FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C. 20429
FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2017

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

FDIC Certificate No. 32203

Summit State Bank

(Exact Name of Registrant as Specified in its Charter)

California	94-2878925
State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification No.
500 Bicentennial Way, Santa Rosa, CA	95403
Address of Principal Executive Offices	Zip Code

707-568-6000
Registrant's Telephone Number, Including Area Code

N/A
Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☒
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No☒

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.
Yes ☐ No ☐

APPLICABLE ONLY TO CORPORATE ISSUERS

As of August 11, 2017 there were 6,027,100 shares of common stock outstanding.

Summit State Bank

TABLE OF CONTENTS

Part I Financial Information
Item 1 Financial Statements

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

	June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Cash and due from banks	$ 20,175	$ 24,231
Federal funds sold	1,720	2,000
Total cash and cash equivalents	21,895	26,231
Time deposits with banks	-	248
Investment securities:		
Held-to-maturity, at amortized cost	7,980	7,976
Available-for-sale (at fair value; amortized cost of $124,149 in 2017 and $109,297 in 2016)	124,774	107,771
Total investment securities	132,754	115,747
Loans, less allowance for loan losses of $4,702 in 2017 and $4,765 in 2016	366,259	354,638
Bank premises and equipment, net	5,411	5,413
Investment in Federal Home Loan Bank stock, at cost	3,085	3,085
Goodwill	4,119	4,119
Other Real Estate Owned	-	-
Accrued interest receivable and other assets	3,959	4,223
Total assets	$ 537,482	$ 513,704
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand - non interest-bearing	$ 110,509	$ 112,540
Demand - interest-bearing	62,539	62,006
Savings	26,848	26,584
Money market	53,829	53,866
Time deposits that meet or exceed the FDIC insurance limit	59,008	52,594
Other time deposits	95,298	76,661
Total deposits	408,031	384,251
Federal Home Loan Bank advances	67,000	68,900
Accrued interest payable and other liabilities	2,012	1,931
Total liabilities	477,043	455,082
Commitments and contingencies (Note 3)		
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 in 2017 and 6,019,850 in 2016	36,785	36,726
Retained earnings	23,292	22,781
Accumulated other comprehensive income (loss)	362	(885)
Total shareholders' equity	60,439	58,622
Total liabilities and shareholders' equity	$ 537,482	$ 513,704

The accompanying notes are an integral part of these unaudited consolidated financial statements.

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(In thousands except earnings per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2017 (unaudited)	June 30, 2016 (unaudited)	June 30, 2017 (unaudited)	June 30, 2016 (unaudited)
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	4,981	5,058	9,814	10,093
Interest expense:				
Deposits	358	206	614	445
FHLB advances	136	96	262	188
Total interest expense	494	302	876	633
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	4,487	4,756	8,938	9,460
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	315	884	645	1,339
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	3,220	3,505	6,500	6,405
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	$ 930	$ 1,254	$ 1,812	$ 2,582
Basic earnings per common share	$ 0.15	$ 0.21	$ 0.30	$ 0.43
Diluted earnings per common share	$ 0.15	$ 0.21	$ 0.30	$ 0.43
Basic weighted average shares of common stock outstanding	6,027	6,004	6,024	5,992
Diluted weighted average shares of common stock outstanding	6,059	6,046	6,056	6,033

The accompanying notes are an integral part of these unaudited consolidated financial statements.

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2017 (unaudited)	June 30, 2016 (unaudited)	June 30, 2017 (unaudited)	June 30, 2016 (unaudited)
Net income	$ 930	$ 1,254	$ 1,812	$ 2,582
Change in securities available-for-sale:				
Unrealized holding gains on available-for-sale securites arising during the period	1,566	720	2,164	1,867
Reclassification adjustment for (gains) realized in net income on available-for-sale securities	-	(555)	(13)	(688)
Net unrealized gains, before provision for income tax	1,566	165	2,151	1,179
Provision for income tax (expense)	(658)	27	(904)	(495)
Total other comprehensive income, net of tax	908	192	1,247	684
Comprehensive income	$ 1,838	$ 1,446	$ 3,059	$ 3,266

The accompanying notes are an integral part of these unaudited consolidated financial statements.

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Six Months Ended June 30, 2017 (Unaudited) and the Year Ended December 31, 2016
(In thousands except per share data)

	Preferred Stock	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2016	$ -	5,979	$ 36,704	$ 20,120	$ 501	$ 57,325
Net income				4,967		4,967
Other comprehensive loss					(1,386)	(1,386)
Stock-based compensation expense			21			21
Exercise of stock options		41	1			1
Cash dividends - $0.38 per share				(2,306)		(2,306)
Balance, December 31, 2016	-	6,020	36,726	22,781	(885)	58,622
Net income				1,812		1,812
Other comprehensive income					1,247	1,247
Exercise of stock options		7	59			59
Cash dividends - $0.216 per share				(1,301)		(1,301)
Balance, June 30, 2017	$ -	6,027	$ 36,785	$ 23,292	$ 362	$ 60,439

The accompanying notes are an integral part of these unaudited consolidated financial statements.

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
(In thousands)	2017 (unaudited)	2016 (unaudited)
Cash flows from operating activities:		
Net income	$ 1,812	$ 2,582
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	169	171
Securities amortization and accretion, net	245	307
Net change in deferred loan fees	(73)	69
Provision for loan losses	-	-
Net gain on other real estate owned	-	-
Net securities gains	(13)	(688)
Net change in accrued interest receivable and other assets	264	1,623
Net change in accrued interest payable and other liabilities	(823)	(1,430)
Stock-based compensation expense	-	18
Net cash from operating activities	1,581	2,652
Cash flows from investing activities:		
Net change in time deposits with banks	248	496
Purchases of held-to-maturity investment securities	-	(7,970)
Purchases of available-for-sale investment securities	(16,971)	(17,751)
Proceeds from sales of available-for-sale investment securities	-	-
Proceeds from calls of held-to-maturity investment securities	-	-
Proceeds from calls and maturities of available-for-sale investment securities	1,883	57,695
Purchase of Federal Home Loan Bank stock	-	(384)
Net change in loans	(11,548)	(24,882)
Purchases of bank premises and equipment, net	(167)	(213)
Proceeds on sale of other real estate owned	-	-
Net cash from (used in) investing activities	(26,555)	6,991

(Continued)

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Six Months Ended June 30, 2017 (unaudited)	Six Months Ended June 30, 2016 (unaudited)
Cash flows from financing activities:		
Net change in demand, savings and money market deposits	(1,271)	6,563
Net change in certificates of deposit	25,051	(8,059)
Net change in short term FHLB advances	(1,900)	(19,800)
Issuance of long term FHLB advances	-	30,000
Repayment of long term FHLB advances	-	(11,000)
Retirement of preferred stock	-	-
Dividends paid on common stock	(1,301)	(1,151)
Dividends paid on preferred stock	-	-
Proceeds from exercise of stock options	59	-
Net cash from (used in) financing activities	20,638	(3,447)
Net change in cash and cash equivalents	(4,336)	6,196
Cash and cash equivalents at beginning of year	26,231	17,583
Cash and cash equivalents at end of period	$ 21,895	$ 23,779
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 868	$ 593
Income taxes	$ 1,585	$ 2,400

The accompanying notes are an integral part of these unaudited consolidated financial statements.

SUMMIT STATE BANK AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

On January 15, 1999, Summit State Bank (the "Bank" or "the Bank") received authority to transact business as a California state-chartered commercial bank and is subject to regulation, supervision and examination by the State of California Department of Business Oversight and the Federal Deposit Insurance Corporation. The Bank was incorporated on December 20, 1982 under the name Summit Savings. The Bank provides a variety of banking services to individuals and businesses in its primary service area of Sonoma County, California. The Bank's branch locations include Santa Rosa, Petaluma, Rohnert Park and Healdsburg. The Bank offers depository and lending services primarily to meet the needs of its business, nonprofit organization and individual clientele. These services include a variety of transaction, money market, savings and time deposit account alternatives. The Bank's lending activities are directed primarily towards commercial real estate, construction and business loans. The Bank utilizes its wholly-owned subsidiary Alto Service Corporation for its deed of trust services.

The consolidated financial statements as of June 30, 2017 and for the three and six months ended June 30, 2017 and 2016 are unaudited. In the opinion of management, these unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring accruals necessary to present fairly the consolidated financial statements of the Bank.

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles for interim financial information and Article 8 of Regulation S-X of the Securities and Exchange Commission. Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. These unaudited consolidated financial statements do not include all disclosures associated with the Bank's consolidated annual financial statements and notes thereto and accordingly, should be read in conjunction with the consolidated financial statements and notes thereto included in the Bank's Annual Report for the year ended December 31, 2016 on Form 10-K on file with the FDIC (Form 10-K may be found at www.summitstatebank.com).

The accompanying accounting and reporting policies of the Bank and subsidiary conform to U.S. Generally Accepted Accounting Principles and prevailing practices within the banking industry.

Principles of Consolidation

The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiary, Alto Service Corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The allowance for loan losses, goodwill impairment, valuation of other real estate owned, and fair values of investment securities are particularly subject to change.

Stock Split

A five-for-four stock split was issued on March 14, 2017 and presentation of shares and per share amounts are restated in prior periods to reflect its effects as if the stock split had occurred as of the beginning of each period presented.

Earnings Per Common Share

Basic earnings per common share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as stock options, result in the issuance of common stock which share in the earnings of the Bank. Stock options for 18,000 shares of common stock for the three and six months ended June 30, 2017 were not considered in computing diluted earnings per share because they were anti-dilutive. Stock options for 40,000 shares of common stock for the three and six months ended June 30, 2016 were not considered in computing diluted earnings per share because they were anti-dilutive.

The factors used in the earnings per common share computation follow:

	Three Months Ended		Six Months Ended	
(in thousands except earnings per share)	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Basic				
Net income	$ 930	$ 1,254	$ 1,812	$ 2,582
Weighted average common shares outstanding	6,027	6,004	6,024	5,992
Basic earnings per common share	$ 0.15	$ 0.21	$ 0.30	$ 0.43
Diluted				
Net income	$ 930	$ 1,254	$ 1,812	$ 2,582
Weighted average common shares outstanding for basic earnings per common share	6,027	6,004	6,024	5,992
Add: Dilutive effects of assumed exercises of stock options	32	42	32	41
Average shares and dilutive potential common shares	6,059	6,046	6,056	6,033
Diluted earnings per common share	$ 0.15	$ 0.21	$ 0.30	$ 0.43

2. SHAREHOLDERS' EQUITY

Regulatory Capital

The Bank's actual and required capital amounts and ratios consisted of the following:

(in thousands)	June 30, 2017 Amount	June 30, 2017 Ratio
Common Equity Tier 1 Capital Ratio		
Summit State Bank	$ 55,958	13.2%
Minimum requirement for "Well-Capitalized" institution	$ 27,574	6.5%
Minimum regulatory requirement	$ 19,090	4.5%
Tier 1 Capital Ratio		
Summit State Bank	$ 55,958	13.2%
Minimum requirement for "Well-Capitalized" institution	$ 33,937	8.0%
Minimum regulatory requirement	$ 25,453	6.0%
Total Capital Ratio		
Summit State Bank	$ 60,794	14.3%
Minimum requirement for "Well-Capitalized" institution	$ 42,422	10.0%
Minimum regulatory requirement	$ 33,937	8.0%
Tier 1 Leverage Ratio		
Summit State Bank	$ 55,958	10.7%
Minimum requirement for "Well-Capitalized" institution	$ 26,195	5.0%
Minimum regulatory requirement	$ 20,956	4.0%

Stock-Based Compensation Plans

The shareholders approved the 2013 Equity Incentive Plan ("Plan") on July 29, 2013. The Plan allows for various equity-based incentives such as stock appreciation rights, restricted stock awards, stock grants and qualified performance-based awards. The Plan reserved 187,500 shares of common stock for issuance to Bank employees and directors. The Plan requires that the option exercise price may not be less than the fair value of the stock at the date the option is granted. Option awards have vesting periods of 5 years unless otherwise approved by the Board of Directors. The option expiration dates are determined by the Board of Directors, but may not be later than ten years from the date of grant. No options were granted during the three and six months ended June 30, 2017 and June 30, 2016. As of June 30, 2017, 187,500 shares remain available for future grants under the Plan. There were 50,000 options outstanding as of June 30, 2017, which includes options granted under prior stock option plans.

The Bank has granted Stock Appreciation Rights ("SARs") in 2016 to key employees. The SARs provide long-term incentives to the employees by providing a cash payment of the difference between the fair value of the Bank's common stock at time of exercise and the price at the grant date. The SARs expire ten years from the date of grant and each has an annual vesting of 20% for the first five years. The obligations associated with the SARs are accounted for as liabilities and are included in accrued interest payable and other liabilities on the consolidated balance sheets. The total compensation expense accrued for the three and six months ended June 30, 2017 related to the SARs totaled $4,000 and $7,000. As of June 30, 2017 there were SAR agreements based on 25,000 common shares.

3. COMMITMENTS AND CONTINGENCIES

The Bank is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the consolidated financial condition or results of operations of the Bank.

The Bank's business activity is primarily with clients located within Northern California. Although the Bank has a diversified loan portfolio, a significant portion of its clients' ability to repay loans is dependent upon the real estate market and various economic factors within Sonoma County. Generally, loans are secured by various forms of collateral. The Bank's loan policy requires sufficient collateral to be obtained as necessary to meet the Bank's relative risk criteria for each borrower. The Bank's collateral for the lending portfolio consists primarily of real estate, accounts receivable, inventory and other financial instruments. At June 30, 2017, loans with real estate collateral approximate $326,322,000 or 88% of the loan portfolio.

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its clients and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheets. The Bank's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and standby letters of credit as it does for loans included on the consolidated balance sheet.

Commitments to extend credit, which totaled $50,080,000 and $46,109,000 at June 30, 2017 and December 31, 2016, are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each client's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of the credit, is based on management's credit evaluation of the borrower. Collateral held relating to these commitments varies, but may include securities, equipment, accounts receivable, inventory and deeds of trust on residential real estate and owner-occupied or income-producing commercial properties.

Standby letters of credit, which totaled $1,964,000 at June 30, 2017 and December 31, 2016, are conditional commitments issued by the Bank to guarantee the performance of a client to a first party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to clients. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at June 30, 2017 and December 31, 2016. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

4. FAIR VALUE

Accounting standards establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of most securities available for sale are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The fair value of impaired loans that are collateral dependent are generally based on real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Bank's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

Because no active market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

The following methods and assumptions were used by the Bank to estimate the fair value of its financial instruments at June 30, 2017 and December 31, 2016:

Cash and cash equivalents: For cash and cash equivalents consisting of cash, due from banks and federal funds sold, the carrying amount is estimated to be fair value.

Time deposits with banks: Fair values for fixed-rate certificates of deposit with banks are estimated using a discounted cash flow analysis using interest rates being offered at each reporting date for certificates with similar maturities.

Investment securities: For investment securities, fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are estimated using quoted market prices for similar securities and indications of value provided by brokers. The carrying amount of accrued interest receivable approximates its fair value.

Loans, net of allowance: For variable-rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness (without considering widening credit spreads due to market illiquidity). The allowance for loan losses is considered to be a reasonable estimate of discount for credit risk. The carrying amount of accrued interest receivable approximates its fair value.

Federal Home Loan Bank stock: Federal Home Loan Bank Stock is subject to restrictions on its transferability. It is redeemable only by the Federal Home Loan Bank at par value of $100 per share.

Deposits: The fair values for demand deposits are, by definition, equal to the amount payable on demand at the reporting date represented by their carrying amount. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow analysis using interest rates being offered at each reporting date for certificates with similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

Short-term borrowings and long-term debt: The fair values of fixed rate borrowings are estimated using a discounted cash flow analysis that applies interest rates being offered on similar debt instruments. The fair values of variable rate borrowings are based on carrying value. The carrying amount of accrued interest payable approximates its fair value.

Commitments to fund loans/standby letters of credit: The fair values of commitments are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The differences between the carrying value of commitments to fund loans or standby letters of credit and their fair value are not significant and, therefore, are not included in the following table.

The following table presents a summary of the carrying value and fair value by level of financial instruments on the Bank's balance sheet at June 30, 2017 and December 31, 2016:

	June 30, 2017			December 31, 2016		
(in thousands)	Carrying Amount	Fair Value	Fair Value Hierarchy	Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets:						
Cash and due from banks	$ 20,175	$ 20,175	Level 1	$ 24,231	$ 24,231	Level 1
Federal funds sold	1,720	1,720	Level 1	2,000	2,000	Level 1
Time deposits with banks	-	-	Level 2	248	248	Level 2
Investment securities - held-to-maturity	7,980	7,893	Level 2	7,976	7,713	Level 2
Investment securities - available-for-sale	124,774	124,774	Level 2	107,771	107,771	Level 2
Loans, net of allowance	366,259	379,388	Level 3	354,638	357,511	Level 3
Investment in FHLB stock	3,085	3,085	Level 2	3,085	3,085	Level 2
Accrued interest receivable	1,960	1,960	Level 1	1,871	1,871	Level 1
Financial liabilities:						
Deposits	$ 408,031	$ 407,460	Level 2	$ 384,251	$ 383,964	Level 2
FHLB advances	67,000	67,006	Level 2	68,900	68,924	Level 2
Accrued interest payable	83	83	Level 1	74	74	Level 1

Assets Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements at June 30, 2017 (In thousands)		
	June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available-for-sale:				
U.S. Treasuries	$ 7,982	$ -	$ 7,982	$ -
Government agencies	72,042	-	72,042	-
Mortgage-backed securities - residential	8,913	-	8,913	-
Corporate debt	35,837	-	35,837	-
Total securities available-for-sale	$ 124,774	$ -	$ 124,774	$ -

		Fair Value Measurements at December 31, 2016 (In thousands)		
	December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available-for-sale:				
U.S. Treasuries	$ 7,990	$ -	$ 7,990	$ -
Government agencies	53,444	-	53,444	-
Mortgage-backed securities - residential	9,096	-	9,096	-
Corporate debt	37,241	-	37,241	-
Total securities available-for-sale	$ 107,771	$ -	$ 107,771	$ -

There were no transfers between Level 1 and Level 2 or Level 3 during the three and six months ended June 30, 2017 or the year ended December 31, 2016.

Assets Measured on a Non-Recurring Basis

There were no assets measured at fair value on a non-recurring basis at June 30,2017 and December 31, 2016.

Impaired collateral-dependent loans are valued at the fair value less estimated disposal costs of collateral. Impaired loans with specific loss allocations had a principal balance of $332,000 with a valuation allowance of $332,000 at June 30, 2017. Impaired loans with specific loss allocations had a principal balance of $337,000 with a valuation allowance of $337,000 at December 31, 2016.

5. INVESTMENT SECURITIES

The amortized costs and estimated fair value of investment securities are reflected in the tables below:

	June 30, 2017			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-maturity:				
Government agencies	$ 7,980	$ -	$ (87)	$ 7,893
Available-for-sale:				
U.S. Treasuries	$ 8,012	$ -	$ (30)	$ 7,982
Government agencies	72,420	713	(1,091)	72,042
Mortgage-backed securities - residential	8,883	48	(18)	8,913
Corporate debt	34,834	1,099	(96)	35,837
Total available-for-sale	124,149	1,860	(1,235)	124,774
Total investment securities	$ 132,129	$ 1,860	$ (1,322)	$ 132,667

	December 31, 2016			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-maturity:				
Government agencies	$ 7,976	$ -	$ (263)	$ 7,713
Available-for-sale:				
U.S. Treasuries	$ 8,018	$ 1	$ (29)	$ 7,990
Government agencies	55,438	262	(2,256)	53,444
Mortgage-backed securities - residential	9,184	12	(100)	9,096
Corporate debt	36,657	937	(353)	37,241
Total available-for-sale	109,297	1,212	(2,738)	107,771
Total investment securities	$ 117,273	$ 1,212	$ (3,001)	$ 115,484

The activity related to recorded gross gains and losses of investment securities is reflected in the table below:

	Three Months Ended		Six Months End	
(in thousands)	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Proceeds from sales	$ -	$ -	$ -	$ -
Proceeds from calls	-	21,600	492	25,924
Gross realized gains on sales and calls	-	555	14	688
Gross realized losses on sales and calls	-	-	(1)	-

There was one investment security in a continuous unrealized loss position greater than 12 months at June 30, 2017. At June 30, 2017, the Bank held 47 investment securities which were in an unrealized loss position for less than twelve months. The interest rate volatility during the year resulted in many investment securities ending the period in an unrealized loss position. Management periodically evaluates each investment security for other-than-temporary impairment (OTTI), relying primarily on industry analyst reports and observation of market conditions and interest rate fluctuations. All of the impairment appearing in the investment securities portfolio valuations is considered to be temporary. The measured impairment in the securities values is primarily attributable to changes in short term interest rates, market shifts of the Treasury yield curve and other variable market and economic conditions. The measured impairment in securities values did not result from any significant or persistent deterioration in the underlying credit quality of any of the investments. The securities portfolio consists primarily of debt securities with non-contingent contractual cash flows. Full realization of the principal balance is expected upon final maturity. Management has the intent and ability to hold the securities until recovery of the carrying value, which could be at the final maturity. There was no OTTI recorded in 2017 or 2016.

Investment securities with unrealized losses are summarized and classified according to the duration of the loss period as follows:

	June 30, 2017					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
Held-to-maturity:						
Government agencies	$ 7,893	$ (87)	$ -	$ -	$ 7,893	$ (87)
Available-for-sale:						
U.S. Treasuries	$ 7,983	$ (30)	$ -	$ -	$ 7,983	$ (30)
Government agencies	43,138	(1,091)	-	-	43,138	(1,091)
Mortgage-backed securities - residential	2,496	(18)	-	-	2,496	(18)
Corporate debt	6,248	(95)	254	(1)	6,502	(96)
Total available-for-sale	59,865	(1,234)	254	(1)	60,119	(1,235)
Total investment securities	$ 67,758	$ (1,321)	$ 254	$ (1)	$ 68,012	$ (1,322)

	December 31, 2016					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
Held-to-maturity:						
Government agencies	$ 7,713	$ (263)	$ -	$ -	$ 7,713	$ (263)
Available-for-sale:						
U.S. Treasuries	$ 5,990	$ (29)	$ -	$ -	$ 5,990	$ (29)
Government agencies	48,172	(2,256)	-	-	48,172	(2,256)
Mortgage-backed securities - residential	6,199	(100)	-	-	6,199	(100)
Corporate debt	11,543	(353)	-	-	11,543	(353)
Total available-for-sale	71,904	(2,738)	-	-	71,904	(2,738)
Total investment securities	$ 79,617	$ (3,001)	$ -	$ -	$ 79,617	$ (3,001)

The amortized cost and estimated fair value of investment securities by contractual maturity at June 30, 2017 are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held to Maturity		Available-for-Sale	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$ -	$ -	$ 9,049	$ 9,074
After one year through five years	-	-	42,649	43,512
After five years through ten years	-	-	53,578	53,779
After ten years	7,980	7,893	9,990	9,496
	7,980	7,893	115,266	115,861
Investment securities not due at a single maturity date:				
Mortgage-backed securities - residential	-	-	8,883	8,913
	$ 7,980	$ 7,893	$ 124,149	$ 124,774

6. LOANS

Outstanding loans are summarized as follows:

(in thousands)	June 30, 2017	December 31, 2016
Commercial & agricultural	$ 82,029	$ 81,519
Real estate - commercial	197,658	190,976
Real estate - construction and land	13,739	7,897
Real estate - single family	47,036	51,044
Real estate - multifamily	29,991	27,533
Consumer & lease financing	508	434
	370,961	359,403
Allowance for loan losses	(4,702)	(4,765)
	$ 366,259	$ 354,638

Changes in the allocation of allowance for loan losses by loan class for the three and six months ended June 30, 2017 and 2016 are as follows:

(in thousands)	Three Months Ended June 30, 2017				
	Balance at March 31, 2017	Provision (reversal)	Charge-offs	Recoveries	Balance at June 30, 2017
Commercial & agricultural	$ 973	$ (16)	$ (79)	$ 1	$ 879
Real estate - commercial	1,761	37	-	-	1,798
Real estate - construction and land	278	160	-	-	438
Real estate - single family	474	42	-	4	520
Real estate - multifamily	319	7	-	-	326
Consumer & lease financing	18	-	-	2	20
Unallocated	951	(230)	-	-	721
Total	$ 4,774	$ -	$ (79)	$ 7	$ 4,702

(in thousands)	Three Months Ended June 30, 2016				
	Balance at March 31, 2016	Provision (reversal)	Charge-offs	Recoveries	Balance at June 30, 2016
Commercial & agricultural	$ 1,069	$ 937	$ (50)	$ 76	$ 2,032
Real estate - commercial	1,327	32	(20)	-	1,339
Real estate - construction and land	60	2	-	-	62
Real estate - single family	235	(3)	-	1	233
Real estate - multifamily	87	50	-	-	137
Consumer & lease financing	5	(2)	-	2	5
Unallocated	1,952	(1,016)	-	-	936
Total	$ 4,735	$ -	$ (70)	$ 79	$ 4,744

(in thousands)	Six Months Ended June 30, 2017				
	Balance at December 31, 2016	Provision (reversal)	Charge-offs	Recoveries	Balance at June 30, 2017
Commercial & agricultural	$ 744	$ 212	$ (79)	$ 2	$ 879
Real estate - commercial	1,764	34	-	-	1,798
Real estate - construction and land	266	172	-	-	438
Real estate - single family	577	(65)	-	8	520
Real estate - multifamily	330	(4)	-	-	326
Consumer & lease financing	19	(5)	-	6	20
Unallocated	1,065	(344)	-	-	721
Total	$ 4,765	$ -	$ (79)	$ 16	$ 4,702

(in thousands)	Six Months Ended June 30, 2016				
	Balance at December 31, 2015	Provision (reversal)	Charge-offs	Recoveries	Balance at September 30, 2015
Commercial & agricultural	$ 1,008	$ 998	$ (50)	$ 76	$ 2,032
Real estate - commercial	940	419	(20)	-	1,339
Real estate - construction and land	57	5	-	-	62
Real estate - single family	237	(7)	-	3	233
Real estate - multifamily	43	94	-	-	137
Consumer & lease financing	6	(5)	-	4	5
Unallocated	2,440	(1,504)	-	-	936
Total	$ 4,731	$ -	$ (70)	$ 83	$ 4,744

The following table presents the balance in the allowance for loan losses and loan balances by class and based on impairment method as of June 30, 2017 and December 31, 2016:

(in thousands)	June 30, 2017					
	Allowance for Loan Losses			Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Ending Allowance Balance	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total Ending Loans Balance
Commercial & agricultural	$ 332	547	$ 879	$ 754	$ 81,275	$ 82,029
Real estate - commercial	-	1,798	1,798	2,917	194,741	197,658
Real estate - construction and land	-	438	438	-	13,739	13,739
Real estate - single family	-	520	520	1,254	45,782	47,036
Real estate - multifamily	-	326	326	-	29,991	29,991
Consumer & lease financing	-	20	20	-	508	508
Unallocated	-	721	721	-	-	-
Total	$ 332	$ 4,370	$ 4,702	$ 4,925	$ 366,036	$ 370,961

(in thousands)	December 31, 2016					
	Allowance for Loan Losses			Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Ending Allowance Balance	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total Ending Loans Balance
Commercial & agricultural	$ 337	$ 407	$ 744	$ 1,646	$ 79,873	$ 81,519
Real estate - commercial	-	1,764	1,764	3,450	187,526	190,976
Real estate - construction and land	-	266	266	-	7,897	7,897
Real estate - single family	-	577	577	1,791	49,253	51,044
Real estate - multifamily	-	330	330	149	27,384	27,533
Consumer & lease financing	-	19	19	-	434	434
Unallocated	-	1,065	1,065	-	-	-
Total	$ 337	$ 4,428	$ 4,765	$ 7,036	$ 352,367	$ 359,403

The unallocated allowance represents temporary changes in allocations resulting from changes in loan volumes, types and quality, as well as other factors. Management assesses the unallocated amount to determine if the amount is due to other than temporary changes in these factors. The unallocated allowance relates to the trend in impaired and classified loans and additional allowance that may be attributed to recoveries of previously charged-off loans.

The recorded investment in the aforementioned disclosure and the next several disclosures do not include accrued interest receivable and net deferred fees because such amounts are not considered material. Accrued interest receivable for the total loan portfolio was $1,097,000 and $1,078,000 and net deferred loan (costs) fees was $(265,000) and $(192,000) as of June 30, 2017 and December 31, 2016.

The following table presents impaired loans individually evaluated for impairment by class of loans:

(in thousands)	Commercial & agricultural	Real estate - commercial	Real estate - construction and land	Real estate - single family	Real estate - multifamily	Consumer & lease financing	Total
June 30, 2017							
Recorded investment in impaired loans:							
With no related allowance recorded	$ 659	$ 3,350	$ -	$ 1,684	$ 139	$ -	$ 5,832
With an allowance recorded	332	-	-	-	-	-	332
Total recorded investment in impaired loans	$ 991	$ 3,350	$ -	$ 1,684	$ 139	$ -	$ 6,164
Unpaid principal balance of impaired loans:							
With no related allowance recorded	$ 772	$ 4,537	$ -	$ 1,739	$ 187	$ -	$ 7,235
With an allowance recorded	332	-	-	-	-	-	332
Total unpaid principal balance of impaired loans	$ 1,104	$ 4,537	$ -	$ 1,739	$ 187	$ -	$ 7,567
Allowance for loan losses allocation	$ 332	$ -	$ -	$ -	$ -	$ -	$ 332
Average recorded investment in impaired loans during the quarter ended June 30, 2017	1,608	3,362	-	1,672	141	-	6,783
Interest income recognized on impaired loans during the quarter ended June 30, 2017	73	43	-	13	-	-	129
Average recorded investment in impaired loans during the six months ended June 30, 2017	1,619	3,391	-	1,713	144	-	6,867
Interest income recognized on impaired loans during the six months ended June 30, 2017	86	86	-	35	-	-	207
December 31, 2016							
Recorded investment in impaired loans:							
With no related allowance recorded	$ 1,309	$ 3,450	$ -	$ 1,791	$ 149	$ -	$ 6,699
With an allowance recorded	337	-	-	-	-	-	337
Total recorded investment in impaired loans	$ 1,646	$ 3,450	$ -	$ 1,791	$ 149	$ -	$ 7,036
Unpaid principal balance of impaired loans:							
With no related allowance recorded	$ 1,337	$ 3,450	$ -	$ 1,791	$ 149	$ -	$ 6,727
With an allowance recorded	337	-	-	-	-	-	337
Total unpaid principal balance of impaired loans	$ 1,674	$ 3,450	$ -	$ 1,791	$ 149	$ -	$ 7,064
Allowance for loan losses allocation	$ 337	$ -	$ -	$ -	$ -	$ -	$ 337
June 30, 2016							
Allowance for loan losses allocation	$ 1,116	$ -	$ -	$ -	$ -	$ -	$ 1,116
Average recorded investment in impaired loans during the quarter ended June 30, 2016	1,791	2,874	-	1,415	163	-	6,243
Interest income recognized on impaired loans during the quarter ended June 30, 2016	11	44	-	13	-	-	68
Average recorded investment in impaired loans during the six months ended June 30, 2016	1,617	2,799	-	1,417	165	-	5,998
Interest income recognized on impaired loans during the six months ended June 30, 2016	22	89	-	26	-	-	137

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still accruing by class of loans as of June 30, 2017 and December 31, 2016:

(in thousands)	June 30, 2017 Nonaccrual	June 30, 2017 Loans Past Due Over 90 Days Still Accruing	December 31, 2016 Nonaccrual	December 31, 2016 Loans Past Due Over 90 Days Still Accruing
Commercial & agricultural	$ 236	$ -	$ 826	$ -
Real estate - commercial	1,384	-	1,419	-
Real estate - construction and land	-	-	-	-
Real estate - single family	857	-	957	-
Real estate - multifamily	139	-	149	-
Consumer & lease financing	-	-	-	-
Total	$ 2,616	$ -	$ 3,351	$ -

The following table presents the aging of the recorded investment in past due loans, inclusive of nonaccrual loans, as of June 30, 2017 by class of loans:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial & agricultural	$ 300	$ -	$ -	$ 300	$ 81,729	$ 82,029
Real estate - commercial	-	6,015	1,152	7,167	190,491	197,658
Real estate - construction and land	-	-	-	-	13,739	13,739
Real estate - single family	-	-	609	609	46,427	47,036
Real estate - multifamily	-	-	-	-	29,991	29,991
Consumer & lease financing	-	-	-	-	508	508
Total	$ 300	$ 6,015	$ 1,761	$ 8,076	$ 362,885	$ 370,961

The following table presents the aging of the recorded investment in past due loans, inclusive of nonaccrual loans, as of December 31, 2016 by class of loans:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial & agricultural	$ 169	$ -	$ 612	$ 781	$ 80,738	$ 81,519
Real estate - commercial	-	-	208	208	190,768	190,976
Real estate - construction and land	-	-	-	-	7,897	7,897
Real estate - single family	50	-	421	471	50,573	51,044
Real estate - multifamily	-	-	-	-	27,533	27,533
Consumer & lease financing	-	-	-	-	434	434
Total	$ 219	$ -	$ 1,241	$ 1,460	$ 357,943	$ 359,403

A loan is considered past due if a scheduled payment of interest or principal that is due is unpaid for 30 days or more.

Troubled Debt Restructurings

From time to time, the Bank may agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). At June 30, 2017 and December 31, 2016, loans modified in a TDR totaled $3,812,000 and $3,670,000 which are included in the impaired loan disclosures above. The total TDRs includes $596,000 and $322,000 that are also included in nonperforming loans at June 30, 2017 and December 31, 2016. TDRs had specific loss allocations of $0 as of June 30, 2017, December 31, 2016 and June 30, 2016.

During the three and six months ended June 30, 2017, there was one real estate – single family residence loan modified as a troubled debt restructuring. The pre-modification and post-modification balance of the restructured loan was $234,000. The loan was modified to term it out over 60 months. There were no loans modified as troubled debt restructurings during the three and six months ended June 30, 2016.

There were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the three and six months ended June 30, 2017 and 2016. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank's internal underwriting policy.

Credit Quality Indicators

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis for loans in excess of $250,000. Smaller balances are graded at origination and updated based on payment status and other information obtained from borrowers. The Bank uses the following definitions for risk ratings:

PASS - Loans not meeting any of the three criteria below that are analyzed individually as part of the above described process are considered to be pass rated loans.

SPECIAL MENTION - Loans in this category are considered "criticized" from a regulatory point of view but are not considered "classified" until the risk classification becomes substandard or worse. Loans in this category represent above average risk and potential weakness which may, if not corrected, weaken the loan and threaten repayment at some future date.

SUBSTANDARD - Loans in this category have well defined weakness that jeopardize full repayment of the debt, although loss may not seem likely. Loss potential does not have to exist in individual loans in the Substandard classification, but will be apparent in the aggregate. Typically, these loans have not met repayment plans as agreed. The primary source of repayment may have failed to materialize; repayment may be dependent on collateral liquidation or other secondary sources. Bankrupt borrowers and those with continuously past due payments are considered substandard.

DOUBTFUL - Loans in this category have all the characteristics of substandard loans with the added weakness that payment in full or liquidation in full is highly questionable and improbable**.** The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the strengthening of the loan, its classification as an estimated loss is deferred until the amount of the loss may be more accurately determined.

Based on recent analysis performed, the risk category of loans by class of loans as of June 30, 2017 is as follows:

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial & agricultural	$ 71,763	$ 670	$ 9,596	$ -	$ 82,029
Real estate - commercial	186,795	3,256	7,607	-	197,658
Real estate - construction and land	13,739	-	-	-	13,739
Real estate - single family	45,979	-	1,057	-	47,036
Real estate - multifamily	29,242	-	749	-	29,991
Consumer & lease financing	508	-	-	-	508
Total	$ 348,026	$ 3,926	$ 19,009	$ -	$ 370,961

Based on recent analysis performed, the risk category of loans by class of loans as of December 31, 2016 is as follows:

(in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial & agricultural	$ 69,652	$ 501	$ 11,366	$ -	$ 81,519
Real estate - commercial	179,540	3,299	8,137	-	190,976
Real estate - construction and land	7,897	-	-	-	7,897
Real estate - single family	49,726	-	1,318	-	51,044
Real estate - multifamily	26,765	-	768	-	27,533
Consumer & lease financing	434	-	-	-	434
Total	$ 334,014	$ 3,800	$ 21,589	$ -	$ 359,403

7. FHLB ADVANCES

The Bank adjusts its level of FHLB advances to manage balance sheet liquidity. Below are the advances outstanding at June 30, 2017.

Maturity	Amount (in thousands)	Rate
7/3/2017	22,000	1.09%
8/15/2017	10,000	1.18%
9/15/2017	20,000	1.19%
2/1/2018	15,000	1.00%
	$ 67,000	

8. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

All changes in accumulated other comprehensive income are due to unrealized gains and losses on available-for-sale securities.

The following table presents activity in accumulated other comprehensive income (loss) for the three and six months ended June 30, 2017:

(in thousands)		
Accumulated other comprehensive loss as of December 31, 2016	$	(885)
Comprehensive income three months ended March 31, 2017		339
Comprehensive income three months ended June 30, 2017		908
Comprehensive income six months ended June 30, 2017		1,247
Accumulated other comprehensive income as of June 30, 2017	$	362

The following table presents activity in accumulated other comprehensive income (loss) for the three and six months ended June 30, 2016:

(in thousands)		
Accumulated other comprehensive income as of December 31, 2015	$	501
Comprehensive income three months ended March 31, 2016		492
Comprehensive income three months ended June 30, 2016		192
Comprehensive income six months ended June 30, 2016		684
Accumulated other comprehensive income as of June 30, 2016	$	1,185

9. OTHER EXPENSES

Other expenses consisted of the following:

	Three Months Ended		Six Months Ended	
(in thouands)	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Data processing	$ 301	$ 318	$ 595	$ 604
Professional fees	152	167	302	294
Director fees and expenses	112	133	239	255
Nasdaq listing and regulatory license expense	44	34	73	63
Advertising and promotion	188	281	406	508
Deposit and other insurance premiums	109	105	226	201
Telephone and postage	23	15	38	31
Other real estate owned expenses	-	-	-	-
Other expenses	182	152	415	295
	$ 1,111	$ 1,205	$ 2,294	$ 2,251

10. SUBSEQUENT EVENT

Dividend

On July 24, 2017, the Board of Directors declared a $0.12 per common share cash dividend to shareholders of record at the close of business on August 17, 2017, to be paid on August 25, 2017.

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion provides additional information about the financial condition of the Bank at June 30, 2017 and December 31, 2016, and results of operations for the three and six months ended June 30, 2017 and 2016. The following analysis should be read in conjunction with the consolidated financial statements of the Bank and the notes thereto appearing elsewhere in the report, which were prepared in accordance with U.S. Generally Accepted Accounting Principles. The interim financial information provided as of and for the three and six months ended June 30, 2017 and 2016 are unaudited. In the opinion of management of the Bank, the interim financial information presented reflects all adjustments (consisting solely of normal recurring accruals) considered necessary for a fair representation of the results of such periods.

All references to yields, cost of liabilities and net interest margin are annualized for the periods discussed.

Forward Looking Statements. This discussion includes 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, that are based on the current beliefs of the Bank management as well as assumptions made by and information currently available to the Bank's management. When used in this discussion, the words "anticipate," "believe," "estimate," "expect," "should," "intend," "project," "may," "will," "would," variations of such words and words or phrases of similar meaning constitute forward-looking statements. Although the Bank believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct.

These forward-looking statements relate to, among other things, expectations regarding the business environment in which the Bank operates, projections of future performance, potential future performance, potential future credit experience, perceived opportunities in the market, and statements regarding the Bank's mission and vision. Factors which may cause actual results to vary from forward-looking statements include, but are not limited to, changes in interest rates, general economic and business conditions, changes in business strategy or development plans, changes in credit quality, the availability of capital to fund the expansion of our business, legislative and regulatory changes, government monetary and fiscal policies, real estate valuations, competition in the financial services industry, demographic changes, civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type, outbreak or escalation of hostilities in which the United States is involved, any declaration of war by the U.S. Congress or any other national or international calamity, crisis or emergency, and other risks referenced in this discussion.

This discussion contains certain forward-looking information about us. All statements other than statements of historical fact are forward-looking statements. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond our control. We caution readers that a number of important factors could cause actual results to differ materially from those expressed in, implied or projected by, such forward-looking statements. Risks and uncertainties include, but are not limited to:

- lower revenues than expected;
- credit quality deterioration which could cause an increase in the provision for credit losses;
- competitive pressure among depository institutions increases significantly;
- the cost of additional capital is more than expected;
- a change in the interest rate environment reduces interest margins;
- asset/liability repricing risks and liquidity risks;
- legislative or regulatory requirements or changes adversely affecting our business;
- changes in the securities markets;
- general economic conditions, either nationally or in the market areas in which we do or anticipate doing business, are less favorable than expected;
- potential weakness of real estate collateral values;

- the economic and regulatory effects of the continuing war on terrorism and other events of war, including the wars in Iraq and Afghanistan;
- our ability to complete any future acquisitions, to successfully integrate acquired entities, or to achieve expected synergies and operating efficiencies within expected time-frames or at all;
- the integration of any future acquired businesses costs more, takes longer or is less successful than expected; and
- regulatory approvals for announced or future acquisitions cannot be obtained on the terms expected or on the anticipated schedule.

Also, other important factors that could cause actual results to differ materially from the Bank's expectations are disclosed under Item 1A. "RISK FACTORS," in our Annual Report on Form 10-K on file with the Federal Deposit Insurance Corporation ("FDIC") and below under this "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – *Critical Accounting Policies*" and elsewhere in this report.

If any of these risks or uncertainties materializes, or if any of the assumptions underlying such forward-looking statements proves to be incorrect, our results could differ materially from those expressed in, implied or projected by, such forward-looking statements. We assume no obligation to update such forward-looking statements.

We caution that these statements are further qualified by important factors, in addition to those under "Risk Factors" in our Annual Report on Form 10-K and elsewhere in this report, which could cause actual results to differ significantly from those in the forward-looking statements, including, among other things, economic conditions and other risks.

Forward-looking statements are not guarantees of performance. By their nature, they involve risks, uncertainties and assumptions. Our future results and shareholder values may differ significantly from those expressed in these forward-looking statements. You are cautioned not to put undue reliance on any forward-looking statement. Any such statement speaks only as of the date of this discussion, regardless of the time of delivery of this document. We do not undertake any obligation to update or release any revisions to any forward-looking statements, to report any new information, future event or other circumstances after the date of this filing or to reflect the occurrence of unanticipated events, except as required by law. However, your attention is directed to any further disclosures made on related subjects in any subsequent reports we may file with the FDIC, including on Forms 10-K, 10-Q and 8-K.

Government and Regulatory Oversight. The Bank is subject to regulatory oversight by the Department of Business Oversight (DBO) from the state of California and the Federal Deposit Insurance Corporation (FDIC). These regulatory bodies periodically perform financial examinations of the Bank. There is a potential that an examination may derive different estimates than those reached by management and could require material adjustments or restatements.

Critical Accounting Policies. The discussion and analysis of the Bank's consolidated results of operations and financial condition are based upon consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires the Bank's management to make estimates and judgments that affect the reported amounts of assets and liabilities, income and expense, and the related disclosures of contingent assets and liabilities at the date of these financial statements.

The Bank believes these estimates and assumptions to be reasonably accurate; however, actual results may differ from these estimates under different assumptions or circumstances. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, consideration of goodwill impairment, valuation of other real estate owned, and consideration of potential other than temporary impairment on investment securities.

Allowance for Loan Losses. The allowance for loan losses is determined first and foremost by promptly identifying potential credit weaknesses that could jeopardize repayment. The Bank's process for evaluating the adequacy of the allowance for loan losses includes determining estimated loss percentages for each credit based on the Bank's historical loss experience and other factors in the Bank's credit grading system and accompanying risk analysis for determining an adequate level of the allowance. The risks are assessed by rating each account based upon paying habits, loan to collateral value ratio, financial condition and level of classifications. The allowance for loan losses was $4,702,000 at June 30, 2017 compared to $4,765,000 at December 31, 2016.

The Bank maintains the allowance for loan losses to provide for probable incurred losses in the loan portfolio. Additions to the allowance for loan losses are established through a provision charged to expense. All loans which are judged to be uncollectible are charged against the allowance while any recoveries are credited to the allowance. The Bank's policy is to charge off any known losses at the time of determination. Any unsecured loan more than 90 days delinquent in payment of principal or interest and not in the process of collection is charged off in total. Secured loans are evaluated on a case by case basis to determine the ultimate loss potential to the Bank subsequent to the liquidation of collateral. In those cases where management believes the Bank is inadequately protected, a charge-off will generally be made to reduce the loan balance to a level equal to the liquidation value of the collateral unless management believes the collateral deficiency may be overcome by borrower cash flows.

The Bank's loan policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, to enable the Bank to assess such credit risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for loan losses. The Bank conducts an assessment of the allowance on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors will examine and formally approve the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and any recent regulatory examination, estimated potential loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and nonaccrual loans, trends in loan volume, effects of any changes in lending policies and procedures, changes in lending personnel, current economic conditions at the local, state and national level and historical losses and recoveries.

Goodwill. Management assesses the carrying value of the Bank's goodwill at least annually in order to determine if this intangible asset is impaired. In reviewing the carrying value of the Bank's goodwill, management assesses the recoverability of such assets by evaluating the fair value of the related business unit. If the carrying amount of goodwill exceeds its fair value, an impairment loss is recognized for the amount of the excess and the carrying value of goodwill is reduced accordingly. Any impairment would be required to be recorded during the period identified.

Accounting standards require an annual evaluation of goodwill for impairment using various estimates and assumptions. The fair value of the Bank's common stock at the close of business on June 30, 2017 was $13.00 per common share compared to a book value of $10.03 per common share.

Investment Securities. Management assesses at each reporting date whether there is an "other-than-temporary" impairment to the Bank's investment securities. Such impairment, if related to credit losses, must be recognized in current earnings rather than in other comprehensive income or loss, net of tax. All individual securities that are in an unrealized loss position at each reporting date are examined for other-than-temporary impairment (OTTI). Specific investment level factors examined to assess impairment include the severity and duration of the unrealized loss, the nature, financial condition and results of operations of the issuers of the securities and whether there has been any cause for default on the securities or any adverse change in the rating of the securities by the various rating agencies, as well as whether the decline in value is credit or liquidity related. Additionally, the Bank's financial resources and overall intent and ability to hold the securities until their fair values recover is determined. There was no OTTI recorded in 2017 or 2016. Investment securities are discussed in more detail under "Investment Portfolio."

Application of New Accounting Guidance. In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The new guidance is intended to improve the recognition and measurement of financial instruments. This ASU requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. In addition, the amendment requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes and requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. This ASU also eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. The amendment also requires a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. ASU No. 2017-01 is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted for certain provisions. The Bank is currently evaluating the impact of this ASU on the Bank's consolidated financial statements.

In February of 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, *Leases (Topic 842)*. This Update was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. All leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, Elements of Financial Statements, and, therefore, recognition of those lease assets and lease liabilities represents an improvement over previous GAAP, which did not require lease assets and lease liabilities to be recognized for most leases. For public companies, the amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Lease commitments will be reflected on the balance sheet as lease assets and lease liabilities. We are currently evaluating the provisions of this ASU to determine the potential impact the new standard will have on our consolidated financial statements. Bank regulatory agencies have not determined how this ASU will impact the computation of regulatory capital ratios.

In May 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-08, *Revenue from Contracts with Customers (Topic 606)*, superseding most industry-specific revenue recognition guidance in the FASB Accounting Standards Codification. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance identifies specific steps that entities should apply in order to achieve this principle. The ASU is effective for interim and annual periods beginning December 15, 2017 and must be applied retrospectively. The Bank is in the process of evaluating the impact of the ASU's adoption on the Bank's consolidated financial statements.

As of April 1, 2016, the Bank adopted the Financial Accounting Standards Board's (FASB) Accounting Standard Update ("ASU") No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.* ASU 2016-09 seeks to simplify several aspects of the accounting for employee share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. As required by ASU 2016-09, all adjustments are reflected as of the beginning of the fiscal year, January 1, 2016. By applying this ASU, the Bank no longer adjusts common stock for the tax impact of shares released, instead the tax impact is recognized as tax expense in the period the shares are released. This simplifies the tracking of the excess tax benefits and deficiencies, but could cause volatility in tax expense for the periods presented. The statement of cash flows has been adjusted to reflect the provisions of this ASU. The application of this ASU did not have a material impact on the consolidated financial statements.

In June of 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments are intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users to better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, the ASU amends the accounting guidance for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application will be permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We are currently evaluating the provisions of the ASU to determine the potential impact the new standard will have on our consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This ASU provides guidance on how to present and classify eight specific cash flow issues in the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The amendments should be applied using a retrospective transition method to each period presented, if practical. We do not expect this ASU to have a material impact on our financial condition or results of operations.

In March 2017, the FASB issued ASU No. 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities.* Under current GAAP, entities normally amortize the premium as an adjustment of yield over the contractual life of the instrument. This guidance shortens the amortization period for certain callable debt securities held at a premium to the earliest call date. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of ASU No. 2017-08 is not expected to have a material impact on the Bank's consolidated 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 (Unaudited)	June 30, 2016 (Unaudited)	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)
Statement of Income Data:				
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	$ 930	$ 1,254	$ 1,812	$ 2,582
Selected per Common Share Data:				
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
Selected Balance Sheet Data:				
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
Selected Ratios:				
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.

Results of Operations

Three and six months ended June 30, 2017 and June 30, 2016

The Bank's primary source of income is net interest income, which is the difference between interest income and fees derived from earning assets and interest paid on liabilities which fund those assets. Net interest income, expressed as a percentage of total average interest earning assets, is referred to as the net interest margin. The Bank's net interest income is affected by changes in the volume and mix of interest earning assets and interest bearing liabilities. It is also affected by changes in yields earned on interest earning assets and rates paid on interest bearing deposits and other borrowed funds. The Bank also generates non-interest income, including transactional fees, service charges, office lease income and gains and losses on investment securities. Non-interest expenses consist primarily of employee compensation and benefits, occupancy and equipment expenses and other operating expenses. The Bank's results of operations are also affected by its provision for loan losses. Results of operations may also be significantly affected by other factors including general economic and competitive conditions, mergers and acquisitions of other financial institutions within the Bank's market area, changes in market interest rates, government policies, and actions of regulatory agencies.

Net Income

A summary of the net income and annualized ratios are as follows:

	Three Months Ended			Six Months Ended		
(in thousands)	June 30, 2017	June 30, 2016	Change	June 30, 2017	June 30, 2016	Change
Net income	$ 930	$ 1,254	$ (324)	$ 1,812	$ 2,582	$ (770)
Earnings per diluted share	$ 0.15	$ 0.21	$ (0.06)	$ 0.30	$ 0.43	$ (0.13)
Annualized return on average assets	0.71%	0.98%	(0.27)%	0.70%	1.00%	(0.30)%
Annualized return on average common equity	6.23%	8.54%	(2.31)%	6.15%	8.84%	(2.69)%

Net Interest Income and Net Interest Margin

Net interest income decreased $269,000 or 5.7% to $4,487,000 for the second quarter of 2017 compared to $4,756,000 for the same quarter of 2016. The annualized net interest margin was 3.48% for the second quarter of 2017, compared to 3.78% for the second quarter of 2016.

Average earning assets increased 2.1% to $516,746,000 for the second quarter of 2017, as compared to $506,220,000 for the same quarter of 2016. The annualized yield on average earning assets was 3.87% and the annualized cost of average interest-bearing liabilities was 0.55% for the second quarter of 2017, as compared to the annualized yield on average earning assets of 4.02% and annualized cost of interest-bearing liabilities of 0.35% for the same quarter of 2016.

Net interest income decreased $522,000 or 5.5% to $8,938,000 for the six months ended June 30, 2017 compared to $9,460,000 for the same period of 2016. The annualized net interest margin was 3.54% for the six months ended June 30, 2017, compared to 3.73% for the same period of 2016.

Average earning assets was relatively unchanged for the six-month period with $509,374,000 for the six months ended June 30, 2017, as compared to $509,934,000 for the same period of 2016. The annualized yield on average earning assets was 3.89% and the annualized cost of average interest-bearing liabilities was 0.50% for the six months ended June 30, 2017, as compared to the annualized yield on average earning assets of 3.98% and annualized cost of interest-bearing liabilities of 0.36% for the same period of 2016.

The decline in net interest income was primarily attributable to the lower volume of average earning assets for the second quarter. The decline in net interest margin was primarily attributable to the general increase in short-term market interest rates that has increased the Bank's cost of interest-bearing liabilities.

The following table presents condensed average balance sheet information for the Bank, together with interest rates earned and paid on the various sources and uses of its funds for each of the periods presented. Average balances are based on daily average balances. Nonaccrual loans are included in loans with any interest collected reflected on a cash basis.

(Dollars in thousands)	Three Months Ended June 30, 2017 Average Balance	Interest Income/ Expense	Average Rate (4)	Three Months Ended June 30, 2016 Average Balance	Interest Income/ Expense	Average Rate (4)
Assets						
Interest earning assets:						
Interest-bearing deposits in banks	$ 18,180	$ 40	0.90%	$ 18,014	$ 17	0.39%
Federal funds sold	1,868	4	0.85%	1,815	2	0.37%
Time deposits with banks	226	1	1.98%	706	3	1.56%
Taxable investment securities	135,248	922	2.73%	118,730	802	2.72%
Loans, net of unearned income (1)	361,224	4,014	4.46%	366,955	4,234	4.64%
Total earning assets/interest income	516,746	4,981	3.87%	506,220	5,058	4.02%
Non-earning assets	16,014			12,808		
Allowance for loan losses	(4,751)			(4,759)		
Total assets	$ 528,009			$ 514,269		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand deposits	$ 64,806	$ 20	0.12%	$ 57,400	$ 13	0.09%
Savings and money market	79,464	31	0.16%	82,162	21	0.10%
Time deposits	154,540	307	0.80%	150,882	172	0.46%
FHLB advances	59,159	136	0.92%	59,126	96	0.66%
Total interest-bearing liabilities/interest expense	357,969	494	0.55%	349,570	302	0.35%
Non interest-bearing deposits	108,359			104,032		
Other liabilities	1,804			1,614		
Total liabilities	468,132			455,216		
Shareholders' equity	59,877			59,053		
Total liabilities and shareholders' equity	$ 528,009			$ 514,269		
Net interest income and margin (2)		$ 4,487	3.48%		$ 4,756	3.78%
Net interest spread (3)			3.32%			3.67%

(1) The net amortization of deferred fees and (costs) on loans included in interest income was $(31,000) and $(45,000) for the three months ended June 30, 2017 and 2016.
(2) Net interest margin is computed by dividing net interest income by average total earning assets.
(3) Net interest spread is the difference between the average rate earned on average total earning assets and the average rate paid on average total interest bearing liabilities.
(4) Annualized.

(Dollars in thousands)	Six Months Ended June 30, 2017 Average Balance	Interest Income/ Expense	Average Rate (4)	Six Months Ended June 30, 2016 Average Balance	Interest Income/ Expense	Average Rate (4)
Assets						
Interest earning assets:						
Interest-bearing deposits in banks	$ 18,218	$ 67	0.74%	$ 17,587	$ 36	0.41%
Federal funds sold	1,910	7	0.72%	1,895	3	0.37%
Time deposits with banks	237	2	1.99%	725	6	1.57%
Taxable investment securities	130,167	1,784	2.76%	125,687	1,702	2.72%
Loans, net of unearned income (1)	358,842	7,954	4.47%	364,040	8,346	4.61%
Total earning assets/interest income	509,374	9,814	3.89%	509,934	10,093	3.98%
Non-earning assets	15,879			13,075		
Allowance for loan losses	(4,760)			(4,746)		
Total assets	$ 520,493			$ 518,263		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Deposits:						
Interest-bearing demand deposits	$ 64,136	43	0.13%	$ 57,427	33	0.11%
Savings and money market	79,075	56	0.14%	84,509	48	0.11%
Time deposits	144,342	515	0.72%	153,818	364	0.48%
FHLB advances	63,098	262	0.84%	60,816	188	0.62%
Total interest-bearing liabilities/interest expense	350,651	876	0.50%	356,570	633	0.36%
Non interest-bearing deposits	108,625			101,632		
Other liabilities	1,772			1,465		
Total liabilities	461,048			459,667		
Shareholders' equity	59,445			58,596		
Total liabilities and shareholders' equity	$ 520,493			$ 518,263		
Net interest income and margin (2)		$ 8,938	3.54%		$ 9,460	3.73%
Net interest spread (3)			3.39%			3.62%

(1) The net amortization of deferred fees and (costs) on loans included in interest income was $(93,000) and $(69,000) for the six months ended June 30, 2017 and 2016.
(2) Net interest margin is computed by dividing net interest income by average total earning assets.
(3) Net interest spread is the difference between the average rate earned on average total earning assets and the average rate paid on average total interest bearing liabilities.
(4) Annualized.

The following tables show the change in interest income and interest expense and the amount of change attributable to variances in volume and rates. The unallocated change in rate or volume variance has been allocated between the rate and volume variances in proportion to the absolute dollar amount of the change of each.

	Volume and Yield/Rate Variances 2017 Compared to 2016 for the Three Months Ended June 30		
	Change Due to		
(Dollars in thousands)	Net	Volume	Yield/Rate
Interest income:			
Interest-bearing deposits in banks	$ 23	$ -	$ 23
Federal funds sold	2	-	2
Time deposits with banks	(2)	(2)	-
Taxable investment securities	120	113	7
Loans, net	(220)	(67)	(153)
Total interest income	(77)	44	(121)
Interest expense:			
Interest-bearing demand deposits	$ 7	2	5
Savings and money market	10	(1)	11
Time deposits	135	4	131
FHLB advances	40	-	40
Total interest expense	192	5	187
Increase (decrease) in net interest income	$ (269)	$ 39	$ (308)

	Volume and Yield/Rate Variances 2017 Compared to 2016 for the Six Months Ended June 30		
	Change Due to		
(Dollars in thousands)	Net	Volume	Yield/Rate
Interest income:			
Interest bearing deposits in banks	$ 31	$ 1	$ 30
Federal funds sold	4	-	4
Time deposits with banks	(4)	(4)	-
Taxable investment securities	82	61	21
Loans, net	(392)	(120)	(272)
Total interest income	(279)	(62)	(217)
Interest expense:			
Interest-bearing demand deposits	$ 10	4	6
Savings and money market	8	(3)	11
Time deposits	151	(21)	172
FHLB advances	74	7	67
Total interest expense	243	(13)	256
Increase (decrease) in net interest income	$ (522)	$ (49)	$ (473)

Provision for Loan Losses

The Bank maintains an allowance for loan losses for probable incurred losses that are expected as an incidental part of the banking business. Write-offs of loans are charged against the allowance for loan losses, which is adjusted periodically to reflect changes in the volume of outstanding loans and estimated losses due to changes in the financial condition of borrowers or the value of property securing nonperforming loans, or changes in general economic conditions and other qualitative factors. Additions to the allowance for loan losses are made through a charge against income referred to as the "provision for loan losses" or recoveries of previous write-offs.

The Bank's loan policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, to enable management to assess such credit risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for loan losses. Management conducts an assessment of the allowance for loan losses on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors evaluates and formally approves the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and regulatory examination, estimated probable loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and nonaccrual loans, trends in loan volume, effects of any changes in the lending policies and procedures, changes in lending personnel, current economic conditions at the local, state and national level, and a migration analysis of historical losses and recoveries for the prior twelve quarters.

There was no provision for loan losses for the three and six months ended June 30, 2017 and June 30, 2016. The nonperforming loans to total loans ratio increased to 0.71% at June 30, 2017 compared to 0.62% at June 30, 2016. The increase in nonperforming loans were primarily secured by real estate with minimal loss prospects. During the three and six months ended June 30, 2017, there were net charge-offs of $72,000 and $63,000 compared to net recoveries of $9,000 and $13,000 for the three and six months ended June 30, 2016. See Balance Sheet Activity – Nonperforming Assets and Allowance for Loan Losses for additional discussion.

Future provisions for loan losses are dependent on asset quality trends, loan portfolio growth and the general condition of the economy. As a significant portion of the Bank's loan portfolio is collateralized by real estate, the valuation of the underlying collateral can have a significant impact on the adequacy of the allowance for loan losses and specific allocations for impaired loans, which may require future loan loss provisions.

Non-interest Income

The following are the sources of non-interest income for the periods indicated:

	Three Months Ended			Six Months Ended		
(in thousands)	June 30, 2017	June 30, 2016	Change	June 30, 2017	June 30, 2016	Change
Service charges on deposit accounts	$ 172	$ 188	$ (16)	$ 342	$ 370	$ (28)
Rental income	141	138	3	285	276	9
Net securities gains	-	555	(555)	13	688	(675)
Net gain on other real estate owned	-	-	-	-	-	-
Other income	2	3	(1)	5	5	-
Total non-interest income	$ 315	$ 884	$ (569)	$ 645	$ 1,339	$ (694)

Service charges on deposit accounts decreased in the 2017 period due to normal fluctuations in deposit activities. The net securities gains for the three and six months ended June 30, 2017 and 2016 were due to bonds being called at a price higher than the book balance.

Non-interest Expense

The following are the sources of non-interest expense for the periods indicated:

(in thousands)	Three Months Ended			Six Months Ended		
	June 30, 2017	June 30, 2016	Change	June 30, 2017	June 30, 2016	Change
Salaries and employee benefits	$ 1,707	$ 1,978	$ (271)	$ 3,448	$ 3,566	$ (118)
Occupancy and equipment	402	322	80	758	588	170
Other expenses	1,111	1,205	(94)	2,294	2,250	44
Total non-interest expense	$ 3,220	$ 3,505	$ (285)	$ 6,500	$ 6,405	$ 96

Non-interest operating expenses declined $285,000 between the second quarters of 2017 and 2016, even though the Bank had 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 difference in Other expenses were due to normal fluctuations incurred during the periods.

Provision for Income Taxes

The Bank accrues income tax expense based on the anticipated annual tax rates during the financial period covered. The provision for income taxes for Federal and State corporate income tax rates for the three and six months ended June 30, 2017 were $652,000 and $1,271,000 compared to $881,000 and $1,812,000 for the same periods ended June 30, 2016. The combined Federal and State corporate income tax rates for each period was 41.2%.

Balance Sheet Activity

At June 30, 2017 and December 31, 2016

Investment Portfolio

Securities classified as available-for-sale for accounting purposes are recorded at their fair value on the consolidated balance sheets. Available-for-sale (AFS) investment securities carried at fair value totaled $124,774,000 at June 30, 2017 and comprised 23% of total assets compared to amortized cost of $124,149,000. At June 30, 2017, the Bank had investment securities classified as held-to-maturity, carried at cost of $7,980,000 with a fair value of $7,893,000 and represented 1.5% of total assets. At December 31, 2016, investment securities comprised 23% of total assets with AFS investments at a fair value of $107,771,000 and amortized cost of $109,297,000. Held-to-maturity investments at December 31, 2016 were carried at amortized cost of $7,976,000 and had a fair value of $7,713,000. Changes in the fair value of AFS securities (e.g., unrealized holding gains or losses) are reported as "other comprehensive income (loss)," net of tax, and carried as accumulated other comprehensive income or loss, net of tax, within shareholders' equity until realized, unless any declines in value below amortized cost are the result of other than temporary impairment. The held-to-maturity investments are government agency callable securities with step-up interest rates.

There were no bonds purchased during the three months ended June 30, 2017 and there were $283,000 in bonds called. For the six months ended June 30, 2017, bonds were purchased with an initial cost of $16,971,000, and $1,883,000 in bonds were called or matured with an amortized cost of $1,600,000. The net gain on the called bonds was $13,000 for the six months ended June 30, 2017.

The Bank utilizes the investment portfolio to manage liquidity and attract funding that requires collateralization. At June 30, 2017, investment securities with a fair value of $52,711,000 were pledged to secure time deposits from the State of California and other public deposits and represented 40% of the investment portfolio. At December 31, 2016, investment securities with a fair value of $29,097,000, or 25% of the investment portfolio, were pledged. At June 30, 2017 investment securities with a fair value of $58,190,000 were callable within one year.

The Bank does not own securities of any single issuer (other than U.S. Government agencies) whose aggregate book value was in excess of 10% of the Bank's total shareholders' equity at the time of purchase.

Loan Portfolio

The following table shows the composition of the loan portfolio by amount, percentage of total loans for each major loan category and the dollar volume and percentage change between the dates indicated.

(in thousands)	June 30, 2017	%	December 31, 2016	%	Net Change	Percent Change
Commercial & agricultural (1)	$ 82,029	22.1%	$ 81,519	22.7%	$ 510	0.6%
Real estate - commercial	197,658	53.3%	190,976	53.1%	6,682	3.5%
Real estate - construction and land	13,739	3.7%	7,897	2.2%	5,842	74.0%
Real estate - single family	47,036	12.7%	51,044	14.2%	(4,008)	(7.9)%
Real estate - multifamily	29,991	8.1%	27,533	7.7%	2,458	8.9%
Consumer & lease financing	508	0.1%	434	0.1%	74	17.1%
	370,961	100%	359,403	100%	11,558	3.2%
LESS:						
Allowance for Loan Losses	(4,702)		(4,765)		63	(1.3)%
Total Loans, Net	$ 366,259		$ 354,638		$ 11,621	3.3%

(1) Includes loans secured by farmland.

Gross loans increased $11,558,000 (3.2%) to $370,961,000 at June 30, 2017 from December 31, 2016. The increase was in the real estate secured loan categories, as loans in these categories are commonly larger than that of other commercial loans.

At June 30, 2017, the Bank had approximately $50,080,000 in undisbursed loan commitments, of which approximately $31,608,000 were commercial and agricultural and $18,258,000 related to real estate loan types. At December 31, 2016, the Bank had approximately $46,109,000 in undisbursed loan commitments, of which approximately $32,847,000 were commercial and agricultural and $13,026,000 related to real estate loan types.

Nonperforming Assets

Nonperforming assets consist of nonperforming loans and other real estate owned. Nonperforming loans are those for which the borrower fails to perform under the terms of the obligation and consist of nonaccrual loans and accruing loans past due 90 days or more.

The following are the nonperforming assets for the respective periods:

(in thousands)	June 30, 2017	December 31, 2016
Nonaccrual loans	$ 2,616	$ 3,351
Accruing loans past due 90 days or more	-	-
Total nonperforming loans	2,616	3,351
Other real estate owned	-	-
Total nonperforming assets	$ 2,616	$ 3,351
Nonperforming loans to total loans	0.71%	0.93%
Nonperforming assets to total assets	0.49%	0.65%
Allowance for loan losses to nonperforming loans	179.73%	142.23%

The $2,616,000 in nonaccrual loans are primarily secured by real estate collateral. Of the nonaccrual loans, $1,761,000 are over 90 days past due in their payments and $855,000 are current.

Loans that are classified as TDRs were $3,812,000 at June 30, 2017, of which $3,216,000 were considered performing loans and $596,000 are nonperforming loans and are included in the table above.

Loans that are classified as TDRs were $3,670,000 at December 31, 2016, of which $3,348,000 were considered performing loans and $322,000 are nonperforming loans and are included in the table above. The performing TDRs of $3,348,000 are primarily collateralized by single family residential or commercial real estate properties.

There was no other real estate owned (OREO) at June 30, 2017 or December 31, 2016.

In addition to the nonperforming loans described above, there was one loan for $300,000 that was past due 30-59 days and one loan for $6,015,000 that was past due 60-89 days at June 30, 2017. Both loans were in process of renewal and were renewed and paid current after June 30, 2017.

Allowance for Loan Losses

The Bank maintains the allowance for loan losses to provide for inherent losses in the loan portfolio. Additions to the allowance for loan losses are established through a provision for loan losses charged to expense. All loans which are judged to be uncollectible are charged against the allowance while any recoveries are credited to the allowance. The Bank’s policy is to charge off any known losses at the time of determination. Any unsecured loan more than 90 days delinquent in payment of principal or interest and not in the process of collection is charged off in total. Secured loans are evaluated on a case by case basis to determine the ultimate loss potential to us subsequent to the liquidation of collateral. In those cases where we believe we are inadequately protected, a charge off will be made to reduce the loan balance to a level equal to the liquidation value of the collateral.

The Bank’s loan policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, to enable management to assess such credit risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for loan losses. Management conducts an assessment of the allowance for loan losses on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors evaluates and formally approves the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and regulatory examination, estimated probable incurred loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and nonaccrual loans, trends in loan volume, effects of any changes in lending policies and procedures, changes in lending personnel, current economic conditions at the local, state and national level and a migration analysis of historical losses and recoveries for the prior twelve quarters.

In addition to the allowance for loan losses, the Bank maintains an allowance for losses for undisbursed loan commitments which is reported in other liabilities on the consolidated balance sheets. This allowance was $134,000 as of June 30, 2017 and $77,000 as of December 31, 2016.

The following table summarizes the activity in the Allowance for Loan Losses during the periods indicated.

SUMMARY OF ACTIVITY IN ALLOWANCE FOR LOAN LOSSES

(Dollars in thousands)	Six Months Ended June 30, 2017	Year Ended December 31, 2016
Balance at beginning of period	$ 4,765	$ 4,731
Charge-offs:		
Commercial & agricultural	79	50
Real estate - commercial	-	20
Real estate - construction and land	-	-
Real estate - single family	-	-
Real estate - multifamily	-	-
Consumer & lease financing	-	-
Total loans charged-off	79	70
Recoveries:		
Commercial & agricultural	2	76
Real estate - commercial	-	6
Real estate - construction and land	-	-
Real estate - single family	8	14
Real estate - multifamily	-	-
Consumer & lease financing	6	8
Total recoveries	16	104
Net loans charged-off (recovered)	63	(34)
Provision for loan losses	-	-
Allowance for loan losses - end of period	$ 4,702	$ 4,765
Loans:		
Average loans outstanding during period, net of unearned income	$ 361,224	$ 363,545
Total loans at end of period, net of unearned income	$ 370,961	$ 359,403
Ratios:		
Net loans charged-off (recovered) to average net loans (1)	0.04%	(0.01)%
Net loans charged-off (recovered) to total loans (1)	0.03%	(0.01)%
Allowance for loan losses to average net loans	1.30%	1.31%
Allowance for loan losses to total loans	1.27%	1.33%
Net loans charged-off (recovered) to beginning allowance for loan losses (1)	2.67%	(0.72)%
Net loans charged-off (recovered) to provision for loan losses (2)	NM	NM

(1) Annualized
(2) Not meaningful

Allocation of Allowance for Loan Losses

(in thousands)	June 30, 2017 Allowance Allocation	June 30, 2017 Amount of Category Loans to Total Loans	December 31, 2016 Allowance Allocation	December 31, 2016 Amount of Category Loans to Total Loans
Commercial & agricultural	$ 879	22.1%	$ 744	22.7%
Real estate - commercial	1,798	53.3%	1,764	53.1%
Real estate - construction and land	438	3.7%	266	2.2%
Real estate - single family	520	12.7%	577	14.2%
Real estate - multifamily	326	8.1%	330	7.7%
Consumer & lease financing	20	0.1%	19	0.1%
Unallocated	721		1,065	
Total	$ 4,702	100%	$ 4,765	100%

The allowance allocation to real estate loan categories is highly dependent on the estimated real estate collateral values that secure specific troubled loans. The specific loans being evaluated at one period versus another can result in variations in the allocations. The increase in allowance allocated to commercial and agricultural loans and Real estate - commercial, construction and land loans was attributable to the increase in the amount of loans in each category.

Part of the allocation of the allowance for loan losses is based on other qualitative factors and is attributable to management's assessment of various qualitative factors. Qualitative factors included the size of individual credits, concentrations and general economic conditions. Management also considers these qualitative factors in their evaluation of the adequacy of the allowance for loan losses. An unallocated allowance can arise from fluctuations in the amount of classified and nonperforming loans ("changes in credit grades") between periods. The Internal Asset Review Committee reviews the amount and reasons for unallocated allowances and whether it has arisen due to periodic fluctuations in the credit grades or has arisen due to changes in qualitative factors or changes in lending strategies. If the unallocated allowance has arisen from other than periodic fluctuations in credit grades, then the Internal Asset Review Committee may determine that a portion of the allowance for loan losses should be reversed. Factors used in determining whether the unallocated allowance should be maintained includes the trend in impaired and classified loans, the projected increase in new loans and additional allowance that may be attributed to recoveries of previously charged-off loans.

Deposits

At June 30, 2017, the Bank had a deposit mix of 38% in time deposits, 20% in money market and savings accounts, and 42% in demand accounts. At December 31, 2016, the Bank had a deposit mix of 34% in time deposits, 21% in money market and savings accounts, and 45% in demand accounts.

At June 30, 2017 and December 31, 2016, the State of California had $48,500,000 in time deposits with the Bank with maturities of up to 6 months and collateralized by investment securities and mortgage loans. These deposits are received through a program run by the Treasurer of the State of California to place public deposits with community banks. The interest rates are tied to the U.S. Treasury three or six month rate at the origination of the time deposit.

At June 30, 2017, the Bank had $76,579,000 in brokered deposits. This compares to $65,854,000 in brokered deposits at December 31, 2016. The brokered deposits included $36,907,000 and $20,052,000 in wholesale brokered deposits at June 30, 2017 and December 31, 2016. The remaining brokered deposits of $39,672,000 at June 30, 2017 and $45,802,000 at December 31, 2016, were raised locally from the Bank's customers through a reciprocal deposit placement service called CDARS and ICS, which are classified as brokered deposits for FFIEC Call Report purposes.

The Bank obtains time deposits through an internet listing service. These deposits are primarily from other financial institutions. There were $7,123,000 and $7,373,000 of internet obtained deposits at June 30, 2017 and December 31, 2016.

Liquidity and Capital Resources

Maintenance of adequate liquidity requires that sufficient resources be available at all times to meet cash flow requirements of the Bank. Liquidity in a banking institution is required primarily to provide for deposit withdrawals and the credit needs of customers and to take advantage of investment opportunities as they arise. A bank may achieve desired liquidity from both assets and liabilities. Cash and deposits held in other banks, Federal funds sold, other short term investments, maturing loans and investments, payments of principal and interest on loans and investments, and potential loan and investment securities sales are sources of asset liquidity. Deposit growth and access to credit lines established with correspondent banks, primarily with the FHLB, Federal Reserve and access to brokered certificates of deposit are sources of liability liquidity. The Bank reviews its liquidity position on a regular basis based upon its current position and expected trends of loans and deposits. Management believes that the Bank maintains adequate sources of liquidity to meet its liquidity needs.

The Bank is able to borrow from the Federal Reserve Discount Window by pledging investment securities or loans. The amount that is available is dependent on the value of the assets pledged.

The Bank's liquid assets, defined as cash and cash equivalents, deposits with banks, Federal funds sold and the market value of unpledged available-for-sale investment securities, totaled $98,940,000 and constituted 18% of total assets at June 30, 2017 compared to $112,987,000 or 22% of total assets at December 31, 2016.

At June 30, 2017, the Bank had $141,783,000 in borrowing lines of credit from the FHLB and correspondent banks with $67,000,000 in outstanding advances from the FHLB, subject to certain collateral requirements. At December 31, 2016, these lines of credit available were $141,550,000 with $68,900,000 in FHLB advances outstanding.

Cash was primarily provided in the first six months of 2017 by $25 million in net change in certificates of deposit, operating activities of $1.3 million and $1.9 million from calls of investment securities. Cash was used in the first six months of 2017 primarily to purchase $17 million in investment securities, and fund a $11.3 million net change in loans.

The primary uses of funds during the first six months of 2016 were $25.7 million in investment security purchases and a $24.9 million increase in loans. The primary sources of funds during the first six months of 2016 included $57.7 million from maturities and calls of investment securities.

Additional information on the Bank's cash flows can be reviewed in the *Consolidated Statement of Cash Flows* in Part I, Item 1 of this report.

The following table presents the capital ratios for Summit State Bank and the correspondent regulatory minimum requirements:

	June 30, 2017	
(in thousands)	Amount	Ratio
Common Equity Tier 1 Capital Ratio		
Summit State Bank	$ 55,958	13.2%
Minimum requirement for "Well-Capitalized" institution	$ 27,574	6.5%
Minimum regulatory requirement	$ 19,090	4.5%
Tier 1 Capital Ratio		
Summit State Bank	$ 55,958	13.2%
Minimum requirement for "Well-Capitalized" institution	$ 33,937	8.0%
Minimum regulatory requirement	$ 25,453	6.0%
Total Capital Ratio		
Summit State Bank	$ 60,794	14.3%
Minimum requirement for "Well-Capitalized" institution	$ 42,422	10.0%
Minimum regulatory requirement	$ 33,937	8.0%
Tier 1 Leverage Ratio		
Summit State Bank	$ 55,958	10.7%
Minimum requirement for "Well-Capitalized" institution	$ 26,195	5.0%
Minimum regulatory requirement	$ 20,956	4.0%

The Bank's capital is supplemented through the retention of net income less dividends paid. The Bank's common dividend declared on July 24, 2017 is $0.12 per share or $723,000.

Impact of Inflation

The primary impact of inflation on the Bank is its effect on interest rates. The Bank's primary source of income is net interest income, which is affected by changes in interest rates. The Bank attempts to limit the impact of inflation on its net interest margin through management of rate-sensitive assets and liabilities and analyses of interest rate sensitivity. The effect of inflation on premises and equipment as well as on non-interest expenses has not been significant for the periods presented.

Item 3 Quantitative and Qualitative Disclosures about Market Risk

Proper management of the rate sensitivity and maturities of assets and liabilities is required to provide an optimum and stable net interest margin. Interest rate sensitivity spread management is an important tool for achieving this objective and for developing ways in which to improve profitability. Management has assessed its market risk at June 30, 2017, and believes that there has been no material change since December 31, 2016.

The Bank constantly monitors earning asset and deposit levels, developments and trends in interest rates, liquidity, capital adequacy and marketplace opportunities. Management responds to all of these to protect and possibly enhance net interest income while managing risks within acceptable levels as set forth in the Bank's policies. In addition, alternative business plans and transactions are contemplated for their potential impact. This process is known as asset/liability management and is carried out by changing the maturities and relative proportions of the various types of loans, investments, deposits and borrowings in the ways described above. The Board monitors and establishes target positions for interest rate and market value risks through the Asset Liability Committee of the Board.

The tool most commonly used to manage and analyze the interest rate sensitivity of a bank is known as a computer simulation model. To quantify the extent of risks in both the Bank's current position and in transactions it might make in the future, the Bank uses a model to simulate the impact of different interest rate scenarios on net interest income. The hypothetical impact of an interest rate shock for incremental interest rate changes up to 4.00% is modeled quarterly, representing the primary means the Bank uses for interest rate risk management decisions. The Bank is liability sensitive; that is, more liabilities reprice within one year than assets. The expectation for a liability sensitive bank is that the net interest margin will decline in a rising interest rate environment.

When preparing its modeling, the Bank makes significant assumptions about the lag in the rate of change in various asset and liability categories. The Bank bases its assumptions on past experience and comparisons with other banks, and tests the validity of its assumptions by reviewing actual results with projected expectations.

The computer simulation model assumes a static balance sheet, that is, cash flows from various assets and liabilities are reinvested in similar assets and liabilities. It does not model various dynamic changes in the pricing or term of new assets and liabilities that may occur during the year after the interest rate shock. The computer simulation model projects at June 30, 2017 the following changes over a one year period in net interest income:

Interest Rate Risk Simulation Model

(in thousands)

Interest Rate Shock	-3%	-2%	-1%	1%	2%	3%
Net interest income change	$ (407)	$ (152)	$ (22)	$ (802)	$ (1,605)	$ (2,410)

The Bank's investment portfolio has an average maturity of 7.9 years, and would be susceptible to a material decline in market value if interest rates were to materially rise. Management monitors this exposure in relation to the Bank's capital ratios and the interaction of the projected changes in other interest sensitive assets and liabilities to reach a desired balance between current earnings and market risk.

Item 4 Controls and Procedures

Under the supervision and with the participation of the Bank's management, including its Chief Executive Officer and Chief Financial Officer, the Bank conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as defined by Rule 13a-15(e) under the Securities Exchange Act of 1934.

Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this report the disclosure controls and procedures were adequate and effective, and that the material information required to be included in this report, including information from the Bank's consolidated subsidiary, was properly recorded, processed, summarized and reported, and was made known to the Chief Executive Officer and Chief Financial Officer by others within the Bank in a timely manner, particularly during the period when this quarterly report on Form 10-Q was being prepared.

There was no change in the Bank's internal control over financial reporting that occurred during the most recent fiscal quarter that materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

PART II OTHER INFORMATION

Item 1 Legal Proceedings

The nature of our business causes us to be involved in legal proceedings from time to time. As of the date of this report, the Bank is not a party to any litigation where management anticipates that the outcome will have a material adverse effect on the consolidated financial position or results of operations.

Item 1A Risk Factors

Risk Factors in Form 10-K incorporated by reference.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3 Defaults Upon Senior Securities

None.

Item 4 Mine Safety Disclosures

Not applicable.

Item 5 Other Information

None.

Item 6 Exhibits

The exhibits filed as part of this report are listed on the Exhibit Index filed as part of this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Summit State Bank
(registrant)

August 11, 2017	*/s/ James E. Brush*
Date	James E. Brush President and Chief Executive Officer (Principal Executive Officer)

August 11, 2017	*/s/ Dennis E. Kelley*
Date	Dennis E. Kelley Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
31.01	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002
31.02	Certification of Principal Financial and Accounting Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002
32.01	Certification of Principal Executive Officer and Principal Financial and Accounting Officer pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002

Exhibit 31.01

Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002

I, James E. Brush, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit State Bank (the registrant) for the quarter ended June 30, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls procedures, as of the end of the period covered by this report based on such evaluation; and
(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 11, 2017	*/s/ James E. Brush*
Date	James E. Brush President and Chief Executive Officer (Principal Executive Officer) Summit State Bank

Exhibit 31.02

Certification of Principal Financial and Accounting Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002

I, Dennis E. Kelley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Summit State Bank (the registrant) for the quarter ended June 30, 2017;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 11, 2017	*/s/ Dennis E. Kelley*
Date	Dennis E. Kelley Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) Summit State Bank

EXHIBIT 32.01

Certification of Principal Executive Officer and Principal Financial and Accounting Officer pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report on Form 10-Q of Summit State Bank (the Registrant) for the quarter ended June 30, 2017, as filed with the Federal Deposit Insurance Corporation, the undersigned hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002,that:

1) such Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

August 11, 2017	*/s/ James E. Brush*
Date	James E. Brush President and Chief Executive Officer (Principal Executive Officer)
August 11, 2017	*/s/ Dennis E. Kelley*
Date	Dennis E. Kelley Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

This certification accompanies each report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Registrant for purposes of §18 of the Securities Exchange Act of 1934, as amended.