
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): October 22, 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.

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 October 22, 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 months ended September 30, 2019.

Common stock cash dividend of \$0.12 per share declared on October 21, 2019, payable on November 22, 2019 to shareholders of record on November 15, 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: October 22, 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 October 22, 2019, announcing results of operation for the three months ended September 30, 2019 and declaration of quarterly dividend.

Summit State Bank Reports 36% Increase in Net Income for Third Quarter 2019 and Declaration of Dividend

SANTA ROSA, CA – (October 22, 2019) – Summit State Bank (Nasdaq: SSBI) today reported net income for the quarter ended September 30, 2019, of \$2,045,000 and diluted earnings per share of \$0.34. 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 October 21, 2019 to be paid on November 22, 2019 to shareholders of record on November 15, 2019.

Net Income and Results of Operations

For the quarter ended September 30, 2019, Summit State Bank (“Bank”) had net income of \$2,045,000 and diluted earnings per share of \$0.34 compared to net income of \$1,505,000 and diluted earnings per share of \$0.25 for the same quarter in 2018. Net income increased \$540,000 or 36% the third quarter of 2019 compared to the third quarter of 2018.

A significant portion of the increase in net income is related to non-interest income. In the third quarter of 2019 non-interest income was \$1,001,000 compared to \$453,000 in the third quarter of 2018. The primary difference between 2019 and 2018 was the Bank sold more SBA loans in third quarter of 2019 generating \$639,000 in gain on sale compared \$95,000 in gain on sale in the third quarter of 2018.

“Although we are selling some loans, we continue to grow assets at a targeted pace while generating income in line with our 2019 target,” said Jim Brush, President and CEO. “The Bank has a good mix of income generators and cost controls to build a strong future for success.”

Net interest income increased to \$5,773,000 in the third quarter of 2019 compared to \$5,512,000 in the third quarter of 2018. This was an increase of \$261,000 or 5% from the prior year.

Net loans, deposits and total assets also increased when comparing the third quarter of 2019 to third quarter of 2018. Loans increased 15% to \$554,122,000 at September 30, 2019 compared to \$481,419,000 at September 30, 2018, deposits increased 20% to \$605,130,000 at September 30, 2019 compared to \$504,052,000 at September 30, 2018, and total assets increased 14% to \$680,840,000 at September 30, 2019 compared to \$595,243,000 at September 30, 2018.

“Each quarter we are experiencing consistent growth in our loan portfolio. This recent quarter we have increased loans outstanding by 15% compared to the same quarter one year ago,” said Brush. “We have spent the past several years investing in our staff and because of this we are growing our assets in line with our long-term strategy. We are deliberately growing our Bank at a controlled pace and this is adding to the Bank’s long-term sustainability for financial success.”

“We feel that our headwinds have recently turned into tailwinds and look forward to strong income growth,” said Brush.

For the third quarter 2019, the annualized net interest margin was 3.60%, annualized return on average assets was 1.24% and annualized return on average equity was 12.32%. The third quarter of 2018 generated an annualized net interest margin of 3.80%, annualized return on average assets of 1.02% and annualized return on average equity of 9.85%.

“The Bank is liability sensitive which provides a great opportunity to capitalize on the recent decrease in deposit rates,” said Brush. “We are reducing our cost of funds and positioning the Bank to maintain its net interest margin compared to a year ago. We are pleased with our increased non-interest income while beginning to hold our non-interest costs.”

There was a \$205,000, or 5%, decrease in operating expenses between the third quarter of 2019, as compared to the third quarter of 2018. The declining trend is due to the stabilization of expenses in major areas of cost including salary, benefits and other operational expenses.

Nonperforming assets were \$592,000, or 0.09%, of total assets at September 30, 2019 compared to \$2,170,000, or 0.36%, at September 30, 2018. The nonperforming assets at September 30, 2019, consist of loans which are predominantly secured by real property. The Bank had a loan loss provision expense of \$210,000 in the third quarter of 2019. The allowance for loan losses to loans was 1.17% at September 30, 2019 compared to 1.20% at September 30, 2018.

About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$681 million and total equity of \$67 million at September 30, 2019. 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, 80% 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)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30, 2019</u> <u>(Unaudited)</u>	<u>September 30, 2018</u> <u>(Unaudited)</u>	<u>September 30, 2019</u> <u>(Unaudited)</u>	<u>September 30, 2018</u> <u>(Unaudited)</u>
Interest income:				
Interest and fees on loans	\$ 7,031	\$ 5,854	\$ 20,113	\$ 16,563
Interest on deposits with banks	72	59	205	185
Interest on federal funds sold	-	-	-	14
Interest on investment securities	459	584	1,525	1,800
Dividends on FHLB stock	57	54	165	161
Total interest income	<u>7,619</u>	<u>6,551</u>	<u>22,008</u>	<u>18,723</u>
Interest expense:				
Deposits	1,727	931	4,779	2,458
Federal Home Loan Bank advances	119	108	410	200
Total interest expense	<u>1,846</u>	<u>1,039</u>	<u>5,189</u>	<u>2,658</u>
Net interest income before provision for loan losses	5,773	5,512	16,819	16,065
Provision for loan losses	210	80	490	380
Net interest income after provision for loan losses	<u>5,563</u>	<u>5,432</u>	<u>16,329</u>	<u>15,685</u>
Non-interest income:				
Service charges on deposit accounts	226	182	635	569
Rental income	86	148	258	444
Net gain on loan sales	639	95	805	542
Net securities gain (loss)	-	2	(6)	18
Other income	50	26	142	185
Total non-interest income	<u>1,001</u>	<u>453</u>	<u>1,834</u>	<u>1,758</u>
Non-interest expense:				
Salaries and employee benefits	2,274	2,360	7,234	6,524
Occupancy and equipment	429	360	1,286	1,131
Other expenses	985	1,173	3,375	3,336
Total non-interest expense	<u>3,688</u>	<u>3,893</u>	<u>11,895</u>	<u>10,991</u>
Income before provision for income taxes	2,876	1,992	6,268	6,452
Provision for income taxes	831	487	1,626	1,746
Net income	<u>\$ 2,045</u>	<u>\$ 1,505</u>	<u>\$ 4,642</u>	<u>\$ 4,706</u>
Basic earnings per common share	\$ 0.34	\$ 0.25	\$ 0.77	\$ 0.78
Diluted earnings per common share	\$ 0.34	\$ 0.25	\$ 0.76	\$ 0.78
Basic weighted average shares of common stock outstanding	6,069	6,066	6,067	6,064
Diluted weighted average shares of common stock outstanding	6,074	6,074	6,072	6,071

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

	September 30, 2019	December 31, 2018	September 30, 2018
	(Unaudited)	(1)	(Unaudited)
ASSETS			
Cash and due from banks	\$ 36,979	\$ 21,693	\$ 20,924
Total cash and cash equivalents	36,979	21,693	20,924
Investment securities:			
Held-to-maturity, at amortized cost	7,996	7,991	7,990
Available-for-sale (at fair value; amortized cost of \$57,631, \$72,716 and \$70,805)	58,657	70,174	67,372
Total investment securities	66,653	78,165	75,362
Loans, less allowance for loan losses of \$6,550, \$6,029 and \$5,842	554,122	504,549	481,419
Bank premises and equipment, net (2)	6,338	5,803	5,316
Investment in Federal Home Loan Bank stock, at cost	3,342	3,085	3,085
Goodwill	4,119	4,119	4,119
Accrued interest receivable and other assets (2)	9,287	4,690	5,018
Total assets	\$ 680,840	\$ 622,104	\$ 595,243
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 135,065	\$ 120,011	\$ 145,712
Demand - interest-bearing	63,333	65,652	63,435
Savings	26,500	25,817	28,282
Money market	129,343	104,060	101,383
Time deposits that meet or exceed the FDIC insurance limit	81,388	83,071	80,852
Other time deposits	169,501	102,578	84,388
Total deposits	605,130	501,189	504,052
Federal Home Loan Bank advances	-	56,800	28,500
Junior subordinated debt	5,858	-	-
Accrued interest payable and other liabilities (2)	3,348	2,595	2,192
Total liabilities	614,336	560,584	534,744
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, 6,066,475 and 6,066,475	36,981	36,967	36,967
Retained earnings	28,800	26,342	25,949
Accumulated other comprehensive income (loss), net	723	(1,789)	(2,417)
Total shareholders' equity	66,504	61,520	60,499
Total liabilities and shareholders' equity	\$ 680,840	\$ 622,104	\$ 595,243

(1) Information derived from audited financial statements.

(2) ASU No. 2016-02 (Topic 842) was adopted January 1, 2019 using the modified retrospective approach at the beginning of the adoption period. This standard increases the transparency by recognizing the right-to-use lease asset for the lease term. As of September 30, 2019, the right-of-use asset was recorded for \$1,056,000 and a lease liability was recorded for \$1,068,000.

Financial Summary
(Dollars in thousands except per share data)

	At or for the Three Months Ended		At or for the Nine Months Ended	
	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)	September 30, 2019 (Unaudited)	September 30, 2018 (Unaudited)
Statement of Income Data:				
Net interest income	\$ 5,773	\$ 5,512	\$ 16,819	\$ 16,065
Provision for loan losses	210	80	490	380
Non-interest income	1,001	453	1,834	1,758
Non-interest expense	3,688	3,893	11,895	10,991
Provision for income taxes	831	487	1,626	1,746
Net income	<u>\$ 2,045</u>	<u>\$ 1,505</u>	<u>\$ 4,642</u>	<u>\$ 4,706</u>
Selected per Common Share Data:				
Basic earnings per common share	\$ 0.34	\$ 0.25	\$ 0.77	\$ 0.78
Diluted earnings per common share	\$ 0.34	\$ 0.25	\$ 0.76	\$ 0.78
Dividend per share	\$ 0.12	\$ 0.12	\$ 0.36	\$ 0.36
Book value per common share (2)	\$ 10.96	\$ 9.97	\$ 10.96	\$ 9.97
Selected Balance Sheet Data:				
Assets	\$ 680,840	\$ 595,243	\$ 680,840	\$ 595,243
Loans, net	554,122	481,419	554,122	481,419
Deposits	605,130	504,052	605,130	504,052
Average assets	652,043	587,062	634,375	581,960
Average earning assets	635,579	575,954	618,081	570,747
Average shareholders' equity	65,859	60,593	64,047	60,076
Nonperforming loans	592	2,170	592	2,170
Total nonperforming assets	592	2,170	592	2,170
Troubled debt restructures (accruing)	2,429	1,749	2,429	1,749
Selected Ratios:				
Return on average assets (1)	1.24%	1.02%	0.98%	1.08%
Return on average common shareholders' equity (1)	12.32%	9.85%	9.69%	10.47%
Efficiency ratio (3)	54.44%	65.29%	63.75%	61.73%
Net interest margin (1)	3.60%	3.80%	3.64%	3.76%
Common equity tier 1 capital ratio	10.3%	10.9%	10.3%	10.9%
Tier 1 capital ratio	10.3%	10.9%	10.3%	10.9%
Total capital ratio	12.5%	12.0%	12.5%	12.0%
Tier 1 leverage ratio	9.0%	10.1%	9.0%	10.1%
Common dividend payout ratio (4)	35.60%	48.37%	47.07%	46.41%
Average shareholders' equity to average assets	10.10%	10.32%	10.10%	10.32%
Nonperforming loans to total loans	0.11%	0.45%	0.11%	0.45%
Nonperforming assets to total assets	0.09%	0.36%	0.09%	0.36%
Allowance for loan losses to total loans	1.17%	1.20%	1.17%	1.20%
Allowance for loan losses to nonperforming loans	1105.95%	269.26%	1105.95%	269.26%

(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 and losses.

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