summarizes information as of December 31, 2013 relating to equity compensation plans of Summit State Bank pursuant to which grants of options, restricted stock, or other rights to acquire shares may be granted from time to time.

Plan category	**Number of securities to be issued upon exercise of outstanding options**	**Weighted average exercise price of outstanding options**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))**
Equity compensation plans:			
Not approved by security holders	4,000	$ 7.50	0
Approved by security holders	115,416	6.40	150,000

Information regarding security ownership of certain beneficial owners and management and related shareholder matters will appear under the caption “EQUITY COMPENSATION PLAN INFORMATION,” “SECURITY OWNERSHIP OF MANAGEMENT” AND “PRINCIPAL SHAREHOLDERS” in the Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions will appear under the caption “TRANSACTIONS WITH RELATED PERSONS” in the Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding fees paid to our independent registered public accounting firm, will appear under the caption —Proposal 2. Ratification of Selection of Independent Public Accounts “FEES PAID TO INDEPENDENT PUBLIC ACCOUNTANTS” in the Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. *Financial Statements*

The following documents are filed as part of this report:

Reports of Independent Registered Public Accounting Firms
Consolidated Balance Sheets at December 31, 2013 and 2012
Consolidated Statements of Income for each of the years in the three-year period ended December 31, 2013
Consolidated Statements of Comprehensive Income for each of the years in the three-year period ended December 31, 2013
Consolidated Statements of Changes in Shareholders' Equity for each of the years in the three-year period ended December 31, 2013
Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2013
Notes to Consolidated Financial Statements

2. *Financial Statement Schedules*

Not applicable

3. *Exhibits*

(b) *Exhibits Required by Item 601 of Regulation S-K*

Reference is made to the Exhibit Index on page 99 for exhibits filed as part of this report.

(c) *Additional Financial Statements*

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Summit State Bank

By */s/ Dennis E. Kelley* March 13, 2014

Dennis E. Kelley
Senior Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

Summit State Bank

By */s/ Thomas M. Duryea* March 13, 2014

Thomas M. Duryea
President and
Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Dated:	March 13, 2014	*/s/ Thomas M. Duryea*
		Thomas M. Duryea, President and Chief Executive Officer (Principal Executive Officer) and Director
Dated:	March 13, 2014	*/s/ Jeffery B. Allen*
		Jeffery B. Allen, Director
Dated:	March 13, 2014	*/s/ James E. Baxter II*
		James E. Baxter II, Director
Dated:	March 13, 2014	*/s/ James E. Brush*
		James E. Brush, Director
Dated:	March 13, 2014	*/s/ Josh C. Cox, Jr.*
		Josh C. Cox, Jr., Director
Dated:	March 13, 2014	*/s/ John F. DeMeo*
		John F. DeMeo, Director
Dated:	March 13, 2014	*/s/ Michael J. Donovan*
		Michael J. Donovan, Director
Dated:	March 13, 2014	*/s/ Todd R. Fry*
		Todd R. Fry, Director
Dated:	March 13, 2014	*/s/ Samuel G. Kapourales*
		Samuel G. Kapourales, Director
Dated:	March 13, 2014	*/s/ Allan J. Hemphill*
		Allan J. Hemphill, Chairman of the Board and Director
Dated:	March 13, 2014	*/s/ Dennis E. Kelley*
		Dennis E. Kelley, Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
Dated:	March 13, 2014	*/s/ Ronald A. Metcalfe*
		Ronald A. Metcalfe, Director
Dated:	March 13, 2014	*/s/ Richard E. Pope*
		Richard E. Pope, Director
Dated:	March 13, 2014	*/s/ Nicholas J. Rado*
		Nicholas J. Rado, Director
Dated:		
		Marshall T. Reynolds, Director
Dated:	March 13, 2014	*/s/ Eugene W. Traverso*
		Eugene W. Traverso, Director

EXHIBIT INDEX

EXHIBIT NO.	EXHIBIT
3.1	Articles of Incorporation of the registrant (1) (2) (3)
3.2	Certificate of determination of Series B preferred stock (5)
3.3	By-laws of the registrant (5)
4.1	Specimen of the registrant's common stock certificate (1) (2) (3)
4.2	The total amount of the registrant's long-term debt does not exceed 10 percent of the total assets of the registrant and its subsidiaries on a consolidated basis. Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the registrant agrees to file any instrument with respect to such long-term debt upon request of the FDIC.
10.1	1999 Non-qualified Stock Option Plan, as amended by First Amendment dated September 25, 2002 (1) (2) (3)
10.2	2007 Stock Option Plan (4)
10.3	Letter agreement dated August 4, 2011, between the Bank and the United States Department of the Treasury, with respect to issuance of preferred stock (5)
14.1	Code of Ethics
21.1	Subsidiaries of the registrant (1)
31.1	Rule 13a-14(a)/15d-14(a) Certification
31.2	Rule 13a-14(a)/15d-14(a) Certification
32.1	Section 1350 certifications

(1) Incorporated by reference from Summit State Bank's Form 10 filed with the FDIC on June 19, 2006.
(2) Incorporated by reference from Summit State Bank's Form 10/A Amendment No. 1 filed with the FDIC on July 12, 2006.
(3) Incorporated by reference from Summit State Bank's Form 10/A Amendment No. 2 filed with the FDIC on July 13, 2006.
(4) Incorporated by reference from Summit State Bank's Definitive Proxy Statement filed with the FDIC on April 27, 2007.
(5) Incorporated by reference from Summit State Bank's Form 8-K filed with the FDIC on August 4, 2011.

EXHIBIT 31.1
Certification pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.

I, Thomas M. Duryea, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Summit State Bank (the Registrant);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's Board of Directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: *March 13, 2014*   */s/ Thomas M. Duryea*
Thomas M. Duryea
President and Chief Executive Officer

EXHIBIT 31.2
Certification pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.

I, Dennis E. Kelley, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Summit State Bank (the Registrant);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's Board of Directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: *March 13, 2014* */s/ Dennis E. Kelley*
Dennis E. Kelley
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1
Certification pursuant to 18 U.S.C. §1350

In connection with the annual report on Form 10-K of Summit State Bank (the Registrant) for the year ended December 31, 2013, as filed with the Federal Deposit Insurance Corporation, the undersigned hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1) such Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: *March 13, 2014*

/s/ Thomas M. Duryea
Thomas M. Duryea
President and Chief Executive Officer

Dated: *March 13, 2014*

/s/ Dennis E. Kelley
Dennis E. Kelley
Senior Vice President and Chief Financial Officer