

# News Release

For Immediate Release

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## **Summit State Bank Reports Net Income for 2017 and Declaration of Dividend**

SANTA ROSA, CA – (January 23, 2018) – Summit State Bank (Nasdaq: SSBI) today reported net income for the year ended December 31, 2017 of \$3,292,000 and diluted earnings per share of \$0.54. 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 to be paid on February 23, 2018 to shareholders of record on February 16, 2018.

### Net Income and Results of Operations

“In late 2016, Summit State Bank embarked on a strategy to increase our asset growth rate, adding to our quality staff to help execute our business plan to increase loan volume and earnings performance,” said Jim Brush, President and CEO. “As a result, we experienced positive results with increased loan and deposit volumes in 2017. However, there is a lag between the increase in new loans and realization of the earnings impact, as a result of various costs to implement our plan.” The following are some of the key accomplishments in 2017:

- Loan totals increased 23.2% for 2017.
- Deposit totals increased 38.8% for 2017.
- Additional lending staff were hired to focus on SBA guaranteed lending and resulted in \$351,000 in gains on sale of loans.

Net income was \$3,292,000 and \$0.54 diluted earnings per share for the year ended December 31, 2017, compared to net income of \$4,967,000 and \$0.82 diluted earnings per share for the year ended December 31, 2016.

For the quarter ended December 31, 2017, Summit State Bank had net income of \$478,000 and diluted earnings per share of \$0.08 compared to \$1,188,000 of net income and \$0.20 diluted earnings per share, for the same period in 2016.

The enactment of the Tax Cuts and Jobs Act on December 22, 2017 resulted in a write-down of the net deferred tax asset against 2017 earnings of \$292,000. Our Board of Directors recognized the contribution of Summit’s employees and desired to share the future positive impact of the new tax law. As a result, each non-executive officer employee was awarded a special bonus, which totaled \$144,000 and was expensed in 2017.

The Bank experienced a 10.6% increase in gross loans during the fourth quarter and a 23.2% increase for 2017. As a result, the Bank recorded a provision for loan loss of \$350,000 for the fourth quarter and \$520,000 for the year. This compares to no provision for loan loss recorded in either period in 2016.

Due to the liability sensitive nature of the Bank's balance sheet, the interest rate increases brought on by the Federal Reserve during 2017 proved challenging as net interest income declined by \$101,000 during 2017 compared to 2016. The increase in loans outstanding were primarily recorded in the second half of the year and therefore did not fully offset the impact of the rising rates on the Bank's interest-bearing liabilities. However, the increased loans in the second half of the year had positive results in the fourth quarter as interest income increased 14.9% to \$5,712,000 and net interest income increased 8.8% to \$5,080,000 compared to \$4,972,000 and \$4,670,000 for the fourth quarter of 2016.

"The Bank should experience the positive impacts on earnings in 2018 from the increased loans generated in 2017 by having a full year of interest income related to the increase," said Jim Brush. "We also believe increases in our payroll and other cost will become more measured as we accommodate future growth."

"Loan production is working on a healthy pipeline of potential new loans, both conventional commercial real estate and government guaranteed. This should be a key contributor to 2018 loan growth and income," said Brandy Seppi, Chief Lending Officer and EVP.

Return on average assets was 0.62% for 2017, compared to 0.97% for 2016 and return on average common equity was 5.49% for 2017 compared to 8.37% for 2016.

Total assets were \$610,864,000 at December 31, 2017 compared to \$513,704,000 at December 31, 2016. Total assets were higher at December 31, 2017 with the receipt of a large deposit of approximately \$55 million, which was partially withdrawn from the Bank after year end.

"We continue to focus on quality balance sheet growth to target long-term increases in shareholder value. The ratio of loans to assets has increased during 2017 and loan quality remains stable," said Jim Brush. "Core deposits have also increased to fund loans and maintain stability in a rising rate environment. The balance sheet is liability sensitive and our earnings will be challenged by increased cost of funds in the coming year."

#### About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$611 million and total equity of \$60 million at December 31, 2017. 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, 70% 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](http://www.summitstatebank.com).

#### Forward-looking Statements

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

**SUMMIT STATE BANK AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(In thousands except earnings per share data)

	Three Months Ended		Year Ended	
	December 31, 2017 (Unaudited)	December 31, 2016 (2)	December 31, 2017 (Unaudited)	December 31, 2016 (2)
Interest income:				
Interest and fees on loans	\$ 4,947	\$ 4,058	\$ 17,176	\$ 16,549
Interest on deposits with banks	50	22	162	82
Interest on federal funds sold	5	2	17	7
Interest on investment securities	656	715	3,126	2,912
Dividends on FHLB stock	54	175	232	357
Total interest income	5,712	4,972	20,713	19,907
Interest expense:				
Deposits	552	201	1,639	855
Federal Home Loan Bank advances	80	101	502	379
Total interest expense	632	302	2,141	1,234
Net interest income before provision for loan losses	5,080	4,670	18,572	18,673
Provision for loan losses	350	-	520	-
Net interest income after provision for loan losses	4,730	4,670	18,052	18,673
Non-interest income:				
Service charges on deposit accounts	166	184	695	748
Rental income	144	141	574	559
Net gain on loan sales	351	-	351	-
Net securities gain	14	23	72	692
Net gain on other real estate owned	-	-	-	-
Other income	3	7	23	22
Total non-interest income	678	355	1,715	2,021
Non-interest expense:				
Salaries and employee benefits	2,564	1,597	7,788	6,562
Occupancy and equipment	370	332	1,503	1,229
Other expenses	1,162	1,075	4,554	4,454
Total non-interest expense	4,096	3,004	13,845	12,245
Income before provision for income taxes	1,312	2,021	5,922	8,449
Provision for income taxes	834	833	2,630	3,482
Net income	\$ 478	\$ 1,188	\$ 3,292	\$ 4,967
Basic earnings per common share (1)	\$ 0.08	\$ 0.20	\$ 0.55	\$ 0.83
Diluted earnings per common share (1)	\$ 0.08	\$ 0.20	\$ 0.54	\$ 0.82
Basic weighted average shares of common stock outstanding (1)	6,041	6,019	6,031	6,005
Diluted weighted average shares of common stock outstanding (1)	6,064	6,050	6,059	6,036

(1) Adjusted for stock split issued on March 14, 2017.

(2) Information derived from audited financial statements.

**SUMMIT STATE BANK AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**

(In thousands except share data)

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	<b>(Unaudited)</b>	<b>(1)</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 68,814	\$ 24,231
Federal funds sold	2,000	2,000
Total cash and cash equivalents	70,814	26,231
Time deposits with banks	-	248
Investment securities:		
Held-to-maturity, at amortized cost	7,984	7,976
Available-for-sale (at fair value; amortized cost of \$79,617 in 2017 and \$109,297 in 2016)	78,770	107,771
Total investment securities	86,754	115,747
Loans, less allowance for loan losses of \$5,236 in 2017 and \$4,765 in 2016	437,594	354,638
Bank premises and equipment, net	5,279	5,413
Investment in Federal Home Loan Bank stock, at cost	3,085	3,085
Goodwill	4,119	4,119
Other Real Estate Owned	-	-
Accrued interest receivable and other assets	3,219	4,223
Total assets	\$ 610,864	\$ 513,704
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Demand - non interest-bearing	\$ 190,861	\$ 112,540
Demand - interest-bearing	65,742	62,006
Savings	30,102	26,584
Money market	79,564	53,866
Time deposits that meet or exceed the FDIC insurance limit	68,927	52,594
Other time deposits	98,317	76,661
Total deposits	533,513	384,251
Federal Home Loan Bank advances	15,000	68,900
Accrued interest payable and other liabilities	2,674	1,931
Total liabilities	551,187	455,082
Total shareholders' equity	59,677	58,622
Total liabilities and shareholders' equity	\$ 610,864	\$ 513,704

(1) Information derived from audited financial statements.

**Financial Summary**  
(In Thousands except per share data)

	At or for the Three Months Ended		At or for the Year Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Statement of Income Data:</b>				
Net interest income	\$ 5,080	\$ 4,670	\$ 18,572	\$ 18,673
Provision for loan losses	350	-	520	-
Non-interest income	678	355	1,715	2,021
Non-interest expense	4,096	3,004	13,845	12,245
Provision for income taxes	834	833	2,630	3,482
Net income	<u>\$ 478</u>	<u>\$ 1,188</u>	<u>\$ 3,292</u>	<u>\$ 4,967</u>
<b>Selected per Common Share Data:</b>				
Basic earnings per common share (1)	\$ 0.08	\$ 0.20	\$ 0.55	\$ 0.83
Diluted earnings per common share (1)	\$ 0.08	\$ 0.20	\$ 0.54	\$ 0.82
Dividend per share (1)	\$ 0.12	\$ 0.10	\$ 0.46	\$ 0.38
Book value per common share (1)(3)	\$ 9.88	\$ 9.74	\$ 9.88	\$ 9.74
<b>Selected Balance Sheet Data:</b>				
Assets	\$ 610,864	\$ 513,704	\$ 610,864	\$ 513,704
Loans, net	437,594	354,638	437,594	354,638
Deposits	533,513	384,251	533,513	384,251
Average assets	552,312	504,146	534,534	510,829
Average earning assets	541,852	494,972	523,475	502,381
Average common shareholders' equity	60,456	60,011	59,987	59,326
Nonperforming loans	2,730	3,351	2,730	3,351
Other real estate owned	-	-	-	-
Total nonperforming assets	2,730	3,351	2,730	3,351
Troubled debt restructures (accruing)	1,630	3,348	1,630	3,348
<b>Selected Ratios:</b>				
Return on average assets (2)	0.34%	0.93%	0.62%	0.97%
Return on average common shareholders' equity (2)	3.14%	7.85%	5.49%	8.37%
Efficiency ratio (4)	75.75%	60.06%	69.45%	61.22%
Net interest margin (2)	3.72%	3.74%	3.55%	3.72%
Common equity tier 1 capital ratio	11.6%	13.5%	11.6%	13.5%
Tier 1 capital ratio	11.6%	13.5%	11.6%	13.5%
Total capital ratio	12.7%	14.7%	12.7%	14.7%
Tier 1 leverage ratio	10.2%	11.1%	10.2%	11.1%
Common dividend payout ratio (5)	151.67%	48.65%	83.57%	46.43%
Average common shareholders' equity to average assets	10.95%	11.90%	11.22%	11.61%
Nonperforming loans to total loans	0.62%	0.93%	0.62%	0.93%
Nonperforming assets to total assets	0.45%	0.65%	0.45%	0.65%
Allowance for loan losses to total loans	1.18%	1.33%	1.18%	1.33%
Allowance for loan losses to nonperforming loans	191.79%	142.23%	191.79%	142.23%

(1) Adjusted for stock split issued on March 14, 2017.

(2) Annualized.

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

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

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