

News Release

For Immediate Release

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Summit State Bank Reports Net Income for First Quarter 2017 and Declaration of Dividend

SANTA ROSA, CA – (April 25, 2017) – Summit State Bank (Nasdaq: SSBI) today reported net income for the quarter ended March 31, 2017 of \$881,000 and diluted earnings per share of \$0.15. 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 24, 2017 to be paid on May 24, 2017 to shareholders of record on May 18, 2017. This represents a 25% increase in the dividend, as the prior quarter dividend was \$0.096 as adjusted for the five-for-four stock split issued on March 14, 2017.

“The increase in the quarterly dividend is an integral part of providing a fair return to our shareholders,” said Allan Hemphill, Chairman of the Board.

Net Income and Results of Operations

For the quarter ended March 31, 2017, Summit State Bank (“Bank”) had net income of \$881,000 and diluted earnings per share of \$0.15 compared to \$1,328,000 in net income, or \$0.22 diluted earnings per share, for the same quarter in 2016. Earnings per share for 2016 was adjusted for the five-for-four stock split.

Annualized return on average assets for the first quarter of 2017 was 0.70% and annualized return on average equity was 6.1%. The Bank’s efficiency ratio was 68.8% and the net interest margin was 3.60% during the first quarter of 2017. The first quarter of 2016 had an annualized return on average assets of 1.02%, annualized return on average equity of 9.2%, efficiency ratio of 57.7% and net interest margin of 3.68%.

Net interest income declined for the first quarter of 2017 from first quarter of 2016 by \$253,000 or 5.4%, as a result of average loans for the first quarter of 2017 declining \$4.7 million from the average loans for the first quarter of 2016, and the yield on the loan portfolio declining to 4.48% for the first quarter of 2017 from 4.58% for the same period in 2016. Additionally, the increase in short-term interest rates had an impact on the Bank’s cost of funds with the cost of interest bearing liabilities increasing to 0.45% in 2017 compared to 0.37% for the first quarter of 2016. The increase in interest expense represented \$51,000 of the decline in net interest income.

Non-interest income declined between the two first quarters by \$124,000 due to a decline in gains on investment securities.

There was a \$382,000 or 13.2% increase in operating expenses between the first quarter of 2017 as compared to the first quarter of 2016. Personnel expense increased as the Bank added employees, primarily to the lending functions.

“We are increasing the staffing in the areas of lending and branch operations to position the Bank for increasing customer contact and to drive an increase in loans.” said James Brush, President and CEO.

Total assets at March 31, 2017 were \$525 million compared to \$522 million on March 31, 2016. Net loans declined by \$6.5 million between the March 31, 2017 and 2016 as payoffs offset new loan production.

Deposits declined \$6.9 million between March 31, 2017 and 2016, however demand deposit accounts increased \$7.9 million or 4.8% at March 31, 2017 over March 31, 2016.

“Increasing our demand deposits as a percentage of our funding continues to be a key objective,” said Linda Bertauche, Executive Vice President and COO.

Nonperforming assets were \$3,240,000 or 0.62% of total assets at March 31, 2017 compared to \$2,690,000 or 0.52% at March 31, 2016. The nonperforming assets at March 31, 2017, consist of eleven loans which predominantly are secured by real property.

About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$525 million and total equity of \$59 million at March 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’s workforce resembles the diverse community it serves. Presently, 80% of management are women and minorities with 40% represented on the Executive Management Team. Through the inclusion and engagement of its workforce, Summit State Bank has earned many prestigious awards including: Best Company to do Business with in Sonoma County; Best Places to Work in the North Bay; Super Performing Bank; and Top 75 Corporate Philanthropists in the San Francisco 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, 2017	March 31, 2016
	(Unaudited)	(Unaudited)
Interest income:		
Interest and fees on loans	\$ 3,940	\$ 4,111
Interest on federal funds sold	3	2
Interest on investment securities and deposits in banks	819	867
Dividends on FHLB stock	70	54
Total interest income	4,832	5,034
Interest expense:		
Deposits	256	239
FHLB advances	126	92
Total interest expense	382	331
Net interest income before provision for loan losses	4,450	4,703
Provision for loan losses	-	-
Net interest income after provision for loan losses	4,450	4,703
Non-interest income:		
Service charges on deposit accounts	170	182
Rental income	144	138
Net securities gain	13	133
Net gain on other real estate owned	-	-
Other income	3	1
Total non-interest income	330	454
Non-interest expense:		
Salaries and employee benefits	1,741	1,587
Occupancy and equipment	356	265
Other expenses	1,183	1,046
Total non-interest expense	3,280	2,898
Income before provision for income taxes	1,500	2,259
Provision for income taxes	619	931
Net income	\$ 881	\$ 1,328
Basic earnings per common share (1)	\$ 0.15	\$ 0.22
Diluted earnings per common share (1)	\$ 0.15	\$ 0.22
Basic weighted average shares of common stock outstanding (1)	6,022	5,980
Diluted weighted average shares of common stock outstanding (1)	6,055	6,038

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

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

	March 31, 2017 (Unaudited)	December 31, 2016 (2)	March 31, 2016 (Unaudited)
ASSETS			
Cash and due from banks	\$ 20,824	\$ 24,231	\$ 21,127
Federal funds sold	1,827	2,000	2,000
Total cash and cash equivalents	<u>22,651</u>	<u>26,231</u>	<u>23,127</u>
Time deposits with banks	248	248	744
Investment securities:			
Held-to-maturity, at amortized cost	7,978	7,976	5,989
Available-for-sale (at fair value; amortized cost of \$124,539, \$109,297 and \$115,088)	123,598	107,771	116,966
Total investment securities	<u>131,576</u>	<u>115,747</u>	<u>122,955</u>
Loans, less allowance for loan losses of \$4,774, \$4,765 and \$4,735	353,045	354,638	359,553
Bank premises and equipment, net	5,489	5,413	5,613
Investment in Federal Home Loan Bank stock, at cost	3,085	3,085	2,701
Goodwill	4,119	4,119	4,119
Other Real Estate Owned	-	-	-
Accrued interest receivable and other assets	4,324	4,223	3,370
Total assets	<u>\$ 524,537</u>	<u>\$ 513,704</u>	<u>\$ 522,182</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 111,731	\$ 112,540	\$ 110,193
Demand - interest-bearing	61,514	62,006	55,082
Savings	27,452	26,584	27,298
Money market	51,276	53,866	59,018
Time deposits that meet or exceed the FDIC insurance limit	55,577	52,594	52,793
Other time deposits	92,596	76,661	102,717
Total deposits	<u>400,146</u>	<u>384,251</u>	<u>407,101</u>
Federal Home Loan Bank advances	62,800	68,900	53,800
Accrued interest payable and other liabilities	2,286	1,931	2,703
Total liabilities	<u>465,232</u>	<u>455,082</u>	<u>463,604</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 6,025,015, 6,019,850 and 5,991,286 (1)	36,766	36,726	36,711
Retained earnings	23,085	22,781	20,874
Accumulated other comprehensive income (loss)	(546)	(885)	993
Total shareholders' equity	<u>59,305</u>	<u>58,622</u>	<u>58,578</u>
Total liabilities and shareholders' equity	<u>\$ 524,537</u>	<u>\$ 513,704</u>	<u>\$ 522,182</u>

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

(2) Information derived from audited financial statements.

Financial Summary
(In thousands except per share data)

At or for the
Three Months Ended

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
	(Unaudited)	(Unaudited)
Statement of Income Data:		
Net interest income	\$ 4,450	\$ 4,703
Provision for loan losses	-	-
Non-interest income	330	454
Non-interest expense	3,280	2,898
Provision for income taxes	619	931
Net income	<u>\$ 881</u>	<u>\$ 1,328</u>

Selected per Common Share Data:

Basic earnings per common share (1)	\$ 0.15	\$ 0.22
Diluted earnings per common share (1)	\$ 0.15	\$ 0.22
Dividend per share (1)	\$ 0.096	\$ 0.096
Book value per common share (1)(3)(4)	\$ 9.84	\$ 9.78

Selected Balance Sheet Data:

Assets	\$ 524,537	\$ 522,182
Loans, net	353,045	359,553
Deposits	400,146	407,101
Average assets	512,895	522,255
Average earning assets	501,919	513,647
Average shareholders' equity	59,008	58,140
Average common shareholders' equity	59,008	58,140
Nonperforming loans	3,240	2,690
Other real estate owned	-	-
Total nonperforming assets	3,240	2,690

Selected Ratios:

Return on average assets (2)	0.70%	1.02%
Return on average common equity (2)	6.06%	9.19%
Efficiency ratio (5)	68.81%	57.68%
Net interest margin (2)	3.60%	3.68%
Common equity tier 1 capital ratio	13.6%	13.1%
Tier 1 capital ratio	13.6%	13.1%
Total capital ratio	14.8%	14.3%
Tier 1 leverage ratio	11.0%	10.3%
Common dividend payout ratio (6)	65.61%	43.22%
Average equity to average assets	11.50%	11.13%
Nonperforming loans to total loans (3)	0.91%	0.74%
Nonperforming assets to total assets (3)	0.62%	0.52%
Allowance for loan losses to total loans (3)	1.33%	1.30%
Allowance for loan losses to nonperforming loans (3)	147.35%	176.02%

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

(2) Annualized.

(3) As of period end.

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

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

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