
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, 2024

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 my check mark if the registrant has elected not to use the extended transition period for complying with any ne or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	SSBI	NASDAQ Global Market

Item 2.02. Results of Operations and Financial Condition.

On January 30, 2024, 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 December 31, 2023.

Common stock cash dividend of \$0.12 per share declared on January 29, 2024 to be paid on February 15, 2024 to shareholders of record on February 8, 2024.

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 30, 2024

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 30, 2024, announcing results of operation for the three and twelve months ended December 31, 2023 and declaration of quarterly dividend.



News Release

For Immediate Release

Contact: Brian Reed, President and CEO, Summit State Bank (707) 568-4908

Summit State Bank Reports Net Income of \$10.8 Million for the Year 2023; Declares Quarterly Cash Dividend of \$0.12 Per Common Share

SANTA ROSA, CA – (January 30, 2024) – Summit State Bank (Nasdaq: SSBI) today reported net income for the year ended December 31, 2023 of \$10,822,000, or \$1.62 per diluted share, a decrease of \$6,146,000, or 36%, compared to net income of \$16,968,000, or \$2.54 per diluted share for the year ended December 31, 2022. For the fourth quarter ended December 31, 2023, net income was \$1,901,000, or \$0.28 per diluted share, compared to \$4,553,000 or \$0.68 per diluted share, for the fourth quarter ended December 31, 2022.

The Board of Directors declared a quarterly cash dividend of \$0.12 per share on January 29, 2024. The quarterly dividend will be paid on February 15, 2024 to shareholders of record on February 8, 2024.

“We closed out the year with solid operating results despite the challenges across the entire banking industry,” said Brian Reed, President and CEO. “The persistently high interest rate environment continued to impact net interest income growth with higher interest expense on deposits and borrowings, which affected our operating performance for the fourth quarter and the full year 2023. However, we continue to see steady loan demand in our markets, and total deposit balances have increased compared to a year ago. Further, our capital levels and excess liquidity positions remain strong, and together with revenue generation we have a solid foundation upon which to continue to grow in the year ahead.”

Fourth Quarter 2023 Financial Highlights (at or for the three months ended December 31, 2023)

- Net income was \$1,901,000, or \$0.28 per diluted share in the fourth quarter of 2023, compared to \$4,553,000, or \$0.68 per diluted share, in the fourth quarter of 2022 and \$1,821,000, or \$0.27 per diluted share, for the quarter ended September 30, 2023.
- Reversal of net credit losses was \$65,000, compared to a provision for net credit losses of \$662,000 in the fourth quarter a year ago and a reversal of net credit losses of \$5,000 at September 30, 2023.

- Net interest margin was 2.85%, compared to 4.29% in the fourth quarter a year ago and 2.80% in the preceding quarter.
- Fourth quarter revenues (interest income plus noninterest income) decreased 6.0% to \$15,333,000, compared to \$16,320,000 in the fourth quarter a year ago and decreased 6.7% compared to \$16,427,000 in the preceding quarter.
- Annualized return on average assets was 0.67%, compared to 1.69% in the fourth quarter of 2022 and 0.63% in the preceding quarter.
- Annualized return on average equity was 8.02%, compared to 20.84% in the fourth quarter a year ago and 7.70% in the preceding quarter.
- Net loans increased \$24,919,000 to \$938,626,000 at December 31, 2023, compared to \$913,707,000 one year earlier and increased \$6,400,000 compared to \$932,226,000 three months earlier.
- Total deposits increased 5% to \$1,009,693,000 at December 31, 2023 compared to \$962,655,000 at December 31, 2022 and decreased 2% when compared to the prior quarter end of \$1,030,836,000.
- The Bank's nonperforming loans to gross loans increased to 4.63% at December 31, 2023 compared to 3.72% at September 30, 2023 and 0.40% at December 31, 2022. Additionally, nonperforming assets to total assets increased to 3.94%, at December 31, 2023 compared to 3.09% at September 30, 2023 and 0.34% at December 31, 2022.
- Book value increased to \$14.40 per share, compared to \$13.15 per share a year ago.
- Declared a quarterly cash dividend of \$0.12 per share for the three months ended December 31, 2023, September 30, 2023, and December 31, 2022.

Operating Results

For the fourth quarter of 2023, the annualized return on average assets was 0.67% and the annualized return on average equity was 8.02%. This compared to an annualized return on average assets of 1.69% and an annualized return on average equity of 20.84%, respectively, for the fourth quarter of 2022.

"Following an unprecedented rise in funding costs that has affected the entire banking industry over the past year, our net interest margin started to stabilize during the fourth quarter; expanding five basis points compared to the prior quarter," said Reed. "We are working hard to retain rate sensitive customer deposits, and while deposit pricing pressure persists, we continue to benefit from new loan growth as well as existing loans repricing at higher rates." Summit's net interest margin was 2.85% in the fourth quarter of 2023, compared to 2.80% in the preceding quarter and 4.29% in the fourth quarter of 2022.

Interest and dividend income increased 6% to \$15,036,000 in the fourth quarter of 2023 compared to \$14,188,000 in the fourth quarter of 2022. The increase in interest income is attributable to a \$312,000 increase in loan interest yield primarily driven by increased loan volume and secondarily by increased rates, \$423,000 increase in interest on deposits with banks and \$113,000 increase in investment interest.

Non-interest income decreased in the fourth quarter of 2023 to \$297,000 compared to \$2,132,000 in the fourth quarter of 2022. The Bank recognized no gains on sales of SBA guaranteed loan balances in the fourth quarter of 2023, compared to \$1,762,000 in gains on sales of SBA and USDA guaranteed loan balances in the fourth quarter of 2022.

Operating expenses decreased in the fourth quarter of 2023 to \$5,483,000 compared to \$6,395,000 in the fourth quarter of 2022. The decrease was primarily due to a \$741,000 decrease in stock appreciation rights expense, a \$570,000 decrease in annual bonus payout, offset by a one-time expense of \$470,000 for a cyber fraud loss.

Balance Sheet Review

Net loans increased 3% to \$938,626,000 at December 31, 2023 compared to \$913,707,000 at December 31, 2022 and increased 1% compared to September 30, 2023.

Total deposits increased 5% to \$1,009,693,000 at December 31, 2023 compared to \$962,655,000 at December 31, 2022 and decreased 2% when compared to the prior quarter end. Most of the deposit growth year-over-year was due to the Bank's ongoing focus on growing local deposits organically. At December 31, 2023, noninterest bearing demand deposit accounts decreased 20% compared to a year ago and represented 20% of total deposits; savings, NOW and money market accounts increased 47% compared to a year ago and represented 51% of total deposits, and CDs decreased 18% compared to a year ago and comprised 29% of total deposits. The average cost of deposits was 2.79% in the fourth quarter of 2023, compared to 1.06% in the fourth quarter of 2022, and 2.63% in the third quarter of 2023.

Shareholders' equity was \$97,678,000 at December 31, 2023, compared to \$93,439,000 three months earlier and \$88,547,000 a year earlier. The increase in shareholders' equity compared to a year ago was primarily due to an increase of \$7,571,000 in retained earnings and a decrease of \$1,269,000 in accumulated other comprehensive loss; this change was related to a decrease in the unrealized loss on available for sale securities reflecting the decrease in market interest rates during the year. At December 31, 2023, book value was \$14.40 per share, compared to \$13.77 three months earlier, and \$13.15 at December 31, 2022.

Summit State Bank continues to maintain capital levels in excess of the requirements to be categorized as "well-capitalized" with tangible equity to tangible assets of 8.38% at December 31, 2023, compared to 8.24% at September 30, 2023, and 8.10% at December 31, 2022.

Credit Quality

"Identifying and resolving problem credits and maintaining an adequate reserve balance remains a top priority," said Reed. Nonperforming assets were \$44,206,000, or 3.94% of total assets, at December 31, 2023, and consisted of eighteen loans; one loan totaling \$6,449,000 is a real estate secured commercial loan, two loans totaling \$5,690,000 are real estate secured construction and land loans and fifteen loans totaling \$32,067,000 are commercial and agriculture secured loans. All nonperforming assets were individually

assessed, many of which are sufficiently collateralized, resulting in a corresponding reserve of \$1,613,000. There were \$35,267,000 in nonperforming assets at September 30, 2023, and \$3,756,000 in nonperforming assets at December 31, 2022.

Due to minimal projected change in expected losses, the Bank recorded a \$65,000 reversal of net credit loss expense for unfunded commitments in the fourth quarter of 2023. This compared to \$662,000 provision for net credit loss expense in the fourth quarter of 2022. The allowance for credit losses to total loans was 1.60% on December 31, 2023 and December 31, 2022. The real estate portfolio, which accounts for a majority of the Bank's loan portfolio, has an average loan-to-value of 50% and debt service coverage ratio of 1.92% as of December 31, 2023.

During challenging economic times, we remain focused on our mission of providing exceptional service to our customers and meeting all of their financial needs," said Reed.

About Summit State Bank

Founded in 1982 and headquartered in Sonoma County, Summit State Bank (Nasdaq: SSBI), is an award-winning community bank servicing the North Bay. The Bank serves small businesses, nonprofits, and the community, with total assets of \$1,123 million and total equity of \$98 million at December 31, 2023. The Bank has built its reputation over the past 40 years by specializing in providing exceptional customer service and customized financial solutions to aid in the success of its customers.

Summit State Bank is dedicated to investing in and celebrating 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. The Bank has been consistently recognized for its achievements and has been awarded Best Places to Work in the North Bay, Top Community Bank Loan Producer, Raymond James Bankers Cup, Super Premier Performing Bank, the Piper Sandler SM-ALL Star Award, the Independent Community Bankers of America's Best-Performing Community Banks, and the San Francisco Business Times' 2023 Bay Area Corporate Philanthropists. For more information, visit www.summitstatebank.com.

Forward-looking Statements

The financial results in this release are preliminary. Final financial results and other disclosures will be reported in Summit State Bank's annual report on Form 10-K for the period ended December 31, 2023 and may differ materially from the results and disclosures in this release due to, among other things, the completion of final review procedures, the occurrence of subsequent events or the discovery of additional information.

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.
