

News Release

For Immediate Release

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Summit State Bank Reports Net Income for Second Quarter 2016 and Declaration of Dividend

SANTA ROSA, CA – (July 26, 2016) – Summit State Bank (Nasdaq: SSBI) today reported net income for the quarter ended June 30, 2016 of \$1,254,000 and diluted earnings per share of \$0.26. 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 August 26, 2016 to shareholders of record on August 18, 2016.

Net Income and Results of Operations

“Our plan is to grow and thrive in Sonoma County for many years to come. This is our community and our strategy is to continue to focus on our existing relationships to create a strong word of mouth reference referral system to attract new deposit and loan customers. Our employees contribute in so many ways and are the key to our success,” said Jim Brush, President and CEO.

For the quarter ended June 30, 2016, Summit State Bank had net income available for common stockholders of \$1,254,000, or diluted earnings per share of \$0.26 compared to \$1,712,000 in net income available for common stockholders, or \$0.35 diluted earnings per share, for the same quarter in 2015. The six months ended June 30, 2016 and 2015 had net income available for common stockholders of \$2,582,000 and \$3,399,000, or diluted earnings per share of \$0.53 and \$0.70, respectively.

The second quarter of 2016 included net securities gains of \$555,000 which were realized when bonds in the Bank’s portfolio received early calls and employee severance expenses related to the former President and other employees of \$538,000. The second quarter of 2015 benefited from a reversal of the allowance for loan losses of \$800,000.

The six months ended June 30, 2016, benefited from \$688,000 in net securities gains from early calls and was reduced by \$538,000 in employee severance expense. The six months ended June 30, 2015 benefited from the gain on sale of foreclosed property of \$1,125,000 and the reversal of \$800,000 in the allowance for loan losses.

Annualized return on average assets for the second quarter of 2016 was 0.98% and annualized return on average common equity was 8.54%. The Bank’s efficiency ratio was 68.9% and the net interest margin was 3.78% during the second quarter of 2016. The six months ended June 30, 2016, had an annualized return on average assets of 1.00% and return on average common equity of 8.84%. The six-month period efficiency ratio was 63.4% and net interest margin was 3.73%. The

annualized return on average assets for the second quarter and six months of 2015, which included the benefits of \$1,125,000 in gain on sale of foreclosed property and \$800,000 in allowance for loan losses reversal, was 1.47% and 1.49%, respectively. The return on average common equity for the two periods of 2015 was 12.28% and 12.45%. The net interest margin and efficiency ratio for the second quarter 2015 was 3.73% and 54.5% and for the first six months of 2015 were 3.74% and 51.3%.

Net interest income increased 9.3% between the quarters to \$4,756,000 in 2016 compared to \$4,351,000 in the second quarter of 2015. The increase was primarily due to higher volume of loans and a slight increase in the net interest margin. Net loans increased to \$368 million at June 30, 2016 compared to \$317 million at June 30, 2015.

Non-interest expense increased for the second quarter and first six months of 2016 compared to same periods in 2015 primarily due to the employee severance expense, lower deferred costs from loans originated during the period, and higher expenses related to data processing and marketing. A donation of \$100,000 was made to the Saralee and Richard Kunde Barn at the Sonoma County Fairgrounds.

“The Bank had some onetime expenses, in particular the change in executive management which raised expenses for the quarter,” said Dennis Kelley, Chief Financial Officer and Executive Vice President.

Deposits increased 10% between June 30, 2016 and 2015, with the increase primarily in demand deposit accounts which increased 25% at June 30, 2016 over June 30, 2015.

Nonperforming assets declined to \$2,325,000 and represented 0.45% of assets at June 30, 2016 compared to \$2,690,000 at March 31, 2016, but represented an increase compared to \$1,440,000 at June 30, 2015.

Total assets at June 30, 2016 were \$518 million, a 5.2% increase over the \$492 million on June 30, 2015.

About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$518 million and total equity of \$59 million at June 30, 2016. 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, 60% of management are women and minorities with 50% 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)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30, 2016</u> <u>(Unaudited)</u>	<u>June 30, 2015</u> <u>(Unaudited)</u>	<u>June 30, 2016</u> <u>(Unaudited)</u>	<u>June 30, 2015</u> <u>(Unaudited)</u>
Interest income:				
Interest and fees on loans	\$ 4,234	\$ 3,474	\$ 8,346	\$ 6,848
Interest on federal funds sold	2	1	3	1
Interest on investment securities and deposits in banks	762	944	1,630	1,901
Dividends on FHLB stock	60	151	114	199
Total interest income	<u>5,058</u>	<u>4,570</u>	<u>10,093</u>	<u>8,949</u>
Interest expense:				
Deposits	206	174	445	353
FHLB advances	96	45	188	89
Total interest expense	<u>302</u>	<u>219</u>	<u>633</u>	<u>442</u>
Net interest income before provision for loan losses	4,756	4,351	9,460	8,507
Provision for loan losses	-	(800)	-	(800)
Net interest income after provision for loan losses	<u>4,756</u>	<u>5,151</u>	<u>9,460</u>	<u>9,307</u>
Non-interest income:				
Service charges on deposit accounts	188	181	370	337
Rental income	138	133	276	266
Net securities gain	555	52	688	52
Net gain on other real estate owned	-	-	-	1,125
Loan servicing, net	2	2	4	4
Other income	1	(8)	1	118
Total non-interest income	<u>884</u>	<u>360</u>	<u>1,339</u>	<u>1,902</u>
Non-interest expense:				
Salaries and employee benefits	1,978	1,304	3,566	2,717
Occupancy and equipment	322	341	588	650
Other expenses	1,205	896	2,251	1,942
Total non-interest expense	<u>3,505</u>	<u>2,541</u>	<u>6,405</u>	<u>5,309</u>
Income before provision for income taxes	2,135	2,970	4,394	5,900
Provision for income taxes	881	1,224	1,812	2,432
Net income	<u>\$ 1,254</u>	<u>\$ 1,746</u>	<u>\$ 2,582</u>	<u>\$ 3,468</u>
Less: preferred dividends	-	34	-	69
Net income available for common shareholders	<u>\$ 1,254</u>	<u>\$ 1,712</u>	<u>\$ 2,582</u>	<u>\$ 3,399</u>
Basic earnings per common share	\$ 0.26	\$ 0.36	\$ 0.54	\$ 0.71
Diluted earnings per common share	\$ 0.26	\$ 0.35	\$ 0.53	\$ 0.70
Basic weighted average shares of common stock outstanding	4,803	4,783	4,794	4,782
Diluted weighted average shares of common stock outstanding	4,837	4,839	4,827	4,838

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

	<u>June 30, 2016</u> <u>(Unaudited)</u>	<u>December 31, 2015</u>	<u>June 30, 2015</u> <u>(Unaudited)</u>
ASSETS			
Cash and due from banks	\$ 21,779	\$ 15,583	\$ 21,341
Federal funds sold	2,000	2,000	2,000
Total cash and cash equivalents	<u>23,779</u>	<u>17,583</u>	<u>23,341</u>
Time deposits with banks	248	744	744
Investment securities:			
Held-to-maturity, at amortized cost	13,961	5,988	5,986
Available-for-sale (at fair value; amortized cost of \$94,180, \$127,735 and \$127,491)	96,223	128,599	127,631
Total investment securities	<u>110,184</u>	<u>134,587</u>	<u>133,617</u>
Loans, less allowance for loan losses of \$4,744, \$4,731 and 4,477	368,030	343,217	317,387
Bank premises and equipment, net	5,540	5,498	5,667
Investment in Federal Home Loan Bank stock, at cost	3,085	2,701	2,701
Goodwill	4,119	4,119	4,119
Other Real Estate Owned	-	-	-
Accrued interest receivable and other assets	<u>3,293</u>	<u>4,916</u>	<u>4,707</u>
Total assets	<u>\$ 518,278</u>	<u>\$ 513,365</u>	<u>\$ 492,283</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 112,184	\$ 98,062	\$ 85,929
Demand - interest-bearing	55,360	56,281	47,608
Savings	27,360	27,644	27,385
Money market	53,091	59,445	61,924
Time deposits that meet or exceed the FDIC insurance limit	52,125	53,953	53,628
Other time deposits	95,630	101,861	82,931
Total deposits	<u>395,750</u>	<u>397,246</u>	<u>359,405</u>
Federal Home Loan Bank advances	55,000	55,800	61,700
Accrued interest payable and other liabilities	<u>8,070</u>	<u>2,994</u>	<u>1,929</u>
Total liabilities	<u>458,820</u>	<u>456,040</u>	<u>423,034</u>
Shareholders' equity			
Preferred stock, no par value; 20,000,000 shares authorized; Series B shares issued and outstanding - 0, 0 and 13,750; per share redemption of \$1,000 for total liquidation preference of \$13,750	-	-	13,666
Common stock, no par value; shares authorized - 30,000,000 shares; issued and outstanding 4,807,451 in 2016 and 4,783,170 in 2015 periods	36,722	36,704	36,691
Retained earnings	21,551	20,120	18,812
Accumulated other comprehensive income	<u>1,185</u>	<u>501</u>	<u>80</u>
Total shareholders' equity	<u>59,458</u>	<u>57,325</u>	<u>69,249</u>
Total liabilities and shareholders' equity	<u>\$ 518,278</u>	<u>\$ 513,365</u>	<u>\$ 492,283</u>

Financial Summary
(In thousands except per share data)

	At or for the Three Months Ended		At or for the Six Months Ended	
	June 30, 2016 (Unaudited)	June 30, 2015 (Unaudited)	June 30, 2016 (Unaudited)	June 30, 2015 (Unaudited)
Statement of Income Data:				
Net interest income	\$ 4,756	\$ 4,351	\$ 9,460	\$ 8,507
Provision for loan losses	-	(800)	-	(800)
Non-interest income	884	360	1,339	1,902
Non-interest expense	3,505	2,541	6,405	5,309
Provision for income taxes	881	1,224	1,812	2,432
Net income	<u>\$ 1,254</u>	<u>\$ 1,746</u>	<u>\$ 2,582</u>	<u>\$ 3,468</u>
Less: preferred dividends	-	34	-	69
Net income available for common shareholders	<u>\$ 1,254</u>	<u>\$ 1,712</u>	<u>\$ 2,582</u>	<u>\$ 3,399</u>
Selected per Common Share Data:				
Basic earnings per common share	\$ 0.26	\$ 0.36	\$ 0.54	\$ 0.71
Diluted earnings per common share	\$ 0.26	\$ 0.35	\$ 0.53	\$ 0.70
Dividend per share	\$ 0.12	\$ 0.12	\$ 0.24	\$ 0.24
Book value per common share (2)(3)	\$ 12.37	\$ 11.62	\$ 12.37	\$ 11.62
Selected Balance Sheet Data:				
Assets	\$ 518,278	\$ 492,283	\$ 518,278	\$ 492,283
Loans, net	368,030	317,387	368,030	317,387
Deposits	395,750	359,405	395,750	359,405
Average assets	514,269	477,990	518,263	470,772
Average earning assets	506,220	468,025	509,934	459,056
Average shareholders' equity	59,053	69,574	58,596	68,737
Average common shareholders' equity	59,053	55,908	58,596	55,071
Nonperforming loans	2,325	1,440	2,325	1,440
Other real estate owned	-	-	-	-
Total nonperforming assets	2,325	1,440	2,325	1,440
Troubled debt restructures (accruing)	3,442	3,638	3,442	3,638
Selected Ratios:				
Return on average assets (1)	0.98%	1.47%	1.00%	1.49%
Return on average common equity (1)	8.54%	12.28%	8.84%	12.45%
Efficiency ratio (4)	68.93%	54.54%	63.35%	51.26%
Net interest margin (1)	3.78%	3.73%	3.73%	3.74%
Common equity tier 1 capital ratio	13.0%	13.9%	13.0%	13.90%
Tier 1 capital ratio	13.0%	17.6%	13.0%	17.6%
Total capital ratio	14.2%	18.8%	14.2%	18.8%
Tier 1 leverage ratio	10.6%	13.7%	10.6%	13.7%
Common dividend payout ratio (5)	46.01%	33.53%	44.58%	33.77%
Average equity to average assets	11.48%	14.56%	11.31%	14.60%
Nonperforming loans to total loans (2)	0.62%	0.45%	0.62%	0.45%
Nonperforming assets to total assets (2)	0.45%	0.29%	0.45%	0.29%
Allowance for loan losses to total loans (2)	1.27%	1.39%	1.27%	1.39%
Allowance for loan losses to nonperforming loans (2)	204.07%	310.82%	204.07%	310.82%

(1) Annualized

(2) As of period end

(3) Total shareholders' equity, less preferred stock, 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