

News Release

For Immediate Release

Contact: Jim Brush, President and CEO, Summit State Bank (707) 568-4920

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

SANTA ROSA, CA – (January 25, 2017) – Summit State Bank (Nasdaq: SSBI) today reported net income for the year ended December 31, 2016 of \$4,967,000 and diluted earnings per share of \$1.03. 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 24, 2017 to shareholders of record on February 17, 2017.

Net Income and Results of Operations

“2016 was a challenging year, as we dealt with management changes and volatility in the interest rate environment,” said Jim Brush, President and CEO. “We continued to improve our funding sources and finished 2016 with a strong potential loan pipeline. We have added to our quality staff to help execute our business plan to increase loan volume and earnings performance.”

Net income was \$4,967,000 and \$1.03 diluted earnings per share for the year ended December 31, 2016, compared to net income available for common shareholders of \$5,938,000 and \$1.23 diluted earnings per share, for the year ended December 31, 2015.

For the quarter ended December 31, 2016, Summit State Bank had net income of \$1,188,000 and diluted earnings per share of \$0.25 compared to \$1,284,000 of net income and \$0.27 diluted earnings per share, for the same period in 2015.

During 2015 there were isolated items impacting the results, primarily due to the improvement of asset quality. During 2015, Summit State Bank had \$800,000 in reversed provisions for the allowance for loan losses and recognized a gain on the sale of foreclosed real estate of \$1,125,000 for the year. These items along with increased non-interest expense in 2016, were the predominant reason for the decline in net income in 2016.

Return on average assets was 0.97% for 2016, compared to 1.24% in 2015 and return on average common equity was 8.4% for 2016 compared to 10.6% in 2015. The net interest margin was steady during 2016 and 2015 at 3.72%, as the Bank continued to manage its cost of funds with the continued attraction of non interest-bearing transaction accounts.

Total assets were \$513,704,000 at December 31, 2016 compared to \$513,365,000 at December 31, 2015. Net loans at December 31, 2016 were \$354,638,000 compared to \$343,217,000 at December 31, 2015.

The funding of the assets with non interest-bearing deposits increased to 21.9% at year end 2016 compared to 19.1% at year end 2015.

“We continue to improve the Bank’s funding with demand, money market and savings deposit accounts now comprising 50% of assets at the end of 2016 compared to 47% at the end of 2015,” said Dennis Kelley, Chief Financial Officer and Executive Vice President.

“We continue to attract a quality clientele in our Sonoma County market and have in place the staff capacity to handle increased lending in 2017. We will continue to concentrate on increasing the core deposit funding of the Bank. We are proud of the commitment to our community and the many nonprofit businesses that we serve.” said James Brush, President and CEO.

About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$514 million and total equity of \$59 million at December 31, 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, 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)

	<u>Three Months Ended</u>		<u>Year Ended</u>	
	<u>December 31, 2016</u> (Unaudited)	<u>December 31, 2015</u> (Unaudited)	<u>December 31, 2016</u> (Unaudited)	<u>December 31, 2015</u> (Unaudited)
Interest income:				
Interest and fees on loans	\$ 4,058	\$ 3,908	\$ 16,549	\$ 14,523
Interest on federal funds sold	2	1	7	3
Interest on investment securities and deposits in banks	737	904	2,994	3,720
Dividends on FHLB stock	175	60	357	327
Total interest income	<u>4,972</u>	<u>4,873</u>	<u>19,907</u>	<u>18,573</u>
Interest expense:				
Deposits	201	212	855	757
FHLB advances	101	40	379	179
Total interest expense	<u>302</u>	<u>252</u>	<u>1,234</u>	<u>936</u>
Net interest income before provision for (reversal of) loan losses	4,670	4,621	18,673	17,637
Provision for (reversal of) loan losses	-	-	-	(800)
Net interest income after provision for (reversal of) loan losses	<u>4,670</u>	<u>4,621</u>	<u>18,673</u>	<u>18,437</u>
Non-interest income:				
Service charges on deposit accounts	184	177	748	702
Rental income	141	133	559	532
Net securities gain	23	49	692	157
Net gain on other real estate owned	-	-	-	1,125
Loan servicing, net	6	4	12	10
Other income	1	1	10	119
Total non-interest income	<u>355</u>	<u>364</u>	<u>2,021</u>	<u>2,645</u>
Non-interest expense:				
Salaries and employee benefits	1,597	1,429	6,562	5,646
Occupancy and equipment	332	336	1,229	1,313
Other expenses	1,075	1,035	4,454	3,864
Total non-interest expense	<u>3,004</u>	<u>2,800</u>	<u>12,245</u>	<u>10,823</u>
Income before provision for income taxes	2,021	2,185	8,449	10,259
Provision for income taxes	833	901	3,482	4,229
Net income	<u>\$ 1,188</u>	<u>\$ 1,284</u>	<u>\$ 4,967</u>	<u>\$ 6,030</u>
Less: preferred dividends	-	-	-	92
Net income available for common shareholders	<u>\$ 1,188</u>	<u>\$ 1,284</u>	<u>\$ 4,967</u>	<u>\$ 5,938</u>
Basic earnings per common share	\$ 0.25	\$ 0.27	\$ 1.03	\$ 1.24
Diluted earnings per common share	\$ 0.25	\$ 0.27	\$ 1.03	\$ 1.23
Basic weighted average shares of common stock outstanding	4,815	4,783	4,804	4,783
Diluted weighted average shares of common stock outstanding	4,840	4,839	4,829	4,838

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

	December 31, 2016	December 31, 2015
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
ASSETS		
Cash and due from banks	\$ 24,231	\$ 15,583
Federal funds sold	2,000	2,000
Total cash and cash equivalents	<u>26,231</u>	<u>17,583</u>
Time deposits with banks	248	744
Investment securities:		
Held-to-maturity, at amortized cost	7,976	5,988
Available-for-sale (at fair value; amortized cost of \$109,297 in 2016 and \$127,735 in 2015)	<u>107,771</u>	<u>128,599</u>
Total investment securities	115,747	134,587
Loans, less allowance for loan losses of \$4,765 in 2016 and \$4,731 in 2015	354,638	343,217
Bank premises and equipment, net	5,413	5,498
Investment in Federal Home Loan Bank stock, at cost	3,085	2,701
Goodwill	4,119	4,119
Other Real Estate Owned	-	-
Accrued interest receivable and other assets	<u>4,223</u>	<u>4,916</u>
Total assets	<u>\$ 513,704</u>	<u>\$ 513,365</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand - non interest-bearing	\$ 112,540	\$ 98,062
Demand - interest-bearing	62,006	56,281
Savings	26,584	27,644
Money market	53,866	59,445
Time deposits that meet or exceed the FDIC insurance limit	52,594	53,953
Other time deposits	<u>76,661</u>	<u>101,861</u>
Total deposits	384,251	397,246
Federal Home Loan Bank advances	68,900	55,800
Accrued interest payable and other liabilities	<u>1,931</u>	<u>2,994</u>
Total liabilities	<u>455,082</u>	<u>456,040</u>
Shareholders' equity		
Common stock, no par value; shares authorized - 30,000,000 shares; issued and outstanding 4,815,880 in 2016 and 4,783,170 in 2015	36,726	36,704
Retained earnings	22,781	20,120
Accumulated other comprehensive income (loss)	<u>(885)</u>	<u>501</u>
Total shareholders' equity	<u>58,622</u>	<u>57,325</u>
Total liabilities and shareholders' equity	<u>\$ 513,704</u>	<u>\$ 513,365</u>

Financial Summary
(In Thousands except per share data)

	At or for the Three Months Ended		At or for the Year Ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Statement of Income Data:				
Net interest income	\$ 4,670	\$ 4,621	\$ 18,673	\$ 17,637
Provision for (reversal of) loan losses	-	-	-	(800)
Non-interest income	355	364	2,021	2,645
Non-interest expense	3,004	2,800	12,245	10,823
Provision for income taxes	833	901	3,482	4,229
Net income	<u>\$ 1,188</u>	<u>\$ 1,284</u>	<u>\$ 4,967</u>	<u>\$ 6,030</u>
Less: preferred dividends	-	-	-	92
Net income available for common shareholders	<u>\$ 1,188</u>	<u>\$ 1,284</u>	<u>\$ 4,967</u>	<u>\$ 5,938</u>
Selected per Common Share Data:				
Basic earnings per common share	\$ 0.25	\$ 0.27	\$ 1.03	\$ 1.24
Diluted earnings per common share	\$ 0.25	\$ 0.27	\$ 1.03	\$ 1.23
Dividend per share	\$ 0.12	\$ 0.12	\$ 0.48	\$ 0.48
Book value per common share (2)(3)	\$ 12.17	\$ 11.99	\$ 12.17	\$ 11.99
Selected Balance Sheet Data:				
Assets	\$ 513,704	\$ 513,365	\$ 513,704	\$ 513,365
Loans, net	354,638	343,217	354,638	343,217
Deposits	384,251	397,246	384,251	397,246
Average assets	504,146	504,628	510,829	485,396
Average earning assets	494,972	495,866	502,381	474,751
Average shareholders' equity	60,011	57,334	59,326	65,061
Average common shareholders' equity	60,011	57,334	59,326	56,001
Nonperforming loans	3,351	1,610	3,351	1,610
Other real estate owned	-	-	-	-
Total nonperforming assets	3,351	1,610	3,351	1,610
Troubled debt restructures (accruing)	3,348	3,536	3,348	3,536
Selected Ratios:				
Return on average assets (1)	0.93%	1.01%	0.97%	1.24%
Return on average common equity (1)	7.85%	8.89%	8.37%	10.60%
Efficiency ratio (4)	60.06%	56.73%	61.22%	53.78%
Net interest margin (1)	3.74%	3.70%	3.72%	3.72%
Common equity tier 1 capital ratio	13.5%	13.5%	13.5%	13.5%
Tier 1 capital ratio	13.5%	13.5%	13.5%	13.5%
Total capital ratio	14.7%	14.7%	14.7%	14.7%
Tier 1 leverage ratio	11.1%	10.5%	11.1%	10.5%
Common dividend payout ratio (5)	48.65%	44.70%	46.43%	38.67%
Average equity to average assets	11.90%	11.36%	11.61%	13.40%
Nonperforming loans to total loans (2)	0.93%	0.46%	0.93%	0.46%
Nonperforming assets to total assets (2)	0.65%	0.31%	0.65%	0.31%
Allowance for loan losses to total loans (2)	1.33%	1.36%	1.33%	1.36%
Allowance for loan losses to nonperforming loans (2)	142.23%	293.86%	142.23%	293.86%

(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 stockholders.