

News Release

For Immediate Release

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

Summit State Bank Reports Net Income for Second Quarter 2019 and Declaration of Dividend

SANTA ROSA, CA – (July 23, 2019) – Summit State Bank (Nasdaq: SSBI) today reported net income for the quarter ended June 30, 2019 of \$1,172,000 and diluted earnings per share of \$0.19. 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 July 22, 2019 to be paid on August 23, 2019 to shareholders of record on August 16, 2019.

Net Income and Results of Operations

For the quarter ended June 30, 2019, Summit State Bank (“Bank”) had net income of \$1,172,000 and diluted earnings per share of \$0.19 compared to net income of \$1,461,000 and diluted earnings per share of \$0.24 for the same quarter in 2018. Net income decreased \$289,000 or 20% the second quarter of 2019 compared to the second quarter of 2018.

Net interest income increased to \$5,499,000 in the second quarter of 2019 compared to \$5,240,000 in the second quarter of 2018. This was an increase of \$259,000 or 5% from the prior year.

Net loans, deposits and total assets also increased when comparing the second quarter of 2019 to second quarter of 2018. Loans increased 16% to \$536,674,000 at June 30, 2019 compared to \$463,856,000 at June 30, 2018, deposits increased 3% to \$532,257,000 at June 30, 2019 compared to \$517,318,000 at June 30, 2018, and total assets increased 8% to \$635,622,000 at June 30, 2019 compared to \$585,950,000 at June 30, 2018.

“In the past year the Bank has seen significant growth in its loan portfolio, 16% for the current quarter compared to a year ago,” said Jim Brush, President and CEO. “It is rewarding to see our staff invest so much effort into making our strategy a reality, they are the heart of our operations and the key to our long-term success.”

For the second quarter 2019, the net interest margin was 3.64%, annualized return on average assets was 0.75% and annualized return on average equity was 7.36%. The second quarter of 2018 generated an annualized net interest margin of 3.69%, annualized return on average assets of 1.01% and annualized return on average equity of 9.79%.

Non-interest income decreased in the second quarter of 2019 to \$340,000 compared to \$542,000 in the second quarter of 2018. The Bank did not sell any loans in the second quarter of 2019 but recognized \$155,000 in gains on sales of SBA guaranteed loan balances in 2018. Rental income also decreased in the second quarter of 2019 to \$81,000 compared to \$149,000 in the second quarter of 2018.

There was a \$438,000 or 12% increase in operating expenses between the second quarter of 2019 as compared to the second quarter of 2018. The increase in expenses are primarily due to the increase in employees, benefits and occupancy costs.

“As expected, this type of growth comes with its own set of challenges like maintaining net interest margin,” said Brush. “We continue to make a deliberate focus to invest our money in local markets and this is having a positive impact on our loan and asset growth.”

“In the shorter term we will continue managing the cost of deposits. In recent weeks we have seen several shifts in the deposit market that will improve margins and net income in the second half of this year,” Brush said. “We are disappointed the net profit was not higher this quarter but believe our earnings will rebound and end near target for 2019.”

Nonperforming assets were \$715,000 or 0.11% of total assets at June 30, 2019 compared to \$2,606,000 or 0.44% at June 30, 2018. The nonperforming assets at June 30, 2019, consist of five loans which are predominantly secured by real property. The Bank had provision expense of \$180,000 in the second quarter of 2019. The allowance for loan losses to loans was 1.17% at June 30, 2019 compared to 1.23% at June 30, 2018. In June 2019 the Bank also completed the private placement of \$6,000,000 in subordinated notes. These notes qualify as Tier 2 capital for regulatory purposes.

About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$636 million and total equity of \$65 million at June 30, 2019. 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, 82% of management are women and minorities with 60% 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>Six Months Ended</u>	
	<u>June 30, 2019</u> (Unaudited)	<u>June 30, 2018</u> (Unaudited)	<u>June 30, 2019</u> (Unaudited)	<u>June 30, 2018</u> (Unaudited)
Interest income:				
Interest and fees on loans	\$ 6,630	\$ 5,399	\$ 13,081	\$ 10,709
Interest on deposits with banks	32	58	133	126
Interest on federal funds sold	-	8	-	14
Interest on investment securities	476	601	1,066	1,215
Dividends on FHLB stock	53	53	108	108
Total interest income	<u>7,191</u>	<u>6,119</u>	<u>14,388</u>	<u>12,172</u>
Interest expense:				
Deposits	1,581	818	3,052	1,526
Federal Home Loan Bank advances	111	61	290	92
Total interest expense	<u>1,692</u>	<u>879</u>	<u>3,342</u>	<u>1,618</u>
Net interest income before provision for loan losses	<u>5,499</u>	<u>5,240</u>	<u>11,046</u>	<u>10,554</u>
Provision for loan losses	180	150	280	300
Net interest income after provision for loan losses	<u>5,319</u>	<u>5,090</u>	<u>10,766</u>	<u>10,254</u>
Non-interest income:				
Service charges on deposit accounts	219	194	409	387
Rental income	81	149	172	296
Net gain on loan sales	-	155	167	447
Net securities (loss) gain	(7)	9	(7)	16
Other income	47	35	92	158
Total non-interest income	<u>340</u>	<u>542</u>	<u>833</u>	<u>1,304</u>
Non-interest expense:				
Salaries and employee benefits	2,303	2,078	4,960	4,105
Occupancy and equipment	434	387	857	784
Other expenses	1,258	1,092	2,390	2,209
Total non-interest expense	<u>3,995</u>	<u>3,557</u>	<u>8,207</u>	<u>7,098</u>
Income before provision for income taxes	<u>1,664</u>	<u>2,075</u>	<u>3,392</u>	<u>4,460</u>
Provision for income taxes	492	614	795	1,259
Net income	<u>\$ 1,172</u>	<u>\$ 1,461</u>	<u>\$ 2,597</u>	<u>\$ 3,201</u>
Basic earnings per common share	\$ 0.19	\$ 0.24	\$ 0.43	\$ 0.53
Diluted earnings per common share	\$ 0.19	\$ 0.24	\$ 0.43	\$ 0.53
Basic weighted average shares of common stock outstanding	6,069	6,066	6,068	6,063
Diluted weighted average shares of common stock outstanding	6,075	6,074	6,071	6,070

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

	<u>June 30, 2019</u> (Unaudited)	<u>December 31, 2018</u> (1)	<u>June 30, 2018</u> (Unaudited)
ASSETS			
Cash and due from banks	\$ 12,104	\$ 21,693	\$ 23,660
Federal funds sold	-	-	-
Total cash and cash equivalents	<u>12,104</u>	<u>21,693</u>	<u>23,660</u>
Investment securities:			
Held-to-maturity, at amortized cost	7,995	7,991	7,988
Available-for-sale (at fair value; amortized cost of \$59,450, \$72,716 and \$75,676)	<u>59,853</u>	<u>70,174</u>	<u>72,921</u>
Total investment securities	<u>67,848</u>	<u>78,165</u>	<u>80,909</u>
Loans, less allowance for loan losses of \$6,328, \$6,029 and \$5,775	536,674	504,549	463,856
Bank premises and equipment, net (2)	6,324	5,803	5,151
Investment in Federal Home Loan Bank stock, at cost	3,341	3,085	3,085
Goodwill	4,119	4,119	4,119
Accrued interest receivable and other assets (2)	<u>5,212</u>	<u>4,690</u>	<u>5,170</u>
Total assets	<u>\$ 635,622</u>	<u>\$ 622,104</u>	<u>\$ 585,950</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 119,535	\$ 120,011	\$ 143,926
Demand - interest-bearing	65,227	65,652	71,476
Savings	25,419	25,817	27,298
Money market	99,585	104,060	101,106
Time deposits that meet or exceed the FDIC insurance limit	85,315	83,071	75,888
Other time deposits	<u>137,176</u>	<u>102,578</u>	<u>97,624</u>
Total deposits	532,257	501,189	517,318
Federal Home Loan Bank advances	29,300	56,800	6,800
Junior subordinated debt	5,862	-	-
Accrued interest payable and other liabilities (2)	<u>3,462</u>	<u>2,595</u>	<u>1,633</u>
Total liabilities	<u>570,881</u>	<u>560,584</u>	<u>525,751</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 6,070,062, 6,066,475 and 6,066,475	36,974	36,967	36,967
Retained earnings	27,483	26,342	25,171
Accumulated other comprehensive income (loss), net	<u>284</u>	<u>(1,789)</u>	<u>(1,939)</u>
Total shareholders' equity	<u>64,741</u>	<u>61,520</u>	<u>60,199</u>
Total liabilities and shareholders' equity	<u>\$ 635,622</u>	<u>\$ 622,104</u>	<u>\$ 585,950</u>

(1) Information derived from audited financial statements.

(2) ASU No. 2016-02 (Topic 842) was adopted January 1, 2019 using the modified retrospective approach at the beginning of the adoption period. This standard increases the transparency by recognizing the right-to-use lease asset for the lease term. As of June 30, 2019, the right-of-use asset was recorded for \$1,179,000 and a lease liability was recorded for \$1,187,000.

Financial Summary
(Dollars in thousands except per share data)

	At or for the Three Months Ended		At or for the Six Months Ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Statement of Income Data:				
Net interest income	\$ 5,499	\$ 5,240	\$ 11,046	\$ 10,554
Provision for loan losses	180	150	280	300
Non-interest income	340	542	833	1,304
Non-interest expense	3,995	3,557	8,207	7,098
Provision for income taxes	492	614	795	1,259
Net income	<u>\$ 1,172</u>	<u>\$ 1,461</u>	<u>\$ 2,597</u>	<u>\$ 3,201</u>
Selected per Common Share Data:				
Basic earnings per common share	\$ 0.19	\$ 0.24	\$ 0.43	\$ 0.53
Diluted earnings per common share	\$ 0.19	\$ 0.24	\$ 0.43	\$ 0.53
Dividend per share	\$ 0.12	\$ 0.12	\$ 0.24	\$ 0.24
Book value per common share (2)	\$ 10.67	\$ 9.92	\$ 10.67	\$ 9.92
Selected Balance Sheet Data:				
Assets	\$ 635,622	\$ 585,950	\$ 635,622	\$ 585,950
Loans, net	536,674	463,856	536,674	463,856
Deposits	532,257	517,318	532,257	517,318
Average assets	622,883	580,611	625,393	579,366
Average earning assets	606,280	568,851	609,179	568,100
Average shareholders' equity	63,855	59,866	63,126	59,814
Nonperforming loans	715	2,606	715	2,606
Total nonperforming assets	715	2,606	715	2,606
Troubled debt restructures (accruing)	2,449	1,591	2,449	1,591
Selected Ratios:				
Return on average assets (1)	0.75%	1.01%	0.84%	1.11%
Return on average common shareholders' equity (1)	7.36%	9.79%	8.30%	10.79%
Efficiency ratio (3)	68.34%	61.61%	69.05%	59.94%
Net interest margin (1)	3.64%	3.69%	3.66%	3.75%
Common equity tier 1 capital ratio	10.7%	11.3%	10.7%	11.3%
Tier 1 capital ratio	10.7%	11.3%	10.7%	11.3%
Total capital ratio	13.0%	12.5%	13.0%	12.5%
Tier 1 leverage ratio	9.5%	10.0%	9.5%	10.0%
Common dividend payout ratio (4)	62.12%	49.83%	56.06%	45.49%
Average shareholders' equity to average assets	10.25%	10.31%	10.09%	10.32%
Nonperforming loans to total loans	0.13%	0.55%	0.13%	0.55%
Nonperforming assets to total assets	0.11%	0.44%	0.11%	0.44%
Allowance for loan losses to total loans	1.17%	1.23%	1.17%	1.23%
Allowance for loan losses to nonperforming loans	885.39%	221.60%	885.39%	221.60%

(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 and loss

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