

News Release

For Immediate Release

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Summit State Bank Reports 98% Increase in Profitability and Declaration of Dividend

SANTA ROSA, CA – (April 24, 2018) – Summit State Bank (Nasdaq: SSBI) today reported net income for the quarter ended March 31, 2018 of \$1,740,000 and diluted earnings per share of \$0.29. A quarterly dividend of \$0.12 per share was declared for common shareholders.

Dividend

The Board of Directors declared a \$0.12 per share quarterly dividend on April 23, 2018 to be paid on May 24, 2018 to shareholders of record on May 18, 2018.

Net Income and Results of Operations

For the quarter ended March 31, 2018, Summit State Bank (“Bank”) had net income of \$1,740,000 and diluted earnings per share of \$0.29 compared to \$881,000 in net income and \$0.15 diluted earnings per share for the same quarter in 2017. This represented a 98% increase in net income between the periods.

“Beginning in the second quarter of 2016 and continuing to the present, we shifted our strategic focus to increasing our loans and total assets. To accomplish this, we built the needed infrastructure by hiring additional experienced personnel. While 2017 earnings suffered during this period of staff increases and a declining net interest margin, we are now seeing the rewards of the implementation of this strategy,” said Jim Brush, President and CEO.

Net income increased 98% for the first quarter of 2018 compared to first quarter of 2017. Net loans increased 30% or \$104 million and total assets increased 10% or \$52 million between March 31, 2018 and 2017. The net interest margin increased from 3.60% for the first quarter of 2017 to 3.80% for the first quarter of 2018.

The additional loans and assets were funded by increasing the Bank’s local deposits by 40% or \$124 million and a reduction in the investment portfolio of \$49 million between March 31, 2017 and 2018. Additionally, institutional funding was reduced by \$72 million with reductions in institutional deposits and FHLB borrowings.

The net interest margin declined during 2017 as general interest rates increased and the Bank’s cost of funding rose faster than its yields on earning assets. The Bank experienced a reversal in this trend in the first quarter of 2018, as yields on earning assets increased more than the funding costs. This was partly because of the additional loans at incrementally higher interest rates and the shift from lower yielding investment securities into higher yielding loans.

Annualized return on average assets for the first quarter of 2018 was 1.22% and annualized return on average equity was 11.8%. The Bank's efficiency ratio was 58.4% and the net interest margin was 3.80% during the first quarter of 2018. The first quarter of 2017 had an annualized return on average assets of 0.70%, annualized return on average equity of 6.1%, efficiency ratio of 68.8% and net interest margin of 3.60%.

Non-interest income increased in the first quarter of 2018 to \$763,000 compared to \$330,000 in the first quarter of 2017. The Bank recognized \$292,000 in gains on sales of SBA guaranteed loan balances in 2018, while there were no gains on sales of loans in the first quarter of 2017. An experienced government guaranteed loan team of individuals joined the Bank in the second half of 2017 and first quarter of 2018. The new loan prospects for this group are strong and appears to continue through 2018. Additionally, the Bank recognized a recovery on a loss from the sale of a foreclosed property from 2011 through a guarantee payment from the SBA in an amount of \$108,000 during the first quarter of 2018.

There was a \$262,000 or 8% increase in operating expenses between the first quarter of 2018 as compared to the first quarter of 2017. The increased expenses were due to the increase in employees and related occupancy costs for them as discussed above.

The lower corporate tax rates that were in effect during the first quarter of 2018 reduced tax expense by \$277,000 compared to what the expense would have been under the corporate tax rates in effect in 2017. Net income before taxes had a 59% increase in first quarter of 2018 compared to same quarter of 2017.

"We are well positioned to compete in our Sonoma County market with experienced individuals throughout the Bank. The increases in both new loans and deposits is a testament to their abilities," said Jim Brush, President and CEO.

Total assets at March 31, 2018 were \$577 million compared to \$525 million at March 31, 2017.

Nonperforming assets were \$2,679,000 or 0.46% of total assets at March 31, 2018 compared to \$3,240,000 or 0.62% at March 31, 2017. The nonperforming assets at March 31, 2018, consist of nine loans which are predominantly secured by real property. The Bank recorded recoveries of previously charged off loans of \$203,000 and had provision expense of \$150,000 in the first quarter of 2018. The allowance for loan losses to loans was 1.21% at March 31, 2018 and was 1.33% at March 31, 2017.

About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$577 million and total equity of \$60 million at March 31, 2018. Headquartered in Sonoma County, the Bank specializes in providing exceptional customer service and customized financial solutions to aid in the success of local small businesses and nonprofits throughout Sonoma County.

Summit State Bank is committed to embracing the diverse backgrounds, cultures and talents of its employees to create high performance and support the evolving needs of its customers and community it serves. At the center of diversity is inclusion, collaboration, and a shared vision for delivering superior service and results for shareholders. Presently, 75% of management are women and minorities with 40% represented on the Executive Management Team. Through the

engagement of its team, Summit State Bank has received many esteemed awards including: Best Business Bank, Corporate Philanthropy Award and Best Places to Work in the North Bay. Summit State Bank's stock is traded on the Nasdaq Global Market under the symbol SSBI. Further information can be found at www.summitstatebank.com.

Forward-looking Statements

Except for historical information contained herein, the statements contained in this news release, are forward-looking statements within the meaning of the "safe harbor" provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. This release may contain forward-looking statements that are subject to risks and uncertainties. Such risks and uncertainties may include but are not necessarily limited to fluctuations in interest rates, inflation, government regulations and general economic conditions, and competition within the business areas in which the Bank will be conducting its operations, including the real estate market in California and other factors beyond the Bank's control. Such risks and uncertainties could cause results for subsequent interim periods or for the entire year to differ materially from those indicated. You should not place undue reliance on the forward-looking statements, which reflect management's view only as of the date hereof. The Bank undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

(In thousands except earnings per share data)

	Three Months Ended	
	March 31, 2018	March 31, 2017
	(Unaudited)	(Unaudited)
Interest income:		
Interest and fees on loans	\$ 5,310	\$ 3,940
Interest on deposits with banks	69	27
Interest on federal funds sold	7	3
Interest on investment securities	614	792
Dividends on FHLB stock	54	70
Total interest income	6,054	4,832
Interest expense:		
Deposits	709	256
Federal Home Loan Bank advances	31	126
Total interest expense	740	382
Net interest income before provision for loan losses	5,314	4,450
Provision for loan losses	150	-
Net interest income after provision for loan losses	5,164	4,450
Non-interest income:		
Service charges on deposit accounts	194	170
Rental income	147	144
Net gain on loan sales	292	-
Net securities gain	7	13
Other income	123	3
Total non-interest income	763	330
Non-interest expense:		
Salaries and employee benefits	2,066	1,741
Occupancy and equipment	390	356
Other expenses	1,086	1,183
Total non-interest expense	3,542	3,280
Income before provision for income taxes	2,385	1,500
Provision for income taxes	645	619
Net income	\$ 1,740	\$ 881
Basic earnings per common share	\$ 0.29	\$ 0.15
Diluted earnings per common share	\$ 0.29	\$ 0.15
Basic weighted average shares of common stock outstanding	6,059	6,022
Diluted weighted average shares of common stock outstanding	6,066	6,055

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

	<u>March 31, 2018</u> (Unaudited)	<u>December 31, 2017</u> (1)	<u>March 31, 2017</u> (Unaudited)
ASSETS			
Cash and due from banks	\$ 18,901	\$ 68,814	\$ 20,824
Federal funds sold	2,000	2,000	1,827
Total cash and cash equivalents	<u>20,901</u>	<u>70,814</u>	<u>22,651</u>
Time deposits with banks	-	-	248
Investment securities:			
Held-to-maturity, at amortized cost	7,986	7,984	7,978
Available-for-sale (at fair value; amortized cost of \$76,892, \$79,617 and \$124,539)	74,502	78,770	123,598
Total investment securities	<u>82,488</u>	<u>86,754</u>	<u>131,576</u>
Loans, less allowance for loan losses of \$5,590, \$5,236 and \$4,774	457,256	437,594	353,045
Bank premises and equipment, net	5,208	5,279	5,489
Investment in Federal Home Loan Bank stock, at cost	3,085	3,085	3,085
Goodwill	4,119	4,119	4,119
Other Real Estate Owned	-	-	-
Accrued interest receivable and other assets	3,926	3,219	4,324
Total assets	<u>\$ 576,983</u>	<u>\$ 610,864</u>	<u>\$ 524,537</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 131,243	\$ 190,861	\$ 111,731
Demand - interest-bearing	73,605	65,742	61,514
Savings	29,905	30,102	27,452
Money market	109,226	79,564	51,276
Time deposits that meet or exceed the FDIC insurance limit	72,343	68,927	55,577
Other time deposits	87,536	98,317	92,596
Total deposits	<u>503,858</u>	<u>533,513</u>	<u>400,146</u>
Federal Home Loan Bank advances	11,200	15,000	62,800
Accrued interest payable and other liabilities	2,202	2,674	2,286
Total liabilities	<u>517,260</u>	<u>551,187</u>	<u>465,232</u>
Shareholders' equity			
Preferred stock, no par value; 20,000,000 shares authorized; no shares issued and outstanding	-	-	-
Common stock, no par value; shares authorized - 30,000,000 shares; issued and outstanding 6,066,475, 6,041,475 and 6,025,015	36,967	36,847	36,766
Retained earnings	24,438	23,427	23,085
Accumulated other comprehensive loss	(1,682)	(597)	(546)
Total shareholders' equity	<u>59,723</u>	<u>59,677</u>	<u>59,305</u>
Total liabilities and shareholders' equity	<u>\$ 576,983</u>	<u>\$ 610,864</u>	<u>\$ 524,537</u>

(1) Information derived from audited financial statements.

Financial Summary
(In thousands except per share data)

	At or for the Three Months Ended	
	March 31, 2018 (Unaudited)	March 31, 2017 (Unaudited)
Statement of Income Data:		
Net interest income	\$ 5,314	\$ 4,450
Provision for loan losses	150	-
Non-interest income	763	330
Non-interest expense	3,542	3,280
Provision for income taxes	645	619
Net income	\$ 1,740	\$ 881
Selected per Common Share Data:		
Basic earnings per common share	\$ 0.29	\$ 0.15
Diluted earnings per common share	\$ 0.29	\$ 0.15
Dividend per share	\$ 0.12	\$ 0.10
Book value per common share (2)	\$ 9.85	\$ 9.84
Selected Balance Sheet Data:		
Assets	\$ 576,983	\$ 524,537
Loans, net	457,256	353,045
Deposits	503,858	400,146
Average assets	578,109	512,895
Average earning assets	567,341	501,919
Average shareholders' equity	59,761	59,008
Average common shareholders' equity	59,761	59,008
Nonperforming loans	2,679	3,240
Other real estate owned	-	-
Total nonperforming assets	2,679	3,240
Troubled debt restructures (accruing)	1,611	3,263
Selected Ratios:		
Return on average assets (1)	1.22%	0.70%
Return on average common shareholders' equity (1)	11.81%	6.06%
Efficiency ratio (3)	58.35%	68.81%
Net interest margin (1)	3.80%	3.60%
Common equity tier 1 capital ratio	11.3%	13.6%
Tier 1 capital ratio	11.3%	13.6%
Total capital ratio	12.5%	14.8%
Tier 1 leverage ratio	10.0%	11.0%
Common dividend payout ratio (4)	41.84%	65.61%
Average shareholders' equity to average assets	10.34%	11.50%
Nonperforming loans to total loans	0.58%	0.91%
Nonperforming assets to total assets	0.46%	0.62%
Allowance for loan losses to total loans	1.21%	1.33%
Allowance for loan losses to nonperforming loans	208.65%	147.35%

(1) Annualized.

(2) Total shareholders' equity divided by total common shares outstanding.

(3) Non-interest expenses to net interest and non-interest income, net of securities gains.

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