

# News Release

For Immediate Release

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

SANTA ROSA, CA – (July 24, 2017) – Summit State Bank (Nasdaq: SSBI) today reported net income for the quarter ended June 30, 2017 of \$930,000 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 to be paid on August 25, 2017 to shareholders of record on August 17, 2017.

### Net Income and Results of Operations

For the quarter ended June 30, 2017, Summit State Bank had net income of \$930,000, or diluted earnings per share of \$0.15 compared to \$1,254,000 in net income, or \$0.21 diluted earnings per share, for the same quarter in 2016. The six months ended June 30, 2017 and 2016 had net income of \$1,812,000 and \$2,582,000, or diluted earnings per share of \$0.30 and \$0.43, respectively.

The second quarter of 2016 included net securities gains of \$555,000 which were realized when bonds in the Bank's portfolio were called. There were no security gains in the second quarter of 2017.

Net interest income declined \$269,000 between the second quarters to \$4,487,000 in 2017. The decline was primarily driven by an increase in interest expense due to the Federal Reserve driven interest rate increases impacting short term FHLB borrowings and time deposits. The net interest margin was 3.48% and 3.78% for the second quarters of 2017 and 2016, respectively.

Noninterest operating expenses declined \$285,000 between the second quarters even though the Bank has increased employee levels in a strategic move to promote loan growth. These additional employees increased the personnel expense by \$267,000 between the second quarters after excluding the employee severance expenses related to the former President and other employees of \$538,000 recorded in the second quarter of 2016. Occupancy expense increased \$80,000 due to additional space leased to accommodate the additional employees.

“The increase in employee levels, primarily in the loan function, is starting to bear fruit with an increase in loans outstanding and an encouraging loan pipeline,” said Jim Brush, President and Chief Executive Officer. “The increase in employees included the establishment of a small business lending office in Roseville, California, which will focus on Small Business Administration (SBA) guaranteed loans in the northern California market.”

Annualized return on average assets for the second quarter of 2017 was 0.71% and annualized return on average common equity was 6.23%. The Bank's efficiency ratio was 67.06% and the net interest margin was 3.48% during the second quarter of 2017. The six months ended June 30, 2017, had an annualized return on average assets of 0.70% and return on average common equity of 6.15%. The six-month period efficiency ratio was 67.92% and net interest margin was 3.54%. The annualized return on average assets for the second quarter and six months of 2016, was 0.98% and 1.00%, respectively. The return on average common equity for the two periods of 2016 was 8.54% and 8.84%. The net interest margin and efficiency ratio for the second quarter 2016 was 3.78% and 68.93% and for the first six months of 2016 were 3.73% and 63.35%.

Total assets at June 30, 2017 were \$537 million, compared to \$525 million at March 31, 2017 and \$518 million at June 30, 2016. Gross total loans increased to \$371 million at June 30, 2017 compared to \$358 million at March 31, 2017 but declined from \$373 million at June 30, 2016.

Deposits increased between the periods with total deposits at June 30, 2017 of \$408 million compared to \$400 million at March 31, 2017 and \$396 million at June 30, 2016.

“We have put in place the people that will help accomplish our strategic objective of increasing our loan totals and the deposits to fund them. As the volume increases, we expect to see the efficiencies put in place drive future performance,” said Jim Brush.

#### About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$537 million and total equity of \$60 million at June 30, 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, 80% 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 to include: Best Business Bank, Best Company to do Business with in Sonoma County, 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)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30, 2017</u> <u>(Unaudited)</u>	<u>June 30, 2016</u> <u>(Unaudited)</u>	<u>June 30, 2017</u> <u>(Unaudited)</u>	<u>June 30, 2016</u> <u>(Unaudited)</u>
Interest income:				
Interest and fees on loans	\$ 4,014	\$ 4,234	\$ 7,954	\$ 8,346
Interest on federal funds sold	4	2	7	3
Interest on investment securities and deposits with banks	910	762	1,729	1,630
Dividends on FHLB stock	53	60	124	114
Total interest income	<u>4,981</u>	<u>5,058</u>	<u>9,814</u>	<u>10,093</u>
Interest expense:				
Deposits	358	206	614	445
FHLB advances	136	96	262	188
Total interest expense	<u>494</u>	<u>302</u>	<u>876</u>	<u>633</u>
Net interest income before provision for loan losses	4,487	4,756	8,938	9,460
Provision for loan losses	-	-	-	-
Net interest income after provision for loan losses	<u>4,487</u>	<u>4,756</u>	<u>8,938</u>	<u>9,460</u>
Non-interest income:				
Service charges on deposit accounts	172	188	342	370
Rental income	141	138	285	276
Net securities gain	-	555	13	688
Net gain on other real estate owned	-	-	-	-
Other income	2	3	5	5
Total non-interest income	<u>315</u>	<u>884</u>	<u>645</u>	<u>1,339</u>
Non-interest expense:				
Salaries and employee benefits	1,707	1,978	3,448	3,566
Occupancy and equipment	402	322	758	588
Other expenses	1,111	1,205	2,294	2,251
Total non-interest expense	<u>3,220</u>	<u>3,505</u>	<u>6,500</u>	<u>6,405</u>
Income before provision for income taxes	1,582	2,135	3,083	4,394
Provision for income taxes	652	881	1,271	1,812
Net income	<u>\$ 930</u>	<u>\$ 1,254</u>	<u>\$ 1,812</u>	<u>\$ 2,582</u>
Basic earnings per common share (1)	\$ 0.15	\$ 0.21	\$ 0.30	\$ 0.43
Diluted earnings per common share (1)	\$ 0.15	\$ 0.21	\$ 0.30	\$ 0.43
Basic weighted average shares of common stock outstanding (1)	6,027	6,004	6,024	5,992
Diluted weighted average shares of common stock outstanding (1)	6,059	6,046	6,056	6,033

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

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

(In thousands except share data)

	<b>June 30, 2017</b> <b>(Unaudited)</b>	<b>December 31, 2016</b> <b>(2)</b>	<b>June 30, 2016</b> <b>(Unaudited)</b>
<b>ASSETS</b>			
Cash and due from banks	\$ 20,175	\$ 24,231	\$ 21,779
Federal funds sold	1,720	2,000	2,000
Total cash and cash equivalents	<u>21,895</u>	<u>26,231</u>	<u>23,779</u>
Time deposits with banks	-	248	248
Investment securities:			
Held-to-maturity, at amortized cost	7,980	7,976	13,961
Available-for-sale (at fair value; amortized cost of \$124,149, \$109,297 and \$115,088)	124,774	107,771	96,223
Total investment securities	<u>132,754</u>	<u>115,747</u>	<u>110,184</u>
Loans, less allowance for loan losses of \$4,702, \$4,765 and \$4,735	366,259	354,638	368,030
Bank premises and equipment, net	5,411	5,413	5,540
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	3,959	4,223	3,293
Total assets	<u>\$ 537,482</u>	<u>\$ 513,704</u>	<u>\$ 518,278</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits:			
Demand - non interest-bearing	\$ 110,509	\$ 112,540	\$ 112,184
Demand - interest-bearing	62,539	62,006	55,360
Savings	26,848	26,584	27,360
Money market	53,829	53,866	53,091
Time deposits that meet or exceed the FDIC insurance limit	59,008	52,594	52,125
Other time deposits	95,298	76,661	95,630
Total deposits	<u>408,031</u>	<u>384,251</u>	<u>395,750</u>
Federal Home Loan Bank advances	67,000	68,900	55,000
Accrued interest payable and other liabilities	2,012	1,931	8,070
Total liabilities	<u>477,043</u>	<u>455,082</u>	<u>458,820</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 6,027,100, 6,019,850 and 5,991,286 (1)	36,785	36,726	36,722
Retained earnings	23,292	22,781	21,551
Accumulated other comprehensive income (loss)	362	(885)	1,185
Total shareholders' equity	<u>60,439</u>	<u>58,622</u>	<u>59,458</u>
Total liabilities and shareholders' equity	<u>\$ 537,482</u>	<u>\$ 513,704</u>	<u>\$ 518,278</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		At or for the Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Statement of Income Data:</b>				
Net interest income	\$ 4,487	\$ 4,756	\$ 8,938	\$ 9,460
Provision for loan losses	-	-	-	-
Non-interest income	315	884	645	1,339
Non-interest expense	3,220	3,505	6,500	6,405
Provision for income taxes	652	881	1,271	1,812
Net income	<u>\$ 930</u>	<u>\$ 1,254</u>	<u>\$ 1,812</u>	<u>\$ 2,582</u>
<b>Selected per Common Share Data:</b>				
Basic earnings per common share (1)	\$ 0.15	\$ 0.21	\$ 0.30	\$ 0.43
Diluted earnings per common share (1)	\$ 0.15	\$ 0.21	\$ 0.30	\$ 0.43
Dividend per share (1)	\$ 0.12	\$ 0.096	\$ 0.216	\$ 0.192
Book value per common share (1)(3)(4)	\$ 10.03	\$ 9.89	\$ 10.03	\$ 9.89
<b>Selected Balance Sheet Data:</b>				
Assets	\$ 537,482	\$ 518,278	\$ 537,482	\$ 518,278
Loans, net	366,259	368,030	366,259	368,030
Deposits	408,031	395,750	408,031	395,750
Average assets	528,009	514,269	520,493	518,263
Average earning assets	516,746	506,220	509,374	509,934
Average shareholders' equity	59,877	59,053	59,445	58,596
Average common shareholders' equity	59,877	59,053	59,445	58,596
Nonperforming loans	2,616	2,325	2,616	2,324
Other real estate owned	-	-	-	-
Total nonperforming assets	2,616	2,325	2,616	2,324
Troubled debt restructures (accruing)	3,216	3,442	3,216	3,442
<b>Selected Ratios:</b>				
Return on average assets (2)	0.71%	0.98%	0.70%	1.00%
Return on average common equity (2)	6.23%	8.54%	6.15%	8.84%
Efficiency ratio (5)	67.06%	68.93%	67.92%	63.35%
Net interest margin (2)	3.48%	3.78%	3.54%	3.73%
Common equity tier 1 capital ratio	13.2%	13.0%	13.2%	13.0%
Tier 1 capital ratio	13.2%	13.0%	13.2%	13.0%
Total capital ratio	14.3%	14.2%	14.3%	14.2%
Tier 1 leverage ratio	10.7%	10.6%	10.7%	10.6%
Common dividend payout ratio (6)	77.74%	46.01%	71.80%	44.58%
Average equity to average assets	11.34%	11.48%	11.42%	11.31%
Nonperforming loans to total loans (3)	0.71%	0.62%	0.71%	0.62%
Nonperforming assets to total assets (3)	0.49%	0.45%	0.49%	0.45%
Allowance for loan losses to total loans (3)	1.27%	1.27%	1.27%	1.27%
Allowance for loan losses to nonperforming loans (3)	179.73%	207.07%	179.73%	204.07%

(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.