
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): July 28, 2020

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 July 28, 2020, 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 June 30, 2020.

Common stock cash dividend of \$0.12 per share declared on July 27, 2020, payable on August 21, 2020 to shareholders of record on August 14, 2020.

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: July 28, 2020

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 July 28, 2020, announcing results of operation for the three months ended June 30, 2020 and declaration of quarterly dividend.

Summit State Bank Reports \$1,046,000 or 89% Increase in Net Income for Second Quarter 2020 and Declaration of Dividend

SANTA ROSA, CA – (July 28, 2020) – Summit State Bank (Nasdaq: SSBI) today reported net income for the quarter ended June 30, 2020 of \$2,218,000 and diluted earnings per share of \$0.37. This compares to net income of \$1,172,000 and diluted earnings per share of \$0.19 for the same quarter in 2019. 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 July 27, 2020 to be paid on August 21, 2020 to shareholders of record on August 14, 2020.

Net Income and Results of Operations

Net income increased \$1,046,000 or 89% the second quarter of 2020 compared to second quarter of 2019. Net income increased \$2,037,000 or 78% in the first six months of 2020 compared to the first six months of 2019.

Net interest income increased to \$7,174,000 in the second quarter of 2020 compared to \$5,499,000 in the second quarter of 2019. The increase in net interest income is primarily attributable to increases in loan balances with a lesser portion of this increase driven by the Paycheck Protection Program (“PPP”) loans.

“The Bank is pleased to announce four consecutive quarters of strong earnings totaling \$8,514,000 or \$1.40 per share,” said Brian Reed, President and CEO. “Three and a half years ago, we implemented a strategic plan to restructure and grow the Bank’s balance sheet and this plan is now showing consistently strong earnings and balance sheet growth.”

“The COVID-19 pandemic presents a number of economic challenges and we continue to actively support our customers and local businesses in these unprecedented times,” said Reed. “To date we funded over \$95,000,000 of PPP loans representing 13.5% of the June 30, 2020 loan portfolio. In these uncertain times we feel fortunate to be a position to help our customers and community. We stand ready to be a continued source of support for them going forward.”

Nonperforming assets were \$410,000 or 0.05% of total assets at June 30, 2020 compared to \$715,000 or 0.11% at June 30, 2019. Nonperforming assets at June 30, 2020 consist of loans which are predominantly secured by real property. The Bank had a provision expense of \$500,000 in the second quarter of 2020. At June 30, 2020 the allowance for loan losses to total loans including SBA-guaranteed PPP loans was 1.11% at June 30, 2020 and 1.17% at June 30, 2019. Excluding \$95,534,000 of PPP loans increases the ratio of allowance for loans losses to 1.28% at June 30, 2020.

In the second quarter of 2020 the Bank deferred payments on over \$142,000,000 or 20% of loans in its portfolio. The deferral process increases the total balance due on the loan and re-amortizes the monthly payment through the original maturity date. As of June 30, 2020, approximately \$54,000,000 or 9% of the loan portfolio excluding PPP loans were in deferral.

“The Bank has deliberately built its balance sheet growth around strong-performing loans,” notes Reed. “At the onset of the pandemic and continuing through today, the Bank has experienced minimal credit problems. We are actively monitoring our portfolio, assisting our customers through this economic downturn, and ensuring we maintain sufficient loan loss reserves.”

Reed further explains “The Bank will continue monitoring this fluid situation. We are watching trends in high-risk industries including retail, restaurants, and lodging. These high-risk industries comprise approximately 14% of our portfolio and we are increasing our loan loss reserves due to the increased risk of loss.”

Non-interest income increased in the second quarter of 2020 to \$693,000 compared to \$340,000 in the second quarter of 2019. The Bank recognized \$320,000 in gains on sales of SBA guaranteed loan balances in the second quarter of 2020 compared to \$0 in gains on sales of SBA guaranteed loans balances in the second quarter of 2019.

Total loans and deposits also increased when comparing the second quarter of 2020 to second quarter of 2019; loans were \$701,808,000 in 2020 (includes \$95,534,000 of PPP loans) compared to \$536,674,000 in 2019 and deposits were \$709,473,000 in 2020 compared to \$532,257,000 in 2019. The net interest margin increased to 3.71% for the second quarter of 2020 compared to 3.64% for the second quarter of 2019.

Annualized return on average assets for the second quarter of 2020 was 1.12%, annualized return on average equity was 12.71% and the efficiency ratio was 53.59%. The second quarter of 2019 had an annualized return on average assets of 0.75%, annualized return on average equity of 7.36% and efficiency ratio of 68.34%.

There was a \$221,000 or 6% increase in operating expenses in the second quarter of 2020 compared to the second quarter of 2019. The increase in expenses is primarily due to an increase in employee expenses and occupancy costs. The Bank is leveling off of a growth trend in operating expenses since the middle of 2019 resulting in an improvement in the efficiency ratio by 14.75% when comparing second quarter of 2020 to second quarter of 2019.

About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$850 million and total equity of \$71 million at June 30, 2020. 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, 73% of management are women and minorities with 75% 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		Six Months Ended	
	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
Interest income:				
Interest and fees on loans	\$ 8,329	\$ 6,630	\$ 16,148	\$ 13,081
Interest on deposits with banks	7	32	51	133
Interest on investment securities	393	476	762	1,066
Dividends on FHLB stock	87	53	146	108
Total interest income	<u>8,816</u>	<u>7,191</u>	<u>17,107</u>	<u>14,388</u>
Interest expense:				
Deposits	1,343	1,581	2,788	3,052
Federal Home Loan Bank advances	299	111	621	290
Total interest expense	<u>1,642</u>	<u>1,692</u>	<u>3,409</u>	<u>3,342</u>
Net interest income before provision for loan losses	7,174	5,499	13,698	11,046
Provision for loan losses	500	180	1,100	280
Net interest income after provision for loan losses	<u>6,674</u>	<u>5,319</u>	<u>12,598</u>	<u>10,766</u>
Non-interest income:				
Service charges on deposit accounts	178	219	393	409
Rental income	88	81	175	172
Net gain on loan sales	320	-	1,017	167
Net securities gain	-	(7)	871	(7)
Other income	107	47	167	92
Total non-interest income	<u>693</u>	<u>340</u>	<u>2,623</u>	<u>833</u>
Non-interest expense:				
Salaries and employee benefits	2,431	2,303	5,154	4,960
Occupancy and equipment	424	434	807	857
Other expenses	1,361	1,258	2,676	2,390
Total non-interest expense	<u>4,216</u>	<u>3,995</u>	<u>8,637</u>	<u>8,207</u>
Income before provision for income taxes	3,151	1,664	6,584	3,392
Provision for income taxes	933	492	1,950	795
Net income	<u>\$ 2,218</u>	<u>\$ 1,172</u>	<u>\$ 4,634</u>	<u>\$ 2,597</u>
Basic earnings per common share	\$ 0.37	\$ 0.19	\$ 0.76	\$ 0.43
Diluted earnings per common share	\$ 0.37	\$ 0.19	\$ 0.76	\$ 0.43
Basic weighted average shares of common stock outstanding	6,070	6,069	6,070	6,068
Diluted weighted average shares of common stock outstanding	6,074	6,075	6,072	6,071

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

	June 30, 2020	December 31, 2019	June 30, 2019
	(Unaudited)	(Unaudited)	(Unaudited)
ASSETS			
Cash and due from banks	\$ 67,954	\$ 38,299	\$ 12,104
Total cash and cash equivalents	67,954	38,299	12,104
Investment securities:			
Held-to-maturity, at amortized cost	-	7,998	7,995
Available-for-sale (at fair value; amortized cost of \$58,807, \$53,591 and \$59,450)	60,472	54,241	59,853
Total investment securities	60,472	62,239	67,848
Loans, less allowance for loan losses of \$7,881, \$6,769 and \$6,328	701,808	576,548	536,674
Bank premises and equipment, net	6,191	6,301	6,324
Investment in Federal Home Loan Bank stock, at cost	3,429	3,342	3,341
Goodwill	4,119	4,119	4,119
Accrued interest receivable and other assets	6,686	5,130	5,212
Total assets	\$ 850,659	\$ 695,978	\$ 635,622
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 202,012	\$ 129,084	\$ 119,535
Demand - interest-bearing	79,570	69,383	65,227
Savings	36,887	28,359	25,419
Money market	136,754	128,377	99,585
Time deposits that meet or exceed the FDIC insurance limit	44,092	76,564	85,315
Other time deposits	210,158	142,070	137,176
Total deposits	709,473	573,837	532,257
Federal Home Loan Bank advances	58,500	45,600	29,300
Junior subordinated debt	5,869	5,862	5,862
Accrued interest payable and other liabilities	5,581	3,335	3,462
Total liabilities	779,423	628,634	570,881
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 6,067,975	36,981	36,981	36,974
Retained earnings	33,083	29,906	27,483
Accumulated other comprehensive income, net	1,172	457	284
Total shareholders' equity	71,236	67,344	64,741
Total liabilities and shareholders' equity	\$ 850,659	\$ 695,978	\$ 635,622

Financial Summary
(Dollars in thousands except per share data)

	As of and for the Three Months Ended		As of and for the Six Months Ended	
	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)	June 30, 2020 (Unaudited)	June 30, 2019 (Unaudited)
Statement of Income Data:				
Net interest income	\$ 7,174	\$ 5,499	\$ 13,698	\$ 11,046
Provision for loan losses	500	180	1,100	280
Non-interest income	693	340	2,623	833
Non-interest expense	4,216	3,995	8,637	8,207
Provision for income taxes	933	492	1,950	795
Net income	<u>\$ 2,218</u>	<u>\$ 1,172</u>	<u>\$ 4,634</u>	<u>\$ 2,597</u>
Selected per Common Share Data:				
Basic earnings per common share	\$ 0.37	\$ 0.19	\$ 0.76	\$ 0.43
Diluted earnings per common share	\$ 0.37	\$ 0.19	\$ 0.76	\$ 0.43
Dividend per share	\$ 0.12	\$ 0.12	\$ 0.24	\$ 0.24
Book value per common share (2)	\$ 11.74	\$ 10.67	\$ 11.74	\$ 10.67
Selected Balance Sheet Data:				
Assets	\$ 850,659	\$ 635,622	\$ 850,659	\$ 635,622
Loans, net	701,808	536,674	701,808	536,674
Deposits	709,473	532,257	709,473	532,257
Average assets	794,442	622,883	741,642	625,393
Average earning assets	775,852	606,280	724,791	609,179
Average shareholders' equity	69,969	63,855	69,269	63,126
Nonperforming loans	410	715	410	715
Total nonperforming assets	410	715	410	715
Troubled debt restructures (accruing)	2,214	2,449	2,214	2,449
Selected Ratios:				
Return on average assets (1)	1.12%	0.75%	1.25%	0.84%
Return on average common shareholders' equity (1)	12.71%	7.36%	13.42%	8.30%
Efficiency ratio (3)	53.59%	68.34%	55.90%	69.05%
Net interest margin (1)	3.71%	3.64%	3.81%	3.66%
Common equity tier 1 capital ratio	10.11%	10.70%	10.11%	10.7%
Tier 1 capital ratio	10.11%	10.70%	10.11%	10.7%
Total capital ratio	12.30%	13.00%	12.30%	13.0%
Tier 1 leverage ratio	8.23%	9.50%	8.23%	9.5%
Common dividend payout ratio (4)	65.69%	62.12%	31.44%	56.06%
Average shareholders' equity to average assets	8.81%	10.25%	9.34%	10.09%
Nonperforming loans to total loans	0.06%	0.13%	0.06%	0.13%
Nonperforming assets to total assets	0.05%	0.11%	0.05%	0.11%
Allowance for loan losses to total loans	1.11%	1.17%	1.11%	1.17%
Allowance for loan losses to total loans excluding PPP	1.28%	1.17%	1.28%	1.17%
Allowance for loan losses to nonperforming loans	1923.52%	885.39%	1923.52%	885.39%

(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.

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 loan 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 loan 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 loan 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.

	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019
	(In thousands)				
<u>ACL on loans to Loans receivable, excluding SBA PPP loans</u>					
Allowance for credit losses on loans	\$ (7,881)	\$ (7,375)	\$ (6,769)	\$ (6,550)	\$ (6,328)
Loans receivable (GAAP)	\$ 709,689	\$ 608,775	\$ 583,317	\$ 560,672	\$ 543,002
Excluding SBA PPP loans	95,534	-	-	-	-
Loans receivable, excluding SBA PPP (non-GAAP)	<u>\$ 614,155</u>	<u>\$ 608,775</u>	<u>\$ 583,317</u>	<u>\$ 560,672</u>	<u>\$ 543,002</u>
ACL on loans to Loans receivable (GAAP)	1.11%	1.21%	1.16%	1.17%	1.17%
ACL on loans to Loans receivable, excluding SBA PPP loans (non-GAAP)	1.28%	1.21%	1.16%	1.17%	1.17%