

News Release

For Immediate Release

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Summit State Bank Reports 50% Increase in Quarterly Profitability and Declaration of Dividend

SANTA ROSA, CA – (October 23, 2018) – Summit State Bank (Nasdaq: SSBI) today reported net income for the quarter ended September 30, 2018 of \$1,505,000 and diluted earnings per share of \$0.25. 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 October 22, 2018 to be paid on November 27, 2018 to shareholders of record on November 20, 2018.

Net Income and Results of Operations

For the quarter ended September 30, 2018, Summit State Bank (“Bank”) had net income of \$1,505,000 and diluted earnings per share of \$0.25 compared to \$1,001,000 in net income and \$0.17 diluted earnings per share for the same quarter in 2017. This represented a 50% increase in net income between the periods.

Net income for the first nine months of 2018, was \$4,706,000 compared to \$2,813,000 for the same period in 2017, a 67% increase. Diluted earnings per share for the respective nine-month periods were \$0.78 and \$0.46.

“Our increase in core operating income continues to be driven by incremental higher net interest income related to higher average loan balances and an increase in loans as a percentage of total assets,” said Jim Brush, President and CEO.

Net income for the quarter and nine months ended September 30, 2018 benefited from a tax credit of \$104,000 resulting from a cost segregation study performed on the Bank’s head office building.

Net loans increased 22% or \$86 million between September 30, 2018 and 2017. The net interest margin increased from 3.39% for the third quarter of 2017 to 3.80% for the third quarter of 2018. The resulting increase in the net interest income was \$960,000 or 21% between the quarters and \$2,575,000 or 19% between the nine-month periods.

The additional loans and overall asset growth were funded by increasing the Bank’s local deposits by 30% or \$105 million and a reduction in the investment portfolio of \$29 million between September 30, 2017 and 2018. Additionally, institutional funding was reduced by \$45 million with reductions in institutional deposits and FHLB borrowings.

Annualized return on average assets for the third quarter of 2018 was 1.02% and annualized return on average equity was 9.9%. The Bank's efficiency ratio was 65.3% and the net interest margin was 3.80% during the third quarter of 2018. The third quarter of 2017 had an annualized return on average assets of 0.73%, annualized return on average equity of 6.6%, efficiency ratio of 66.3% and net interest margin of 3.39%.

There was a \$645,000, or 20%, increase in operating expenses between the third quarter of 2018 as compared to the third quarter of 2017. The increased expenses were primarily due to the increase in employees and related compensation and benefits expense related to management's strategy of positioning the Bank for loan growth.

"We are approaching a structure where we have improved efficiencies and processes so that our non-interest costs should increase more slowly than increases in net interest income from loan and core deposit production" said Jim Brush, President and CEO.

Total assets at September 30, 2018 were \$595 million compared to \$539 million at September 30, 2017.

Nonperforming assets were \$2,170,000 or 0.36% of total assets at September 30, 2018 compared to \$3,142,000 or 0.58% at September 30, 2017. The nonperforming assets at September 30, 2018, consist of six loans which are predominantly secured by real property. The Bank recorded net recoveries of previously charged off loans of \$226,000 and had provision expense of \$380,000 for the nine months ended September 30, 2018. The allowance for loan losses to loans was 1.20% at September 30, 2018 and was 1.22% at September 30, 2017.

About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$595 million and total equity of \$60 million at September 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, 83% 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)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30, 2018</u> (Unaudited)	<u>September 30, 2017</u> (Unaudited)	<u>September 30, 2018</u> (Unaudited)	<u>September 30, 2017</u> (Unaudited)
Interest income:				
Interest and fees on loans	\$ 5,854	\$ 4,275	\$ 16,563	\$ 12,230
Interest on deposits with banks	59	43	185	112
Interest on federal funds sold	-	5	14	11
Interest on investment securities	584	809	1,800	2,470
Dividends on FHLB stock	54	54	161	177
Total interest income	<u>6,551</u>	<u>5,186</u>	<u>18,723</u>	<u>15,000</u>
Interest expense:				
Deposits	931	473	2,458	1,088
Federal Home Loan Bank advances	108	161	200	422
Total interest expense	<u>1,039</u>	<u>634</u>	<u>2,658</u>	<u>1,510</u>
Net interest income before provision for loan losses	5,512	4,552	16,065	13,490
Provision for loan losses	80	170	380	170
Net interest income after provision for loan losses	<u>5,432</u>	<u>4,382</u>	<u>15,685</u>	<u>13,320</u>
Non-interest income:				
Service charges on deposit accounts	182	187	569	529
Rental income	148	145	444	429
Net gain on loan sales	95	-	542	-
Net securities gain	2	44	18	57
Other income	26	16	185	21
Total non-interest income	<u>453</u>	<u>392</u>	<u>1,758</u>	<u>1,036</u>
Non-interest expense:				
Salaries and employee benefits	2,360	1,777	6,524	5,225
Occupancy and equipment	360	375	1,131	1,133
Other expenses	1,173	1,096	3,336	3,389
Total non-interest expense	<u>3,893</u>	<u>3,248</u>	<u>10,991</u>	<u>9,747</u>
Income before provision for income taxes	1,992	1,526	6,452	4,609
Provision for income taxes	487	525	1,746	1,796
Net income	<u>\$ 1,505</u>	<u>\$ 1,001</u>	<u>\$ 4,706</u>	<u>\$ 2,813</u>
Basic earnings per common share	\$ 0.25	\$ 0.17	\$ 0.78	\$ 0.47
Diluted earnings per common share	\$ 0.25	\$ 0.17	\$ 0.78	\$ 0.46
Basic weighted average shares of common stock outstanding	6,066	6,036	6,064	6,028
Diluted weighted average shares of common stock outstanding	6,074	6,058	6,071	6,057

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

	September 30, 2018	December 31, 2017	September 30, 2017
	(Unaudited)	(1)	(Unaudited)
ASSETS			
Cash and due from banks	\$ 20,924	\$ 68,814	\$ 20,388
Federal funds sold	-	2,000	2,000
Total cash and cash equivalents	20,924	70,814	22,388
Investment securities:			
Held-to-maturity, at amortized cost	7,990	7,984	7,982
Available-for-sale (at fair value; amortized cost of \$70,805, \$79,617 and \$96,128)	67,372	78,770	96,248
Total investment securities	75,362	86,754	104,230
Loans, less allowance for loan losses of \$5,842, \$5,236 and \$4,879	481,419	437,594	395,640
Bank premises and equipment, net	5,316	5,279	5,330
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	5,018	3,219	4,201
Total assets	\$ 595,243	\$ 610,864	\$ 538,993
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 145,712	\$ 190,861	\$ 128,863
Demand - interest-bearing	63,435	65,742	58,463
Savings	28,282	30,102	27,470
Money market	101,383	79,564	57,493
Time deposits that meet or exceed the FDIC insurance limit	80,852	68,927	65,192
Other time deposits	84,388	98,317	104,795
Total deposits	504,052	533,513	442,276
Federal Home Loan Bank advances	28,500	15,000	34,100
Accrued interest payable and other liabilities	2,192	2,674	2,133
Total liabilities	534,744	551,187	478,509
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 6,041,475	36,967	36,847	36,847
Retained earnings	25,949	23,427	23,568
Accumulated other comprehensive gain (loss)	(2,417)	(597)	69
Total shareholders' equity	60,499	59,677	60,484
Total liabilities and shareholders' equity	\$ 595,243	\$ 610,864	\$ 538,993

(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 Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Statement of Income Data:				
Net interest income	\$ 5,512	\$ 4,552	\$ 16,065	\$ 13,490
Provision for loan losses	80	170	380	170
Non-interest income	453	392	1,758	1,036
Non-interest expense	3,893	3,248	10,991	9,747
Provision for income taxes	487	525	1,746	1,796
Net income	<u>\$ 1,505</u>	<u>\$ 1,001</u>	<u>\$ 4,706</u>	<u>\$ 2,813</u>
Selected per Common Share Data:				
Basic earnings per common share	\$ 0.25	\$ 0.17	\$ 0.78	\$ 0.47
Diluted earnings per common share	\$ 0.25	\$ 0.17	\$ 0.78	\$ 0.46
Dividend per share	\$ 0.12	\$ 0.12	\$ 0.36	\$ 0.34
Book value per common share (2)	\$ 9.97	\$ 10.01	\$ 9.97	\$ 10.01
Selected Balance Sheet Data:				
Assets	\$ 595,243	\$ 538,993	\$ 595,243	\$ 538,993
Loans, net	481,419	395,640	481,419	395,640
Deposits	504,052	442,276	504,052	442,276
Average assets	587,062	544,378	581,960	528,542
Average earning assets	575,954	532,841	570,747	517,282
Average shareholders' equity	60,593	60,583	60,076	59,828
Nonperforming loans	2,170	3,142	2,170	3,142
Total nonperforming assets	2,170	3,142	2,170	3,142
Troubled debt restructures (accruing)	1,749	3,168	1,749	3,168
Selected Ratios:				
Return on average assets (1)	1.02%	0.73%	1.08%	0.71%
Return on average common shareholders' equity (1)	9.85%	6.56%	10.47%	6.29%
Efficiency ratio (3)	65.29%	66.29%	61.73%	67.36%
Net interest margin (1)	3.80%	3.39%	3.76%	3.49%
Common equity tier 1 capital ratio	10.9%	12.7%	10.9%	12.7%
Tier 1 capital ratio	10.9%	12.7%	10.9%	12.7%
Total capital ratio	12.0%	13.8%	12.0%	13.8%
Tier 1 leverage ratio	10.1%	10.4%	10.1%	10.4%
Common dividend payout ratio (4)	48.37%	72.43%	46.41%	72.02%
Average shareholders' equity to average assets	10.32%	11.13%	10.32%	11.32%
Nonperforming loans to total loans	0.45%	0.78%	0.45%	0.78%
Nonperforming assets to total assets	0.36%	0.58%	0.36%	0.58%
Allowance for loan losses to total loans	1.20%	1.22%	1.20%	1.22%
Allowance for loan losses to nonperforming loans	269.26%	155.26%	269.26%	155.26%

(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.