

News Release

For Immediate Release

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Summit State Bank Reports 57% Increase in Profitability for Second Quarter 2018

SANTA ROSA, CA – (July 23, 2018) – Summit State Bank (Nasdaq: SSBI) today reported net income for the quarter ended June 30, 2018 of \$1,461,000 and diluted earnings per share of \$0.24.

Net Income and Results of Operations

For the quarter ended June 30, 2018, Summit State Bank (“Bank”) had net income of \$1,461,000 and diluted earnings per share of \$0.24 compared to \$930,000 in net income and \$0.15 diluted earnings per share for the same quarter in 2017. This represented an increase of 57% in net income between the periods.

Net income for the six months ended June 30, 2018 increased 77% compared to the same period in 2017, with net income of \$3,201,000 or diluted earnings per share of \$0.53 in 2018 compared to \$1,812,000 or diluted earnings per share of \$0.30 in 2017.

“We continue to see good increases in core earnings driven by growth in loans and core deposits. Our market in Sonoma County is strong, including the rebuilding effort caused by last October’s fire disaster. The Bank’s capital has been leveraged to provide better performance in return on equity. We believe we are in a good position to serve our local customers with superior service and products,” said Jim Brush, President and CEO.

Revenues, defined as net interest income and non-interest income, for the second quarter of 2018 increased 20% over same quarter of 2017 while operating expenses increased 10% between the two quarters. This resulted in an operating efficiency ratio of 61.6%.

The increase in revenues was a result of an improved net interest margin which was 3.69% for second quarter of 2018 compared to 3.48% during the same quarter in 2017. Additionally, non-interest income increased from gains on sales of SBA guaranteed loans of \$155,000 during the second quarter of 2018 compared to no loan sales gains in the same quarter of 2017.

Net loans increased 27% or \$98 million and total assets increased 9% or \$48 million between June 30, 2018 and 2017. Total deposits increased 27% or \$109 million between June 30, 2018 and 2017, with \$90 million of the increase in demand, savings and money market deposits.

Annualized return on average assets for the second quarter of 2018 was 1.01% and annualized return on average equity was 9.79%. The annualized return on average assets for the six months ended June 30, 2018 was 1.11% and annualized return on average equity was 10.79%. The second quarter of 2017 had an annualized return on average assets of 0.71% and annualized

return on average equity of 6.23%. The first six months of 2017 had an annualized return on average assets of 0.70% and annualized return on average equity of 6.15%.

“We continue to execute on our strategy and are focusing on our net interest margin during this period of rising interest rates,” said Dennis Kelley, Chief Financial Officer.

Nonperforming assets were \$2,606,000 or 0.44% of total assets at June 30, 2018 compared to \$2,616,000 or 0.49% at June 30, 2017. The nonperforming assets at June 30, 2018, consist of nine loans which are predominantly secured by real property. The Bank had provision expense of \$150,000 in the second quarter of 2018 and \$300,000 for the six month period. The allowance for loan losses to loans was 1.23% at June 30, 2018 and was 1.27% at June 30, 2017.

About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$586 million and total equity of \$60 million at June 30, 2018. 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, 79% 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.

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		Six Months Ended	
	June 30, 2018 (Unaudited)	June 30, 2017 (Unaudited)	June 30, 2018 (Unaudited)	June 30, 2017 (Unaudited)
Interest income:				
Interest and fees on loans	\$ 5,399	\$ 4,014	\$ 10,709	\$ 7,954
Interest on deposits with banks	58	42	126	69
Interest on federal funds sold	8	4	14	7
Interest on investment securities	601	868	1,215	1,660
Dividends on FHLB stock	53	53	108	124
Total interest income	6,119	4,981	12,172	9,814
Interest expense:				
Deposits	818	358	1,526	614
Federal Home Loan Bank advances	61	136	92	262
Total interest expense	879	494	1,618	876
Net interest income before provision for loan losses	5,240	4,487	10,554	8,938
Provision for loan losses	150	-	300	-
Net interest income after provision for loan losses	5,090	4,487	10,254	8,938
Non-interest income:				
Service charges on deposit accounts	194	172	387	342
Rental income	149	141	296	285
Net gain on loan sales	155	-	447	-
Net securities gain	9	-	16	13
Other income	35	2	158	5
Total non-interest income	542	315	1,304	645
Non-interest expense:				
Salaries and employee benefits	2,098	1,707	4,164	3,448
Occupancy and equipment	381	402	771	758
Other expenses	1,078	1,111	2,163	2,294
Total non-interest expense	3,557	3,220	7,098	6,500
Income before provision for income taxes	2,075	1,582	4,460	3,083
Provision for income taxes	614	652	1,259	1,271
Net income	\$ 1,461	\$ 930	\$ 3,201	\$ 1,812
Basic earnings per common share	\$ 0.24	\$ 0.15	\$ 0.53	\$ 0.30
Diluted earnings per common share	\$ 0.24	\$ 0.15	\$ 0.53	\$ 0.30
Basic weighted average shares of common stock outstanding	6,066	6,027	6,063	6,024
Diluted weighted average shares of common stock outstanding	6,074	6,059	6,070	6,056

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(In thousands except share data)

	<u>June 30, 2018</u> (Unaudited)	<u>December 31, 2017</u> (1)	<u>June 30, 2017</u> (Unaudited)
ASSETS			
Cash and due from banks	\$ 23,660	\$ 68,814	\$ 20,175
Federal funds sold	-	2,000	1,720
Total cash and cash equivalents	<u>23,660</u>	<u>70,814</u>	<u>21,895</u>
Investment securities:			
Held-to-maturity, at amortized cost	7,988	7,984	7,980
Available-for-sale (at fair value; amortized cost of \$75,676, \$79,617 and \$124,149)	72,921	78,770	124,774
Total investment securities	<u>80,909</u>	<u>86,754</u>	<u>132,754</u>
Loans, less allowance for loan losses of \$5,775, \$5,236 and \$4,702	463,856	437,594	366,259
Bank premises and equipment, net	5,151	5,279	5,411
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	5,170	3,219	3,959
Total assets	<u>\$ 585,950</u>	<u>\$ 610,864</u>	<u>\$ 537,482</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 143,926	\$ 190,861	\$ 110,509
Demand - interest-bearing	71,476	65,742	62,539
Savings	27,298	30,102	26,848
Money market	101,106	79,564	53,829
Time deposits that meet or exceed the FDIC insurance limit	75,888	68,927	59,008
Other time deposits	97,624	98,317	95,298
Total deposits	<u>517,318</u>	<u>533,513</u>	<u>408,031</u>
Federal Home Loan Bank advances	6,800	15,000	67,000
Accrued interest payable and other liabilities	1,633	2,674	2,012
Total liabilities	<u>525,751</u>	<u>551,187</u>	<u>477,043</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 6,066,475, 6,041,475 and 6,027,100	36,967	36,847	36,785
Retained earnings	25,171	23,427	23,292
Accumulated other comprehensive gain(loss)	(1,939)	(597)	362
Total shareholders' equity	<u>60,199</u>	<u>59,677</u>	<u>60,439</u>
Total liabilities and shareholders' equity	<u>\$ 585,950</u>	<u>\$ 610,864</u>	<u>\$ 537,482</u>

(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 Six Months Ended	
	June 30, 2018 (Unaudited)	June 30, 2017 (Unaudited)	June 30, 2018 (Unaudited)	June 30, 2017 (Unaudited)
Statement of Income Data:				
Net interest income	\$ 5,240	\$ 4,487	\$ 10,554	\$ 8,938
Provision for loan losses	150	-	300	-
Non-interest income	542	315	1,304	645
Non-interest expense	3,557	3,220	7,098	6,500
Provision for income taxes	614	652	1,259	1,271
Net income	<u>\$ 1,461</u>	<u>\$ 930</u>	<u>\$ 3,201</u>	<u>\$ 1,812</u>
Selected per Common Share Data:				
Basic earnings per common share	\$ 0.24	\$ 0.15	\$ 0.53	\$ 0.30
Diluted earnings per common share	\$ 0.24	\$ 0.15	\$ 0.53	\$ 0.30
Dividend per share	\$ 0.12	\$ 0.12	\$ 0.24	\$ 0.22
Book value per common share (2)	\$ 9.92	\$ 10.03	\$ 9.92	\$ 10.03
Selected Balance Sheet Data:				
Assets	\$ 585,950	\$ 537,482	\$ 585,950	\$ 537,482
Loans, net	463,856	366,259	463,856	366,259
Deposits	517,318	408,031	517,318	408,031
Average assets	580,611	528,009	579,366	520,493
Average earning assets	568,851	516,746	568,100	509,374
Average shareholders' equity	59,866	59,877	59,814	59,445
Average common shareholders' equity	59,866	59,877	59,814	59,445
Nonperforming loans	2,606	2,616	2,606	2,616
Total nonperforming assets	2,606	2,616	2,606	2,616
Troubled debt restructures (accruing)	1,591	3,216	1,591	3,216
Selected Ratios:				
Return on average assets (1)	1.01%	0.71%	1.11%	0.70%
Return on average common shareholders' equity (1)	9.79%	6.23%	10.79%	6.15%
Efficiency ratio (3)	61.61%	67.06%	59.94%	67.92%
Net interest margin (1)	3.69%	3.48%	3.75%	3.54%
Common equity tier 1 capital ratio	11.3%	13.2%	11.3%	13.2%
Tier 1 capital ratio	11.3%	13.2%	11.3%	13.2%
Total capital ratio	12.5%	14.3%	12.5%	14.3%
Tier 1 leverage ratio	10.0%	10.7%	10.0%	10.7%
Common dividend payout ratio (4)	49.83%	77.74%	45.49%	71.80%
Average shareholders' equity to average assets	10.31%	11.34%	10.32%	11.42%
Nonperforming loans to total loans	0.55%	0.71%	0.55%	0.71%
Nonperforming assets to total assets	0.44%	0.49%	0.44%	0.49%
Allowance for loan losses to total loans	1.23%	1.27%	1.23%	1.27%
Allowance for loan losses to nonperforming loans	221.60%	179.73%	221.60%	179.73%

(1) Annualized.

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

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

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