
FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): **January 28, 2015**

Summit State Bank

(Exact name of registrant as specified in its charter)

| | | |
|--|---|--|
| <u>California</u> (State or other jurisdiction of incorporation) | <u>32203</u> (FDIC Insurance Certificate No.) | <u>94-2878925</u> (IRS Employer Identification Number) |
|--|---|--|

| | |
|--|----------------------------|
| <u>500 Bicentennial Way</u> <u>Santa Rosa, California</u> (Address of principal executive offices) | <u>95403</u> (Zip Code) |
|--|----------------------------|

(707) 568-6000
(Registrant's telephone number, including area code)

N/A
(Former name or former address, if changed 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 communications 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 communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
-

Item 2.02. Results of Operations and Financial Condition.

On January 27, 2015, the registrant issued the press release attached hereto as Exhibit 99 and incorporated herein by reference regarding the declaration of dividends and results of operations for the three months and year ended December 31, 2014.

Common stock cash dividend of \$0.12 per share declared on January 26, 2015, payable on February 24, 2015 to shareholders of record on February 18, 2015.

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: January 28, 2015

SUMMIT STATE BANK

By: /s/ Dennis E. Kelley
Dennis Kelley
*Senior Vice President
and Chief Financial Officer
(Duly Authorized Officer)*

Exhibit Index

| <u>Exhibit Number</u> | <u>Description</u> |
|---------------------------|--|
| 99 | Press release of Summit State Bank dated January 27, 2015 announcing declaration of dividend and results of operation for the three months and year ended December 31, 2014. |

Summit State Bank Announces Dividend Increase and Reports a 27% Increase in Earnings for 2014

SANTA ROSA, CA – (January 27, 2015) – Summit State Bank (Nasdaq: SSBI) today reported net income for the year ended December 31, 2014 of \$5,485,000, a 27% increase over 2013. Earnings per share increased to \$1.12 in 2014 from \$0.85 in 2013.

The quarterly dividend was declared and increased to \$0.12 per share, representing a 9% increase, payable on February 24, 2015 with a record date of February 18, 2015.

Net Income and Results of Operations

For the year ended December 31, 2014, net income was \$5,485,000, net income available for common stockholders, which deducts the preferred dividends, of \$5,347,000, and \$1.11 diluted earnings per share, compared to net income of \$4,321,000, net income available for common stockholders of \$4,068,000, and \$0.85 diluted earnings per share, for the year ended December 31, 2013.

For the quarter ended December 31, 2014, Summit had net income of \$1,810,000, net income available for common stockholders of \$1,776,000, and diluted earnings per share of \$0.37 compared to \$1,166,000 in net income, \$1,132,000 net income available for common stockholders, or \$0.24 diluted earnings per share, for the same period in 2013.

Net income for the year and fourth quarter of 2014 benefitted from the reversal of the provision for loan losses of \$1,400,000 for the year and \$1,000,000 for the quarter. The reversal of the provision was attributable to net loan recoveries for the year of \$1,132,000 and the significant reduction in nonperforming loans.

Return on average assets improved in 2014 to 1.19% from 0.98% in 2013 and return on average common equity was 10.44% for 2014 compared to 8.33% in 2013. Without the positive impact of the provision for loan loss reversal the return on average assets and average common equity was 1.01% and 8.84% for the year ended December 31, 2014.

“We are pleased with our 2014 results as we continued to drive new full relationships into our local Sonoma County based community bank. Our strong performance was a result of our ongoing increase in relationship core deposits that continues to lower our cost of funds, efficient management of our resources, and significant reduction in our problem assets. In 2015 we plan to increase our commitment to our community with our new *\$100,000,000 Small Business Lending Program*,” said Thomas Duryea, President and CEO.

Net interest income was \$16,917,000 for 2014, a 2.1% increase of \$351,000 compared to 2013. The fourth quarter 2014 net interest income was \$4,167,000, compared to \$4,303,000 for the fourth quarter of 2013. The net interest margin was 3.79% for the 2014 year compared to 3.88% for 2013.

“We continue to lower our cost of funding by attracting more local relationship based core deposits to help offset the net interest margin decline due primarily to the lower rates on new and refinanced loans in this prolonged low interest rate market environment,” said Dennis Kelley, Chief Financial Officer.

The efficiency ratio was 59.04% for the year ended December 31, 2014 compared to 59.78% in 2013. Operating expense increased 1.4% year over year and declined 3.3% fourth quarter 2014 compared to the fourth quarter of 2013.

One of the Bank’s key strategies has been to improve its funding mix by increasing relationship based core deposit accounts in order to improve and provide stable funding costs to sustain our long term viability to support our customers and local community. Core deposits, defined as demand, savings and money market deposits, increased \$25 million or 13% to \$213,490,000 at December 31, 2014 which follows a \$21 million or 12% increase in 2013. The most important Demand Deposits now represent 36% of our total deposits.

Total assets increased to \$459,675,000 at December 31, 2014 compared to \$454,074,000 at December 31, 2013. Net loans declined to \$279,798,000 at December 31, 2014 compared to \$282,667,000 at December 31, 2013. The decline in loans was due to early payoffs and the successful efforts to workout problem loans. Summit originated \$77 million in loans and commitments during 2014.

Nonperforming assets declined to \$5,866,000 at December 31, 2014 compared to nonperforming assets of \$10,385,000 at December 31, 2013. Nonperforming assets include \$4,051,000 in a foreclosed commercial property that is producing income for the Bank. Nonperforming loans to total loans improved to 0.64% at December 31, 2014 compared to 1.95% at December 31, 2013. The allowance for loan losses to total loans was 1.81% compared to 1.88% for December 31, 2014 and 2013.

“We start the new year with a strong commercial loan pipeline supporting our client’s growth, which strengthens and sustains the Sonoma County communities we are fortunate to serve. Significantly reducing our non-performers, should free up resources to be even more outwardly focused in our community,” said Brandy Seppi, Chief Credit Officer.

The Bank’s regulatory capital remains well above the required capital ratios with a Tier 1 capital leverage ratio of 13.7%, a Tier 1 risk-based capital ratio of 18.3% and a Total risk-based capital ratio of 19.6% at December 31, 2014.

About Summit State Bank

Summit State Bank has total assets of \$460 million and total equity of \$68 million at December 31, 2014. Headquartered in Sonoma County, the Bank provides diverse financial products and services throughout Sonoma, Napa, San Francisco, and Marin Counties. Summit has been recognized as one of the Top 75 Corporate Philanthropists in the Bay Area by the San Francisco Business Times and Top Corporate Philanthropist by the North Bay Business Journal. In addition, Summit State Bank received the 2013 Rising Star Award from the California Independent Bankers, the 2012 Community Bank Award from the American Bankers Association for its nonprofit work, and has been

recognized as one of the North Bay's Best Places to Work by the North Bay Business Journal. Summit has also been consistently recognized as a high performing bank by Findley Reports. 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>Year Ended</u> | |
|---|--|--|--|--|
| | <u>December 31, 2014</u> <u>(Unaudited)</u> | <u>December 31, 2013</u> <u>(Unaudited)</u> | <u>December 31, 2014</u> <u>(Unaudited)</u> | <u>December 31, 2013</u> <u>(Unaudited)</u> |
| Interest income: | | | | |
| Interest and fees on loans | \$ 3,434 | \$ 3,603 | \$ 14,048 | \$ 14,201 |
| Interest on Federal funds sold | 1 | - | 3 | - |
| Interest on investment securities and deposits in banks | 919 | 928 | 3,696 | 3,539 |
| Dividends on FHLB stock | 50 | 37 | 186 | 101 |
| Total interest income | <u>4,404</u> | <u>4,568</u> | <u>17,933</u> | <u>17,841</u> |
| Interest expense: | | | | |
| Deposits | 194 | 227 | 849 | 1,160 |
| FHLB advances | 43 | 38 | 167 | 115 |
| Total interest expense | <u>237</u> | <u>265</u> | <u>1,016</u> | <u>1,275</u> |
| Net interest income before provision for loan losses | 4,167 | 4,303 | 16,917 | 16,566 |
| Provision for loan losses | <u>(1,000)</u> | <u>-</u> | <u>(1,400)</u> | <u>50</u> |
| Net interest income after provision for loan losses | <u>5,167</u> | <u>4,303</u> | <u>18,317</u> | <u>16,516</u> |
| Non-interest income: | | | | |
| Service charges on deposit accounts | 169 | 140 | 614 | 566 |
| Rental income | 131 | 130 | 523 | 516 |
| Net securities gain | 165 | 6 | 239 | 80 |
| Net gain on other real estate owned | - | 65 | 73 | 34 |
| Loan servicing, net | 3 | 4 | 12 | 14 |
| Other income | 131 | 117 | 534 | 458 |
| Total non-interest income | <u>599</u> | <u>462</u> | <u>1,995</u> | <u>1,668</u> |
| Non-interest expense: | | | | |
| Salaries and employee benefits | 1,377 | 1,388 | 5,530 | 5,327 |
| Occupancy and equipment | 351 | 326 | 1,347 | 1,453 |
| Other expenses | 961 | 1,067 | 4,105 | 4,053 |
| Total non-interest expense | <u>2,689</u> | <u>2,781</u> | <u>10,982</u> | <u>10,833</u> |
| Income before provision for income taxes | 3,077 | 1,984 | 9,330 | 7,351 |
| Provision for income taxes | <u>1,267</u> | <u>818</u> | <u>3,845</u> | <u>3,030</u> |
| Net income | <u>\$ 1,810</u> | <u>\$ 1,166</u> | <u>\$ 5,485</u> | <u>\$ 4,321</u> |
| Less: preferred dividends | <u>34</u> | <u>34</u> | <u>138</u> | <u>253</u> |
| Net income available for common stockholders | <u>\$ 1,776</u> | <u>\$ 1,132</u> | <u>\$ 5,347</u> | <u>\$ 4,068</u> |
| Basic earnings per common share | \$ 0.37 | \$ 0.24 | \$ 1.12 | \$ 0.85 |
| Diluted earnings per common share | \$ 0.37 | \$ 0.24 | \$ 1.11 | \$ 0.85 |
| Basic weighted average shares of common stock outstanding | 4,778 | 4,777 | 4,778 | 4,761 |
| Diluted weighted average shares of common stock outstanding | 4,837 | 4,814 | 4,831 | 4,794 |

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(In thousands except share and per share data)

| | <u>December 31,</u> <u>2014</u> | <u>December 31,</u> <u>2013</u> |
|---|------------------------------------|------------------------------------|
| | <u>(Unaudited)</u> | |
| ASSETS | | |
| Cash and due from banks | \$ 21,313 | \$ 16,128 |
| Federal funds sold | 2,000 | - |
| Total cash and cash equivalents | <u>23,313</u> | <u>16,128</u> |
| Time deposits with banks | 1,240 | 1,985 |
| Investment securities: | | |
| Held-to-maturity, at amortized cost | 9,977 | 15,558 |
| Available-for-sale (at fair market value; amortized cost of \$115,491 in 2014 and \$116,947 in 2013) | <u>124,723</u> | <u>113,568</u> |
| Total investment securities | 134,700 | 129,126 |
| Loans, less allowance for loan losses of \$5,143 in 2014 and \$5,412 in 2013 | 279,798 | 282,667 |
| Bank premises and equipment, net | 5,803 | 5,505 |
| Investment in Federal Home Loan Bank stock, at cost | 2,701 | 2,578 |
| Goodwill | 4,119 | 4,119 |
| Other Real Estate Owned | 4,051 | 4,771 |
| Accrued interest receivable and other assets | <u>3,950</u> | <u>7,195</u> |
| Total assets | <u>\$ 459,675</u> | <u>\$ 454,074</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Deposits: | | |
| Demand - non interest-bearing | \$ 73,707 | \$ 62,865 |
| Demand - interest-bearing | 55,377 | 43,879 |
| Savings | 25,587 | 25,740 |
| Money market | 58,819 | 55,971 |
| Time deposits, \$100,000 and over | 103,704 | 114,435 |
| Other time deposits | <u>38,065</u> | <u>38,378</u> |
| Total deposits | 355,259 | 341,268 |
| Federal Home Loan Bank (FHLB) advances | 35,000 | 48,500 |
| Accrued interest payable and other liabilities | <u>1,835</u> | <u>2,676</u> |
| Total liabilities | <u>392,094</u> | <u>392,444</u> |
| Shareholders' equity | | |
| Preferred stock, no par value; 20,000,000 shares authorized; shares issued and outstanding - 13,750 Series B in 2014 and 2013; per share redemption of \$1,000 for total liquidation preference of \$13,750 | 13,666 | 13,666 |
| Common stock, no par value; shares authorized - 30,000,000 shares; issued and outstanding 4,778,370 in 2014 and 4,777,670 in 2013 | 36,646 | 36,608 |
| Retained earnings | 16,561 | 13,316 |
| Accumulated other comprehensive income (loss) | <u>708</u> | <u>(1,960)</u> |
| Total shareholders' equity | <u>67,581</u> | <u>61,630</u> |
| Total liabilities and shareholders' equity | <u>\$ 459,675</u> | <u>\$ 454,074</u> |

Financial Summary
(In Thousands)

| | Three Months Ended | | Year Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | December 31, 2014 | December 31, 2013 | December 31, 2014 | December 31, 2013 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Statement of Income Data: | | | | |
| Net interest income | \$ 4,167 | \$ 4,303 | \$ 16,917 | \$ 16,566 |
| Provision for loan losses | (1,000) | - | (1,400) | 50 |
| Non-interest income | 599 | 462 | 1,995 | 1,668 |
| Non-interest expense | 2,689 | 2,781 | 10,982 | 10,833 |
| Provision for income taxes | 1,267 | 818 | 3,845 | 3,030 |
| Net income | <u>\$ 1,810</u> | <u>\$ 1,166</u> | <u>\$ 5,485</u> | <u>\$ 4,321</u> |
| Less: preferred dividends | 34 | 34 | 138 | 253 |
| Net income available for common stockholders | <u>\$ 1,776</u> | <u>\$ 1,132</u> | <u>\$ 5,347</u> | <u>\$ 4,068</u> |
| Selected per Common Share Data: | | | | |
| Basic earnings per common share | \$ 0.37 | \$ 0.24 | \$ 1.12 | \$ 0.85 |
| Diluted earnings per common share | \$ 0.37 | \$ 0.24 | \$ 1.11 | \$ 0.85 |
| Dividend per share | \$ 0.11 | \$ 0.11 | \$ 0.44 | \$ 0.42 |
| Book value per common share (2)(3) | \$ 11.28 | \$ 10.04 | \$ 11.28 | \$ 10.04 |
| Selected Balance Sheet Data: | | | | |
| Assets | \$ 459,675 | \$ 454,074 | \$ 459,675 | \$ 454,074 |
| Loans, net | 279,798 | 282,667 | 279,798 | 282,667 |
| Deposits | 355,259 | 341,268 | 355,259 | 341,268 |
| Average assets | 461,514 | 453,801 | 460,774 | 441,583 |
| Average earning assets | 447,769 | 437,822 | 445,977 | 426,819 |
| Average shareholders' equity | 66,766 | 61,937 | 64,864 | 62,480 |
| Average common shareholders' equity | 53,100 | 48,271 | 51,198 | 48,814 |
| Nonperforming loans | 1,815 | 5,614 | 1,815 | 5,614 |
| Other real estate owned | 4,051 | 4,771 | 4,051 | 4,771 |
| Total nonperforming assets | 5,866 | 10,385 | 5,866 | 10,385 |
| Troubled debt restructures (accruing) | 5,555 | 4,465 | 5,555 | 4,465 |
| Selected Ratios: | | | | |
| Return on average assets (1) | 1.56% | 1.02% | 1.19% | 0.98% |
| Return on average common equity (1) | 13.27% | 9.30% | 10.44% | 8.33% |
| Efficiency ratio (4)(5) | 58.44% | 59.25% | 59.04% | 59.78% |
| Net interest margin (1) | 3.69% | 3.90% | 3.79% | 3.88% |
| Tier 1 leverage capital ratio | 13.7% | 13.2% | 13.7% | 13.2% |
| Tier 1 risk-based capital ratio | 18.3% | 17.4% | 18.3% | 17.4% |
| Total risk-based capital ratio | 19.6% | 18.6% | 19.6% | 18.6% |
| Common dividend payout ratio (6) | 29.62% | 46.47% | 39.31% | 49.19% |
| Average equity to average assets | 14.47% | 13.65% | 14.08% | 14.15% |
| Nonperforming loans to total loans (2) | 0.64% | 1.95% | 0.64% | 1.95% |
| Nonperforming assets to total assets (2) | 1.28% | 2.29% | 1.28% | 2.29% |
| Allowance for loan losses to total loans (2) | 1.81% | 1.88% | 1.81% | 1.88% |
| Allowance for loan losses to nonperforming loans (2) | 283.39% | 96.40% | 283.39% | 96.40% |

(1) Annualized

(2) As of period end

(3) Total shareholders' equity, less preferred stock, divided by total common shares outstanding

(4) Noninterest expenses to net interest and noninterest income

(5) Excludes net gains (losses) on securities and other real estate owned

(6) Common dividends divided by net income available for common stockholders