
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 26, 2022

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 26, 2022, 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 nine months ended September 30, 2022.

Common stock cash dividend of \$0.12 per share declared on October 25, 2022 to be paid on November 17, 2022 to shareholders of record on November 10, 2022.

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 26, 2022

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 26, 2022, announcing results of operation for the three and nine months ended September 30, 2022 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 Earnings Increase 5% to \$4.0 Million for Third Quarter 2022; Quarterly Average Assets Surpass \$1.0 Billion; Declares Quarterly Cash Dividend of \$0.12 Per Common Share

SANTA ROSA, CA – (October 26, 2022) – Summit State Bank (Nasdaq: SSBI) today reported net income for the third quarter ended September 30, 2022 increased \$183,000, or 5%, to \$3,979,000, or \$0.59 per diluted share, compared to net income of \$3,796,000, or \$0.57 per diluted share for the third quarter ended September 30, 2021. Strong loan and deposit growth and net interest margin expansion contributed to profitability for the quarter. In the first nine months of 2022, net income increased 10% to \$12.4 million, or \$1.86 per diluted share, compared to \$11.0 million, or \$1.65 per diluted share, in the first nine months of 2021. Additionally, a quarterly dividend of \$0.12 per share was declared for common shareholders.

Dividend:

The Board of Directors declared a quarterly cash dividend of \$0.12 per share on October 25, 2022. The quarterly dividend will be paid on November 17, 2022 to shareholders of record on November 10, 2022.

Results of Operations:

“The highlights of the third quarter included substantial growth in the loan portfolio, increases to our core deposit base, and expansion of our net interest margin,” noted Brian Reed, President and CEO. “Loan production was stronger than anticipated during the third quarter, and noninterest bearing deposit balances continued to increase, despite deposit pricing pressures. We also surpassed the \$1 billion asset milestone, which is a testament to our growth plan. As we head into a new economic environment, we continue to look for new strategies to help our customers while also growing our operations. We are located in some of the most vibrant Northern California markets with a diverse and strong economy. Together, with our strong core operations and ample capital base, we have the resources in place to make our business stronger and more financially sustainable.”

The net interest margin for the third quarter of 2022 was 4.42%, annualized return on average assets was 1.56% and annualized return on average equity was 18.12%. This compared to a net interest margin of 4.31%, annualized return on average assets of 1.68%

and annualized return on average equity of 18.54%, respectively, for the third quarter of 2021. These results were above the average 3.42% net interest margin, 1.05% return on average assets and 11.52% return on average equity posted by the 154 bank index peers that make up the Dow Jones U.S. MicroCap Bank index as of June 30, 2022.*

Interest income increased 18% to \$12,541,000 in the third quarter of 2022 compared to \$10,601,000 in the third quarter of 2021. The increase in interest income is attributable to a \$1,674,000 increase in loan interest yield primarily driven by increased loan volume and secondarily by increased rates, \$143,000 increase in interest on deposits with banks and \$125,000 increase in investment interest.

Net loans and deposits increased when comparing the third quarter of 2022 to 2021. Net loans increased 13% to \$893,580,000 at September 30, 2022 compared to \$792,504,000 at September 30, 2021. Total deposits increased 16% to \$868,912,000 at September 30, 2022 compared to \$749,007,000 at September 30, 2021. Most of the deposit increase year-over-year is due to the Bank's ongoing focus on growing local deposits organically.

Non-interest income decreased in the third quarter of 2022 to \$1,055,000 compared to \$1,359,000 in the third quarter of 2021. The Bank recognized \$578,000 in gains on sales of SBA guaranteed loan balances in the third quarter of 2022 compared to \$951,000 in gains on sales of SBA guaranteed loans balances in the third quarter of 2021.

Operating expenses decreased slightly in the third quarter of 2022 to \$5,533,000 compared to \$5,550,000 in the third quarter of 2021. The decrease is primarily due to a \$463,000 reduction in stock appreciation rights expense and is offset by a \$310,000 increase in salaries and benefits net of deferred fees and costs and a \$140,000 increase in IT expenses.

Nonperforming assets were \$3,947,000, or 0.38% of total assets, at September 30, 2022, and consisted of three loans; one loan for \$3,200,000 is a real estate secured commercial loan that is in process of liquidation and the other two loans for \$759,000 are commercial and agriculture secured loans. Nonperforming assets totaled \$416,000, or 0.05% of total assets, at September 30, 2021.

Due to strong loan production and increases in expected losses, the Bank recorded a \$770,000 provision for credit loss expense in the third quarter of 2022. This compared to no provision for credit loss expense in the third quarter of 2021. The allowance for credit losses to total loans was 1.57% on September 30, 2022 and 1.42% on September 30, 2021.

"We remain focused on being a reliable resource for our customers and communities through all economic cycles," said Reed. "While there will be challenges in the local and global economy in the near term, we have the right team in place, together with the strength of our local markets, to lead the momentum to grow during the remainder of the year and into 2023."

About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$1,044 million and total equity of \$84 million at September 30, 2022. 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 to customers and results for shareholders. Presently, 63% 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, Best Places to Work in the North Bay, Top Community Bank Loan Producer, Raymond James Bankers Cup, and Super Premier Performing Bank. 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.

**As of June 30, 2022, the Dow Jones U.S. MicroCap Bank Index tracked 154 banks with total common market capitalization under \$250 million for the following ratios: NIM of 3.42%, return on average assets (ROAA) 1.05%, and return on average equity (ROAE) 11.52%.*

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 September 30, 2022 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)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30, 2022</u> (Unaudited)	<u>September 30, 2021</u> (Unaudited)	<u>September 30, 2022</u> (Unaudited)	<u>September 30, 2021</u> (Unaudited)
Interest income:				
Interest and fees on loans	\$ 11,833	\$ 10,159	\$ 33,025	\$ 29,752
Interest on deposits with banks	154	11	227	25
Interest on investment securities	485	360	1,312	1,139
Dividends on FHLB stock	69	71	203	176
Total interest income	<u>12,541</u>	<u>10,601</u>	<u>34,767</u>	<u>31,092</u>
Interest expense:				
Deposits	1,100	720	2,560	2,471
Federal Home Loan Bank advances	355	202	749	589
Junior Subordinated Debt	94	94	281	281
Total interest expense	<u>1,549</u>	<u>1,016</u>	<u>3,590</u>	<u>3,341</u>
Net interest income before provision for credit losses	10,992	9,585	31,177	27,751
Provision for credit losses on loans	753	-	1,876	335
Provision for (reversal of) credit losses on unfunded loan commitments	17	-	3	-
Net interest income after provision for (reversal of) credit losses and unfunded loan commitments	<u>10,222</u>	<u>9,585</u>	<u>29,298</u>	<u>27,416</u>
Non-interest income:				
Service charges on deposit accounts	219	227	640	638
Rental income	38	89	162	264
Net gain on loan sales	578	951	4,077	2,459
Net securities gain	1	-	7	56
Other income	219	92	477	234
Total non-interest income	<u>1,055</u>	<u>1,359</u>	<u>5,363</u>	<u>3,651</u>
Non-interest expense:				
Salaries and employee benefits	3,449	3,326	10,724	9,496
Occupancy and equipment	405	394	1,230	1,227
Other expenses	1,679	1,830	5,163	4,704
Total non-interest expense	<u>5,533</u>	<u>5,550</u>	<u>17,117</u>	<u>15,427</u>
Income before provision for income taxes	5,744	5,394	17,544	15,640
Provision for income taxes	1,765	1,598	5,129	4,629
Net income	<u>\$ 3,979</u>	<u>\$ 3,796</u>	<u>\$ 12,415</u>	<u>\$ 11,011</u>
Basic earnings per common share (1)	\$ 0.59	\$ 0.57	\$ 1.86	\$ 1.65
Diluted earnings per common share (1)	\$ 0.59	\$ 0.57	\$ 1.86	\$ 1.65
Basic weighted average shares of common stock outstanding (1)	6,688	6,680	6,687	6,678
Diluted weighted average shares of common stock outstanding (1)	6,688	6,680	6,687	6,681

(1) Adjusted for 10% stock dividend declared; effective October 29, 2021

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

	September 30, 2022	December 31, 2021	September 30, 2021
	(Unaudited)	(Unaudited)	(Unaudited)
ASSETS			
Cash and due from banks	\$ 42,818	\$ 40,699	\$ 37,772
Total cash and cash equivalents	42,818	40,699	37,772
Investment securities:			
Available-for-sale (at fair value; amortized cost of \$83,417, \$69,902 and \$68,507)	68,694	69,367	68,803
Total investment securities	68,694	69,367	68,803
Loans, less allowance for credit losses of \$14,209, \$12,329 and \$11,453	893,580	820,987	792,504
Bank premises and equipment, net	5,509	5,677	5,772
Investment in Federal Home Loan Bank stock, at cost	4,737	4,320	4,320
Goodwill	4,119	4,119	4,119
Affordable housing tax credit investments	8,964	3,500	-
Accrued interest receivable and other assets	15,391	9,411	9,302
Total assets	\$ 1,043,812	\$ 958,080	\$ 922,592
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 254,135	\$ 234,824	\$ 229,557
Demand - interest-bearing	147,349	147,289	115,253
Savings	68,880	69,982	47,251
Money market	149,409	168,637	163,640
Time deposits that meet or exceed the FDIC insurance limit	102,660	29,255	31,279
Other time deposits	146,479	161,613	162,027
Total deposits	868,912	811,600	749,007
Federal Home Loan Bank advances	73,700	48,500	80,000
Junior subordinated debt	5,902	5,891	5,887
Affordable housing commitment	4,752	2,483	-
Accrued interest payable and other liabilities	6,125	5,324	5,715
Total liabilities	959,391	873,798	840,609
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 6,687,959, 6,684,759 and 6,684,759 (1)	37,145	37,014	37,014
Retained earnings	57,641	47,644	44,761
Accumulated other comprehensive loss, net	(10,365)	(376)	208
Total shareholders' equity	84,421	84,282	81,983
Total liabilities and shareholders' equity	\$ 1,043,812	\$ 958,080	\$ 922,592

(1) Adjusted for 10% stock dividend declared; effective October 29, 2021

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, 2022	September 30, 2021	September 30, 2022	September 30, 2021
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Statement of Income Data:				
Net interest income	\$ 10,992	\$ 9,585	\$ 31,177	\$ 27,751
Provision for credit losses on loans	753	-	1,876	335
Provision for (Reversal of) credit losses on unfunded loan commitments	17	-	3	-
Non-interest income	1,055	1,359	5,363	3,651
Non-interest expense	5,533	5,550	17,117	15,427
Provision for income taxes	1,765	1,598	5,129	4,629
Net income	<u>\$ 3,979</u>	<u>\$ 3,796</u>	<u>\$ 12,415</u>	<u>\$ 11,011</u>
Selected per Common Share Data:				
Basic earnings per common share (5)	\$ 0.59	\$ 0.57	\$ 1.86	\$ 1.65
Diluted earnings per common share (5)	\$ 0.59	\$ 0.57	\$ 1.86	\$ 1.65
Dividend per share (5)	\$ 0.12	\$ 0.12	\$ 0.36	\$ 0.36
Book value per common share (1)(5)	\$ 12.62	\$ 13.51	\$ 12.62	\$ 13.51
Selected Balance Sheet Data:				
Assets	\$ 1,043,812	\$ 922,592	\$ 1,043,812	\$ 922,592
Loans, net	893,580	792,504	893,580	792,504
Deposits	868,912	749,007	868,912	749,007
Average assets	1,014,891	898,680	983,343	886,794
Average earning assets	986,780	881,444	957,280	870,288
Average shareholders' equity	87,142	81,234	85,824	78,109
Nonperforming loans	3,947	416	3,947	416
Total nonperforming assets	3,947	416	3,947	416
Troubled debt restructurings (accruing)	1,011	2,146	1,011	2,146
Selected Ratios:				
Return on average assets (2)	1.56%	1.68%	1.69%	1.66%
Return on average common shareholders' equity (2)	18.12%	18.54%	19.34%	18.85%
Efficiency ratio (3)	45.93%	50.71%	46.85%	49.22%
Net interest margin (2)	4.42%	4.31%	4.35%	4.26%
Common equity tier 1 capital ratio	9.57%	9.93%	9.57%	9.93%
Tier 1 capital ratio	9.57%	9.93%	9.57%	9.93%
Total capital ratio	11.47%	11.95%	11.47%	11.95%
Tier 1 leverage ratio	8.71%	8.54%	8.71%	8.54%
Common dividend payout ratio (4)	20.31%	19.20%	19.48%	19.84%
Average shareholders' equity to average assets	8.59%	9.04%	8.73%	8.81%
Nonperforming loans to total loans	0.43%	0.05%	0.43%	0.05%
Nonperforming assets to total assets	0.38%	0.05%	0.38%	0.05%
Allowance for credit losses to total loans	1.57%	1.42%	1.57%	1.42%
Allowance for credit losses to nonperforming loans	359.97%	2756.36%	359.97%	2756.36%

(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.

(5) Adjusted for 10% stock dividend declared; effective October 29, 2021