
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 24, 2023

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 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 24, 2023, 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 six months ended June 30, 2023.

Common stock cash dividend of \$0.12 per share declared on June 24, 2023 to be paid on August 17, 2023 to shareholders of record on August 10, 2023.

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 25, 2023

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 25, 2023, announcing results of operation for the three and six months ended June 30, 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 \$3.0 Million for Second Quarter 2023; Declares Quarterly Cash Dividend of \$0.12 Per Common Share

SANTA ROSA, CA – (July 25, 2023) – Summit State Bank (Nasdaq: SSBI) today reported net income for the second quarter ended June 30, 2023 of \$2,985,000, or \$0.45 per diluted share, a decrease of \$1,516,000, or 33.7%, compared to net income of \$4,501,000, or \$0.67 per diluted share for the second quarter ended June 30, 2022. Financial results for the quarter reflect strong net interest income offset by lower non-interest income resulting from reduced gain on sale of loan activity. Additionally, a quarterly dividend of \$0.12 per share was declared for common shareholders.

The Board of Directors declared a quarterly cash dividend of \$0.12 per share on July 24, 2023. The quarterly dividend will be paid on August 17, 2023 to shareholders of record on August 10, 2023.

"Our second quarter results reflected solid net interest income generation, fueled by strong loan growth," said Brian Reed, President and CEO. "Deposits also increased with growth across half of the deposit categories. We have been very deliberate in our deposit gathering strategies, and as a result were able to grow customer deposits during the quarter, at a time when the banking industry is experiencing deposit contraction. While the net interest margin decrease was primarily related to pressure from the funding side of the balance sheet, we remain prudent with all new loan pricing, with an average loan rate of 5.66% during the quarter, compared to 5.59% in the prior quarter. Despite the challenges and headwinds facing the banking industry, our ability to grow our balance sheet organically will ultimately further enhance the value of our Bank over time."

Second Quarter 2023 Financial Highlights (at or for the three months ended June 30, 2023)

- Net income was \$2,985,000, or \$0.45 per diluted share, compared to \$4,501,000, or \$0.67 per diluted share, in the second quarter of 2022 and \$4,116,000, or \$0.62 per diluted share, for the quarter ended March 31, 2023.
- Provision for credit losses was \$35,000, compared to \$998,000 in the second quarter a year ago.

- Net interest margin was 3.44%, compared to 3.69% in the preceding quarter and 4.36% in the second quarter a year ago.
- Second quarter revenues (net interest income plus noninterest income) decreased 12.2% to \$11,113,000, compared to \$12,656,000 in the second quarter a year ago.
- Annualized return on average assets was 1.03%, compared to 1.85% in the second quarter of 2022.
- Annualized return on average equity was 12.69%, compared to 21.26% in the second quarter a year ago.
- Net loans increased \$86,541,000 to \$924,806,000 at June 30, 2023, compared to \$838,265,000 one year earlier.
- Net loans increased \$17,183,000 during the quarter to \$924,806,000 at June 30, 2023, compared to \$907,623,000 three months earlier.
- Total deposits increased 28% to \$1,048,316,000 at June 30, 2023 compared to \$819,932,000 at June 30, 2022 and increased 3% when compared to the prior quarter end. Deposit growth during the quarter consisted primarily of increases in NOW and money market accounts gathered from the Bank's existing five-branch network.
- The Bank maintains loan loss reserves at the high-end when compared to peers due to increases in nonperforming loans. This is exhibited by loans to gross loans increasing to 2.65% at June 30, 2023 compared to 1.13% at March 31, 2023 and 0.07% at June 30, 2022. Additionally, nonperforming assets to total assets increased to 2.14%, at June 30, 2023 compared to 0.91% at March 31, 2023 and 0.06% at June 30, 2022.
- Tangible book value was \$13.92 per share, compared to \$12.66 per share a year ago.
- Declared a quarterly cash dividend of \$0.12 per share for the three months ended June 30, 2023, March 31, 2023 and June 30, 2022.

Operating Results

For the second quarter of 2023, the annualized return on average assets was 1.03% and the annualized return on average equity was 12.69%. This compared to an annualized return on average assets of 1.85% and an annualized return on average equity of 21.26%, respectively, for the second quarter of 2022. These results were above the average 0.97% return on average assets and 10.92% return on average equity posted by the 157 bank index peers that make up the Dow Jones U.S. MicroCap Bank index as of March 31, 2023.*

Summit's net interest margin was 3.44% in the second quarter of 2023, compared to 3.69% in the preceding quarter and 4.36% in the second quarter of 2022. "The rising cost of funds outpaced earning asset yields during the quarter, resulting in net interest margin contraction compared to the prior quarter. The cost of deposits in the second quarter was 2.26% as the rapid rate increases have driven customers to switch to higher yielding deposit accounts," said Reed.

Interest and dividend income increased 38% to \$15,625,000 in the second quarter of 2023 compared to \$11,346,000 in the second quarter of 2022. The increase in interest income is attributable to a \$2,607,000 increase in loan interest yield primarily driven by increased

loan volume and secondarily by increased rates, \$1,388,000 increase in interest on deposits with banks and \$284,000 increase in investment interest.

Non-interest income decreased in the second quarter of 2023 to \$1,449,000 compared to \$2,354,000 in the second quarter of 2022. The Bank recognized no gains on sales of SBA and USDA guaranteed loan balances in the second quarter of 2023 compared to \$1,953,000 in gains on sales of SBA guaranteed loans balances in the second quarter of 2022.

Operating expenses increased in the second quarter of 2023 to \$6,822,000 compared to \$5,298,000 in the second quarter of 2022. The increase is primarily due to a \$728,000 increase in stock appreciation rights expense and by a \$470,000 increase in salaries and benefits net of deferred fees and costs.

Balance Sheet Review

Net loans increased 10% to \$924,806,000 at June 30, 2023 compared to \$838,265,000 at June 30, 2022 and increased 2% compared to March 31, 2023.

Total deposits increased 28% to \$1,048,316,000 at June 30, 2023 compared to \$819,932,000 at June 30, 2022 and increased 3% 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 June 30, 2023, noninterest bearing demand deposit accounts decreased 11% compared to a year ago and represented 20% of total deposits; savings, NOW and money market accounts increased 14% compared to a year ago and represented 41% of total deposits, and CDs increased 98% compared to a year ago and comprised 39% of total deposits. The average cost of deposits was 2.26% in the second quarter of 2023, compared to 0.37% in the second quarter of 2022.

Shareholders' equity was \$94,435,000 at June 30, 2023, compared to \$92,665,000 three months earlier and \$84,664,000 a year earlier. The increase in shareholders' equity compared to a year ago was primarily due to an increase of \$12,374,000 in retained earnings offset by the \$2,890,000 increase in accumulated other comprehensive loss; this change was related to an increase in the unrealized loss on available for sale securities reflecting the increase in market interest rates during the year. At June 30, 2023 tangible book value was \$13.92 per share, compared to \$13.76 three months earlier, and \$12.66 at June 30, 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 8.15% at June 30, 2023, compared to 7.99% at March 31, 2023, and 8.70% at June 30, 2022. The decrease compared to June 2022 is due to the Bank's assets outgrowing the retention of capital to build liquidity.

Credit Quality

Nonperforming assets were \$24,908,000, or 2.14% of total assets, at June 30, 2023, and consisted of ten loans; one loan totaling \$3,189,000 is a real estate secured commercial

loan, two loans totaling \$5,960,000 are real estate secured construction and land loans and seven loans totaling \$15,759,000 are commercial and agriculture secured loans. There were \$11,637,000 of nonperforming assets that were individually assessed resulting in a corresponding reserve of \$138,000. There were \$570,000 in nonperforming assets at June 30, 2022.

Due to strong loan production when compared to the second quarter of 2022 and increases in expected losses, the Bank recorded a \$35,000 provision for credit loss expense in the second quarter of 2023. This compared to \$998,000 provision for credit loss expense in the second quarter of 2022. The allowance for credit losses to total loans was 1.62% on June 30, 2023 and 1.58% on June 30, 2022.

“As we enter the second half of the year, we remain focused on being a reliable source of capital for our customers through all economic cycles,” said Reed. “Although economic uncertainty persists, and unusual challenges presented to us by rapidly rising interest rates continue, we believe that with our strong deposit franchise, solid capital levels, and good credit quality we are well positioned to grow and prosper.”

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 \$1,161 million and total equity of \$94 million at June 30, 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, and the Independent Community Bankers of America’s Best-Performing Community Banks. For more information, visit www.summitstatebank.com.

**As of March 31, 2023, the Dow Jones U.S. MicroCap Bank Index tracked 157 banks with total common market capitalization under \$250 million for the following ratios: Return on average assets (ROAA) 0.97%, and return on average equity (ROAE) 10.92%.*

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 quarterly report on Form 10-Q for the period ended June 30, 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.

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

	Three Months Ended		
	June 30, 2023 (Unaudited)	March 31, 2023 (Unaudited)	June 30, 2022 (Unaudited)
Interest and dividend income:			
Interest and fees on loans	\$ 13,381	\$ 12,939	\$ 10,774
Interest on deposits with banks	1,449	906	61
Interest on investment securities	715	719	442
Dividends on FHLB stock	80	84	69
Total interest income	<u>15,625</u>	<u>14,648</u>	<u>11,346</u>
Interest expense:			
Deposits	5,819	4,400	750
Federal Home Loan Bank advances	48	119	200
Junior subordinated debt	94	94	94
Total interest expense	<u>5,961</u>	<u>4,613</u>	<u>1,044</u>
Net interest income before provision for credit losses	9,664	10,035	10,302
Provision for credit losses on loans	-	400	988
Provision for (reversal of) credit losses on unfunded loan commitments	35	(33)	10
Net interest income after provision for (reversal of) credit losses on loans and unfunded loan commitments	<u>9,629</u>	<u>9,668</u>	<u>9,304</u>
Non-interest income:			
Service charges on deposit accounts	215	208	213
Rental income	39	39	45
Net gain on loan sales	-	1,435	1,953
Other income	1,195	279	143
Total non-interest income	<u>1,449</u>	<u>1,961</u>	<u>2,354</u>
Non-interest expense:			
Salaries and employee benefits	4,199	3,793	3,311
Occupancy and equipment	442	452	416
Other expenses	2,181	1,573	1,571
Total non-interest expense	<u>6,822</u>	<u>5,818</u>	<u>5,298</u>
Income before provision for income taxes	4,256	5,811	6,360
Provision for income taxes	1,271	1,695	1,859
Net income	<u>\$ 2,985</u>	<u>\$ 4,116</u>	<u>\$ 4,501</u>
Basic earnings per common share	\$ 0.45	\$ 0.62	\$ 0.67
Diluted earnings per common share	\$ 0.45	\$ 0.62	\$ 0.67
Basic weighted average shares of common stock outstanding	6,697	6,688	6,687
Diluted weighted average shares of common stock outstanding	6,700	6,688	6,687

SUMMIT STATE BANK
STATEMENTS OF INCOME

(In thousands except earnings per share data)

	Six Months Ended	
	June 30, 2023 (Unaudited)	June 30, 2022 (Unaudited)
Interest and dividend income:		
Interest and fees on loans	\$ 26,321	\$ 21,193
Interest on deposits with banks	2,355	73
Interest on investment securities	1,434	826
Dividends on FHLB stock	164	134
Total interest income	30,274	22,226
Interest expense:		
Deposits	10,219	1,460
Federal Home Loan Bank advances	167	393
Junior Subordinated Debt	187	187
Total interest expense	10,573	2,040
Net interest income before provision for credit losses	19,701	20,186
Provision for credit losses on loans	400	1,123
Provision for (reversal of) credit losses on unfunded loan commitments	2	(14)
Net interest income after provision for (reversal of) credit losses on loans and unfunded loan commitments	19,299	19,077
Non-interest income:		
Service charges on deposit accounts	422	422
Rental income	79	123
Net gain on loan sales	1,435	3,499
Net gain on securities	-	6
Other income	1,473	258
Total non-interest income	3,409	4,308
Non-interest expense:		
Salaries and employee benefits	7,992	7,275
Occupancy and equipment	894	826
Other expenses	3,755	3,484
Total non-interest expense	12,641	11,585
Income before provision for income taxes	10,067	11,800
Provision for income taxes	2,966	3,364
Net income	\$ 7,101	\$ 8,436
Basic earnings per common share	\$ 1.06	\$ 1.26
Diluted earnings per common share	\$ 1.06	\$ 1.26
Basic weighted average shares of common stock outstanding	6,689	6,686
Diluted weighted average shares of common stock outstanding	6,690	6,686

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

	June 30, 2023	March 31, 2023	June 30, 2022
	(Unaudited)	(Unaudited)	(Unaudited)
ASSETS			
Cash and due from banks	\$ 112,412	\$ 116,569	\$ 36,616
Total cash and cash equivalents	112,412	116,569	36,616
Investment securities:			
Available-for-sale (at fair value; amortized cost of \$97,386, \$97,951 and \$79,613)	83,593	84,841	69,926
Loans, less allowance for credit losses of \$15,261, \$15,252 and \$13,452	924,806	907,623	838,265
Bank premises and equipment, net	5,426	5,507	5,540
Investment in Federal Home Loan Bank stock (FHLB), at cost	5,541	4,737	4,737
Goodwill	4,119	4,119	4,119
Affordable housing tax credit investments	8,586	8,773	9,050
Accrued interest receivable and other assets	16,926	14,854	12,532
Total assets	\$ 1,161,409	\$ 1,147,023	\$ 980,785
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 212,489	\$ 232,825	\$ 239,813
Demand - interest-bearing	194,596	153,214	139,765
Savings	57,003	63,895	66,938
Money market	176,616	148,433	167,761
Time deposits that meet or exceed the FDIC insurance limit	175,810	84,800	31,062
Other time deposits	231,802	332,485	174,593
Total deposits	1,048,316	1,015,652	819,932
Federal Home Loan Bank advances	-	23,000	58,600
Junior subordinated debt	5,913	5,909	5,898
Affordable housing commitment	4,435	4,435	5,998
Accrued interest payable and other liabilities	8,310	5,362	5,693
Total liabilities	1,066,974	1,054,358	896,121
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 6,784,099, 6,732,699 and 6,687,959	37,301	37,217	37,014
Retained earnings	66,844	64,678	54,470
Accumulated other comprehensive loss, net	(9,710)	(9,230)	(6,820)
Total shareholders' equity	94,435	92,665	84,664
Total liabilities and shareholders' equity	\$ 1,161,409	\$ 1,147,023	\$ 980,785

Financial Summary
(Dollars in thousands except per share data)

	As of and for the Three Months Ended		
	June 30, 2023 (Unaudited)	March 31, 2023 (Unaudited)	June 30, 2022 (Unaudited)
Statement of Income Data:			
Net interest income	\$ 9,664	\$ 10,035	\$ 10,302
Provision for credit losses on loans	-	400	988
Provision for (reversal of) credit losses on unfunded loan commitments	35	(33)	10
Non-interest income	1,449	1,961	2,354
Non-interest expense	6,822	5,818	5,298
Provision for income taxes	1,271	1,695	1,859
Net income	<u>\$ 2,985</u>	<u>\$ 4,116</u>	<u>\$ 4,501</u>
Selected per Common Share Data:			
Basic earnings per common share	\$ 0.45	\$ 0.62	\$ 0.67
Diluted earnings per common share	\$ 0.45	\$ 0.62	\$ 0.67
Dividend per share	\$ 0.12	\$ 0.12	\$ 0.12
Book value per common share (1)	\$ 13.92	\$ 13.76	\$ 12.66
Selected Balance Sheet Data:			
Assets	\$ 1,161,409	\$ 1,147,023	\$ 980,785
Loans, net	924,806	907,623	838,265
Deposits	1,048,316	1,015,652	819,932
Average assets	1,157,193	1,135,912	975,422
Average earning assets	1,125,327	1,104,134	948,762
Average shareholders' equity	94,340	90,814	84,906
Nonperforming loans	24,908	10,411	570
Total nonperforming assets	24,908	10,411	570
Selected Ratios:			
Return on average assets (2)	1.03%	1.47%	1.85%
Return on average common shareholders' equity (2)	12.69%	18.38%	21.26%
Efficiency ratio (3)	61.39%	48.50%	41.86%
Net interest margin (2)	3.44%	3.69%	4.36%
Common equity tier 1 capital ratio	9.61%	9.58%	9.58%
Tier 1 capital ratio	9.61%	9.58%	9.58%
Total capital ratio	11.46%	11.44%	11.44%
Tier 1 leverage ratio	8.36%	8.30%	8.30%
Common dividend payout ratio (4)	27.40%	20.04%	17.95%
Average shareholders' equity to average assets	8.15%	7.99%	8.70%
Nonperforming loans to total loans	2.65%	1.13%	0.07%
Nonperforming assets to total assets	2.14%	0.91%	0.06%
Allowance for credit losses to total loans	1.62%	1.65%	1.58%
Allowance for credit losses to nonperforming loans	61.27%	146.49%	2360.36%

(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.

Financial Summary
(Dollars in thousands except per share data)

	As of and for the Six Months Ended	
	June 30, 2023 (Unaudited)	June 30, 2022 (Unaudited)
Statement of Income Data:		
Net interest income	\$ 19,701	\$ 20,186
Provision for credit losses on loans	400	1,123
Provision for (reversal of) credit losses on unfunded loan commitments	2	(14)
Non-interest income	3,409	4,308
Non-interest expense	12,641	11,585
Provision for income taxes	2,966	3,364
Net income	\$ 7,101	\$ 8,436
Selected per Common Share Data:		
Basic earnings per common share	\$ 1.06	\$ 1.26
Diluted earnings per common share	\$ 1.06	\$ 1.26
Dividend per share	\$ 0.24	\$ 0.24
Book value per common share (1)	\$ 13.92	\$ 12.66
Selected Balance Sheet Data:		
Assets	\$ 1,161,409	\$ 980,785
Loans, net	924,806	838,265
Deposits	1,048,316	819,932
Average assets	1,146,612	967,308
Average earning assets	1,114,790	942,286
Average shareholders' equity	92,587	85,154
Nonperforming loans	24,908	570
Total nonperforming assets	24,908	570
Selected Ratios:		
Return on average assets (2)	1.25%	1.76%
Return on average common shareholders' equity (2)	15.47%	19.98%
Efficiency ratio (3)	54.70%	47.31%
Net interest margin (2)	3.56%	4.32%
Common equity tier 1 capital ratio	9.61%	9.83%
Tier 1 capital ratio	9.61%	9.83%
Total capital ratio	11.46%	11.77%
Tier 1 leverage ratio	8.36%	8.74%
Common dividend payout ratio (4)	23.14%	19.08%
Average shareholders' equity to average assets	8.07%	8.80%
Nonperforming loans to total loans	2.65%	0.07%
Nonperforming assets to total assets	2.14%	0.06%
Allowance for credit losses to total loans	1.62%	1.58%
Allowance for credit losses to nonperforming loans	61.27%	2360.36%

(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.