
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 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 October 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 September 30, 2020.

Common stock cash dividend of \$0.12 per share declared on October 27, 2020, payable on November 20, 2020 to shareholders of record on November 13, 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: October 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 October 28, 2020, announcing results of operation for the three months ended September 30, 2020 and declaration of quarterly dividend.

Summit State Bank Reports 44% Increase in Net Income to \$2,954,000 for Third Quarter 2020 and Declaration of Dividend

SANTA ROSA, CA – (October 28, 2020) – Summit State Bank (Nasdaq: SSBI) today reported net income for the quarter ended September 30, 2020 of \$2,954,000 and diluted earnings per share of \$0.49. This compares to net income of \$2,045,000 and diluted earnings per share of \$0.34 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 October 27, 2020 to be paid on November 20, 2020 to shareholders of record on November 13, 2020.

Net Income and Results of Operations

Net income increased by \$909,000 or 44% in the third quarter of 2020 compared to the third quarter of 2019.

For the first nine months of 2020, net income increased by \$2,946,000 (63%) to \$7,588,000 compared to \$4,642,000 in the first nine months of 2019. Net interest margin increased to 3.78% for the first nine months of 2020 compared to 3.64% for the first nine months of 2019.

“Net income for the third quarter 2020 and year-to-date 2020 represents records earnings for the bank driven by an increase in our balance sheet,” said Brian Reed, President and CEO. “We are continuing to realize the benefits of our managed growth.”

The annualized return on average assets for the third quarter of 2020 was 1.41%, the annualized return on average equity was 16.05% and the efficiency ratio was 47.44%. The third quarter of 2019 had an annualized return on average assets of 1.24%, an annualized return on average equity of 12.32% and an efficiency ratio of 54.44%.

Net interest income increased to \$7,740,000 in the third quarter of 2020 compared to \$5,773,000 in the third 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.

“We are very fortunate to have employees who truly care about our customers and go the extra mile to provide support through the many challenges this pandemic presents,” said Reed. “To date we funded \$97,000,000 of PPP loans to over 600 businesses, this balance represents 13% of the Bank’s loan portfolio as of September 30, 2020.”

Total loans and deposits increased when comparing the third quarter of 2020 to third quarter of 2019; loans were \$726,859,000 in 2020 (includes \$96,710,000 of PPP loans)

compared to \$554,122,000 in 2019 and deposits were \$688,026,000 in 2020 compared to \$605,130,000 in 2019. The net interest margin increased to 3.77% for the third quarter of 2020 compared to 3.60% for the third quarter of 2019.

Non-interest income increased in the third quarter of 2020 to \$1,188,000 compared to \$1,001,000 in the third quarter of 2019. The Bank recognized \$786,000 in gains on sales of SBA guaranteed loan balances in the third quarter of 2020 compared to \$639,000 in gains on sales of SBA guaranteed loans balances in the third quarter of 2019.

There was a \$546,000 or 15% increase in operating expenses in the third quarter of 2020 compared to the third quarter of 2019. The increase in expenses is primarily due to an increase in employee expenses and occupancy costs. The Bank is leveling off from a growth trend in operating expenses since the middle of 2019; this results in an improvement in the efficiency ratio by 7.00% when comparing 47.44% for the third quarter of 2020 to 54.44% for the third quarter of 2019.

Nonperforming assets were \$267,000 or 0.03% of total assets on September 30, 2020 compared to \$592,000 or 0.09% on September 30, 2019. Nonperforming assets on September 30, 2020 consist of one loan that is secured by real property and another loan that has a guarantee from the State of California. The Bank had a provision expense of \$500,000 in the third quarter of 2020. The allowance for loan losses to total loans including SBA-guaranteed PPP loans was 1.14% on September 30, 2020 and 1.17% on September 30, 2019. Excluding \$96,710,000 of PPP loans increases the ratio of allowance for loans losses to 1.31% on September 30, 2020 compared to 1.28% at June 30, 2020.

“The Bank has deliberately built its balance sheet growth around strong-performing loans,” notes Reed. “Throughout this pandemic the Bank has experienced few credit problems. We cannot predict the future but we are monitoring trends in high-risk industries and are adjusting loan loss reserves to our increased risk of loss.”

Year-to-date through September 30, 2020, the Bank deferred payments on a total of \$153,000,000 or 21% of loans in its portfolio due to the COVID-19 pandemic. The deferral process increases the total balance due on the loan and re-amortizes the monthly payment through the original maturity date. As of September 30, 2020, 19 loans totaling \$21,900,000 or 3% of the loan portfolio excluding PPP loans were in deferral. Approximately 95% of the deferred loans are real estate secured with an average loan to value ratio of 56%.

Reed further explains “we continue to monitor this fluid situation and are grateful to be a steady source of information and support for our customers. As we head into the last quarter of 2020 the Bank is prepared to support our customers through the SBA PPP loan forgiveness process.”

About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$834 million and total equity of \$73 million at September 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, 74% 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		Nine Months Ended	
	September 30, 2020 (Unaudited)	September 30, 2019 (Unaudited)	September 30, 2020 (Unaudited)	September 30, 2019 (Unaudited)
Interest income:				
Interest and fees on loans	\$ 8,753	\$ 7,031	\$ 24,903	\$ 20,113
Interest on deposits with banks	10	72	61	205
Interest on investment securities	364	459	1,126	1,525
Dividends on FHLB stock	43	57	189	165
Total interest income	9,170	7,619	26,279	22,008
Interest expense:				
Deposits	1,138	1,727	3,927	4,779
Federal Home Loan Bank advances	292	119	913	410
Total interest expense	1,430	1,846	4,840	5,189
Net interest income before provision for loan losses	7,740	5,773	21,439	16,819
Provision for loan losses	500	210	1,600	490
Net interest income after provision for loan losses	7,240	5,563	19,839	16,329
Non-interest income:				
Service charges on deposit accounts	201	226	593	635
Rental income	89	86	264	258
Net gain on loan sales	786	639	1,803	805
Net securities gain (loss)	3	-	874	(6)
Other income	109	50	277	142
Total non-interest income	1,188	1,001	3,811	1,834
Non-interest expense:				
Salaries and employee benefits	2,573	2,274	7,727	7,234
Occupancy and equipment	415	429	1,222	1,286
Other expenses	1,246	985	3,923	3,375
Total non-interest expense	4,234	3,688	12,872	11,895
Income before provision for income taxes	4,194	2,876	10,778	6,268
Provision for income taxes	1,240	831	3,190	1,626
Net income	\$ 2,954	\$ 2,045	\$ 7,588	\$ 4,642
Basic earnings per common share	\$ 0.49	\$ 0.34	\$ 1.25	\$ 0.77
Diluted earnings per common share	\$ 0.49	\$ 0.34	\$ 1.25	\$ 0.76
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	6,074	6,073	6,072

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

	September 30, 2020	December 31, 2019	September 30, 2019
	(Unaudited)	(Unaudited)	(Unaudited)
ASSETS			
Cash and due from banks	\$ 24,257	\$ 38,299	\$ 12,104
Total cash and cash equivalents	24,257	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 \$58,390, \$53,591 and \$57,631)	60,001	54,241	59,853
Total investment securities	60,001	62,239	67,848
Loans, less allowance for loan losses of \$8,393, \$6,769 and \$6,550	726,859	576,548	536,674
Bank premises and equipment, net	6,129	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	9,014	5,130	5,212
Total assets	\$ 833,808	\$ 695,978	\$ 635,622
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 200,352	\$ 129,084	\$ 119,535
Demand - interest-bearing	76,694	69,383	65,227
Savings	37,132	28,359	25,419
Money market	140,008	128,377	99,585
Time deposits that meet or exceed the FDIC insurance limit	35,160	76,564	85,315
Other time deposits	198,680	142,070	137,176
Total deposits	688,026	573,837	532,257
Federal Home Loan Bank advances	61,300	45,600	29,300
Junior subordinated debt	5,873	5,862	5,862
Accrued interest payable and other liabilities	5,185	3,335	3,462
Total liabilities	760,384	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 6,069,600	36,981	36,981	36,974
Retained earnings	35,309	29,906	27,483
Accumulated other comprehensive income, net	1,134	457	284
Total shareholders' equity	73,424	67,344	64,741
Total liabilities and shareholders' equity	\$ 833,808	\$ 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 Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Statement of Income Data:				
Net interest income	\$ 7,740	\$ 5,773	\$ 21,439	\$ 16,819
Provision for loan losses	500	210	1,600	490
Non-interest income	1,188	1,001	3,811	1,834
Non-interest expense	4,234	3,688	12,872	11,895
Provision for income taxes	1,240	831	3,190	1,626
Net income	<u>\$ 2,954</u>	<u>\$ 2,045</u>	<u>\$ 7,588</u>	<u>\$ 4,642</u>
Selected per Common Share Data:				
Basic earnings per common share	\$ 0.49	\$ 0.34	\$ 1.25	\$ 0.77
Diluted earnings per common share	\$ 0.49	\$ 0.34	\$ 1.25	\$ 0.76
Dividend per share	\$ 0.12	\$ 0.12	\$ 0.36	\$ 0.36
Book value per common share (2)	\$ 12.10	\$ 10.96	\$ 12.10	\$ 10.96
Selected Balance Sheet Data:				
Assets	\$ 833,808	\$ 680,840	\$ 833,808	\$ 680,840
Loans, net	726,859	554,122	726,859	554,122
Deposits	688,026	605,130	688,026	605,130
Average assets	830,976	652,043	771,638	634,375
Average earning assets	814,013	635,579	754,749	618,081
Average shareholders' equity	73,018	65,859	70,528	64,047
Nonperforming loans	267	592	267	592
Total nonperforming assets	267	592	267	592
Troubled debt restructures (accruing)	2,203	2,429	2,203	2,429
Selected Ratios:				
Return on average assets (1)	1.41%	1.24%	1.31%	0.98%
Return on average common shareholders' equity (1)	16.05%	12.32%	14.33%	9.69%
Efficiency ratio (3)	47.44%	54.44%	52.81%	63.75%
Net interest margin (1)	3.77%	3.60%	3.78%	3.64%
Common equity tier 1 capital ratio	10.65%	10.30%	10.65%	10.30%
Tier 1 capital ratio	10.65%	10.30%	10.65%	10.30%
Total capital ratio	12.90%	12.50%	12.90%	12.50%
Tier 1 leverage ratio	8.10%	9.00%	8.10%	9.00%
Common dividend payout ratio (4)	24.64%	35.60%	28.80%	47.07%
Average shareholders' equity to average assets	8.79%	10.10%	9.14%	10.10%
Nonperforming loans to total loans	0.04%	0.11%	0.04%	0.11%
Nonperforming assets to total assets	0.03%	0.09%	0.03%	0.09%
Allowance for loan losses to total loans	1.14%	1.17%	1.14%	1.17%
Allowance for loan losses to total loans excluding PPP	1.31%	1.17%	1.31%	1.17%
Allowance for loan losses to nonperforming loans	3146.32%	1105.95%	3146.32%	1105.95%

(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.

	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
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(In thousands)

ACL on loans to Loans receivable, excluding SBA PPP loans

Allowance for credit losses on loans	\$ (8,393)	\$ (7,881)	\$ (7,375)	\$ (6,769)	\$ (6,550)
Loans receivable (GAAP)	\$ 735,252	\$ 709,689	\$ 608,775	\$ 583,317	\$ 560,672
Excluding SBA PPP loans	96,710	95,534	-	-	-
Loans receivable, excluding SBA PPP (non-GAAP)	<u>\$ 638,542</u>	<u>\$ 614,155</u>	<u>\$ 608,775</u>	<u>\$ 583,317</u>	<u>\$ 560,672</u>
ACL on loans to Loans receivable (GAAP)	1.14%	1.11%	1.21%	1.16%	1.17%
ACL on loans to Loans receivable, excluding SBA PPP loans (non-GAAP)	1.31%	1.28%	1.21%	1.16%	1.17%