
FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 12 or 15(d) of the
Securities Exchange Act of 1934

Date of report (Date of earliest event reported): January 29, 2019

Summit State Bank

(Exact Name of Registrant as Specified in Charter)

California
(State of Other Jurisdiction
Of Incorporation)

32203
(FDIC
Certificate Number)

94-2878925
(I.R. S. Employer
Identification No.)

500 Bicentennial Way
Santa Rosa, CA
(Address of Principal Executive Offices)

95403
(Zip Code)

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

(Former Name or Former Address, if Changes Since Last Report)

Check the Appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communication pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communication pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

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. ☐

Item 2.02. Results of Operations and Financial Condition.

On January 29, 2019, the registrant issued the press release attached hereto as Exhibit 99.1 and incorporated herein by reference regarding the declaration of dividend and results of operations for the three and twelve months ended January 31, 2018.

Common stock cash dividend of \$0.12 per share declared on January 28, 2019, payable on February 26, 2019 to shareholders of record on February 19, 2019.

Item 9.01. Financial Statements and Exhibits

(c) Exhibits:

The exhibit list called for by this item is incorporated by reference to the Exhibit Index filed as part of this report.

SIGNATURE

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, hereunto duly authorized.

Dated: January 29, 2019

SUMMIT STATE BANK

By: /S/ Camille Kazarian
Camille Kazarian
*Executive Vice President
and Chief Financial Officer
(Duly Authorized Officer)*

Exhibit Index

<u>Exhibit Number</u>	<u>Description</u>
99.1	Press release of Summit State Bank dated January 29, 2019, announcing results of operation for the three and twelve months ended December 31, 2018 and declaration of quarterly dividend.

Summit State Bank Reports 77% Increase in Net Income for 2018 and Declaration of Dividend

SANTA ROSA, CA – (January 29, 2019) – Summit State Bank (NASDAQ: SSBI) today reported net income for the year ended December 31, 2018, of \$5,827,000 and diluted earnings per share of \$0.96. A quarterly dividend of \$0.12 per share was declared for common shareholders.

Dividend

The Board of Directors declared a \$0.12 per share quarterly dividend to be paid on February 26, 2019 to shareholders of record on February 19, 2019.

Net Income and Results of Operations

“We are in the third year of implementing Summit State Bank’s strategy to increase core deposits and loan volume and enhance earnings performance,” said Jim Brush, President and CEO. “We continue to invest in highly qualified staff and this has allowed Summit to remain well poised for deliberate growth of our business in key areas. We are not growing just for the sake of growth, we are growing our business with the future in mind and making measured decisions that yield results that have a positive, lasting effect.”

Following are several key accomplishments in 2018:

- Net loans increased 15.3% for 2018 compared to 2017.
- Net Interest Margin increased to 3.75% in 2018, up 20 basis points from 2017.
- Efficiency Ratio of 64.24% in 2018, an improvement of 425 basis points from 2017.

Net income was \$5,827,000 and \$0.96 diluted earnings per share for the year ended December 31, 2018, compared to net income of \$3,292,000 and \$0.54 diluted earnings per share for the year ended December 31, 2017, a 77% increase in net income and diluted earnings per share.

For the quarter ended December 31, 2018, Summit State Bank (“Summit”) had net income of \$1,121,000 and diluted earnings per share of \$0.18 compared to \$478,000 of net income and \$0.08 diluted earnings per share, for the same period in 2017, a 135% increase in net income and a 125% increase diluted earnings per share.

Summit experienced a 4.8% increase in gross loans during the fourth quarter 2018 and a 15.3% increase for 2018. Summit recorded a provision for loan loss that was relatively flat to the prior year; \$530,000 in 2018 versus \$520,000 in 2017. This was due to

improved credit quality mitigating some of the impact of the loan growth on the provision for loan loss.

Summit has minimized the impact a rising interest rate environment has had by increasing total loans as a percent of assets. In 2018 Summit's net interest income increased by 16.4%, up to \$21,622,000 in 2018 from \$18,572,000 in 2017.

"As projected, the bank began seeing positive impacts on net interest income starting in the fourth quarter of 2017 and this trend continued through 2018," according to Mr. Brush. "We are able to improve net interest income by increasing loans as a percentage of the Bank's assets and responding to the rising interest rate environment by creating a balanced offering of deposits and loans at competitive rates."

Summit's return on average assets yielded a positive increase, up to 0.99% for 2018 compared to 0.62% for 2017. Its return on average common equity was also up to 9.66% for 2018 compared to 5.49% for 2017.

Total assets were \$622,104,000 at December 31, 2018, up 1.8% when compared to December 31, 2017 and up a total of 21.1% when compared to December 31, 2016. The growth in 2018 was subdued by a one-time deposit of approximately \$55 million made prior to December 31, 2017 and partially withdrawn after year end.

Summit's balance sheet is liability sensitive and with economists projecting a continued rising rate environment Summit has stated it will maintain a balance between growing its high-quality loan portfolio with a core deposit portfolio that is competitive and meets its customer's needs.

"Staying true to our commitment of improving long-term shareholder value as well as caring for our employees, customers and community we serve is at the center of our strategic focus. I am optimistic about the trajectory we are on to build sustainable growth," said Mr. Brush.

About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$622 million and total equity of \$62 million at December 31, 2018. Headquartered in Sonoma County, the Bank specializes in providing exceptional customer service and customized financial solutions to aid in the success of local small businesses and nonprofits throughout Sonoma County.

Summit State Bank is committed to embracing the diverse backgrounds, cultures and talents of its employees to create high performance and support the evolving needs of its customers and community it serves. At the center of diversity is inclusion, collaboration, and a shared vision for delivering superior service and results for shareholders. Presently, 82% of management are women and minorities with 60% represented on the Executive Management Team. Through the engagement of its team, Summit State Bank has received many esteemed awards including: Best Business Bank, Corporate Philanthropy Award and Best Places to Work in the North Bay. Summit State

Bank's stock is traded on the Nasdaq Global Market under the symbol SSBI. Further information can be found at www.summitstatebank.com.

Forward-looking Statements

Except for historical information contained herein, the statements contained in this news release, are forward-looking statements within the meaning of the "safe harbor" provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. This release may contain forward-looking statements that are subject to risks and uncertainties. Such risks and uncertainties may include but are not necessarily limited to fluctuations in interest rates, inflation, government regulations and general economic conditions, and competition within the business areas in which the Bank will be conducting its operations, including the real estate market in California and other factors beyond the Bank's control. Such risks and uncertainties could cause results for subsequent interim periods or for the entire year to differ materially from those indicated. You should not place undue reliance on the forward-looking statements, which reflect management's view only as of the date hereof. The Bank undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

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

	Three Months Ended		Year Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	(Unaudited)	(1)	(Unaudited)	(1)
Interest income:				
Interest and fees on loans	\$ 6,101	\$ 4,947	\$ 22,663	\$ 17,176
Interest on deposits with banks	62	50	247	162
Interest on federal funds sold	-	5	14	17
Interest on investment securities	582	656	2,382	3,126
Dividends on FHLB stock	104	54	266	232
Total interest income	6,849	5,712	25,572	20,713
Interest expense:				
Deposits	1,050	552	3,509	1,639
Federal Home Loan Bank advances	241	80	441	502
Total interest expense	1,291	632	3,950	2,141
Net interest income before provision for loan losses	5,558	5,080	21,622	18,572
Provision for loan losses	150	350	530	520
Net interest income after provision for loan losses	5,408	4,730	21,092	18,052
Non-interest income:				
Service charges on deposit accounts	196	166	765	695
Rental income	109	144	553	574
Net gain on loan sales	206	351	748	351
Net securities gain	9	14	27	72
Other income	31	3	216	23
Total non-interest income	551	678	2,309	1,715
Non-interest expense:				
Salaries and employee benefits	2,628	2,564	9,151	7,788
Occupancy and equipment	404	370	1,536	1,503
Other expenses	1,334	1,162	4,670	4,554
Total non-interest expense	4,366	4,096	15,357	13,845
Income before provision for income taxes	1,593	1,312	8,044	5,922
Provision for income taxes	471	834	2,217	2,630
Net income	<u>\$ 1,122</u>	<u>\$ 478</u>	<u>\$ 5,827</u>	<u>\$ 3,292</u>
Basic earnings per common share	\$ 0.18	\$ 0.08	\$ 0.96	\$ 0.55
Diluted earnings per common share	\$ 0.18	\$ 0.08	\$ 0.96	\$ 0.54
Basic weighted average shares of common stock outstanding	6,066	6,041	6,065	6,031
Diluted weighted average shares of common stock outstanding	6,074	6,064	6,072	6,059

(1) Information derived from audited financial statements.

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

	<u>December 31,</u> <u>2018</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2017</u> <u>(1)</u>
ASSETS		
Cash and due from banks	\$ 21,693	\$ 68,814
Federal funds sold	-	2,000
Total cash and cash equivalents	<u>21,693</u>	<u>70,814</u>
Investment securities:		
Held-to-maturity, at amortized cost	7,991	7,984
Available-for-sale (at fair value; amortized cost of \$72,716 in 2018 and \$79,617 in 2017)	<u>70,174</u>	<u>78,770</u>
Total investment securities	<u>78,165</u>	<u>86,754</u>
Loans, less allowance for loan losses of \$6,029 in 2018 and \$5,236 in 2017	504,549	437,594
Bank premises and equipment, net	5,803	5,279
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	<u>4,690</u>	<u>3,219</u>
Total assets	<u><u>\$ 622,104</u></u>	<u><u>\$ 610,864</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand - non interest-bearing	\$ 120,011	\$ 190,861
Demand - interest-bearing	65,652	65,742
Savings	25,817	30,102
Money market	104,060	79,564
Time deposits that meet or exceed the FDIC insurance limit	83,071	68,927
Other time deposits	<u>102,578</u>	<u>98,317</u>
Total deposits	501,189	533,513
Federal Home Loan Bank advances	56,800	15,000
Accrued interest payable and other liabilities	<u>2,595</u>	<u>2,674</u>
Total liabilities	<u>560,584</u>	<u>551,187</u>
Total shareholders' equity	<u>61,520</u>	<u>59,677</u>
Total liabilities and shareholders' equity	<u><u>\$ 622,104</u></u>	<u><u>\$ 610,864</u></u>

(1) Information derived from audited financial statements.

Financial Summary
(In Thousands except per share data)

	As of and for the Three Months Ended		As of and for the Year Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Statement of Income Data:				
Net interest income	\$ 5,558	\$ 5,080	\$ 21,622	\$ 18,572
Provision for loan losses	150	350	530	520
Non-interest income	551	678	2,309	1,715
Non-interest expense	4,366	4,096	15,357	13,845
Provision for income taxes	471	834	2,217	2,630
Net income	<u>\$ 1,122</u>	<u>\$ 478</u>	<u>\$ 5,827</u>	<u>\$ 3,292</u>
Selected per Common Share Data:				
Basic earnings per common share	\$ 0.18	\$ 0.08	\$ 0.96	\$ 0.55
Diluted earnings per common share	\$ 0.18	\$ 0.08	\$ 0.96	\$ 0.54
Dividend per share	\$ 0.12	\$ 0.12	\$ 0.48	\$ 0.46
Book value per common share (2)	\$ 10.14	\$ 9.88	\$ 10.14	\$ 9.88
Selected Balance Sheet Data:				
Assets	\$ 622,104	\$ 610,864	\$ 622,104	\$ 610,864
Loans, net	504,549	437,594	504,549	437,594
Deposits	501,189	533,513	501,189	533,513
Average assets	601,871	552,312	586,978	534,534
Average earning assets	590,958	541,852	575,843	523,475
Average shareholders' equity	60,944	60,456	60,295	59,987
Nonperforming loans	2,124	2,730	2,124	2,730
Total nonperforming assets	2,124	2,730	2,124	2,730
Troubled debt restructures (accruing)	1,723	1,630	1,723	1,630
Selected Ratios:				
Return on average assets (1)	0.74%	0.34%	0.99%	0.62%
Return on average common shareholders' equity (1)	7.30%	3.14%	9.66%	5.49%
Efficiency ratio (3)	71.57%	71.31%	64.24%	68.49%
Net interest margin (1)	3.73%	3.72%	3.75%	3.55%
Common equity tier 1 capital ratio	10.5%	11.6%	10.5%	11.6%
Tier 1 capital ratio	10.5%	11.6%	10.5%	11.6%
Total capital ratio	11.6%	12.7%	11.6%	12.7%
Tier 1 leverage ratio	9.9%	10.2%	9.9%	10.2%
Common dividend payout ratio (4)	64.88%	151.67%	49.97%	83.57%
Average common shareholders' equity to average assets	10.13%	10.95%	10.27%	11.22%
Nonperforming loans to total loans	0.42%	0.62%	0.42%	0.62%
Nonperforming assets to total assets	0.34%	0.45%	0.34%	0.45%
Allowance for loan losses to total loans	1.18%	1.18%	1.18%	1.18%
Allowance for loan losses to nonperforming loans	283.84%	191.79%	283.84%	191.79%

(1) Annualized.

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

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

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