
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): April 27, 2021

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.

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 April 27, 2021, 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 months ended March 31, 2021.

Common stock cash dividend of \$0.12 per share declared on April 26, 2021, payable on May 21, 2021 to shareholders of record on May 14, 2021.

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: April 27, 2021

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 April 27, 2021, announcing results of operation for the three months ended March 31, 2021 and declaration of quarterly dividend.

Summit State Bank Reports 37% Increase in Net Income to \$3,317,000 for First Quarter 2021 and Declaration of Dividend

SANTA ROSA, CA – (April 27, 2021) – Summit State Bank (Nasdaq: SSBI) today reported record net income for the quarter ended March 31, 2021 of \$3,317,000 and diluted earnings per share of \$0.55. This compares to net income of \$2,415,000 and diluted earnings per share of \$0.40 for the quarter ended March 31, 2020. Additionally, a quarterly dividend of \$0.12 per share was declared for common shareholders.

Dividend

The Board of Directors declared a \$0.12 per share quarterly dividend on April 26, 2021 to be paid on May 21, 2021 to shareholders of record on May 14, 2021.

Net Income and Results of Operations

For the quarter ended March 31, 2021, Summit State Bank (“Bank”) had net income of \$3,317,000 and diluted earnings per share of \$0.55 compared to net income of \$2,415,000 and \$0.40 diluted earnings per share for the quarter ended March 31, 2020.

Net income increased \$902,000 or 37% the first quarter of 2021 compared to first quarter of 2020. Net interest income increased to \$9,190,000 in the first quarter of 2021 compared to \$6,525,000 in the first quarter of 2020.

“The Bank recorded record earnings in 2020 and we continue to experience record earnings into the first quarter of 2021,” noted Brian Reed, President and CEO. “In the past year we have seen unprecedented events unfold across the globe. I am proud of the support our staff has provided to our customers and our local communities. Their diligence, long hours, and commitment to doing their best every day has allowed our Bank to achieve strong core financial performance.”

The net interest margin for the first quarter of 2021 was 4.35%, annualized return on average assets was 1.54% and annualized return on average equity was 17.80%. The first quarter of 2020 had a net interest margin was 3.88%, annualized return on average assets was 1.41% and annualized return on average equity was 14.13%. The Bank is experiencing growth in its margin due to a reduction in cost of funds; this reduction was caused by repricing high cost maturing deposits and an increase in low-cost, non-maturing deposit volume.

“We updated our five-year strategic plan in 2020 and are performing as expected,” said Brian Reed, President and CEO. “We remain on our path to grow core earnings by strategically managing our balance sheet.”

Interest income increased to \$10,409,000 in the first quarter of 2021 compared to \$8,292,000 in the first quarter of 2020, this was an increase of 26%. The increase in

interest income is attributable to \$1,099,000 from increases in loan balances and \$1,057,000 from increases in income net of fees due to the Paycheck Protection Program (“PPP”) loans. The fees collected from all SBA PPP loans are amortized over the life of the loan and upon forgiveness the remaining fee income, net of cost, is taken into interest income. In the first quarter of 2021, the Bank recorded \$906,000 in PPP fees net of costs; the Bank has \$1,587,000 in remaining PPP fees net of costs left to amortize.

“Last year we funded \$96,710,000 of PPP loans to over 600 businesses and are pleased to offer a second draw of funds to eligible customers through PPP Round 2,” said Reed. “To date the Bank funded over \$35,000,000 in PPP Round 2 loans. We continue to actively work with our customers to request forgiveness from the SBA for the PPP Round 1 loans. Currently the Bank has approximately \$28,000,000 remaining in SBA Round 1 loans to be forgiven.”

Net loans and deposits increased when comparing the first quarter of 2021 to 2020. Net loans increased 25% to \$749,940,000 at March 31, 2021 compared to \$601,400,000 at March 31, 2020. Excluding PPP loans, net loans increased 14% to \$683,627,000 at March 31, 2021 when compared to March 31, 2020. Total deposits increased 30% to \$747,350,000 at March 31, 2021 compared to \$574,006,000 at March 31, 2020.

Non-interest income decreased in the first quarter of 2021 to \$694,000 compared to \$1,929,000 in the first quarter of 2020. The Bank recognized \$348,000 in gains on sales of SBA guaranteed loan balances in the first quarter of 2021 compared to \$697,000 in gains on sales of SBA guaranteed loans balances in the first quarter of 2020. The Bank recognized \$871,000 in one-time investment security gains in the first quarter of 2020 caused by investments being called because of the reduced interest rate environment.

Operating expenses increased 9% in the first quarter of 2021 to \$4,839,000 compared to \$4,442,000 in the first quarter of 2020. The increase in expenses is primarily due to an increase in employee salaries, employee expenses, third-party IT services, and professional fees. The Bank is achieving economies of scale as it grows resulting in an efficiency ratio improvement which went from 58.31% for the first quarter of 2020 to 48.99% for the first quarter of 2021.

Nonperforming assets were \$467,000 or 0.05% of total assets at March 31, 2021 compared to \$416,000 or 0.06% on March 31, 2020. The nonperforming assets on March 31, 2021 consist of 2 loans that are secured by real property and another loan that has a guarantee from the State of California.

The Financial Accounting Standards Board has adopted a new accounting standard that must be implemented by January 1, 2023. This standard, referred to as Current Expected Credit Loss (“CECL”), requires financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize those losses as allowances for credit losses. The Bank early adopted CECL on January 1, 2021. At adoption, the Bank recognized a one-time cumulative-effect adjustment on January 1, 2021 by recording a reduction in retained earnings of \$1,575,000, an increase in the Allowance for Credit Losses (“ACL”) of \$2,250,000, and an increase in the Deferred Tax Asset of \$675,000. The

decrease in retained earnings at adoption reduced the Bank's common equity tier 1 capital for regulatory capital purposes.

In addition to the adjustment made to the ACL due to the CECL adoption, the Bank had a provision expense of \$335,000 in the first quarter of 2021. The allowance for credit losses to total loans including SBA-guaranteed PPP loans was 1.51% on March 31, 2021 and 1.21% on March 31, 2020. Excluding \$66,313,000 of PPP loan balances, the non-GAAP financial measurement ratio of allowance for credit losses increases to 1.65% on March 31, 2021.

As of March 31, 2021, 9 loans totaling \$27,279,000 or 4% of the loan portfolio excluding PPP loans were in principal and interest deferral. Of the loans in deferral, 7 of those loans totaling \$22,836,000 are extended deferments for a total deferment period up to one year; none of the loans in deferral qualify as a Troubled Debt Restructure. The deferral portfolio has a loan to value ranging from 34% to 78%, and 99% of the deferred loans are real estate secured.

Reed further explains "we are fortunate to have improved financial performance during an unforgettable global crisis. With the recent change to the orange tier in Sonoma County, we will support our customers as they begin the post-pandemic recovery process. We will continue to monitor trends in the economy and adjust credit loss reserves, as needed, to account for any measured change in risk of loss."

About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$886 million and total equity of \$76 million at March 31, 2021. 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, 69% 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
STATEMENTS OF INCOME**

(In thousands except earnings per share data)

	Three Months Ended	
	March 31, 2021 (Unaudited)	March 31, 2020 (Unaudited)
Interest income:		
Interest and fees on loans	\$ 9,976	\$ 7,820
Interest on deposits with banks	7	44
Interest on investment securities	383	369
Dividends on FHLB stock	43	59
Total interest income	10,409	8,292
Interest expense:		
Deposits	933	1,445
Federal Home Loan Bank advances	286	322
Total interest expense	1,219	1,767
Net interest income before provision for credit losses	9,190	6,525
Provision for credit losses (1)	335	600
Net interest income after provision for credit losses	8,855	5,925
Non-interest income:		
Service charges on deposit accounts	203	214
Rental income	86	87
Net gain on loan sales	348	697
Net securities gain	7	871
Other income	50	60
Total non-interest income	694	1,929
Non-interest expense:		
Salaries and employee benefits	3,018	2,723
Occupancy and equipment	414	383
Other expenses	1,407	1,316
Total non-interest expense	4,839	4,422
Income before provision for income taxes	4,710	3,432
Provision for income taxes	1,393	1,017
Net income	\$ 3,317	\$ 2,415
Basic earnings per common share	\$ 0.55	\$ 0.40
Diluted earnings per common share	\$ 0.55	\$ 0.40
Basic weighted average shares of common stock outstanding	6,070	6,070
Diluted weighted average shares of common stock outstanding	6,075	6,074

(1) Allowance in 2021 reported with current expected credit loss ("CECL") method, all prior period allowance is reported in accordance with previous GAAP incurred loss method.

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

	March 31, 2021	December 31, 2020	March 31, 2020
	(Unaudited)	(Unaudited)	(Unaudited)
ASSETS			
Cash and due from banks	\$ 46,949	\$ 30,826	\$ 36,493
Total cash and cash equivalents	46,949	30,826	36,493
Investment securities:			
Available-for-sale (at fair value; amortized cost of \$68,966, \$66,335 and \$58,690)	68,973	67,952	58,160
Total investment securities	68,973	67,952	58,160
Loans, less allowance for credit losses of \$11,476, \$8,882 and \$7,375 (1)	749,940	745,939	601,400
Bank premises and equipment, net	5,943	5,994	6,270
Investment in Federal Home Loan Bank stock, at cost	3,429	3,429	3,342
Goodwill	4,119	4,119	4,119
Accrued interest receivable and other assets	6,790	7,595	11,861
Total assets	\$ 886,143	\$ 865,854	\$ 721,645
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 220,197	\$ 199,097	\$ 136,875
Demand - interest-bearing	111,646	88,684	66,412
Savings	44,588	42,120	27,459
Money market	164,621	167,113	123,341
Time deposits that meet or exceed the FDIC insurance limit	37,147	35,765	47,682
Other time deposits	169,151	193,516	172,237
Total deposits	747,350	726,295	574,006
Federal Home Loan Bank advances	53,500	53,500	69,300
Junior subordinated debt	5,880	5,876	5,865
Accrued interest payable and other liabilities	3,904	4,554	4,273
Total liabilities	810,634	790,225	653,444
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 6,069,600, 6,069,600 and 6,069,600	36,981	36,981	36,981
Retained earnings	38,524	37,510	31,593
Accumulated other comprehensive income (loss), net	4	1,138	(373)
Total shareholders' equity	75,509	75,629	68,201
Total liabilities and shareholders' equity	\$ 886,143	\$ 865,854	\$ 721,645

(1) Allowance in 2021 reported with current expected credit loss ("CECL") method, all prior period allowance is reported in accordance with previous GAAP incurred loss method.

Financial Summary
(Dollars in thousands except per share data)

	As of and for the Three Months Ended	
	March 31, 2021 (Unaudited)	March 31, 2020 (Unaudited)
Statement of Income Data:		
Net interest income	\$ 9,190	\$ 6,525
Provision for credit losses (5)	335	600
Non-interest income	694	1,929
Non-interest expense	4,839	4,422
Provision for income taxes	1,393	1,017
Net income	\$ 3,317	\$ 2,415
Selected per Common Share Data:		
Basic earnings per common share	\$ 0.55	\$ 0.40
Diluted earnings per common share	\$ 0.55	\$ 0.40
Dividend per share	\$ 0.12	\$ 0.12
Book value per common share (1)	\$ 12.44	\$ 11.24
Selected Balance Sheet Data:		
Assets	\$ 886,143	\$ 721,645
Loans, net (5)	749,940	601,400
Deposits	747,350	574,006
Average assets	884,238	688,842
Average earning assets	856,663	673,731
Average shareholders' equity	75,554	68,569
Nonperforming loans	467	472
Total nonperforming assets	467	416
Troubled debt restructures (accruing)	2,176	2,061
Selected Ratios:		
Return on average assets (2)	1.52%	1.41%
Return on average common shareholders' equity (2)	17.80%	14.13%
Efficiency ratio (3)	48.99%	58.31%
Net interest margin (2)	4.35%	3.88%
Common equity tier 1 capital ratio	9.92%	10.30%
Tier 1 capital ratio	9.92%	10.30%
Total capital ratio	12.32%	12.50%
Tier 1 leverage ratio	8.10%	9.30%
Common dividend payout ratio (4)	21.95%	30.14%
Average shareholders' equity to average assets	8.54%	9.95%
Nonperforming loans to total loans	0.06%	0.08%
Nonperforming assets to total assets	0.05%	0.06%
Allowance for credit losses to total loans (5)	1.51%	1.21%
Allowance for credit losses to total loans excluding PPP (5)*	1.65%	1.21%
Allowance for credit losses to nonperforming loans (5)	2458.47%	1562.90%

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

(2) Annualized.

(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.

(5) Allowance in 2021 reported with current expected credit loss ("CECL") method, all prior period allowance is reported in accordance with previous GAAP incurred loss method.

***Non-GAAP Financial Measures:**

This news release contains a non-GAAP (Generally Accepted Accounting Principles) financial measure in addition to results presented in accordance with GAAP for the allowance for credit losses to total loans excluding PPP loans. The Bank has presented this non-GAAP financial measure in the earnings release because it believes that it provides useful information to assess the Bank's allowance for credit loss reserves. This non-GAAP financial measure has inherent limitations, is not required to be uniformly applied, and is not audited. Further, this non-GAAP financial measure should not be considered in isolation or as a substitute for the allowance for credit losses to total loans determined in accordance with GAAP and may not be comparable to similarly titled measures reported by other financial institutions. Reconciliation of the GAAP and non-GAAP financial measurement is presented below.

	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
	(In thousands)				
Allowance for Credit Losses (ACL) on loans to Loans receivable, excluding SBA PPP loans					
Allowance for credit losses on loans (1)	\$ (11,476)	\$ (8,882)	\$ (8,393)	\$ (7,881)	\$ (7,375)
Loans receivable (GAAP)	\$ 761,416	\$ 754,820	\$ 735,252	\$ 709,689	\$ 608,775
Excluding SBA PPP loans	66,313	69,583	96,710	95,534	-
Loans receivable, excluding SBA PPP (non-GAAP)	<u>\$ 695,103</u>	<u>\$ 685,237</u>	<u>\$ 638,542</u>	<u>\$ 614,155</u>	<u>\$ 608,775</u>
ACL on loans to Loans receivable (GAAP)	1.51%	1.18%	1.14%	1.11%	1.21%
ACL on loans to Loans receivable, excluding SBA PPP loans (non-GAAP)	1.65%	1.30%	1.31%	1.28%	1.21%

(1) Allowance in 2021 reported with current expected credit loss ("CECL") method, all prior period allowance is reported in accordance with previous GAAP incurred loss method.