FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C. 20429

FORM 10-K

[X] **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Fiscal Year Ended December 31, 2020

[ ] **Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _________ to _________

FDIC Certificate Number 32203

Summit State Bank
(Exact name of registrant as specified in its charter)

California — (State of incorporation)
94-2878925 — (I.R.S. Employee Identification No.)

500 Bicentennial Way, Santa Rosa, California 95403 — (Address of principal executive offices)
(707) 568-6000 — (Registrant's telephone number, including area code)

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	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.
Yes [ ] No [X]

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under these sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period of that the registrant was require to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes[X] No[ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," an "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐
Non-accelerated filer ☒ Smaller reporting company ☒
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. [ ]

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. [ ]

Indicate by check mark if the registrant is a shell company (as defined), in Rule 12b(2) of the Exchange Act.
Yes [ ] No [X]

The aggregate market value of the Common Stock held by nonaffiliates as of June 30, 2020, the last business day of the registrant's most recently completed fiscal quarter, was approximately $54,444,000 (based upon the closing price of shares of the registrant's Common Stock, no par value, as reported by the NASDAQ Stock Market, LLC on such date). The number of shares outstanding of the registrant's common stock (no par value) at the close of business March 24, 2021 was 6,069,600.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2021 Annual Meeting of Shareholders to be filed within 120 days of the fiscal year ended December 31, 2020 are incorporated by reference into Part III.

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SUMMIT STATE BANK

ANNUAL REPORT ON FORM 10-K

PART I

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from those expressed in, or implied by, our forward-looking statements. Words such as "expects," "anticipates," "believes," "estimates" and other similar expressions or future or conditional verbs such as "will," "should," "would" and "could" are intended to identify such forward-looking statements. Readers of this annual report of Summit State Bank (also referred to as we, us or our) should not rely solely on the forward-looking statements and should consider all uncertainties and risks throughout the report.

Forward-looking statements, by their nature, are subject to risks, uncertainties and assumptions. Our future results and shareholder values may differ significantly from those expressed in these forward-looking statements. You are cautioned not to put undue reliance on any forward-looking statement. The statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement. However, your attention is directed to any further disclosures made on related subjects in any subsequent reports we may file with the Federal Deposit Insurance Corporation ("FDIC"), including on Forms 10-K, 10-Q and 8-K.

ITEM 1. BUSINESS

INFORMATION ABOUT SUMMIT STATE BANK

General

Summit State Bank (the "Bank" or "we") is a state-chartered commercial bank operating a traditional community banking business within our primary service area of Sonoma County in California, however, we also consider and make loans to borrowers primarily from Marin, Napa and San Francisco counties. We operate through five Sonoma County depository offices located in Santa Rosa, Rohnert Park, Healdsburg and Petaluma. The Bank also has loan production offices in Roseville, California, Brentwood, California and Scottsdale, Arizona.

The Bank was incorporated on December 20, 1982 and commenced operations as a California state-chartered savings and loan in 1982. On January 15, 1999, the Bank converted its charter to a California state-chartered commercial bank. On July 13, 2006, the Bank completed an underwritten initial public offering and listed its stock on the NASDAQ Global Market under the symbol SSBI. The Bank's deposits are insured by the FDIC in accordance with the Federal Deposit Insurance Act and the related regulations of the FDIC.

We provide a broad array of financial services to small to medium-sized businesses and their owners and employees, entrepreneurs, high net worth families, foundations, estates and individual consumers. We believe that our principal competitive advantages are personal service, flexibility and responsiveness to customer needs. Our lending activities are primarily focused on commercial real estate, construction, and business loans to our targeted clientele.

We emphasize relationship banking and we believe we offer our customers many of the management capabilities of a large financial institution, together with the resourcefulness and superior customer service of a community bank. Through our branches and the use of technology, we offer a broad array of deposit products and services for both commercial and consumer customers, including electronic banking, cash management services and electronic bill payment. We provide a comprehensive set of loan products, such as commercial loans and leases, lines of credit, commercial real estate loans, Small Business Administration, or SBA, loans, residential mortgage loans to employees, home equity lines of credit and construction loans. We believe that local decision- making ensures that our lending process is fast, efficient, and focused on maintaining our high credit quality and underwriting standards.

Services and Financial Products

Deposit Products

The Bank offers a wide range of deposit accounts designed to attract commercial businesses, professionals, and residents in the Bank's primary service area. These accounts include personal and business checking accounts, money market accounts, time certificates of deposit, sweep accounts and specialized deposit accounts, including professional accounts, small business "packaged" accounts, and tiered accounts designed to attract larger deposits, and IRA and other retirement plan accounts.

Lending Products

The Bank also offers a full complement of lending products designed to meet the specialized needs of its customers, including commercial and industrial lines of credit and term loans, equipment loans, real estate and construction loans, small business loans of which a portion may be guaranteed by the SBA or USDA. The Bank has the designation of "Preferred Lender" by the SBA, which allows for expedited loan approval and funding. The Bank offers loans in amounts which exceed the Bank's lending limits through participation arrangements with correspondent banks. On a selective basis, the Bank also offers loans to agriculture-related businesses. In 2020, the Bank participated in the Paycheck Protection Program (PPP) through the SBA to assist its customers with government guaranteed loans to manage through the COVID-19 pandemic.

Brokered Deposits and Reciprocal Deposits

The Bank will accept brokered deposits when the Bank determines that brokered deposits would be advantageous over other time deposits accepted through the Bank's branch system. The Bank is a member of a network (IntraFi Network) offering a time deposit product called CDARS and demand deposit product called ICS. When a customer places a large deposit with the Bank as a network member, the Bank can place the funds into certificates of deposit or demand accounts issued by other banks in the network in increments of less than $250,000, so that both principal and interest are eligible for complete FDIC protection. Other network banks do the same thing with their customer funds. The network banks exchange deposits on a dollar-for-dollar basis, bringing the full amount of the original deposit back to the originating bank. Because the originating bank comes out "whole," it can make the full amount of deposits received available for community lending purposes or other initiatives of its choosing. Deposits placed using CDARS and ICS meet the pass-through insurance coverage guidelines established by the FDIC and the depositor can obtain up to $150,000,000 in FDIC insurance coverage. The deposits received by the Bank from other network members in exchange for the Bank's customers' deposits placed in the program are not considered as brokered deposits for FFIEC Call Report purposes. Deposit funding raised through the CDARS products can vary significantly between financial reporting periods. CDARS, ICS and other brokered deposits totaled $131,755,000 or 18% of deposits at December 31, 2020, and $64,784,000 or 12% of deposits at December 31, 2019.

State of California Approved Depository

The Bank is an approved depository for the deposit of funds of the State of California. These time deposits are placed with the Bank by the Treasurer of the State of California with maturities of three to six months, and are collateralized by investment securities, mortgage loans or letters of credit issued by the Federal Home Loan Bank ("FHLB"). There were $0 State of California deposits at December 31, 2020 and $27,000,000 or 5% of deposits at December 31, 2019.

Internet and Telephone Banking Services

The Bank offers a computerized internet banking system, accessible on the Internet at the Bank's website www.summitstatebank.com, that enables its customers to view account information, access cash management services (including the initiation of automated clearinghouse payments), make transfers between accounts, pay bills, make loan payments, pre-schedule deposit transfers and request loan draws, and view both the front and back of cleared deposit items. The Bank also offers telephone banking services that enable customers to obtain account information, make transfers between accounts, make stop payments, check cleared items, and pre-schedule deposit transfers and loan payments. The Bank has an "app" for cellular phones that allows check image deposits, account inquiries and account transfers.

Other Services

Other services which the Bank offers include banking by appointment, online banking services, direct payroll and social security deposits, letters of credit, access to national automated teller machine networks, courier services, safe deposit boxes, night depository facilities, notary services, travelers checks, lockbox, and banking by mail.

Management evaluates the Bank's services on an ongoing basis, and adds or discontinues services based upon customer needs, competitive factors, and the financial and other capabilities of the Bank. Future services may also be significantly influenced by improvements and developments in technology and evolving state and federal regulations.

Sources of Business

In marketing its services, the Bank capitalizes on its identity as a local, community bank, with executive officers, directors and shareholders who have business and personal ties to the community. Small to medium-sized businesses are targeted, as well as nonprofit charities.

The Bank competes with other financial institutions in its service area through localized promotional activities, personalized service, and personal contact with potential customers by executive officers, directors, employees and shareholders. Promotional activities include media advertising, community advisory groups and officer participation in community business and civic groups. Officers and directors are active members of the community who call personally on their business contacts and acquaintances in the Sonoma County area to become customers.

Competition

The banking business in California generally, and in the Bank's service area in particular, is highly competitive with respect to both loans and deposits and is dominated by a relatively small number of major banks that have offices operating over wide geographic areas. The Bank competes for deposits and loans with these banks as well as with savings and loan associations, credit unions, mortgage companies, money market funds, stock brokerage firms, insurance companies, and other traditional and non-traditional financial institutions.

Major financial institutions with offices in the service area include Bank of America, Wells Fargo Bank, and JP Morgan Chase. Regional and independent financial institutions with offices in our service area include, among others, Redwood Credit Union, Luther Burbank Savings, Poppy Bank, Exchange Bank, and Westamerica Bank.

The major banks and some of the other institutions have the ability to finance significant investments in technology, extensive advertising campaigns and to shift their resources to regions or activities of greater potential profitability. Many of the competing banks and other institutions offer diversified financial services which may not be directly offered by the Bank. The major banks also have substantially more capital and higher lending limits.

The Bank competes for customers' funds with governmental and private entities issuing debt or equity securities or other forms of investments which may offer different or higher yields than those available through bank deposits.

Existing and future state and federal legislation could significantly affect the Bank's cost of doing business, its range of permissible activities, and the competitive balance among major, regional and independent banks, and other financial institutions. Management cannot predict the impact these matters may have on commercial banking in general or on the business of the Bank in particular.

To compete with the financial institutions operating in the Bank's service area, the Bank relies upon its independent status to provide flexibility and personalized service to its customers. The Bank emphasizes personal contacts with potential customers by executive officers, directors and employees, develops local promotional activities, and seeks to develop specialized or streamlined services for customers. To the extent customers desire loans in excess of its lending limits or services not offered by the Bank, the Bank attempts to assist customers in obtaining such loans or other services through participations with other banks or assistance from correspondent banks.

Our Address, Telephone Number and Internet Website

Our principal executive offices are located at 500 Bicentennial Way, Santa Rosa, California 95403, and our telephone number is (707) 568-6000. Information about us is available at www.summitstatebank.com. The information on our website is not incorporated by reference into and does not form a part of this report.

We file reports with the FDIC under the Securities Exchange Act of 1934 (the "Exchange Act"), which include annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, as well as proxy and information statements in connection with our shareholders meetings. The FDIC maintains a website that contains the Exchange Act reports that file with the FDIC. The address of the website is www.fdic.gov. Electronic copies of the Exchange Act reports we file with the FDIC are available free of charge by visiting the Investor Relations section of our website. These reports are generally posted as soon as reasonably practicable after they are filed with the FDIC.

REGULATION AND SUPERVISION

Overview

Described below are the material elements of selected laws and regulations applicable to the Bank. The descriptions are not intended to be complete and are qualified in their entirety by reference to the full text of the statutes and regulations described. Changes in applicable laws or regulations, and in their interpretation and application by regulatory agencies and other governmental authorities, cannot be predicted, but may have a material effect on our business, results of operations or financial condition of the business, or results of operations or financial condition of our subsidiaries.

The Bank is extensively regulated by federal and state authorities. Supervision, legal action and examination of the Bank by the bank regulatory agencies are generally intended to protect depositors and are not intended for the protection of shareholders. As a California state-chartered commercial bank, the Bank is regulated, supervised and examined by the California Department of Financial Protection & Innovation (the "DFPI") and the FDIC, which is the Bank's primary federal regulator. The regulations of the DFPI and the FDIC govern most aspects of the Bank's business relating to dividends, investments, loans, borrowings, capital requirements, branching, mergers and acquisitions, reserves against deposits, the issuance of securities and numerous other areas. Although the Bank is not a member bank of the Federal Reserve System, it is subject to certain regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"), such as those dealing with check clearing activities and the establishment of reserves against deposits. The Bank is also subject to the rules and regulations of the Consumer Financial Protection Bureau ("CFPB"), which is responsible for implementing and enforcing federal consumer financial protection laws, though the FDIC has the authority to examine the Bank with respect to these laws and to bring enforcement actions against the Bank for any violations. The Bank is also subject to the requirements and restrictions of various consumer laws and regulations arising under California law.

As the Bank's primary regulators, the FDIC and the DFPI issue regulations, conduct examinations, require the filing of reports and generally supervise the operations of the Bank. The approval of the FDIC and DFPI is required for certain transactions in which the Bank may engage, including any merger or consolidation involving the Bank, a change in control over the Bank, or the establishment or relocation of any of the Bank's branch offices. In reviewing applications seeking approval of such transactions, the FDIC and DFPI may consider, among other things, the competitive effect and public benefits of the transactions, the capital position and financial and managerial resources and future prospects of the organizations involved in the transaction, the applicant's performance record under the Community Reinvestment Act (see "Community Reinvestment" below) and the effectiveness of the organizations involved in the transaction in combating money laundering activities. The FDIC and the DFPI also have the power to pursue enforcement actions against the Bank and its affiliated parties (see "Enforcement Authority" below)

All reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, such as the Form 10-K, quarterly reports on the Form 10-Q, current reports on Form 8-K, and amendments to those reports are made available on the Bank's website at www.summitstatebank.com.

Capital Adequacy Guidelines

The federal bank regulatory agencies, including the FDIC, have adopted risk-based capital guidelines intended to provide a measure of capital adequacy that reflects the degree of risk associated with a financial institution's operations. The capital standards require the maintenance of common equity Tier 1 capital, Tier 1 capital and total capital to risk-weighted assets, and a Tier 1 leverage ratio of Tier 1 capital to total assets. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and additional Tier 1 capital. Additional Tier 1 capital includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus, meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), up to 45% of pre-tax net unrealized gains on available-for-sale securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out must incorporate AOCI, including unrealized gains and losses on available-for-sale-securities, into common equity tier 1 capital. The Bank exercised its opt-out election during the first quarter of calendar 2015. Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations.

The capital guidelines make regulatory capital requirements sensitive to the differences in risk profiles among banking institutions by risk-weighting a Bank's assets, including off-balance sheet items, for purposes of calculating a Bank's capital ratios.

The capital guidelines require the Bank to maintain a minimum common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6%, a total capital ratio of 8%, and a Tier 1 leverage ratio of 4%. The guidelines also establish a "capital conservation buffer" of 2.5% above the regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions that fail to maintain the capital conservation buffer faces constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The capital conservation buffer was phased in beginning January 2016 and was fully implemented on January 1, 2019.

The above capital ratios are minimum requirements. In practice, banks are expected to operate with more than the minimum capital and the FDIC may establish greater minimum capital requirements for specific institutions.

In 2019, the federal banking agencies adopted a new community bank leverage ratio (the ratio of a bank's tier 1 capital to average total consolidated assets) that qualifying institutions with less than $10 billion in assets may elect to use in lieu of the generally applicable leverage and risk-based capital requirements described above. A qualifying banking organization that elects to use the new ratio will be considered to have met all applicable federal regulatory capital and leverage requirements, including the minimum capital levels required to be considered "well capitalized" if it maintains community bank leverage ratio capital exceeding 9%. The new rule became effective on January 1, 2020. The Bank has elected it will not implement the community bank leverage ratio.

Prompt Corrective Action

Federal banking agencies, including the FDIC, have adopted regulations implementing a system of prompt corrective action under the Federal Deposit Insurance Corporation Improvement

Act. Under the prompt corrective action provisions and implementing regulations, every institution is classified into one of five categories, depending on its total risk-based capital ratio, its common equity Tier 1 ratio, its Tier 1 risk-based capital ratio, its leverage ratio, and subjective factors. The categories are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." To be considered well capitalized for purposes of the prompt corrective action rules, a bank must maintain total risk-based capital of 10.0% or greater, Tier 1 risk-based capital of 8.0% or greater, common equity Tier 1 capital of 6.5% or greater, and a leverage ratio of 5.0% or greater. An institution with a capital level that might qualify for well capitalized or adequately capitalized status may nevertheless be treated as though it were in the next lower capital category if its primary federal banking supervisory authority determines that an unsafe or unsound condition or practice warrants that treatment.

A financial institution's operations can be significantly affected by the financial institution's capital classification under the prompt corrective action rules. For example, an institution that is not well capitalized generally is prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market without advance regulatory approval, which can have an adverse effect on the bank's liquidity. At each successively lower capital category, an insured depository institution is subject to additional restrictions. Undercapitalized institutions are required to take specified actions to increase their capital or otherwise decrease the risks to the federal deposit insurance funds. Bank regulatory agencies generally are required to appoint a receiver or conservator shortly after an institution becomes critically undercapitalized (with tangible equity to total assets of 2% or less).

As of December 31, 2020, the Bank had a common equity Tier 1 capital ratio of 10.1%, a total risk-based capital ratio of 12.2%, a Tier-1 risk-based capital ratio of 10.1%, and a leverage ratio of 8.2%, exceeding the minimums necessary to be considered to be well-capitalized.

Standards for Safety and Soundness

Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, and other operational and managerial standards as the agency deems appropriate. Interagency guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to implement an acceptable compliance plan. Failure to implement such a plan can result in further enforcement action, including the issuance of a "cease and desist" order or the imposition of civil money penalties.

Enforcement Authority

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal banking agencies for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation, condition imposed in writing by the agency or written agreement with the agency. Enforcement actions may include the issuance of formal and informal agreements, the issuance of a cease-and-desist order that can be judicially enforced, the issuance of directives to increase capital, the imposition of civil money penalties, the issuance of removal and prohibition orders against institution-affiliated parties, the termination of insurance of deposits, the imposition of a conservator or receiver, and the enforcement of such actions through injunctions or restraining orders based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

The California Financial Code affords the DFPI similar enforcement authority. In addition, the DFPI has authority to take possession of and to liquidate a bank, to appoint a conservator for a bank and to appoint the FDIC as receiver for a bank.

Deposit Insurance Premiums

The Deposit Insurance Fund of the FDIC insures deposits at insured depository institutions such as the Bank generally up to a maximum of $250,000 per depositor.

Insured depository institutions pay the FDIC insurance assessments. The amount of the insurance assessment is based on the bank's average consolidated assets less tangible equity capital.

Assessment rates are risk-based. For banks that have been FDIC insured for at least five years and have less than $10 billion in total assets, such as the Bank, assessments rates are based on financial measures and supervisory ratings derived from statistical modeling estimating the probability of failure within three years and range from 1.5 to 30 basis points.

The FDIC has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what assessment rates will be in the future.

The FDIC may terminate an institution's deposit insurance upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The termination of the Bank's deposit insurance would result in a loss of its charter to conduct business as a bank.

Limits on Loans to One Borrower

Under the California Financial Code, with certain limited exceptions, a bank's unsecured loans to one borrower generally may not exceed 15% of the sum of a bank's capital stock, allowance for loan losses and capital notes and debentures, and both secured and unsecured loans to one borrower (excluding certain secured lending and letters of credit) at any given time generally may not exceed 25% of the sum of the bank's capital stock, allowance for loan losses and capital notes and debentures. Except for limitations on the amount of loans to a single borrower, loans secured by real or personal property may be made to any person without regard to the location or nature of the collateral.

Brokered Deposit Restrictions

Well-capitalized institutions are not subject to limitations on brokered deposits, while an adequately capitalized institution is able to accept, renew or roll over brokered deposits only with a waiver from the FDIC and subject to certain restrictions on the yield paid on such deposits. Undercapitalized institutions are generally not permitted to accept, renew, or roll over brokered deposits. The Economic Growth, Regulatory Relief and Consumer Protection Act amends the Federal

Deposit Insurance Act to exclude reciprocal deposits of an insured depository institution from these limitations on brokered deposits.

Limitations on Dividends

Under California law, the holders of the Bank's common stock are entitled to receive dividends out of funds legally available for the payment of dividends when and as declared by the Board of Directors, provided the conditions described below are satisfied. Federal law prohibits the Bank from paying a dividend if, after payment of the dividend, the Bank would not be "adequately capitalized" for purposes of prompt corrective action.

The payment of cash dividends by the Bank depends on various factors, including the earnings and capital requirements of the Bank and other financial conditions. California law provides that, as a state-licensed bank, the Bank may not make a cash distribution to its shareholders in excess of the lesser of the following: (a) the Bank's retained earnings or (b) the Bank's net income for its last three fiscal years, less the amount of any distributions made by the Bank to its shareholders during that period. However, a bank such as the Bank, with the prior approval of the DFPI, may make a distribution to its shareholders of an amount not to exceed the greatest of (1) the Bank's retained earnings, (2) the Bank's net income for its last fiscal year, or (3) the Bank's net income for the current fiscal year. If the DFPI determines that the shareholders' equity of the Bank is inadequate or that the making of a distribution by the Bank would be unsafe or unsound, the DFPI may order the Bank to refrain from making a proposed distribution.

The FDIC and the DFPI have authority to prohibit a bank from engaging in business practices that are considered to be unsafe or unsound. Depending upon the financial condition of the Bank and upon other factors, the FDIC or the DFPI could assert that payments of dividends or other payments by the Bank might be an unsafe or unsound practice.

Transactions with Related Parties and Insider Lending

Transactions between banks and their related parties or affiliates are limited by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. In a holding company context, the parent bank holding company and any companies which are controlled by such parent holding company are affiliates of the bank.

Generally, Section 23A of the Federal Reserve Act and the Federal Reserve Board's Regulation W limit the extent to which a bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10.0% of such bank's capital stock and surplus, and contain an aggregate limit on all such transactions with all affiliates to an amount equal to 20.0% of such bank's capital stock and surplus. The term ''covered transaction'' includes the making of loans, purchase of assets, issuance of guarantees and other similar transactions. In addition, loans or other extensions of credit by the bank to an affiliate are required to be collateralized in accordance with regulatory requirements and the bank's transactions with affiliates must be consistent with safe and sound banking practices and may not involve the purchase by the bank of any low-quality asset. Section 23B applies to covered transactions as well as certain other transactions and requires that all such transactions be on terms substantially the same, or at least as favorable, to the institution or subsidiary as those provided to non-affiliates.

Section 22(h) of the Federal Reserve Act and the Federal Reserve Board's Regulation O govern extensions of credit made by a bank to its directors, executive officers, and principal shareholders ("insiders"). Among other things, these provisions require that extensions of credit to insiders be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavorable features. Further, such extensions may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank's capital. Extensions of credit in excess of certain limits must also be approved by the board of directors.

Customer Privacy

Federal law contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, at the inception of the customer relationship and annually thereafter, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. These provisions also provide that, except for certain limited exceptions, a financial institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure. Further, under the "Interagency Guidelines Establishing Information Security Standards," banks must implement a comprehensive information security program that includes administrative, technical, and physical safeguards to ensure the security and confidentiality of customer information. Federal law makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain customer information of a financial nature by fraudulent or deceptive means.

Cybersecurity

Federal banking regulators have indicated that financial institutions should design multiple layers of security controls to establish lines of defense against and to ensure that their risk management processes address cyber-security risks posed by compromised client credentials, including security measures to reliably authenticate clients accessing Internet-based services of the financial institution. Financial institution management is also expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving destructive malware. A financial institution is expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or its critical service providers fall victim to this type of cyber-attack. If the Bank fails to observe regulatory guidance regarding appropriate cybersecurity safeguards, we could be subject to various regulatory sanctions, including financial penalties.

In the ordinary course of business, the Bank relies on electronic communications and information systems to conduct its operations and to store sensitive data. The Bank employs an in-depth, layered, defensive approach that incorporates security processes and technology to manage and maintain cybersecurity controls. The Bank employs a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of the Bank's defensive measures, the threat from cyber-attacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. While to date the Bank has not experienced a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, its systems and those of its clients and third-party service providers are under constant threat and it is possible that we could experience a significant event in the future.

Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by the Bank and its clients.

Community Reinvestment Act

Under the Community Reinvestment Act of 1977 ("CRA"), the FDIC is required to assess the record of all financial institutions regulated by it to determine if such institutions are meeting the credit needs of the community (including low and moderate-income neighborhoods) which they serve. CRA performance evaluations are based on a four-tiered rating system: Outstanding, Satisfactory, Needs to Improve and Substantial Noncompliance. The federal banking regulators consider an institution's CRA performance when evaluating applications for such things as mergers, acquisitions and applications to open branches. The Bank's most recent CRA rating was "Satisfactory".

Anti-Money Laundering and OFAC

Under federal law, financial institutions must maintain anti-money laundering programs that include established internal policies, procedures and controls; a designated Bank Secrecy Act/Anti-Money Laundering officer; an ongoing employee training program; and testing of the program by an independent audit function. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must meet enhanced standards for due diligence and customer identification in their dealings with foreign financial institutions and foreign customers. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious transactions, and law enforcement authorities have been granted increased access to financial information maintained by financial institutions. Bank regulators routinely examine institutions for compliance with these obligations, and they must consider an institution's compliance in connection with the regulatory review of applications, including applications for banking mergers and acquisitions. The bank regulatory agencies may impose cease and desist orders, civil money penalty sanctions and other enforcement measures against institutions found to be violating these obligations.

The Office of Foreign Assets Control ("OFAC") is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC sends bank regulatory agencies lists of persons and organizations suspected of aiding, harboring or engaging in terrorist acts or narcotics trafficking. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, the Bank must freeze such account, file a suspicious activity report and notify the appropriate authorities.

Consumer Protection Laws

The Bank is subject to a number of federal and state laws designed to protect borrowers and depositors and to promote lending to various sectors of the economy. These laws include the Equal Credit Opportunity Act, the Fair Housing Act, the Fair Credit Reporting Act, the Fair and Accurate Credit Transactions Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, and the Real Estate Settlement Procedures Act, and various state law counterparts. The Fair and Accurate Credit Transactions Act of 2003 and its implementing regulations to require financial institutions to develop and implement a written identity theft prevention program to detect, prevent and mitigate identity theft in connection with consumer and certain other accounts that present a reasonably foreseeable risk of identity theft. Failure to comply with consumer protection laws and regulations can subject financial institutions to enforcement actions, fines and other penalties.

Federal and State Securities Laws

The Bank's common stock is registered with the FDIC under section 12(i) of the Securities Exchange Act of 1934 (the "Exchange Act"). As such, the Bank is subject to the information reporting, proxy solicitation and other requirements of the Exchange Act though the Bank files Exchange Act reports and other forms with the FDIC rather than the SEC. The Bank is subject to the anti-fraud and other applicable provisions of state and federal securities laws.

The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding the Bank's electronically filed forms with the SEC; this site is http://www.sec.gov. All reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, such as the Form 10-K, quarterly reports on the Form 10-Q, current reports on Form 8-K, and amendments to those reports are also made available on the Bank's website at www.summitstatebank.com.

Although the Bank is exempt from the registration requirements of the Securities Act of 1933, and as such is not required to file a registration statement with the SEC before commencing the sale of its stock, the California Financial Code generally requires that a California-chartered bank obtain a permit from the DFPI prior to selling its securities, whether in a public offering or a private placement. The DFPI will generally approve the application if it determines that the proposed sale of securities is fair, just, and equitable.

The Bank's common stock is listed on the NASDAQ Stock Market. As such, the Bank is subject to the governance and other rules of the NASDAQ Stock Market.

Legislation and Proposed Changes

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in Congress, in the California legislature and before various bank regulatory agencies. Typically, the intent of this type of legislation is to strengthen the banking industry. No prediction can be made as to the likelihood of any major changes or the impact that new laws or regulations might have on the Bank.

Employees

As of December 31, 2020, the Bank employed a total of 99 employees in various capacities, primarily located in California with 1 employee located in Arizona. The Bank's employees are not represented by any union or covered by any collective bargaining agreement. The Bank considers its relationships with its employees to be good. Our banking strategy is largely dependent on the personal relationships of our employees, the quality of service they provide and their involvement in the communities we serve. We strive to attract, develop and retain employees who can further our strategic goals and build long-term shareholder value. To do so, we offer compensation, benefits, and training designed to attract, develop and retain employees. While we expect to hire employees to further our growth strategy, as a result of attrition and as opportunities to recruit talent may arise, in general, we believe our human capital resources are adequate for our needs.

ITEM 1A. RISK FACTORS

The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This report is qualified in its entirety by these risk factors.

Economic or Market Risks

The COVID-19 coronavirus pandemic will have an uncertain impact on the bank's financial condition and results of operations.

The COVID-19 coronavirus pandemic caused escalating infections in the Unites States beginning in the first quarter of 2020 that continued through the fourth quarter of 2020 and may continue for some time. The spread of the outbreak has disrupted the United Stated economy including banking and other financial activity in the market areas in which the Bank operates. Regions and states of the Unites States of America have implemented varying degrees of "stay at home" directives in an effort to prevent the spread of the virus. On March 19, 2020, the Governor of the State of California ordered all individuals living in the State of California to stay within their residence to prevent the spread of the novel coronavirus and many businesses have suspended or reduced business activities. These "stay at home" directives have, however, significantly reduced economic activity in the United States and the State of California. In the second and third quarters of 2020 the "stay at home" directives were gradually lifted in varying stages in the counties of the State of California. Counties with high infection rate rates delayed reopening and restrictions on certain economic activity remained. When infections increased in the fourth quarter 2020 restrictions were re-imposed to some degree. California-based claims for unemployment rose and remained elevated during 2020.

The Bank's deposits are exclusively sourced within California and its loans are primarily to borrowers domiciled within California. Demand for the Bank's products and services, such as loans and deposits, could be affected as a result of the decline in the economic activity within the state.

The Bank's investment portfolio contains bonds for which the source of repayment is domestic mortgage repayments, domestic municipalities throughout the United States, and domestic and global corporations. The value of the Bank's investment portfolio may decline if, for example, the general economy deteriorates, inflation increases, credit ratings decline, the issuers' financial condition deteriorates or the liquidity for debt securities declines.

In response to the pandemic, the Federal Reserve has engaged significant levels of monetary policy to provide liquidity and credit facilities to the financial markets. On March 15, 2020, the Federal Open Market Committee ("FOMC") reduced the target range for the federal funds rate to 0 to 0.25 percent; relatedly, the FOMC reduced the interest rate period on deposit balances to 0.10 percent effective March 16, 2020, all of which may negatively impact net interest income. The Bank maintains deposit balances at the Federal Reserve Bank; the amount that earns interest is identified in the Bank's financial statements as "interest-bearing cash".

In response to the pandemic, the United States federal government enacted the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") on March 27, 2020, providing an estimated $2 trillion fiscal stimulus to the United States economy. The CARES Act established the Paycheck Protection Program ("PPP") with $350 billion to provide businesses with federally guaranteed loans to support payroll and certain operating expenses. The loans were guaranteed by the United States Small Business Administration ("SBA") and funded through banks. In April 2020, the PPP program was expanded with an additional $310 billion. During 2020, the Bank funded $96,710,000 in government guaranteed PPP loans with meaningfully increased interest-earning assets and related interest and fee income. PPP loans were $69,583,000 at December 31, 2020.

On April 7, 2020, the U.S. banking agencies issued an Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised). The statement describes accounting for COVID-19-related loan modifications, including clarifying the interaction between current accounting rules and the temporary relief provided by the CARES Act. The Bank continues to work with loan customers requesting deferral of loan payments due to economic weaknesses caused by the pandemic. At December 31, 2020, the Bank had 12 granted loan deferrals totaling $28,960,000, or 4% of the portfolio; these loans were primarily real estate secured property.

The ongoing COVID-19 coronavirus pandemic and measures intended to prevent its spread could have a material adverse effect on our business and such effects will depend on future developments, which are highly uncertain and are difficult to predict.

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, which has spread globally including in the United States. On March 13, 2020, the President of the United States declared the COVID-19 pandemic a national emergency.

Global health concerns relating to the COVID-19 pandemic and related government actions taken to reduce the spread of the virus have created significant economic uncertainty and reduced economic activity, including within our market areas. Governmental authorities have implemented numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, "stay at home" orders and business limitations and shutdowns. These measures have caused significant unemployment and have negatively impacted consumer and business spending. The United States government has taken steps to attempt to mitigate some of the more severe anticipated economic effects of the virus, including the passage of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), but there can be no assurance that such steps will be effective or achieve their desired results in a timely fashion.

The economy of Sonoma County, which is our primary market area, is significantly dependent on small businesses, including, for example, those in the tourism, hospitality, dining and beer and wine industries, all of which have been severely and adversely affected by the pandemic. Many of our business customers are included or are dependent on these industries.

The outbreak has adversely impacted and is likely to further adversely impact our operations and the operations of our borrowers, customers and business partners. In particular, we may experience losses due to a number of operational factors impacting us or our borrowers, customers or business partners, including but not limited to:

- credit losses resulting from financial stress being experienced by our borrowers as a result of the outbreak and related governmental actions;
- credit losses including accrued interest from COVID-19-related loan modifications;
- declines in the value of collateral securing loans we have made;
- third party disruptions, including outages at network providers and other suppliers;
- increased cyber and payment fraud risk, as cybercriminals attempt to profit from the disruption, given increased online and remote activity;
- decreased loan growth;

- decreased interest and non-interest income;
- declines in the value of securities we own, as a result of increasing inflation, credit ratings decline, deterioration in issuers' financial condition or a decline in the liquidity for debt securities, for example;
- operational failures due to changes in our normal business practices necessitated by the outbreak and related governmental actions; and
- unavailability of key personnel or a significant number of our employees due to the effects and restrictions of a COVID-19 outbreak within our market area.

These factors may remain prevalent for a significant period of time and may continue to adversely affect our business, results of operations and financial condition even after the COVID-19 outbreak has subsided.

The spread of COVID-19 has caused us to modify our business practices (including restricting employee travel, and developing work from home and social distancing plans for our employees), and we may take further actions as may be required by government authorities or as we determine are in the best interests of our employees, customers and business partners. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus or will otherwise be satisfactory to government authorities.

The extent to which the coronavirus outbreak and governmental response impact our business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. Even after the COVID-19 outbreak has subsided, we may continue to experience materially adverse impacts to our business as a result of the virus's economic impact, including reduced loan growth, interest and noninterest income; adverse impacts on our liquidity; and any recession that has occurred or may occur in the future.

There are no comparable recent events that provide guidance as to the effects of the COVID-19 pandemic, and, as a result, we do not yet know the full extent of the impacts on our business, our operations or the economy as a whole. However, the effects could have a material impact on our results of operations and heighten many of our known risks described in the "Risk Factors" section of this Annual Report.

We are subject to litigation, regulatory enforcement risk and reputation risk regarding the Bank's participation in the Paycheck Protection Program and the risk that the Small Business Administration may not fund some or all PPP loan guaranties.

The CARES Act included a $349 billion loan program administered through the SBA referred to as the Paycheck Protection Program ("PPP"). Congress approved an expansion of the PPP and an additional $310 billion was made available on April 27, 2020. The SBA also began accepting Second Draw PPP loans beginning January 13, 2021 for businesses that meet a modified criterion including 300 or fewer employees and can demonstrate a 25% reduction in gross receipts in Q4 2020. Under the PPP, small businesses and other entities and individuals can apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to qualifications and eligibility criteria. We participated in the First Draw program and originated 601 PPP loans aggregating approximately $96,710,000 in 2020. In Q4 2020 Bank began receiving forgiveness from the SBA for First Draw loans and we are also participating in the Second Draw PPP loan program that opened in Q1 2021.

Because of the brief time between the passing of the CARES Act and implementation of the PPP, some of the rules and guidance relating to the PPP evolved or were issued after lenders, including the Bank, began processing PPP applications. There was and continues to be uncertainty in the laws, rules and guidance relating to the PPP. Several banks have been subject to litigation regarding the procedures used in processing PPP applications and some banks and borrowers have received negative media attention associated with PPP loans. Although we believe that we have administered the PPP in accordance with all applicable laws, regulations and guidance, we may be exposed to litigation risk, regulatory enforcement or negative media attention with respect to its participation in the PPP, any of which could result in significant financial liability or expense or could adversely affect the our reputation.

We also have credit risk on PPP loans if the SBA determines that there is a deficiency in the manner in which any loans were originated, funded or serviced by the Bank, including any issue with the eligibility of a borrower to receive a PPP loan. If there is a loss resulting from a default on a PPP loan and the SBA determines that there was a deficiency in the manner in which we originated, funded or serviced the PPP loan, the SBA could deny its liability under the guaranty, reduce the amount of the guaranty or, if the SBA has already paid under the guaranty, seek recovery of any loss related to the deficiency from the Bank, any of which could result in a loss to the Bank.

Our business may be adversely affected by other general economic conditions, including conditions in California.

The banking business is affected by general economic and political conditions, both domestic and international, and by governmental monetary and fiscal policies. Conditions such as inflation, recession, unemployment, volatile interest rates, money supply, scarce natural resources, weather, natural disasters such as earthquakes, international disorders, and other factors beyond our control may adversely affect our profitability.

A substantial majority of our assets and deposits are generated in Northern California. Local economic conditions in this area can have a significant impact on the demand for our products and services, the ability of borrowers to pay interest on and repay the principal of our loans, and the value of the collateral securing these loans. Adverse changes in economic conditions in the Northern California market may negatively affect our business, results of operations or financial condition.

We are highly dependent on real estate and events that negatively impact the real estate market could hurt our business.

A significant portion of our loan portfolio is dependent on real estate. At December 31, 2020, real estate served as the principal source of collateral with respect to approximately 84% of our loan portfolio. A decline in the value of the real estate securing our loans and real estate owned by us could adversely impact our financial condition. In addition, acts of nature, including earthquakes, wildfires and floods, which may cause uninsured damage and other loss of value to real estate that secures these loans, may also negatively impact our financial condition. This is particularly significant in light of the fact that substantially all of the real estate that makes up the collateral of our real estate-secured loans is located in Northern California, where earthquakes, wildfires and floods are common.

Our ability to declare future dividends is subject to certain limitations.

Our ability to pay dividends is limited by law, regulation and our financial condition. We cannot assure you that we will continue to pay dividends at the rate and frequency at we have done in the past or we will declare and pay any dividends in the future at all. See "Regulation and Supervision - Limitations on Dividends" on page 11.

Lending and Other Operating Risks

Our allowance for loan losses may prove to be insufficient to absorb losses in our loan portfolio.

Lending money is a substantial part of our business. Every loan carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things:

- cash flow of the borrower and/or the project being financed;
- the changes and uncertainties as to the future value of the collateral, in the case of a collateralized loan;
- the credit experience of a particular borrower;
- changes in economic and industry conditions; and
- the duration of the loan.

We maintain an allowance for loan losses, a reserve established through a provision for loan losses charged to expense, which we believe is appropriate to provide for probable losses in its loan portfolio. The amount of this allowance is determined by our management through a periodic review and consideration of several factors, including, but not limited to:

- our general reserve, based on our historical default and loss experience as well as current macroeconomic factors; and
- our specific reserve, based on our evaluation of non-performing loans and their underlying collateral.

The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Continuing deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review our allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, we may need additional provisions to replenish the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, most likely, capital, and may have a material negative effect on our financial condition and results of operations.

Regulatory requirements affecting our loans secured by commercial real estate could limit our ability to leverage our capital and adversely affect our growth and profitability.

Rising commercial real estate lending concentrations may expose institutions like us to unanticipated earnings and capital volatility in the event of adverse changes in the commercial real estate market. In addition, institutions that are exposed to significant commercial real estate concentration risk may be subject to increased regulatory scrutiny. The federal banking agencies have issued guidance for institutions that are deemed to have concentrations in commercial real estate lending. Pursuant to the supervisory criteria contained in the guidance for identifying institutions with a potential commercial real estate concentration risk, institutions that have (i) total reported loans for construction, land development, and other land which represent 100% or more of an institution's total risk-based capital; or (ii) total commercial real estate loans which represent 300% or more of the institution's total risk-based capital and an increase in the outstanding balance of the institution's commercial real estate loan portfolio of 50% or more during the prior 36 months, are identified as having potential commercial real estate concentration risk. As of December 31, 2020, our loans for construction, land development and other land represented 43% of our total risk-based capital. Our non-owner occupied commercial real estate concentration at December 31, 2020 was 299% of our capital. Management has implemented and continues to maintain heightened portfolio monitoring and reporting, and enhanced underwriting criteria with respect to its commercial real estate portfolio. Nevertheless, our level of commercial real estate lending could limit our growth or require us to obtain additional capital and could have a material adverse effect on our business, financial condition and results of operations.

Our business is subject to liquidity risk and changes in our source of funds may affect our performance and financial condition.

Our ability to make loans is directly related to our ability to secure funding. In addition to local deposits, the Bank receives funding from FHLB advances, Federal Reserve Bank ("FRB") advances, brokered deposits and State of California time deposits, when such alternatives are attractive compared to the cost of attracting additional local deposits. These alternative sources of funds, along with local time deposits, are sensitive to interest rates and can affect the cost of funds and net interest margin. Liquidity risk arises from the inability to meet obligations when they come due or to manage the unplanned decreases or changes in funding sources. Although we believe we can continue to successfully pursue a local deposit funding strategy, if there are significant fluctuations in local deposit balances or if one of the alternative sources of funds becomes unavailable, we may experience an adverse effect on our financial condition and results of operations.

Changes in interest rates may reduce our net income.

Our income depends to a great extent on the difference between the interest rates we earn on our loans, securities and other interest-earning assets and the interest rates we pay on deposits and other interest-bearing liabilities. These rates are highly sensitive to many factors that are beyond our control, including general economic conditions and the policies of various governmental and regulatory agencies, in particular the Federal Reserve Board. A change in interest rates could have a material adverse effect on our results of operations, financial condition and prospects by reducing the spread between income realized on interest earning assets and interest paid on interest bearing liabilities. Generally, the value of fixed-rate securities fluctuates inversely with changes in interest rates. Therefore, an increase in interest rates could cause the fair value of our securities investments to decrease, which could materially and adversely affect our results of operations, financial condition and prospects. See "Quantitative and Qualitative Disclosures About Market Risk" on page 51.

We are exposed to the risk of environmental and other liabilities with respect to properties to which we take title.

In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental or other liabilities with respect to these properties. We may be held liable to a governmental entity or to third persons for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or we may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, in the event we become the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition, liquidity and results of operations could be materially and adversely affected.

We are exposed to adverse, regulatory, reputation and litigation risk with respect to California's cannabis laws.

California permits adults over the age of 21 to possess, privately use and grow limited amounts of cannabis. The commercial sale, distribution and production of cannabis for adult use at state-licensed facilities beginning January 1, 2018, under terms spelled out in the Medical and Adult Use of Cannabis Regulation and Safety Act approved by the legislature in 2017. Marijuana remains illegal under the federal Controlled Substances Act and banks are prohibited from knowingly providing banking services to enterprises that are illegal under federal law. However, in 2013, the U.S. Department of Justice issued the "Cole Memorandum," which directed federal prosecutors to focus prosecutorial priorities away from state-legal marijuana activity unless certain heightened risk factors were present. On January 4, 2018, the U.S. Attorney General rescinded of the Cole Memorandum and announced that federal prosecutors retain the discretion to prosecute violations of the Controlled Substances Act, including state-legal recreational marijuana activity, in accordance with principles that govern all federal prosecutions. Further, in 2014, the Financial Crimes Enforcement Network or FinCEN issued guidance to banks on how to comply with the due diligence and reporting requirements in the Bank Secrecy Act when providing banking services to cannabis-related businesses.

We do not offer banking services to cannabis-related enterprises. However, in the course of our business, we may foreclose and take title to real estate that is used in a cannabis business, or may inadvertently offer loan or deposit services to customers who engage in that business if the customer misrepresents or hides its involvement in the cannabis industry. In the event we unknowingly provide banking services to a marijuana-related business, or holds funds used in a marijuana business, or is seen as participating in an illegal enterprise, we may be subject to additional risks, including litigation, regulatory enforcement actions and collateral asset seizures and reputation risk.

Implementation of a new accounting standard requires us to increase our allowance for loan losses and may have a material adverse effect on our financial condition and results of operations.

The Financial Accounting Standards Board ("FASB") has adopted a new accounting standard that will be effective for our fiscal year, and interim periods within the fiscal year, beginning January 1, 2023. The Bank will early adopt this standard on January 1, 2021. This standard, referred to as Current Expected Credit Loss, or CECL, will require financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for loan losses. This will change our current method of providing allowances for loan losses that are probable, require the Bank to increase its allowance for loan losses, and the types of data needed to determine the appropriate level of the allowance for loan losses. At adoption there will be an adjustment to retained earnings and this will change capital levels. A banking organization that experiences a reduction in retained earnings as of the CECL adoption date may elect to phase in the day-one regulatory capital impact of adopting CECL over a three-year transition period. Upon adoption of CECL, credit loss allowances will increase, which will decrease retained earnings and thereby affect common equity tier 1 capital for regulatory capital purposes. CECL implementation poses operational risk, including the failure to properly transition internal processes or systems, which could lead to call report errors, financial misstatements, or operational losses. Successful implementation may require adjustments to existing data elements and credit loss methods.

We are subject to stringent capital requirements.

The federal banking agencies capital guidelines require that we meet minimum leverage and risk-based capital requirements applicable to bank holding companies and insured banks. Our satisfaction of these requirements is subject to qualitative judgments by regulators that may differ materially from our management's and that are subject to being determined retroactively for prior periods. Additionally, regulators can make subjective assessments about the adequacy of capital levels, even if our capital exceeds the minimums necessary to be considered "well-capitalized." Our failure to meet regulatory capital requirements could have a material adverse effect on our business, including damaging the confidence of customers in us, adversely impacting our reputation and competitive position and retention of key personnel. Our failure to meet capital requirements could also limit or suspend our ability to grow or expand our business, pay dividends and accept brokered deposits. A failure to meet regulatory capital standards may also result in higher FDIC insurance assessments. Maintaining adequate capital levels could require that we raise additional capital, which could reduce our earnings or dilute our existing shareholders. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our financial condition, results of operations and liquidity.

The accuracy of our judgments and estimates about financial and accounting matters will impact operating results and financial condition.

The Bank makes certain estimates and judgments in preparing its financial statements. The quality and accuracy of those estimates and judgments will have an impact on the Bank's operating results and financial condition. Three items that are subject to material estimates and judgments include the consideration of other-than-temporary-impairment (OTTI) of investment securities, the recorded goodwill asset of $4,119,000 and the allowance for loan losses of $8,882,000 as of December 31, 2020. Although management believes its estimates and judgements are reasonable and may seek to support its estimates and judgments by employing third party reviews there are no assurances that regulatory reviews may result in a different conclusion or future events may occur that impact the recorded values resulting in material fluctuations of financial results. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates" beginning on page 31.

Changes in tax laws could have an adverse effect on us, our industry, our customers, the value of collateral securing our loans and demand for our loans.

Federal tax reform legislation enacted by Congress in December 2017 contains a number of provisions that could have an impact on the banking industry, borrowers and the market for single-family residential and multifamily residential real estate. Among the changes are: a lower cap on the amount of mortgage interest that a borrower may deduct on single-family residential mortgages; the lower mortgage interest cap will be spread among all of the borrower's residential mortgages, which may result in elimination or lowering of the mortgage interest deduction on a second home;

limitations on deductibility of business interest expense; limitations on the deductibility of state and local income and property taxes. Such changes could have an adverse effect on the market for and valuation of single-family residential properties and multifamily residential properties, and on the demand for such loans in the future. If home ownership or multifamily residential property ownership becomes less attractive, demand for our loans would decrease. The value of the properties securing loans in our portfolio may be adversely impacted as a result of the changing economics of home ownership and multifamily residential ownership, which could require an increase in our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition and results of operations.

We are dependent on our management team and key employees, and if we are not able to retain them, our business operations could be materially adversely affected.

Our success depends, in large part, on our management team and key employees. Our management team has significant industry experience. Our future success also depends on our continuing ability to attract, develop, motivate and retain key employees. Qualified individuals are in high demand, particularly in the banking business, and we may incur significant costs to attract and retain them. Because the market for qualified individuals is highly competitive, we may not be able to attract and retain qualified officers or candidates. The loss of any of our management team or our key employees could materially adversely affect our ability to execute our business strategy, and we may not be able to find adequate replacements on a timely basis, or at all. We cannot ensure that we will be able to retain the services of any members of our management team or other key employees. Though we have change-in-control agreements in place with certain members of our management team they may still elect to leave at any time. Failure to attract and retain a qualified management team and qualified key employees could have a material adverse effect on our business, financial condition and results of operations.

Our business is highly competitive.

In California generally, and in our service area specifically, major banks and regional banks dominate the commercial banking market. By virtue of their larger capital bases, such institutions have substantially greater financial, marketing and operational resources than us and offer diversified services that we might not directly offer. We compete with larger commercial banks and other financial institutions, such as savings and loan associations and credit unions, which offer services traditionally offered only by banks. In addition, we compete with other institutions such as money market funds, brokerage firms, commercial finance companies, leasing companies, and even retail stores seeking to penetrate the financial services market. No assurance can be given, however, that our efforts to compete with other banks and financial institutions will continue to be successful. In addition, the costs of providing a high level of personal service could adversely affect our operating results. See "Information About Summit State Bank - Competition" on page 6.

We depend on loan originations to grow our business.

Our success depends on, among other things, its ability to originate loans. Real estate valuations in our market area have escalated in recent years and may not be sustained. Our competitors may offer better terms or better service, or respond to changing capital and other regulatory requirements better than we are able to do. Some of our competitors make loans on terms that we may not be willing to match. Success in competing for loans depends on such factors as:

- Quality of service to borrowers, especially the time it takes to process loans;
- Economic factors, such as interest rates;

- Terms of the loans offered, such as rate adjustment provisions, adjustment caps, loan maturities, loan-to-value ratios and loan fees; and
- Size of the loan.

Risks Related to Information Systems and Controls

Our operations could be interrupted if our third-party service providers experience difficulty, terminate their services or fail to comply with banking regulations.

We depend to a significant extent on a number of relationships with third-party service providers. Specifically, we receive core systems processing, essential web hosting and other internet systems, deposit processing and other processing services from third-party service providers. If these third-party service providers experience difficulties or terminate their services and we are unable to replace them with other service providers, our operations could be interrupted. If an interruption were to continue for a significant period of time, our business, financial condition and results of operations could be adversely affected, perhaps materially. Even if we are able to replace them, it may be at a higher cost to us, which could adversely affect our business, financial condition and results of operations.

We have a continuing need for technological change, and we may not have the resources to effectively implement new technology or we may experience operational challenges when implementing new technology.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to create additional efficiencies in our operations as we continue to grow and expand our market area. We may experience operational challenges as we implement these new technology enhancements, or seek to implement them across all of our offices and business units, which could result in us not fully realizing the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner.

Many of our larger competitors have substantially greater resources to invest in technological improvements. As a result, they may be able to offer additional or superior products to those that we will be able to offer, which would put us at a competitive disadvantage. Accordingly, a risk exists that we will not be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management and systems. We cannot assure that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately corrected. The occurrence of any such failures, interruptions or security breaches could damage our reputation, result in a loss of customer business, subject us to heightened regulatory scrutiny, or expose us to litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

We may be adversely affected by disruptions to our network and computer systems or to those of our service providers as a result of denial-of-service or other cyber-attacks.

We may experience disruptions or failures in our computer systems and network infrastructure or in those of our service providers as a result of denial-of-service or other cyber-attacks in the future. We have developed and continue to invest in, systems and processes that are designed to detect and prevent security breaches and cyber-attacks. Due to the increasing sophistication of such attacks, we may not be able to prevent denial-of-service or other cyber-attacks that could compromise our normal business operations, compromise the normal business operations of our customers, or result in the unauthorized use of customers' confidential and proprietary information. The occurrence of any failure, interruption or security breach of network and computer systems resulting from denial-of-service or other cyber-attacks could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could adversely affect our business, results of operations or financial condition.

Our controls and procedures may fail or be circumvented.

Management regularly reviews and updates our internal control over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Bank's business, results of operations and financial condition.

A failure to maintain effective internal control over financial reporting could have a material adverse effect on our business and stock prices.

If we are unable to maintain the effectiveness of our internal control over financial reporting, we may be unable to report our financial results accurately and on a timely basis. In such an event, investors and clients may lose confidence in the accuracy and completeness of our financial statements, as a result of which our liquidity, access to capital markets, and perceptions of our creditworthiness could be adversely affected and the market prices of our common stock could decline. In addition, we could become subject to investigations by NASDAQ, the FDIC or the SEC, or other regulatory authorities, which could require us to expend additional financial and management resources. As a result, an inability to maintain the effectiveness of our internal control over financial reporting in the future could have a material adverse effect on our business, financial condition, results of operations and prospects

Regulatory Risks

Our business is subject to extensive government regulation and legislation.

We are subject to extensive state and federal regulation, supervision and legislation, and the laws that govern us and our operations are subject to change from time to time. Applicable laws and regulations provide for the regular examination and supervision of institutions; impost minimal capital requirements; affect the cost of funds through reserve requirements and assessments on deposits; limit or prohibit the payment of interest on demand deposits; limit the kinds of investments we can make and the kinds of activities in which we can engage; and grant the bank regulatory agencies broad enforcement authority in case of violations. The bank regulatory agencies have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on a bank's operations, reclassify assets, determine the adequacy of a bank's allowance for loan losses and determine the level of deposit insurance premiums assessed. The laws and regulations increase the cost of doing business and have an adverse impact on our ability to compete efficiently with other financial services providers that are not similarly regulated. See "Information About Summit State Bank – Regulation and Supervision" beginning on page 7.

Changes in laws and regulations and the cost of compliance with new laws and regulations may adversely affect our operations and our income.

The potential exists for additional federal or state laws and regulations, or changes in policy, affecting lending and funding practices, the fees we charge customers and liquidity standards for example. Moreover, bank regulatory agencies have been active in responding to concerns and trends identified in examinations, and have issued many formal enforcement orders requiring capital ratios in excess of regulatory requirements. Any change in these regulations and oversight, whether in the form of regulatory policy, new regulations or legislation or additional deposit insurance premiums could have a material impact on our operations. There can be no assurance that future regulation or legislation will not impose additional requirements and restrictions on us in a manner that will adversely affect its results of operations, financial condition and prospects.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act of 1970, the Uniting and Strengthening America by Providing Appropriate Tools to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act, or Patriot Act, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti-money laundering program and to file reports such as suspicious activity reports and currency transaction reports. We are required to comply with these and other anti-money laundering requirements. Our federal and state banking regulators, the Financial Crimes Enforcement Network, or FinCEN, and other government agencies are authorized to impose significant civil money penalties for violations of anti-money laundering requirements. We are also subject to increased scrutiny of compliance with the regulations issued and enforced by the Office of Foreign Assets Control, or OFAC. If our program is deemed deficient, we could be subject to liability, including fines, civil money penalties and other regulatory actions, which may include restrictions on our business operations and our ability to pay dividends, restrictions on mergers and acquisitions activity, restrictions on expansion, and restrictions on entering new business lines. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have significant reputational consequences for us. Any of these circumstances could have a material adverse effect on our business, financial condition or results of operations.

General Risk Factors

Our Share Price May Be Volatile.

There is a limited trading market exists for our common shares which could lead to price volatility. Your ability to sell our common shares depends upon the existence of an active trading market for our common shares. While our common stock is traded on the NASDAQ Global Market, the trading volume has been relatively low. As a result, you may be unable to sell or purchase our common shares at the volume, price and time you desire. The limited trading market for our common shares may cause fluctuations in the market value of our common shares to be exaggerated, leading to price volatility in excess of that which would occur in a more active trading market. In addition, even if a more active market of our common stock develops, we cannot assure you that such a market will continue.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Bank owns its head office building located at 500 Bicentennial Way, Santa Rosa, California. The building has approximately 31,000 square feet of usable space. The Bank occupies approximately 20,000 square feet as its headquarters. The remaining 11,000 square feet are currently leased to 2 tenants, with lease terms maturing from 2021 to 2022. The Bank also leases spaces for branch offices in three shopping centers and one commercial building. These leases expire at various dates from 2024 through 2025 and include renewal and termination options and rental adjustment provisions. The Bank leases three commercial spaces for loan production with lease expirations through 2024.

ITEM 3. LEGAL PROCEEDINGS

The nature of our business causes us to be involved in legal proceedings from time to time. As of the date of this report, the Bank is not a party to any litigation where management anticipates that the outcome will have a material effect on the consolidated financial position or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Bank's common stock trades on the NASDAQ under the symbol "SSBI." There were 149 common stock shareholders of record at December 31, 2020. There were no issuer purchases of equity securities for the three-month period ended December 31, 2020.

ITEM 6. SELECTED FINANCIAL DATA

Selected Financial Data

(in thousands except per share data)	Year Ended December 31				
	2020	2019	2018	2017	2016
Income statement data:					
Interest income	$ 36,425	$ 30,001	$ 25,572	$ 20,713	$ 19,907
Net interest income before provision for (reversal of) loan losses	30,261	22,976	21,622	18,572	18,673
Provision for (reversal of) loan losses	2,100	700	530	520	-
Total non-interest income	4,448	2,662	2,309	1,715	2,021
Total non-interest expense	17,671	16,063	15,357	13,845	12,245
Income before provision for income taxes	14,938	8,875	8,044	5,922	8,449
Provision for income taxes	4,421	2,398	2,217	2,630	3,482
Net income	$ 10,517	$ 6,477	$ 5,827	$ 3,292	$ 4,967
Net income available to common shareholders	$ 10,517	$ 6,477	$ 5,827	$ 3,292	$ 4,967
Selected balance sheet data:					
Assets	$ 865,854	$ 695,978	$ 622,104	$ 610,864	$ 513,704
Loans, net	745,939	576,548	504,549	437,594	354,638
Earning assets	851,341	680,607	609,956	599,619	502,121
Deposits	726,295	573,837	501,189	533,513	384,251
Federal Home Loan Bank advances	53,500	45,600	56,800	15,000	68,900
Shareholders' equity	75,629	67,344	61,520	59,677	58,622
Balance sheet data - average					
Assets	$ 791,059	$ 644,618	$ 586,978	$ 534,534	$ 510,829
Loans, net	687,333	542,630	473,922	381,289	363,545
Earning assets	774,037	628,311	575,843	523,475	502,381
Deposits	648,665	555,589	503,828	420,070	391,001
Federal Home Loan Bank advances	61,290	17,992	20,984	52,429	58,659
Shareholders' equity	71,637	64,847	60,295	59,987	59,326
Selected per common share data:					
Earnings per common share - basic	$ 1.73	$ 1.07	$ 0.96	$ 0.55	$ 0.83
Earnings per common share - diluted	$ 1.73	$ 1.07	$ 0.96	$ 0.54	$ 0.82
Weighted average shares used to calculate earnings per common share - basic	6,070	6,069	6,065	6,031	6,005
Weighted average shares used to calculate earnings per common share - diluted	6,074	6,074	6,072	6,059	6,036
Common shares outstanding at year end	6,070	6,070	6,066	6,041	6,020
Cash dividends per share	$ 0.48	$ 0.48	$ 0.48	$ 0.46	$ 0.38
Book value per common share	$ 12.46	$ 11.09	$ 10.14	$ 9.88	$ 9.74
Selected ratios:					
Return on average common shareholders' equity	14.68%	9.99%	9.66%	5.49%	8.37%
Return on average assets	1.33%	1.00%	0.99%	0.62%	0.97%
Common dividend payout ratio	27.70%	44.97%	49.97%	83.57%	46.43%
Net interest margin	3.91%	3.66%	3.75%	3.55%	3.72%
Efficiency ratio (1)	52.23%	62.64%	64.24%	68.49%	61.22%
Average common shareholders' equity to average assets	9.06%	10.06%	10.27%	11.22%	11.61%
Tier 1 leverage capital ratio	8.15%	9.26%	9.86%	10.23%	11.08%
Nonperforming assets to total assets (2)	0.03%	0.05%	0.34%	0.45%	0.65%
Nonperforming loans to total loans (2)	0.03%	0.05%	0.42%	0.62%	0.93%
Net charge-offs (recoveries) to average loans	0.00%	0.01%	0.06%	0.01%	(0.01)%
Allowance for loan losses to total loans	1.18%	1.16%	1.18%	1.18%	1.33%

(1) Efficiency ratio is commonly used in the Banking industry and is defined as non-interest expenses to net interest and non-interest income, net of securities gains (losses)

(2) Nonperforming loans is defined as loans on nonaccrual and accruing loans past due 90 days or more, Nonperforming assets is defined as nonperforming loans and other real estate owned through foreclosure

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides additional information about the financial condition of the Bank at December 31, 2020 and 2019 and results of operations for the years ended December 31, 2020, 2019 and 2018. The following analysis should be read in conjunction with the consolidated financial statements of the Bank and the notes thereto prepared in accordance with accounting principles generally accepted in the United States.

Forward Looking Statements

This discussion includes 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, that are based on the current beliefs of the Bank management as well as assumptions made by and information currently available to the Bank's management. When used in this discussion, the words "anticipate," "believe," "estimate," "expect," "should," "intend," "project," "may," "will," "would," variations of such words and words or phrases of similar meaning constitute forward-looking statements. Although the Bank believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct.

These forward-looking statements relate to, among other things, expectations regarding the business environment in which the Bank operates, projections of future performance, potential future performance, potential future credit experience, perceived opportunities in the market, and statements regarding the Bank's mission and vision. Factors which may cause actual results to vary from forward-looking statements include, but are not limited to, changes in interest rates, general economic and business conditions, changes in business strategy or development plans, changes in credit quality, the availability of capital to fund the expansion of our business, legislative and regulatory changes such as the Coronavirus Aid, Relief and Economic Security Act of 2020, government monetary and fiscal policies, natural disasters such as wildfires and earthquakes, interruptions of utility service in our markets for sustained periods, pandemics such as COVID-19 and the economic impact caused by a disease and by government response thereto real estate valuations, competition in the financial services industry, demographic changes, technological factors including external fraud and cybersecurity threats, civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type, outbreak or escalation of hostilities in which the United States is involved, any declaration of war by the U.S. Congress or any other national or international calamity, crisis or emergency, and other risks referenced in this discussion.

This discussion contains certain forward-looking information about us. All statements other than statements of historical fact are forward-looking statements. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond our control. We caution readers that a number of important factors could cause actual results to differ materially from those expressed in, implied or projected by, such forward-looking statements. Risks and uncertainties include, but are not limited to:

- the adverse impact of the COVID-19 pandemic and governmental responses to the pandemic on the Bank and its customers, employees and third-party service providers;
- the severity or duration of the COVID-10 pandemic and when normal economic and operational conditions will return;

- lower revenues than expected;
- credit quality deterioration which could cause an increase in the provision for credit losses;
- competitive pressure among depository institutions increases significantly;
- the cost of additional capital is more than expected;
- a change in the interest rate environment reduces interest margins;
- asset/liability repricing risks and liquidity risks;
- legislative or regulatory requirements or changes adversely affecting our business;
- changes in the securities markets;
- general economic conditions, either nationally or in the market areas in which we do or anticipate doing business, are less favorable than expected;
- potential weakness of real estate collateral values;
- the economic and regulatory effects of terrorism, events of war and civil unrest;
- our ability to complete any future acquisitions, to successfully integrate acquired entities, or to achieve expected synergies and operating efficiencies within expected time-frames or at all.

Also, other important factors that could cause actual results to differ materially from the Bank's expectations are disclosed under Item 1A. "RISK FACTORS," and below under this "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – Critical Accounting Policies" and elsewhere in this report.

If any of these risks or uncertainties materializes, or if any of the assumptions underlying such forward-looking statements proves to be incorrect, our results could differ materially from those expressed in, implied or projected by, such forward-looking statements. We assume no obligation to update such forward-looking statements.

We caution that these statements are further qualified by important factors, in addition to those under "Risk Factors" in Part II of this report and elsewhere in this report, which could cause actual results to differ significantly from those in the forward-looking statements, including, among other things, economic conditions and other risks.

Forward-looking statements are not guarantees of performance. By their nature, they involve risks, uncertainties and assumptions. Our future results and shareholder values may differ significantly from those expressed in these forward-looking statements. You are cautioned not to put undue reliance on any forward-looking statement. Any such statement speaks only as of the date of this discussion, regardless of the time of delivery of this document. We do not undertake any obligation to update or release any revisions to any forward-looking statements, to report any new information, future event or other circumstances after the date of this filing or to reflect the occurrence of unanticipated events, except as required by law. However, your attention is directed to any further disclosures made on related subjects in any subsequent reports we may file with the FDIC, including on Forms 10-K, 10-Q and 8-K.

Government and Regulatory Oversight

The Bank is subject to regulatory oversight by the Department of Financial Protection & Innovation (DFPI) from the state of California and the Federal Deposit Insurance Corporation (FDIC). These regulatory bodies periodically perform financial examinations of the Bank. There is a potential that an examination may derive different estimates than those reached by management and could require material adjustments or restatements.

Critical Accounting Policies and Estimates

The discussion and analysis of the Bank's results of operations and financial condition are based upon financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Bank's management to make estimates and judgments that affect the reported amounts of assets and liabilities, income and expense, and the related disclosures of contingent assets and liabilities at the date of these financial statements. These estimates are discussed in more detail under "Financial Statements and Supplementary Data" "Notes to Consolidated Financial Statements - Summary of Significant Accounting Policies" on page 67.

The Bank believes these estimates and assumptions to be reasonably accurate; however, actual results may differ from these estimates under different assumptions or circumstances. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, consideration of goodwill impairment and consideration of potential other-than-temporary-impairment (OTTI) on investment securities and other financial instruments.

Allowance for Loan Losses. The allowance for loan losses is determined first and foremost by promptly identifying potential credit weaknesses that could jeopardize repayment. The Bank's process for evaluating the adequacy of the allowance for loan losses includes determining estimated loss percentages for each credit based on the Bank's historical loss experience and other factors in the Bank's credit grading system and accompanying risk analysis for determining an adequate level of the allowance. The risks are assessed by rating each account based upon paying habits, loan-to-collateral value ratio, financial condition and level of classifications. The allowance for loan losses was $8,882,000 at December 31, 2020 compared to $6,769,000 at December 31, 2019.

The Bank maintains the allowance for loan losses to provide for probable incurred losses in the loan portfolio. Additions to the allowance for loan losses are established through a provision charged to expense. All loans which are judged to be uncollectible are charged against the allowance while any recoveries are credited to the allowance. The Bank's policy is to charge off any known losses at the time of determination. Any unsecured loan more than 90 days delinquent in payment of principal or interest and not in the process of collection is charged off in total. Secured loans are evaluated on a case-by-case basis to determine the ultimate loss potential to us subsequent to the liquidation of collateral. In those cases where we believe we are inadequately protected, a charge-off will generally be made to reduce the loan balance to a level equal to the liquidation value of the collateral, unless management believes the collateral deficiency may be overcome by borrower cash flows.

The Bank's loan policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, to enable management to assess such credit risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for loan losses. Management conducts an assessment of the allowance for loan losses on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors will examine and formally approve the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and any recent regulatory examination, estimated probable loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and non-accrual loans, trends in loan volume, effects of any changes in lending policies and procedures, changes in lending personnel, current economic conditions at the local, state and national level, including economic uncertainties of the COVID-19 pandemic, the economic impact caused by this disease and the government's responses thereto, and historical losses and recoveries.

In response to the impacts caused by the COVID-19 pandemic, the Bank has adjusted its qualitative factors to include COVID-19 pandemic economic forecasts and increased its provision beginning March 31, 2020 to ensure sufficient allowance reserves in the event of a loss. The Bank continues to update its qualitative assumptions including increased risk from higher unemployment partially offset by consideration of existing and proposed Federal stimulus programs, observed market liquidity and general economic conditions.

A significant portfolio of the allowance for loan losses is based upon modeled qualitative factors that are subjective. Accordingly, the Bank includes an additional unallocated component in its allowance in recognition of model adjustments and inherent model imprecision.

The Bank has elected to early adopt the new CECL model effective January 1, 2021. Upon adoption of CECL the Bank has recorded a one-time adjustment to its credit loss allowances as of the beginning of the fiscal year equal to the difference, between the amount of credit loss allowances under the current methodology and the amount required under CECL. In 2018, the federal banking regulators (the Federal Reserve, the OCC and the FDIC) adopted a rule that gives a banking organization the option to phase in over a three-year period the day-one adverse effects of CECL on its regulatory capital. The Bank has recognized a one-time cumulative-effect adjustment on January 1, 2021 by recording a $1,575,000 reduction in retained earnings, an increase in the allowance reserve of $2,250,000 and an increase in the deferred tax asset of $675,000.

Goodwill. Management assesses the carrying value of the Bank's goodwill at least annually in order to determine if this intangible asset is impaired. In reviewing the carrying value of the Bank's goodwill, management assesses the recoverability of such assets by evaluating the fair value of the related business unit. If the carrying amount of goodwill exceeds its fair value, an impairment loss is recognized for the amount of the excess and the carrying value of goodwill is reduced accordingly. Any impairment would be required to be recorded during the period identified.

Accounting standards require an annual evaluation of goodwill for impairment using various estimates and assumptions. The Bank typically performs its evaluation of goodwill for impairment at year end, as of December 31. Due to recent economic impacts caused by the COVID-19 pandemic, the Bank performed a goodwill assessment test each quarter in 2020 to determine if conditions warrant a detailed impairment analysis to make a final determination. The latest goodwill assessment test was performed as of December 31, 2020. The Bank's qualitative assessment includes the following considerations:

- Net income: The Bank's net income increased each quarter in 2020.
- Uninterrupted operations: The Bank has been deemed an Essential Business and has provided uninterrupted operations throughout the extent of the pandemic.
- Asset quality: The Bank maintains good asset quality including minimal loan delinquencies, nonaccrual loans remain low and no new charge offs have been recorded.
- Stock price: Summit's stock price was $13.48 at closing on December 31, 2020 and is 1.1 times its book value.

The Bank's goodwill value is $4,119,000 at December 31, 2020, this represents less than 1% of total assets. Based on the qualitative factors listed above, the Bank concludes goodwill is not impaired as of December 31, 2020.

No impairment was recorded related to this intangible asset in 2020, 2019 or 2018.

Investment Securities. We are obligated to assess, at each reporting date, whether there is an "other-than-temporary" impairment to our investment securities. Such impairment, if related to credit losses, must be recognized in current earnings rather than in other comprehensive income, net of tax. We examine all individual securities that are in an unrealized loss position at each reporting date for other-than-temporary impairment (OTTI). Specific investment level factors we examine to assess impairment include the severity and duration of the unrealized loss, the nature, financial condition and results of operations of the issuers of the securities and whether there has been any cause for default on the securities or any adverse change in the rating of the securities by the various rating agencies, as well as whether the decline in value is credit or liquidity related. Additionally, changes in interest rates, market and economic conditions, and the Bank's financial resources and overall intent and ability to hold the securities until their fair values recover is analyzed as part of the impairment assessment. However, these other factors on their own will not qualify as a primary determinant of OTTI. There was no OTTI recorded in 2020, 2019 or 2018. We do not have any investment securities with material unrealized losses that would be deemed to be "other-than-temporarily impaired" as of December 31, 2020. Investment securities are discussed in more detail under "Investment Portfolio."

Overview

The Bank is a community bank serving Sonoma, Napa, San Francisco and Marin counties in California. It operates through five depository offices located in Santa Rosa, Petaluma, Rohnert Park and Healdsburg. The Bank has loan production offices located in Roseville, California, Brentwood, California and Scottsdale, Arizona. The Bank was founded as a savings and loan in 1982 under the name Summit Savings. On January 15, 1999, the Bank converted its charter to a California state-chartered commercial bank and thereby became subject to regulation, supervision and examination by the California Department of Business Oversight and the FDIC.

Results of Operations

Years Ended December 31, 2020, 2019 and 2018

The Bank's primary source of income is net interest income, which is the difference between interest income and fees derived from earning assets and interest paid on liabilities which fund those assets. Net interest income, expressed as a percentage of total average interest-earning assets, is referred to as the net interest margin. The Bank's net interest income is affected by changes in the volume and mix of interest-earning assets and interest-bearing liabilities. It is also affected by changes in yields earned on interest-earning assets and rates paid on interest-bearing deposits and other borrowed funds. The Bank also generates non-interest income, including transactional fees, service charges, office lease income, gains and losses on investment securities and gains on sold government guaranteed loans originated by the Bank. Non-interest expenses consist primarily of employee compensation and benefits, occupancy and equipment expenses and other operating expenses. The Bank's results of operations are also affected by its provision for loan losses. Results of operations may also be significantly affected by other factors including general economic and competitive conditions, natural disasters such as wildfires and earthquakes, interruptions of utility service in our markets for sustained periods, pandemics such as COVID-19, mergers and acquisitions of other financial institutions within the Bank's market area, changes in market interest rates, government policies, and actions of regulatory agencies.

The Bank has been actively engaged in responding to the COVID-19 pandemic since March 2020. As of December 31, 2020, all branches and lending offices remain open to serve our local communities and include strict social distancing protocols to ensure the safety of anyone entering a branch. Many employees have been working remotely and cleaning protocols have been enhanced across all branches and back office operations.

From the onset of the pandemic, preventing the spread of COVID and protecting the health and safety of our employees, customers, and the communities we serve has been one of the Bank's highest priorities. The Bank has implemented sanitation, social distancing, and safety procedures and employees receive regular communication and training regarding these procedures. Many employees work from home and the Bank relies on phone, email and video conferencing as the primary form of communication. The Bank has been complying with County, State and Federal requirements, including CDC guidance, as it pertains to all "stay at home" orders, travel advisories, social distancing, wearing masks, frequent hand sanitizing, regular cleaning of workspaces and common areas, and a daily prework health questionnaire.

The Bank has been providing payment relief for up to 90 days to borrowers with hardship requests. As of December 31, 2020, 12 loans totaling $28,960,000 or 4% of the loan portfolio excluding PPP loans were in deferral due to the COVID-19 pandemic. Of the loans in deferral, 9 of those loans totaling $22,833,000 are extended deferments for a total deferment period up to one year. During 2020, the Bank deferred payments on a total of 135 loans totaling $193,705,000 or 26% of loans in its portfolio due to the COVID-19 pandemic. The deferral portfolio has an average loan to value ratio of 55%. Also, 99% of the deferred loans, or $28,723,000 are real estate secured.

The Bank has also been participating in the Small Business Administration's ("SBA's") Paycheck Protection Program ("PPP") under the CARES Act. PPP loans have up to five-year terms and earn interest at 1%. In addition, the Bank receives a fee of 1%-5% from the SBA based on the loan amount, which is amortized into interest income over the life of the loan. These loans are fully guaranteed by the SBA and may be forgiven by the SBA if they meet certain requirements in accordance with the terms of the program. In 2020 the Bank originated 601 PPP loans aggregating approximately $96,710,000.

On October 8, 2020, the SBA released a streamlined forgiveness application for PPP loans totaling $50,000 or less. Through December 31, 2020, the Bank received $25,167,000 in PPP forgiveness from the SBA. As of February 28, 2021, the Bank received a total of $55,055,000 in PPP forgiveness from the SBA.

Net Income

The Bank had net income and net income available for common stockholders of $10,517,000 or $1.73 per diluted share, for the year ended December 31, 2020 compared to net income and net income available for common stockholders of $6,477,000, or $1.07 per diluted share, for the year ended December 31, 2019, and net income of $5,827,000 or $0.96 per diluted share, for the year ended December 31, 2018.

The return on average assets was 1.33%, 1.00% and 0.99% for the years ended December 31, 2020, 2019 and 2018, respectively.

The return on average common equity was 14.68%, 9.99%, and 9.66% for the years ended December 31, 2020, 2019 and 2018, respectively.

In 2016 the Board of Directors adopted a 5-year strategy to position the Bank for accelerated growth. In 2020 the Board updated its 5-year strategy and continues setting expectations to focus on growing the Bank's core lending operations. The Bank's strategy has enabled it to increase its lending capacity and recognize record earnings in 2020. A majority of the growth in earnings is due to the increased loan portfolio production, reduction in cost of funds due to decreased interest rates, increase in SBA loan sales, a one-time increase in security gains in 2020 and interest income generated from the PPP loans in 2020.

Net Interest Income and Net Interest Margin

Net interest income was $30,261,000 and the net interest margin was 3.91% for the year ended December 31, 2020, which represented a $7,285,000 or 32% increase over 2019. For the year ended December 31, 2019, net interest income was $22,976,000 and the net interest margin was 3.66%, which represented a $1,354,000 or 6% increase over 2018. For the year ended December 31, 2018, net interest income was $21,622,000 and the net interest margin was 3.75%. At December 31, 2020, approximately 86% of the Bank's assets were comprised of net loans and 8% were comprised of investment securities compared to 83% of net loans and 9% of investment securities at December 31, 2019.

The yield on average interest-earning assets was 4.71% for the year ended December 31, 2020 and 4.77% for December 31, 2019. Yields on new loans are dependent on competition for those loans, which can mitigate general interest rate changes brought on by Federal Reserve policy. The yield on average interest-earning assets decreased from 4.77% for the year ended December 31, 2019, primarily because of reduction in market interest rates in the first half of 2020.

In 2020, average earning assets increased 23.2% with average investment securities decreasing 15.6% and average loans increasing 26.7%. In 2019, average earning assets increased 9.1% with average investment securities decreasing 12.7% and average loans increasing 14.5%.

For the year ended December 31, 2020, the cost of average interest-bearing liabilities was 1.15% compared with a cost of average interest-bearing liabilities of 1.56% for the year ended December 31, 2019 and 1.01% for the year ended December 31, 2018.

The increase in net interest income was primarily attributable to an increase in the loan portfolio volume, PPP loan fundings, and the reduction in the cost of interest-bearing liabilities due to the reduction in market rates including the Bank's CD portfolio maturing and repricing at lower rates. In addition, the Bank obtained $6,000,000 in subordinated debt with an annual rate of 6.0% in 2019.

The following table presents condensed average consolidated balance sheet information for the Bank, together with interest rates earned and paid on the various sources and uses of its funds for each of the periods presented. Average balances are based on daily average balances. Nonaccrual loans are included in loans with any interest collected reflected on a cash basis.

Average Balance Sheets and Analysis of Net Interest Income

	Year Ended December 31,								
	2020			2019			2018		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
Assets									
Interest earning assets:									
Federal funds sold	$ -	$ -		$ -	$ -		$ 855	$ 14	1.69%
Interest-bearing deposits with banks	24,206	65	0.27%	12,422	251	2.02%	17,759	247	1.39%
Taxable investment securities	59,095	1,498	2.53%	69,997	1,941	2.77%	80,222	2,382	2.97%
Dividends on FHLB Stock	3,403	229	6.73%	3,262	224	6.87%	3,085	266	8.62%
Loans, net of unearned income (1)	687,333	34,633	5.04%	542,630	27,585	5.08%	473,922	22,663	4.78%
Total earning assets/interest income	774,037	36,425	4.71%	628,311	30,001	4.77%	575,843	25,572	4.44%
Non-earning assets	24,789			22,644			16,809		
Allowance for loan losses	(7,767)			(6,337)			(5,674)		
Total assets	$ 791,059			$ 644,618			$ 586,978		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
Deposits:									
Interest-bearing demand deposits	$ 74,136	$ 122	0.16%	$ 64,243	$ 91	0.14%	$ 69,744	$ 79	0.11%
Savings and money market	167,720	1,287	0.77%	134,040	1,136	0.85%	134,303	811	0.60%
Time deposits	225,305	3,547	1.57%	231,517	5,195	2.24%	167,261	2,619	1.57%
FHLB advances	61,290	833	1.36%	17,992	414	2.30%	20,984	441	2.10%
Subordinated Debt	5,869	375	6.39%	2,970	-	0.00%	-	-	0.00%
Total interest-bearing liabilities/interest expense	534,320	6,164	1.15%	450,762	6,836	1.56%	392,292	3,950	1.01%
Non interest-bearing deposits	181,504			125,789			132,520		
Other liabilities	3,598			3,220			1,871		
Total liabilities	719,422			579,771			526,683		
Shareholders' equity	71,637			64,847			60,295		
Total liabilities and shareholders' equity	$ 791,059			$ 644,618			$ 586,978		
Net interest income and margin (2)		$ 30,261	3.91%		$ 23,165	3.66%		$ 21,622	3.75%
Net interest spread (3)			3.56%			3.21%			3.43%

(1) The net amortization of deferred fees and (costs) on loans included in interest income was $1,529,000, $(460,000) and $(112,000)) for the years ended December 31, 2020, 2019 and 2018, respectively.

(2) Net interest margin is computed by dividing net interest income by average total earning assets.

(3) Net interest spread is the difference between the average rate earned on average total earning assets and the average rate paid on average total interest-bearing liabilities.

The following table shows the change in interest income and interest expense and the amount of change attributable to variances in volume and rates. The unallocated change in rate or volume variance has been allocated between the rate and volume variances in proportion to the absolute dollar amount in the change of each.

Volume and Yield/Rate Variances

	2020 Compared to 2019			2019 Compared to 2018		
	Change Due to			Change Due to		
(Dollars in thousands)	Volume	Rate	Net	Volume	Rate	Net
Interest income:						
Federal funds sold	$ -	$ -	$ -	$ (14)	$ -	$ (14)
Interest-bearing deposits with banl	130	(316)	(186)	(61)	65	4
Taxable investment securities	(319)	(124)	(443)	(336)	(105)	(441)
Dividends on FHLB Stock	10	(5)	5	15	(57)	(42)
Loans, net	7,293	(245)	7,048	3,430	1,492	4,922
Total interest income	7,114	(690)	6,424	3,034	1,395	4,429
Interest expense:						
Interest-bearing demand deposits	15	16	31	(6)	18	12
Savings and money market	266	(115)	151	(2)	327	325
Time deposits	(143)	(1,505)	(1,648)	1,211	1,365	2,576
FHLB advances	648	(229)	419	(59)	32	(27)
Subordinated Debt	185	1	186	189	-	189
Total interest expense	971	(1,832)	(861)	1,333	1,742	3,075
Increase (decrease) in net interest income	$ 6,143	$ 1,142	$ 7,285	$ 1,701	$ (347)	$ 1,354

Provision for Loan Losses

The Bank maintains an allowance for loan losses for probable incurred losses that are expected as an incidental part of the banking business. Write-offs of loans are charged against the allowance for loan losses, which is adjusted periodically to reflect changes in the volume of outstanding loans and estimated losses due to changes in the financial condition of borrowers or the value of property securing nonperforming loans, or changes in general economic conditions and other qualitative factors. Additions to the allowance for loan losses are made through a charge against income referred to as the "provision for loan losses" or recoveries of previous write-offs.

The Bank's loan policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, to enable management to assess such credit risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for loan losses. Management conducts an assessment of the allowance for loan losses on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors evaluates and formally approves the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and regulatory examination, estimated probable loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and non-accrual loans, trends in loan volume, effects of any changes in the lending policies and procedures, changes in lending personnel, current economic conditions at the local, state and national level, and a migration analysis of historical losses and recoveries. Additionally, in response to the impacts caused by the COVID-19 pandemic, the Bank has been updating its qualitative factors used in the allowance calculation and increased its provision beginning March 31, 2020 to ensure sufficient allowance reserves in the event of a loss. The Bank continues to update its qualitative assumptions including increased risk from higher unemployment partially offset by extra liquidity in the market. The Bank will continue to update its allowance for loan loss calculation on a regular basis and may increase its provision in future quarters to ensure the Bank maintains sufficient allowance reserves based on current known and expected economic conditions.

At December 31, 2020, the Bank's allowance for loan losses totaled $8,882,000 or 1.18% of outstanding loans, compared with an allowance for loan losses of $6,769,000 or 1.16% of outstanding loans at December 31, 2019 and $6,029,000 or 1.18% of outstanding loans at December 31, 2018. At December 31, 2020, the Bank's allowance for loan losses to total loans excluding PPP is 1.30%; this is calculated by dividing the allowance for credit losses on loans of $8,882,000 by loans receivable of $754,821,000 less PPP loans of $69,583,000. There were no PPP loans reported prior to June 30, 2020 so this calculation is not being provided for any time prior to June 30, 2020.

For the year ended December 31, 2020, the Bank recorded a $2,100,000 provision for loan losses, primarily due to the increase in loans outstanding. For the year ended December 31, 2019, there was a $700,000 provision recorded and for the year ended December 31, 2018, there was a $530,000 provision recorded for loan losses.

Future provisions for loan losses are dependent on asset quality trends, loan portfolio growth and the general condition of the economy such as economic conditions caused by the COVID-19 pandemic, the economic impact caused by this disease and the government's response thereto. As a significant portion of the Bank's loan portfolio is collateralized by real estate, the valuation of the underlying collateral can have a significant impact on the adequacy of the allowance for loan losses and specific allocations for impaired loans, which may require future loan loss provisions.

Non-interest Income

The following table summarizes non-interest income recorded for the years indicated.

Non-interest Income

	Year Ended December 31,		
(in thousands)	2020	2019	2018
Service charges on deposit accounts	$ 808	$ 869	$ 765
Rental income	351	344	553
Net gain on loan sales	2,108	1,253	748
Net securities (loss) gains	874	(6)	27
Other income	307	202	216
Total non-interest income	$ 4,448	$ 2,662	$ 2,309

Service charges on deposit accounts were $808,000 for the year ended December 31, 2020, compared to $869,000 and $765,000 for the years ended December 31, 2019 and 2018. The Bank has experienced an increase in demand deposits, however deposit account activity service charges are dependent on the volume and types of transactions in the accounts.

The Bank owns its headquarters building with approximately one third of the office space leased to nonaffiliated tenants. The building tenant space was fully leased for each of the years 2018 through 2020. Lease income from this office building was $351,000, $344,000 and $553,000 for the years ended December 31, 2020, 2019 and 2018. The leases have annual rent increases. In 2018 the headquarters underwent construction improvements in the fourth quarter to accommodate needs for more staff. Two-thirds is now being occupied by the Bank and the Bank is leasing the remaining office space to two tenants.

Net securities gains can vary significantly from year to year based on the amount of investment securities sold or called and the net gain or loss realized. Additionally, gains or losses are highly dependent on the interest rate environment and its impacts on the fair market value of investment securities. In 2020 the Bank had calls on various government agency and corporate bonds with a net gain of $874,000. In 2019 the Bank sold or had calls on various government agency and corporate bonds with a net loss of $6,000 and a net gain of $27,000 in 2018.

Net gains on other real estate owned arises when the Bank sells foreclosed properties. The Bank has no other real estate owned at December 31, 2020.

In the second half of 2017, the Bank opened a loan production office in Roseville, California, which primarily focuses on loans partially guaranteed by the Small Business Administration (SBA) or United States Department of Agriculture (USDA). It also generates commercial real estate loans for the Bank's portfolio. Management may sell the guaranteed portion of the loans depending on market opportunities or for liquidity reasons. When a guaranteed portion of a loan is sold, a gain is recognized through a premium received on the sale. Total proceeds from sales of SBA guaranteed balances was $31,924,000 in 2020 with a gain recognized of $2,108,000. Total proceeds from sales of SBA guaranteed balances was $20,323,000 in 2019 with a gain recognized of $1,253,000. In 2018, the Bank recognized a gain of $748,000 from sales of SBA guaranteed loan balances in the amount of $9,974,000.

The increase in net gain on sales of loans in 2020 compared to 2019 was primarily due to a higher volume of guaranteed loans sold and to a lesser extent by an increase in the average net gain per loan sold. Losses inherent in loan relationships are mitigated by the portion of the loan that is guaranteed by U.S. government loan programs. A typical SBA 7(a) loan carries a 75% guarantee while USDA guarantees range from 50% to 90% depending on loan size and type, which reduces the risk profile of these loans. The Bank retains the servicing rights on all SBA loans sold.

Non-interest Expenses

The following table summarizes non-interest expenses recorded for the years indicated.

Non-interest Expenses

	Year Ended December 31,		
(in thousands)	2020	2019	2018
Salaries and employee benefits	$ 10,748	$ 9,836	$ 9,151
Occupancy and equipment	1,605	1,693	1,536
Other expenses	5,318	4,534	4,670
Total non-interest expenses	$ 17,671	$ 16,063	$ 15,357

Non-interest expenses, also referred to as operating expenses, is commonly expressed as a percentage of average assets for the period and as a percentage of operating revenues, or the efficiency ratio. The efficiency ratio divides the non-interest expenses by total revenues, which is defined as net interest income plus non-interest income, excluding net security gains. The non-interest expenses as a percent of annual average assets for 2020 was 2.2%, 2019 was 2.5% and 2018 was 2.6%. The efficiency ratio for 2020 was 52.23%, 2019 was 62.64% and 2018 was 64.24%. The improvement (decrease) in the efficiency ratio in 2020 is due to the increase in revenues exceeding the increase in non-interest expense for the year.

Salaries and employee benefits expense increased $912,000 or 9% in 2020 compared to 2019 and increased $685,000 or 7% in 2019 compared to 2018. The increases were primarily attributable to an increased number of employees hired during each year and general salary and benefit increases. Annual salaries and bonuses have increased during the years and have been partially offset by deferred loan origination costs attributable to loan generation during the years. The deferred loan origination costs netted against salaries and employee benefits were $3,417,000, $2,138,000 and $1,181,000 for the years ended December 31, 2020, 2019 and 2018. The Bank employed a total of 99, 93 and 89 employees as of December 31, 2020, 2019 and 2018.

Occupancy and equipment expenses decreased $88,000 or (5%) in 2020 compared to 2019 and increased $157,000 or 10% in 2019 compared to 2018. Occupancy expenses include costs incurred with the Bank's owned headquarters building, four leased branch office buildings and three loan production offices. The change in expense is primarily related to the construction, furniture and equipment cost associated to the buildout at the Bank's headquarters beginning in late 2018 and finalized in 2019.

The following table summarizes the categories of other expenses.

Other Expenses

	Year Ended December 31,		
(in thousands)	2020	2019	2018
Data processing	$ 1,723	$ 1,500	$ 1,497
Professional fees	735	641	598
Director fees and expenses	510	523	545
Nasdaq listing and regulatory license expense	192	155	144
Advertising and promotion	764	649	808
Deposit and other insurance premiums	515	216	297
Telephone and postage	97	82	79
Other expenses	782	768	702
	$ 5,318	$ 4,534	$ 4,670

Data processing expenses are dependent on the Bank's implementation of new electronic delivery platforms such as mobile banking, and per account and transaction expenses from the Bank's third party data service provider, corresponding to the increase in the number of new deposit and loan customers.

Professional fees vary depending on the use of legal, audit and consulting services. Director fees and expenses vary dependent on the number of directors, travel expenses incurred by directors for attendance of Board and number of committee meetings and director training expenses. Advertising and promotion expenses are dependent on the Bank's business development activities and targeted nonprofit charity business customers. Miscellaneous other expenses are incurred as a result of general operations.

Provision for Income Taxes

The Bank accrues income tax expense based on the anticipated tax rates during the financial period covered. The provision for income taxes for the years ended December 31, 2020, 2019 and 2018 was $4,421,000, $2,398,000 and $2,217,000. The combined effective Federal and State corporate income tax rates for the years ended December 31, 2020, 2019 and 2018 were 29.6%, 27.0% and 27.6%, respectively.

The decrease in the effective tax rate in 2019, was the result of a one-time solar tax credit of $209,000.

Balance Sheet

December 31, 2020 and 2019

Investment Portfolio

Securities classified as available-for-sale for accounting purposes are recorded at their fair value on the balance sheet. Securities classified as held-to-maturity are recorded at amortized cost. At December 31, 2020, investment securities comprised 7.8% of total assets and 8.0% of earning assets. At December 31, 2019, investment securities comprised 8.9% of total assets and 9.1% of earning assets. The decline in the percentage of investments to total assets and earning assets was due to called of bonds .

At December 31, 2020, there were $0 investment securities classified as held-to-maturity and $7,998,000 at December 31, 2019. The decrease in held-to-maturity securities was due to the remaining securities being called. Investment securities classified held-to-maturity were government sponsored agencies with interest rates that step-up over the life of the bonds.

Securities classified as available-for-sale were $67,952,000 and $54,241,000 for the 2020 and 2019 respective year ends. Changes in the fair value of available-for-sale securities (e.g., unrealized holding gains or losses) are reported as "other comprehensive income," net of tax, and carried as accumulated other comprehensive income within shareholders' equity until realized. The accumulated other comprehensive income was in an unrealized gain position of $1,138,000 at December 31, 2020 and $457,000 at December 31, 2019.

The Bank utilizes the investment portfolio to manage liquidity and attract funding that requires collateralization. At December 31, 2020, investment securities with a fair value of $5,000,000 or 7% of the portfolio, were pledged to secure municipal deposits. This compares to $6,000,000, or 9% of the portfolio pledged at December 31, 2019. At December 31, 2020, securities with a par value of $41,261,000 were callable within one year.

The composition of the investment portfolio by major category and contracted maturities or repricing of debt investment securities at December 31, 2020, 2019 and 2018 is shown below.

Investment Securities

(in thousands)	December 31, 2020	2019	2018
Held-to-maturity:			
Government agencies	$ -	$ 7,998	$ 7,991
Available-for-sale:			
Government agencies	$ 41,023	$ 39,887	$ 39,330
Mortgage-backed securities - reside	6,817	8,974	10,972
Corporate debt	20,112	5,380	19,872
Total available-for-sale	67,952	54,241	70,174
Total investment securities	$ 67,952	$ 62,239	$ 78,165

Contractual Maturity or Repricing Schedule and Weighted Average Yields of Securities As of December 31, 2020

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
(in thousands)	Carrying Amount	Yield	Carrying Amount	Yield	Carrying Amount	Yield	Carrying Amount	Yield
Available-for-sale:								
Government agencies	$ -	-	$ -	-	$ 4,006	2.04%	$ 37,017	2.18%
Mortgage-backed securities - residential	-	-	-	-	-	-	6,817	2.96%
Corporate debt	485	4.51%	8,796	3.23%	10,831	2.36%	-	-
Total available-for-sale	485	4.51%	8,796	3.23%	14,837	2.27%	43,834	2.30%
Total investment securities	$ 485	4.51%	$ 8,796	3.23%	$ 14,837	2.27%	$ 43,834	2.30%

As of December 31, 2020, the Bank did not own securities of any single issuer (other than U.S. Government agencies) whose aggregate book value was in excess of 10% of the Bank's total equity at the time of purchase.

Loan Portfolio

Loan categories used in presentations in this report conform to the categorizations used by regulatory Call Reports as described by the instructions issued by the Federal Financial Institutions Examination Council (FFIEC).

The following table shows the composition of the Bank's loan portfolio by amount and percentage of total loans for each major loan category at the dates indicated.

Loans

(in thousands)	December 31, 2020	%	2019	%	2018	%	2017	%	2016	%
Commercial & agricultural (1)	$ 191,762	25.4%	$ 129,590	22.2%	$107,910	21.1%	$102,957	23.2%	$ 81,519	22.7%
Real Estate - commercial	420,384	55.7%	312,758	53.6%	287,841	56.4%	242,066	54.7%	190,976	53.1%
Real estate - construction and land	35,444	4.7%	44,689	7.7%	24,330	4.8%	13,465	3.0%	7,897	2.2%
Real Estate - single family	60,633	8.0%	54,357	9.3%	56,648	11.1%	51,866	11.7%	51,044	14.2%
Real Estate - multifamily	46,574	6.2%	41,870	7.2%	33,623	6.6%	32,091	7.2%	27,533	7.7%
Consumer & lease financing	24	0.0%	53	0.0%	226	0.0%	385	0.1%	434	0.1%
	754,821	100%	583,317	100%	510,578	100%	442,830	100%	359,403	100%
LESS:										
Allowance for Loan Losses	(8,882)		(6,769)		(6,029)		(5,236)		(4,765)	
Total Loans, Net	$ 745,939		$ 576,548		$504,549		$437,594		$ 354,638	

(1) Includes loans secured by farmland. Also includes all PPP lonas, totaling $69,583 as of December 31, 2020.

The Bank experienced increased loan demand in 2020 and 2019. The 29% increase in net loans outstanding at December 31, 2020 compared to December 31, 2019, was primarily from the origination of PPP loans.

At December 31, 2020, the Bank had approximately $103,168,000 in undisbursed loan commitments, of which approximately $56,082,000 related to real estate loan types. This compares with undisbursed commitments of approximately $68,545,000 at December 31, 2019, of which approximately $33,319,000 related to real estate loan types. At December 31, 2020 and 2019, there were $409,000 and $1,846,000, respectively, in standby letters of credit outstanding.

The following table shows the maturity distribution of Real Estate Construction and Land and Commercial & Agricultural loans, including rate repricing intervals on variable rate loans, at December 31, 2020. In the following table, the term variable (generally referring to loans for which the interest rate will change immediately given a change in the underlying index) also includes loans with adjustable rates (loans for which the rate may change, but which are also limited in occurrence).

Loan Portfolio Maturity Structure at December 31, 2020

(in thousands)	Within One Year	After One But Within Five Years	After Five Years	Total
Real Estate - construction and land	24,591	10,283	570	35,444
Commercial & agricultural	29,253	145,521	16,988	191,762
Total	53,844	155,804	17,558	227,206
Loans with:				
Fixed interest rates	2,603	85,522	7,451	95,576
Floating interest rates	51,241	70,282	10,107	131,630
Total	53,844	155,804	17,558	227,206

Loan Policies and Procedures

The Bank's underwriting practices include an analysis of the borrower's management, current economic factors, the borrower's ability to respond and adapt to economic changes outside its direct control and verification of primary and secondary sources of repayment. Risk within the loan portfolio is managed through the Bank's loan policies and underwriting. These policies are reviewed and approved annually by the Board of Directors.

- Management administers the loan policy, ensures proper loan documentation is maintained and develops the methodology for monitoring loan quality and the level of the allowance for loan losses and reports on these matters to the Board of Directors' Loan Committee and the Board of Directors.

- The Board of Directors' Loan Committee meets regularly to evaluate problem assets and the adequacy of the allowance for loan losses. The Committee also reviews and makes recommendations to the Board of Directors regarding the adequacy of the allowance for loan losses, and is responsible for ensuring that an independent third party reviews the loan portfolio at least annually. Resultant reports are sent to this Committee and to the Audit Committee.

- The Board of Directors' Loan Committee is responsible for enforcement of the loan policy and has additional responsibilities which include approving loans or loan relationships for a customer that, when considered in the aggregate, exceed management's level of loan authority for that customer.

- The Board of Directors' Audit Committee also engages a third party to perform a review of management's asset and liability practices to ensure compliance with the Bank's policies.

- The Board of Directors retains overall responsibility for all loan functions and reviews material loan relationships.

Loan approvals are granted according to established policies, and lending officers are assigned approval authorities within their levels of training and experience. Interest rates reflect the risk inherent in loans and collateral is generally taken for purchase-money financing. Collateral may consist of accounts receivable, direct assignment of contracts, inventory, equipment and real estate. Unsecured loans may be made when warranted by the financial strength of the borrower.

Nonperforming Assets

Nonperforming assets consist of nonperforming loans and other real estate owned. Nonperforming loans are those for which the borrower fails to perform under the original terms of the obligation and consist of nonaccrual loans and accruing loans past due 90 days or more. Additionally, loans may be restructured due to deteriorating financial conditions and classified as troubled debt restructurings (TDRs). The TDR's may or may not be the same as those listed as nonaccrual or 90 days or more past due loans.

The following are the nonperforming assets for the respective periods:

Nonperforming Assets

(in thousands)	December 31, 2020	2019	2018	2017	2016
Nonaccrual loans	$ 264	$ 315	$ 2,124	$ 2,730	$ 3,351
Accruing loans past due 90 days or more	-	-	-	-	-
Total nonperforming loans	264	315	2,124	2,730	3,351
Total nonperforming assets	$ 264	$ 315	$ 2,124	$ 2,730	$ 3,351
Nonperforming loans to total loans	0.03%	0.05%	0.42%	0.62%	0.93%
Nonperforming assets to total assets	0.03%	0.05%	0.34%	0.45%	0.65%
Allowance for loan losses to nonperforming loans	3369.08%	2150.07%	283.84%	191.79%	142.23%

Nonperforming loans at December 31, 2020, consisted of two loans to two customers with commercial real estate loans. The Bank had no specific allowance for loan losses allocated to these loans due to the estimated value of underlying collateral.

There was no other real estate owned at December 31, 2020 and 2019.

The Bank may modify terms of loans to provide borrowers with relief if they are experiencing financial difficulty and may not be able to meet the original terms of the loan. These modifications classify the loan as a TDR. Loans that are classified as TDRs were $2,189,000 at December 31, 2020, of which all were considered performing loans. These TDRs are primarily collateralized by single-family residential or commercial real estate properties.

Section 541 of the Consolidated Appropriations Act, 2021 (CAA) was signed into law on December 27, 2020, which extends the provisions in Section 4013 of the CARES Act to January 1, 2022. Year-to-date through December 31, 2020, the Bank modified principal and interest payments on a total of 135 loans totaling $193,705,000 or 26% of total loans due to the COVID-19 pandemic. As of December 31, 2020, 12 loans totaling $28,960,000 or 4% of the loan portfolio excluding PPP loans were in deferral. Of the loans in deferral, 9 of those loans totaling $22,833,000 are extended deferments for a total deferment period up to one year. The deferral portfolio has an average loan to value ratio of 55%. Also, 99% of the deferred loans, or $28,723,000, are real estate secured.

The Bank has elected to account for eligible loan modifications under Section 4013 of the CARES Act. To be an eligible loan under Section 4013 of the CARES Act, a loan modification must be (1) related to the COVID-19 pandemic; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020 and the earlier of (a) 60 days after the date of termination on the national emergency declared by the President on March 13, 2020 concerning the COVID-19 outbreak ("national emergency") or (b) January 1, 2022. Eligible loan modifications are not required to be classified as TDRs and will not be reported as past due provided they are performing in accordance with the modified terms. Interest income will continue to be recognized in accordance with GAAP, unless the loans is placed on non-accrual status.

As of December 31, 2020, the Bank had 12 COVID-19 open loan modifications agreements with totaling $28,960,000. Of the loans in deferral, 9 of the loans totaling $22,833,000 are extended deferments.

In 2020, the Bank deferred payments on a total of 135 loans totaling $193,705,000, or 26% 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. For loans subject to the program, each borrower is required to resume making regularly scheduled loan payments at the end of the modification period. Management anticipates deferment activity will continue into 2021.

	December 31, 2020			
(in thousands)	Number of Loans	Loan Deferment Exposure	Gross Loans	Percentage of Gross Loans on Deferral
Commercial & agricultural:				
Commercial - Line of Credit	-	$ -	$ 21,141	0.00%
Commercial - Term	1	237	35,229	0.03%
Commercial - Unsecured	-	-	268	0.00%
Commercial Real Estate	1	6,815	52,653	0.90%
Community Business Line/Loan	-	-	2,159	0.00%
Land-Raw/Vineyard/Farm	-	-	4,670	0.00%
SAFE-BIDCO - Line of Credit	-	-	114	0.00%
SBA 7A	1	826	8,477	0.11%
SBA PPP	-	-	69,584	0.00%
Total Commercial & agricultural	3	7,878	194,295	1.04%
Real Estate - commercial:				
Commercial - Line of Credit			9,675	0.00%
Commercial - Term	1	221	8,082	0.03%
Commercial Real Estate	6	19,110	338,237	2.53%
SBA 504	-	-	27,924	0.00%
SBA 7A	1	1,476	36,216	0.20%
Total Real Estate - commercial	8	20,807	420,134	2.76%
Real estate - construction and land:				
Construction - 1-4 Residential	-	-	2,959	0.00%
Construction Commercial	-	-	6,769	0.00%
Land - A&D	-	-	8,911	0.00%
Land-Raw/Vineyard/Farm	-	-	8,282	0.00%
SBA 7A	-	-	8,596	0.00%
Total Real estate - construction and land	0	-	35,517	0.00%
Real Estate - single family:				
1-4 Family Residential	1	276	54,227	0.04%
Commercial - Line of Credit	-	-	2,794	0.00%
Commercial - Term	-	-	739	0.00%
Consumer Term	-	-	239	0.00%
HELOC (Home Equity Line Of Credit)	-	-	290	0.00%
Total Real Estate - single family	1	276	58,289	0.04%
Real Estate - multifamily:				
Commercial - Line of Credit	-	-	1,250	0.00%
Commercial - Term	-	-	75	0.00%
Commercial Real Estate	-	-	12,675	0.00%
Multi-Family: 5 or more units	-	-	32,582	0.00%
Total Real Estate - multifamily	0	-	46,582	0.00%
Consumer & lease financing:				
Consumer Term	-	-	1	0.00%
Overdraft Line	-	-	2	0.00%
Total Consumer & lease financing	-	-	3	0.00%
Total Loans	**12**	**$ 28,961**	**$ 754,820**	**3.84%**

Allowance for Loan Losses

The Bank maintains the allowance for loan losses to provide for inherent losses in the loan portfolio. Additions to the allowance for loan losses are established through a provision charged to expense. All loans which are judged to be uncollectible are charged against the allowance while any recoveries are credited to the allowance. The Bank's policy is to charge off any known losses at the time of determination. Any unsecured loan more than 90 days delinquent in payment of principal or interest and not in the process of collection is charged off in total. Secured loans are evaluated on a case-by-case basis to determine the ultimate loss potential to us subsequent to the liquidation of collateral. In those cases where we believe we are inadequately protected, a charge-off will generally be made to reduce the loan balance to a level equal to the liquidation value of the collateral, unless management believes the collateral deficiency may be overcome by borrower cash flows.

The Bank's loan policy provides procedures designed to evaluate and assess the credit risk factors associated with the loan portfolio, to enable management to assess such credit risk factors prior to granting new loans and to evaluate the sufficiency of the allowance for loan losses. Management conducts an assessment of the allowance for loan losses on a monthly basis and undertakes a more critical evaluation quarterly. At the time of the quarterly review, the Board of Directors evaluates and formally approves the adequacy of the allowance. The quarterly evaluation includes an assessment of the following factors: any external loan review and regulatory examination, estimated probable incurred loss exposure on each pool of loans, concentrations of credit, value of collateral, the level of delinquent and non-accrual loans, trends in loan volume, effects of any changes in lending policies and procedures, changes in lending personnel, current economic conditions at the local, state and national level, including economic uncertainties of COVID-19 pandemic, the economic impact caused by this disease and government's responses thereto, and a migration analysis of historical losses and recoveries.

In addition to the allowance for loan losses, the Bank also maintains a reserve for losses for undisbursed loan commitments which is reported in other liabilities on the balance sheets.

The following table sets forth an analysis of the allowance for loan losses and provision for loan losses for the periods indicated.

Summary of Activity in the Allowance for Loan Losses

(Dollars in thousands)	Year Ended December 31				
	2020	2019	2018	2017	2016
Balance at beginning of period	$ 6,769	$ 6,029	$ 5,236	$ 4,765	$ 4,731
Charge-offs:					
Commercial & agricultural	(20)	-	(28)	(79)	(50)
Real estate - commercial	-	-	-	-	(20)
Real estate - construction and land	-	-	-	-	-
Real Estate - single family	-	-	-	-	-
Real Estate - multifamily	-	-	-	-	-
Consumer & lease financing	-	-	-	-	-
Total loans charged-off	(20)	-	(28)	(79)	(70)
Recoveries:					
Commercial & agricultural	33	40	77	4	76
Real estate - commercial	-	-	-	1	6
Real estate - construction and land	-	-	-	-	-
Real Estate - single family	-	-	191	16	14
Real Estate - multifamily	-	-	-	-	-
Consumer & lease financing	-	-	23	9	8
Total recoveries	33	40	291	30	104
Net loans recovered (charged-off)	13	40	263	(49)	34
Provision for loan losses	2,100	700	530	520	-
Allowance for loan losses - end of period	$ 8,882	$ 6,769	$ 6,029	$ 5,236	$ 4,765
Loans:					
Average loans outstanding during period, net of unearned income	$ 687,333	$ 542,630	$473,922	$381,289	$363,545
Total loans at end of period, net of unearned income	$ 754,821	$ 583,317	$510,578	$442,830	$359,403
Ratios:					
Net loans recovered (charged-off) to average net loans	0.00%	0.01%	0.06%	0.01%	(0.01)%
Net loans recovered (charged-off) to total loans	0.00%	0.01%	0.05%	0.01%	(0.01)%
Allowance for loan losses to average net loans	1.29%	1.25%	1.27%	1.37%	1.31%
Allowance for loan losses to total loans	1.18%	1.16%	1.18%	1.18%	1.33%
Allowance for loan losses to total loans excluding PPP*	1.30%	N/A	N/A	N/A	N/A
Net loans recovered (charged-off) to provision for loan losses (1)	0.62%	5.71%	49.62%	9.42%	NM

(1) Not meaningful

*Non-GAAP Financial Measures:

This 10-K 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.

Allowance for loan losses to total loans excluding PPP: At December 31, 2020 the ratio of 1.30% is calculated by dividing the allowance for credit losses on loans of $8,882,000 by loans receivable of $754,821,000 less PPP loans of $69,583,000. There were no PPP loans reported prior to June 30, 2020 so this calculation is not being provided for any time prior to June 30, 2020.

The following table summarizes the allocation of the allowance for loan losses by loan category and the amount of loans in each category as a percentage of total loans in each category as of the end of each year presented. The allocated and unallocated portions of the allowance for loan losses are available to the entire portfolio.

Allocation of Allowance for Loan Losses

	Year Ended December 31,									
	2020		2019		2018		2017		2016	
(in thousands)	Allowance Allocation	Amount of Category Loans to Total Loans	Allowance Allocation	Amount of Category Loans to Total Loans	Allowance Allocation	Amount of Category Loans to Total Loans	Allowance Allocation	Amount of Category Loans to Total Loans	Allowance Allocation	Amount of Category Loans to Total Loans
Commercial & agricultural	$ 989	25.4%	$ 887	22.2%	$ 904	21.1%	$ 682	23.2%	$ 744	22.7%
Real estate - commercial	4,942	55.7%	1,976	53.6%	2,830	56.4%	2,697	54.7%	1,764	53.1%
Real estate - construction and land	1,292	4.7%	1,602	7.7%	705	4.8%	443	3.0%	266	2.2%
Real estate - single family units	404	8.0%	323	9.3%	684	11.1%	595	11.7%	577	14.2%
Real estate - multifamily	599	6.2%	510	7.2%	308	6.6%	319	7.2%	330	7.7%
Consumer & lease financing	1	0.0%	2	0.0%	6	0.0%	14	0.1%	19	0.1%
Unallocated	655		1,469		592		486		1,065	
Total	$ 8,882	100%	$ 6,769	100%	$ 6,029	100%	$ 5,236	100%	$ 4,765	100%

The changes from year to year for the allocation by loan category are attributable to the growth of the category and management's assessment of the quality of the individual loans within the category. Additionally, other qualitative factor allocations are applied to each category of loans and represents various qualitative factors in the determination of the adequacy of the allowance for loan losses and includes the size of individual credits, concentrations and general economic conditions. Management considers these qualitative factors in their evaluation of the adequacy of the allowance for loan losses.

The changes in the allowance allocations for the various loan categories at December 31, 2020 compared to December 31, 2019 were primarily attributable to the general increase in total loans in the categories and the level of the internally classified loans in each category.

An unallocated allowance can arise from fluctuations in the amount of classified ("credit grades") and specific allocations to nonperforming loans between periods. Management and the Board of Directors reviews the amount of and reasons for unallocated allowances and whether unallocated allowances have arisen due to periodic fluctuations in the credit grades or have arisen due to changes in qualitative factors or changes in lending strategies. If an unallocated allowance has arisen from other than periodic fluctuations in credit grades or other than potential temporary factors, then it may be determined that a portion of the allowance for loan losses should be reversed.

In addition to the allowance for loan losses, the Bank maintains an allowance for losses for undisbursed loan commitments, which is reported in other liabilities on the consolidated balance sheets. This allowance was $362,000 at December 31, 2020 and $284,000 at December 31, 2019.

The Bank has elected to early adopt the new CECL model effective January 1, 2021. Upon adoption of CECL the Bank has recorded a one-time adjustment to its credit loss allowances as of the beginning of the fiscal year equal to the difference, between the amount of credit loss allowances under the current methodology and the amount required under CECL. In 2018, the federal banking regulators (the Federal Reserve, the OCC and the FDIC) adopted a rule that gives a banking organization the option to phase in over a three-year period the day-one adverse effects of CECL on its regulatory capital. The Bank has recognized a one-time cumulative-effect adjustment on January

1, 2021 by recording a $1,575,000 reduction in retained earnings, an increase in the allowance reserve of $2,250,000 and an increase in the deferred tax asset of $675,000.

Other Assets

Deferred income taxes were $1,200,000 and 664,000 in 2020 and 2019 respectively. There was an annual deferred tax true up adjustment of $536,000 in 2020.

Other assets also included the right of use assets which totaled $1,349,000 at December 31, 2020 compared to $973,000 at December 31, 2019. The increase was primarily due to two 5-year lease extensions in 2020.

Deposits

Deposits are the Bank's primary source of funds. In 2019 the Bank developed a plan to attract and retain local customers and increase core deposits. This plan is being implemented by way of process improvements, upgrading technologies, training staff and enhancing the overall customer experience.

The following table sets forth total deposits by type.

Deposits by Type

	Year Ended December 31,			
	2020		2019	
	Balance	% of Total	Balance	% of Total
Demand Accounts	$ 287,781	39.6%	$ 198,467	34.6%
Savings and Money Market	209,233	28.8%	156,736	27.4%
Time Deposits	229,281	31.6%	218,634	38.1%
Total Deposits	$ 726,295		$ 573,837	

The Bank's strategy is to increase its funding from local deposits and to lower its dependence on institutional funding such as brokered time deposits, State of California time deposits, FRB borrowings and FHLB borrowings. Strategies employed to increase local deposits include a nonprofit business account that provides a donation award for balances maintained and promoting rates of 18-month to two-year term time deposits and a focus on increasing customer retention and new customers through training staff.

The Bank offers local depositors with deposits in excess of $250,000 and who are concerned with FDIC insurance limits, a deposit placement service through a program called CDARS and ICS. Through this program amounts in excess of $250,000 can be placed in certificates of deposit or demand accounts at other institutions and the Bank receives reciprocal deposits from other institutions within the network. At December 31, 2020 and 2019, there were $16,388,000 and $18,074,000 in CDARS time deposits and $37,937,000 and $28,210,000 in ICS demand deposits, respectively. In addition to these deposits, the Bank had $77,430,000 and $22,500,000 at December 31, 2020 and 2019 in wholesale brokered deposits.

Certain time deposits are received through a program run by the Treasurer of the State of California to place public deposits with community banks. At December 31, 2019, the State of

California had $27,000,000 in time deposits with the Bank secured by investment securities or mortgage loans, which all matured in January 2020 and were not renewed.

The following table sets forth the average balances by deposit category and the interest cost for the periods indicated.

Average Deposit Balances and Rates Paid

	Year Ended December 31,					
	2020		2019		2018	
(in thousands)	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Non interest-bearing demand deposits	$181,504		$125,789		$132,520	
Interest-bearing demand deposits	74,136	0.16%	64,243	0.14%	69,744	0.11%
Savings and money market	167,720	0.77%	134,040	0.85%	134,303	0.60%
Time certificates under $100,000	84,794	1.22%	58,775	2.20%	31,621	1.33%
Time certificates $100,000 or over	140,511	1.79%	172,742	2.26%	135,640	1.62%
Total deposits	$648,665	0.76%	$555,589	1.16%	$503,828	0.69%

The following table sets forth the maturities of time certificates of deposit of $100,000 or more outstanding at December 31, 2020 and 2019.

Maturity of Time Deposits of $100,000 or More

(in thousands)	December 31, 2020	December 31, 2019
Time deposits of $100,000 or more maturing in:		
Three months or less	$ 34,965	$ 62,375
Over three through six months	26,112	27,025
Over six to twelve months	30,204	42,499
Over twelve months	33,458	29,543
Total time deposits of $100,000 or more	$ 124,739	$ 161,442

Borrowings

Borrowings were $53,500,000 and $45,600,000 at December 31, 2020 and 2019, respectively. Borrowings consisted of FHLB advances. Management utilizes FHLB advances when the terms are deemed advantageous compared to raising time deposits or brokered deposits and to manage overall liquidity. The increase in FHLB advances was the result of the bank leveraging FHLB funds more than broker deposits or State of California time deposits.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Bank monitors earning asset and deposit levels, developments and trends in interest rates, liquidity, capital adequacy and marketplace opportunities. Risks associated with interest rate changes and market risk are managed through the Bank's Asset and Liability Policy. This policy is reviewed and approved annually by the Board of Directors, and oversight is provided by the Asset Liability Committee of the Board. Management responds to all of these to protect and possibly enhance net interest income, while managing risks within acceptable levels as set forth in the Bank's policies. In addition, alternative business plans and transactions are contemplated for their potential impact. This process is known as asset/liability management and is carried out by changing the maturities and relative proportions of the various types of loans, investments, deposits and borrowings in the ways described above.

The tool most commonly used to manage and analyze the interest rate sensitivity of a bank is known as a computer simulation model. To quantify the extent of risks in both the Bank's current position and in transactions it might make in the future, the Bank uses a model to simulate the impact of different interest rate scenarios on net interest income. The hypothetical impact of both sudden (up to an immediate change in interest rates of +/- 4.00%) and smaller incremental interest rate changes are modeled at least quarterly, representing the primary means the Bank uses for interest rate risk management decisions.

The Bank is normally liability sensitive during a one and two year period meaning that during that timeframe, more liabilities will reprice than loans. Liability sensitive banks typically expect an increase in the net interest margin if interest rates decline and the net interest margin to decline when rates increase. However various factors influence the change in the Bank's margin when general market interest rates change. These factors include, but are not limited to, the growth and mix of new assets, deposit liabilities and borrowings, the extension or contraction of maturities of new and renewed assets and liabilities, the particular shape of the general economic yield curve, and the general influence on pricing by competition in the local market for loans and deposits. Additionally, when economic rates change, there is an immediate impact from loans that are tied to a daily "prime lending or other index rate." The repricing of liabilities to offset this change requires time for deposits to mature and renew. Based strictly on maturing time deposits and borrowings, and without the other factors listed above, it normally will take three months for the Bank to reprice liabilities to offset a prime rate change.

At December 31, 2020, the computer simulation model for a +2.00% interest rate shock results in the Bank's net interest income for a twelve-month period to decrease by 1.5% or $529,000. A negative 2.00% interest rate shock results in the Bank's net interest income for a twelve-month period to increase by 4.84% or $1,708,000. Computer simulation models use information from the Bank's loan and deposit system at a static point in time and bases the repricing of assets and liabilities on contractual terms, and certain assumptions as to movements of various rate indexes and management assumptions regarding when to reprice certain portfolios not linked to an index. The actual results experienced from interest rate changes can vary from the results of the simulation.

The Bank uses the economic value of equity ("EVE") ratio to stress test longer-term interest rate risk exposure on capital. Stress testing EVE will show the impact that fluctuating interest rates will have on the Bank's capital and give insight into the Bank's earning capacity and risk. This ratio is calculated by taking in difference in the net present value of asset cash flows (loan and investment securities) and liability cash flows (deposits and borrowings). Major assumptions used in determining fair values include maturities, repricing periods, and decay rates of non-maturity deposits. As the calculation is highly dependent on assumptions, as well as the change in the shape of the yield curve being modeled, it is not considered to be an exact calculation and instead, is used as an interest rate risk monitoring tool. The computer simulation model for a +2.00% non-parallel interest rate shock results in an 117.3% increase in EVE. A negative 2.00% non-parallel interest rate shock results in a 5.7% decrease in EVE.

When preparing the model, the Bank makes significant assumptions about the lag in the rate of change and impacts of optionality in various asset and liability categories. The Bank bases its assumptions on past experience and comparisons with other banks and tests the validity of its assumptions by reviewing actual results with past projected expectations annually. As the impact of changing interest rates depends on assumptions, actual experience can materially differ from projections. The purpose of the model is to forecast the likely impact in order for management to monitor exposures to interest rate risk and make adjustments to the balance sheet if needed.

Liquidity and Capital Resources

Maintenance of adequate liquidity requires that sufficient resources be available at all times to meet cash flow requirements of the Bank. Liquidity in a banking institution is required primarily to provide for deposit withdrawals and the credit needs of customers and to take advantage of lending and investment opportunities as they arise. A bank may achieve desired liquidity from both assets and liabilities. Cash and deposits held in other banks, federal funds sold, other short-term investments, maturing loans and investments, payments of principal and interest on loans and investments, and potential loan sales are sources of asset liquidity. Deposit growth and access to credit lines established with correspondent banks, primarily with the FHLB, FRB and access to brokered certificates of deposits are sources of liability liquidity. The Bank reviews its liquidity position on a regular basis based upon its current position and expected trends of loans and deposits. Management believes that the Bank maintains adequate sources of liquidity to meet its liquidity needs.

The Bank's liquid assets, defined as cash, deposits with banks, Federal funds sold and unpledged investment securities, totaled $ and $94,647,000 at December 31, 2020 and December 31, 2019, respectively, and constituted % and 14%, respectively, of total assets on those dates.

At December 31, 2020, the Bank had $244,356,000 in borrowing lines of credit from FHLB, FRB and correspondent banks with $53,500,000 in outstanding advances from FHLB. At December 31, 2019, the Bank had $223,944,000 in borrowing lines of credit from the FHLB and correspondent banks with $45,600,000 in outstanding advances from the FHLB. The primary sources of cash during 2018, 2019 and 2020 were from cash generated from operating activities, sales, calls and maturities of investment securities, increases in deposit balances and changes in FHLB advances. Primary uses of cash were for loan originations, investment securities purchases and to fund a net change in demand products.

In 2020, cash was primarily provided by $141,811,000 increase in demand, savings and money market deposits primarily from the PPP loan program retaining deposits at the Bank, $53,908,000 in calls and maturities of investment securities, $31,924,000 in proceeds on sale of loans and $10,647,000 increase in certificate of deposits. Cash was used in 2020 primarily to fund $196,361,000 of loan originations which includes $96,710,000 of PPP loans and $65,908,000 of new available-for-sale investment securities.

In 2019, cash was primarily provided by $10,020,000 in calls and maturities of investment securities, $9,059,000 in proceeds from sales of investment securities, $20,323,000 from proceeds on sale of loans, $32,985,000 net change in certificate of deposits, $39,663,000 net change in demand, savings and money market deposits and $5,862,000 Junior Subordinated Note. Cash was used in 2019 primarily to fund a $90,090,000 net change in loans.

In 2018, cash was primarily provided by $10,239,000 in calls and maturities of investment securities, $9,345,000 from proceeds on sale of loans, $18,405,000 in net change in certificate of deposits and $41,800,000 in net change in FHLB advances. Cash was used in 2018 primarily to fund a $74,789,000 net change in loans, fund a net change in demand, savings and money market deposits of $50,729,000 and purchase $3,476,000 in investment securities.

The Bank has been participating in the Paycheck Protection Program ("PPP") and has funded about $97,000,000 in PPP loans in addition to the Bank's existing loan growth goals. Many of the PPP loans funded have retained these funds in deposit accounts at the Bank, which has greatly improved the Bank's liquidity position. Although the Federal Reserve's PPP Liquidity Facility (PPPLF) program which uses term financing backed by the Bank's PPP loans has been made available to the Bank, these funds were not due to the Bank's sufficient liquidity position and availability of secondary liquidity at the Federal Home Loan Bank and Federal Reserve Bank at comparable rates.

For additional information, please see the Consolidated Statements of Cash Flows in Item 8 of this Form 10-K.

The Board of Directors recognizes that a strong capital position is vital to growth, continued profitability, and depositor and investor confidence. The policy of the Board of Directors is to maintain sufficient capital at not less than the "well-capitalized" thresholds established by banking regulators. As of December 31, 2020 and 2019, the Bank maintained capital ratios in excess of regulatory requirements.

Shareholders' equity also includes the Bank's accumulated other comprehensive income , net of taxes of $1,138,000 at December 31, 2020 and $457,000 at December 31, 2019. Other comprehensive income reflects the fair value adjustment, net of tax, of investment securities classified as available-for-sale. This will fluctuate based on the amount of securities classified as available-for-sale and changes in market interest rates. Total shareholders' equity was $75,629,000 at December 31, 2020 and $67,344,000 at December 31, 2019.

Federal regulations establish guidelines for calculating "risk-adjusted" capital ratios and minimum ratio requirements. Under these regulations, banks are required to maintain a total capital ratio of 8.0%, common equity Tier 1 capital ratio of 4.5%, and Tier 1 risk-based capital (primarily shareholders' equity) of at least 6.0% of risk-weighted assets. The Bank had a total capital ratio of 12.2%, common equity Tier 1 capital and Tier 1 risk-based capital ratios of 10.1% at December 31, 2020 and placing its capital ratios in excess of the minimum required to be considered "well-capitalized" under the regulatory guidelines.

In addition, regulators have adopted a minimum leverage ratio standard for Tier 1 capital to average assets. The minimum ratio for top-rated institutions may be as low as 4%. However, regulatory agencies have stated that most institutions should maintain ratios at least 1 to 2 percentage points above the 4% minimum. As of December 31, 2020, the Bank's leverage ratio was 8.2%. Capital levels for the Bank remain above established regulatory capital requirements. The Bank excludes other comprehensive income for regulatory capital computations.

Quarterly dividends are paid out of retained earnings. The Bank paid $0.48 per share or $2,913,000, in dividends on common stock during 2020. The California Financial Code restricts total dividend payment of any bank in any calendar year without permission of the DFPI, to the lesser of (1) the bank's retained earnings or (2) the bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. The Bank is not subject to this restriction based on its current dividend levels as of December 31, 2020.

Although the Bank's regulatory capital ratios are in excess of requirements and notwithstanding the requirements of the California Financial Code, the Board of Directors reviews and declares dividends on a quarterly basis and there is no assurance that future dividends will be declared.

Impact of Inflation

The primary impact of inflation on the Bank is its effect on interest rates. The Bank's primary source of income is net interest income, which is affected by changes in interest rates. The Bank attempts to limit the impact of inflation on its net interest margin through management of rate-sensitive assets and liabilities and analyses of interest rate sensitivity. The effect of inflation on premises and equipment as well as on non-interest expenses has not been significant for the periods presented.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SUMMIT STATE BANK AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2020 AND 2019

AND FOR THE YEARS ENDED

DECEMBER 31, 2020, 2019 and 2018

AND

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Summit State Bank and Subsidiary

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Summit State Bank and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2020 and 2019, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the consolidated financial statements, and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses

As described in Notes 1 and 3 to the consolidated financial statements, the Company's allowance for loan losses was $8.9 million at December 31, 2020. The allowance for loan losses is a valuation allowance for probable incurred credit losses in the loan portfolio and is based upon the Company's analysis of the past loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions at the local, state, and national level, include economic uncertainties, and other factors including historical loss experience. The Company categorizes loans into risk categories, or risk ratings, based on relevant information about the ability of the borrowers to service their debt. Actual loss experience is supplemented with qualitative factors based on the risks present for each portfolio segment. These factors include levels of and trends in delinquencies and impaired loans, economic/sector trends, lending policy changes, changes in loan review, growth trends, concentrations as a percent of capital, collateral value, changes in personnel and changes is delinquencies.

We identified management's risk ratings of loans and the estimation of qualitative factors, both of which are used in the allowance for loan losses calculation, as a critical audit matter. Determination of the risk rating and qualitative factors involve significant management judgement. Auditing management's judgments regarding the determination of risk ratings and qualitative factors applied to the allowance for loan losses involved a high degree of subjectivity.

The primary procedures we performed to address this critical audit matter included:

- Evaluating the design, and implementation of controls related to management's calculation of the allowance for loan losses, including controls over the accuracy of risk ratings of loans and the determination of qualitative factors used.
- Testing risk-based targeted selections of loans to gain substantive evidence that the Company is appropriately rating these loans in accordance with its policies, and that the risk ratings for the loans are reasonable.
- Obtaining management's analysis and supporting documentation related to the qualitative factors, and testing whether the qualitative factors used in the calculation of the allowance for loan losses are supported by the analysis provided by management.
- Testing the appropriateness of the methodology and assumptions used in the calculation of the allowance for loan losses, and testing the calculation itself, including the completeness and accuracy of data, application of the loan risk ratings determined by management, application of the qualitative factors determined by management, and recalculation of the allowance for loan losses balance.

- Performing an independent analytical analysis to evaluate the adequacy and reasonableness of loan risk ratings determined by management and used in the calculation.

Moss Adams LLP

Los Angeles, California
March 24, 2021

We have served as the Company's auditor since 2012.

Management's Report on Internal Control over Financial Reporting

Management of the Bank is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ("GAAP"). The Bank's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Bank's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and board of directors; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Bank's assets that could have a material effect on the financial statements.

Management conducted an assessment of the effectiveness of internal control over financial reporting as of December 31, 2020, utilizing the framework established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, Management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2020.

The Bank's independent registered public accounting firm, Moss Adams LLP, has audited the Bank's consolidated financial statements that are included in this annual report as of December 31, 2020 and has issued their Report of Independent Registered Public Accounting Firm, which appears on the previous page.

/s/ Brian J. Reed
Brian J. Reed
President and Chief Executive Officer

/s/ Camille D. Kazarian
Camille D. Kazarian
Executive Vice President and Chief Financial Officer

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

	December 31, 2020	December 31, 2019
ASSETS		
Cash and due from banks	$ 30,826	$ 38,299
Total cash and cash equivalents	30,826	38,299
Investment securities:		
Held-to-maturity, at amortized cost	-	7,998
Available-for-sale (at fair value; amortized cost of $66,335 in 2020 and $53,591 in 2019)	67,952	54,241
Total investment securities	67,952	62,239
Loans, less allowance for loan losses of $8,882 in 2020 and $6,769 in 2019	745,939	576,548
Bank premises and equipment, net	5,994	6,301
Investment in Federal Home Loan Bank stock, at cost	3,429	3,342
Goodwill	4,119	4,119
Accrued interest receivable and other assets	7,595	5,130
Total assets	$ 865,854	$ 695,978
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand - non interest-bearing	$ 199,097	$ 129,084
Demand - interest-bearing	88,684	69,383
Savings	42,120	28,359
Money market	167,113	128,377
Time deposits that meet or exceed the FDIC insurance limit	35,765	76,564
Other time deposits	193,516	142,070
Total deposits	726,295	573,837
Federal Home Loan Bank advances	53,500	45,600
Junior subordinated debt	5,876	5,862
Accrued interest payable and other liabilities	4,554	3,335
Total liabilities	790,225	628,634
Commitments and contingencies		
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 in 2020 and 2019	36,981	36,981
Retained earnings	37,510	29,906
Accumulated other comprehensive income, net of tax	1,138	457
Total shareholders' equity	75,629	67,344
Total liabilities and shareholders' equity	$ 865,854	$ 695,978

The accompanying notes are an integral part of these audited consolidated financial statements.

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

	Year Ended December 31,		
	2020	2019	2018
Interest income:			
Interest and fees on loans	$ 34,633	$ 27,585	$ 22,663
Interest on deposits with banks	65	251	247
Interest on federal funds sold	-	-	14
Interest on investment securities	1,498	1,941	2,382
Dividends on FHLB stock	229	224	266
Total interest income	36,425	30,001	25,572
Interest expense:			
Deposits	4,956	6,422	3,509
Federal Home Loan Bank advances	833	414	441
Junior subordinated debt	375	189	-
Total interest expense	6,164	7,025	3,950
Net interest income before provision for loan losses	30,261	22,976	21,622
Provision for loan losses	2,100	700	530
Net interest income after provision for loan losses	28,161	22,276	21,092
Non-interest income:			
Service charges on deposit accounts	808	869	765
Rental income	351	344	553
Net gain on loan sales	2,108	1,253	748
Net securities (loss) gain	874	(6)	27
Other income	307	202	216
Total non-interest income	4,448	2,662	2,309
Non-interest expense:			
Salaries and employee benefits	10,748	9,836	9,151
Occupancy and equipment	1,605	1,693	1,536
Other expenses	5,318	4,534	4,670
Total non-interest expense	17,671	16,063	15,357
Income before provision for income taxes	14,938	8,875	8,044
Provision for income taxes	4,421	2,398	2,217
Net income	$ 10,517	$ 6,477	$ 5,827
Basic earnings per common share	$ 1.73	$ 1.07	$ 0.96
Diluted earnings per common share	$ 1.73	$ 1.07	$ 0.96
Basic weighted average shares of common stock outstanding	6,070	6,069	6,065
Diluted weighted average shares of common stock outstanding	6,074	6,074	6,072

The accompanying notes are an integral part of these audited consolidated financial statements.

SUMMIT STATE BANK AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Year Ended December 31,		
	2020	2019	2018
Net income	$ 10,517	$ 6,477	$ 5,827
Change in securities available-for-sale:			
Unrealized holding gains (losses) on available-for-sale securites arising during the period	1,844	3,186	(1,563)
Reclassification adjustment for losses (gains) realized in net income on sales of available-for-sale securities	(874)	6	(27)
Net unrealized gains (losses), before provision for income tax	970	3,192	(1,590)
Provision for income tax (expense) benefit	(289)	(946)	398
Total other comprehensive income (loss), net of tax	681	2,246	(1,192)
Comprehensive income	$ 11,198	$ 8,723	$ 4,635

The accompanying notes are an integral part of these audited consolidated financial statements.

SUMMIT STATE BANK AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands except per share data)

	Common Stock		Retained	Accumulated Other Comprehensive	Total Shareholders'
	Shares	Amount	Earnings	Income (Loss)	Equity
Balance, January 1, 2018	6,041	36,847	23,427	(597)	59,677
Net income			5,827		5,827
Other comprehensive income, net of tax				(1,192)	(1,192)
Exercise of stock options	25	120			120
Cash dividends - $0.48 per share			(2,912)		(2,912)
Balance, December 31, 2018	6,066	36,967	26,342	(1,789)	61,520
Net income			6,477		6,477
Other comprehensive loss, net of tax				2,246	2,246
Exercise of stock options	4	14			14
Cash dividends - $0.48 per share			(2,913)		(2,913)
Balance, December 31, 2019	6,070	$ 36,981	$ 29,906	$ 457	$ 67,344
Net income			10,517		10,517
Other comprehensive income, net of tax				681	681
Cash dividends - $0.48 per share			(2,913)		(2,913)
Balance, December 31, 2020	6,070	$ 36,981	$ 37,510	$ 1,138	$ 75,629

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2020	2019	2018
Cash flows from operating activities:			
Net income	$ 10,517	$ 6,477	$ 5,827
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	433	498	346
Securities amortization and accretion, net	131	31	158
Accretion of net deferred loan fees	(4,946)	(1,679)	(1,293)
Provision for loan losses	2,100	700	530
Net securities (gains) loss	(874)	6	(27)
Net gain on loan sales	(2,108)	(1,253)	(748)
Net change in accrued interest receivable and other assets	(1,505)	(135)	(907)
Net change in accrued interest payable and other liabilities	(92)	(744)	(235)
Share-based compensation expense	62	235	156
Tax benefit from stock-based compensation	-	-	(61)
Net cash from operating activities	3,718	4,136	3,746
Cash flows from investing activities:			
Purchases of available-for-sale investment securities	(65,908)	-	(3,476)
Proceeds from sales of available-for-sale investment securities	-	9,059	-
Proceeds from calls of held-to-maturity investment securities	8,000	-	-
Proceeds from calls and maturities of available-for-sale investment securities	53,908	10,020	10,239
Purchase of Federal Home Loan Bank stock	(87)	(257)	-
Loan origination and principal collections, net	(196,361)	(90,090)	(74,789)
Purchases of bank premises and equipment, net	(126)	(996)	(870)
Proceeds from sales of loans other than loans originated for resale	31,924	20,323	9,345
Net cash used in investing activities	(168,650)	(51,941)	(59,551)

(Continued)

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2020	**2019**	**2018**
Cash flows from financing activities:			
Net change in demand, savings and money market deposits	141,811	39,663	(50,729)
Net change in certificates of deposit	10,647	32,985	18,405
Net change in short term Federal Home Loan Bank advances	(33,100)	(23,700)	41,800
Net change in long term Federal Home Loan Bank advances	41,000	12,500	-
Net proceeds received upon issuance of Junior Subordinated Debt	-	5,862	-
Net change in Junior Subordinated Debt	14		
Dividends paid on common stock	(2,913)	(2,913)	(2,912)
Proceeds from exercise of stock options	-	14	120
Net cash from financing activities	157,459	64,411	6,684
Net change in cash and cash equivalents	(7,473)	16,606	(49,121)
Cash and cash equivalents at beginning of year	38,299	21,693	70,814
Cash and cash equivalents at end of period	$ 30,826	$ 38,299	$ 21,693
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$ 6,143	$ 6,991	$ 3,827
Income taxes	$ 5,690	$ 2,140	$ 3,220
Noncash investing activities:			
Net unrealized gains (losses) on available-for-sale securities	$ 970	$ 3,192	$ (1,590)
Initial Recognition of Lease Right-of-Use Assets	$ -	$ 1,249	$ -
Initial Recognition of Lease Liabilities	$ -	$ 1,249	$ -

The accompanying notes are an integral part of these audited consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

On January 15, 1999, Summit State Bank (the "Bank") received authority to transact business as a California state-chartered commercial bank and is subject to regulation, supervision and examination by the California Department of Financial Protection and Innovation (DFPI) and the Federal Deposit Insurance Corporation. The Bank was organized under a charter granted by the Department of Savings and Loan of the State of California under the name Summit Savings. The Bank was incorporated on December 20, 1982. The Bank converted to a federal savings bank under a charter granted by the Office of Thrift Supervision on May 24, 1990. The Bank provides a variety of banking services to individuals and businesses in its primary service area of Sonoma County, California. The Bank's branch locations include Santa Rosa, Petaluma, Rohnert Park and Healdsburg. The Bank offers depository and lending services primarily to meet the needs of its business and individual clientele. These services include a variety of transaction, money market, savings and time deposit account alternatives. The Bank's lending activities are directed primarily towards commercial real estate, construction and business loans. The Bank originally used its subsidiary Alto Service Corporation for its deed of trust services. On July 17, 2019 the Bank filed a certification of dissolution and the filing effectively dissolved ALTO.

The accounting and reporting policies of the Bank and its subsidiary conform with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Principles of Consolidation

The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiary, Alto Service Corporation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The allowance for loan losses, goodwill impairment and fair values of investment securities and other financial instruments are particularly subject to change.

Junior Subordinated Debt

On June 28, 2019 the Bank completed the private placement of $6,000,000 in fixed-to-floating rate subordinated notes (the "Notes") to support organic growth and for general corporate purposes. The Notes are for a 10-year term and have been structured to qualify as Tier 2 capital for regulatory purposes. The Notes bear interest at a fixed rate for the first half of the term and adjust to a floating rate tied to LIBOR beginning July 1, 2024. In the event LIBOR is discontinued, the index for the Notes will be replaced with a rate equal to the forward-looking term SOFR rate for a corresponding period. The Notes are reported net of any debt issuance cost which totaled $124,000 at December 31, 2020.

Alto Service Corporation Dissolution

Alto Service Corporation ("Alto") was originally established to act as the Trustee for Deeds of Trust and is wholly owned by the Bank. In June 2019 the Bank began the process to dissolve Alto in accordance with the Bank's Plan of Dissolution which included paying off all of its liabilities, which totaled $0, and distributing its net assets to the Bank. A Certificate of Dissolution was filed with the State of California and Alto was dissolved effective July 17, 2019.

Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, the Bank considers cash and due from banks with original maturities under 90 days and Federal funds sold to be cash equivalents. Generally, Federal funds are sold for one-day periods. Net cash flows are reported for customer loan and deposit transactions, time deposits in banks and short-term borrowings with an original maturity of 90 days or less.

Investment Securities

Investments are classified into the following categories:

- Available-for-sale securities, reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income within shareholders' equity.

- Held-to-maturity securities, which management has the positive intent and ability to hold to maturity, reported at amortized cost, adjusted for the accretion of discounts and amortization of premiums.

Management determines the appropriate classification of its investments at the time of purchase and may only change the classification in certain limited circumstances. All transfers between categories are accounted for at fair value.

Gains or losses on the sale of investment securities are recorded on the trade date and are computed on the specific identification method. Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums on the level yield method.

Management periodically evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, Specific investment level factors we examine to assess impairment include the severity and duration of the unrealized loss, the nature, financial condition and results of operations of the issuers of the securities and whether there has been any cause for default on the securities or any adverse change in the rating of the securities by the various rating agencies, as well as whether the decline in value is credit or liquidity related. Additionally, changes in interest rates, market and economic conditions, and the Bank's financial resources and overall intent and ability to hold the securities until their fair values recover is analyzed as part of the impairment assessment. However, these other factors on their own will not qualify as a primary determinant of OTTI. For debt securities that are identified as impaired, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement for available-for-sale and held-to-maturity investments and 2) OTTI related to other factors, which is recognized in other comprehensive income for available-for-sale investments. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. There was no OTTI recorded in 2020, 2019 or 2018. We do not have any investment securities with material unrealized losses that would be deemed to be "other-than-temporarily impaired" as of December 31, 2020. Investment securities are discussed in more detail under "Investment Portfolio."

Investment in Federal Home Loan Bank Stock

In order to borrow from the Federal Home Loan Bank of San Francisco (FHLB), the Bank is required to maintain an investment in the capital stock of the FHLB. The investment is carried at cost and is generally redeemable at par. Both cash and stock dividends are reported as income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are stated at principal balances outstanding, net of deferred loan origination fees and costs and the allowance for loan losses, adjusted for accretion of discounts or amortization of premiums. Interest is accrued daily based upon outstanding loan balances. However, for all loan classes, when in the opinion of management, loans are considered to be impaired and the future collectability of interest and principal is in serious doubt, loans are placed on nonaccrual status and the accrual of interest income is suspended. Any interest previously accrued, but unpaid, is charged against income. Payments received are applied to reduce principal to the extent necessary to ensure collection. Subsequent payments on these loans, or payments received on nonaccrual loans for which the ultimate collectability of principal is not in doubt, are applied first to earned but unpaid interest and then to principal.

Substantially all loan origination fees, commitment fees, direct loan origination costs and purchase premiums and discounts on loans are deferred and recognized in interest income using the level yield method, to be amortized to interest income over the contractual term of the loan. The unamortized balance of deferred fees and costs is reported as a component of net loans.

Non-accrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to non-accrual status in accordance with the Bank's policy, typically after 90 days of non-payment.

For loans whose contractual terms have been restructured in a manner which grants a concession to a borrower experiencing financial difficulties ("troubled debt restructuring"), they are returned to accrual status when there has been a sustained period of repayment performance (generally, six consecutive monthly payments) according to the modified terms and there is reasonable assurance of repayment and of performance.

The Bank has elected to account for eligible COVID-19 loan modifications under Section 4013 of the CARES Act. To be an eligible loan under Section 4013 of the CARES Act, a loan modification must be (1) related to the COVID-19 pandemic; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020 and the earlier of (a) 60 days after the date of termination on the national emergency declared by the President on March 13, 2020 concerning the COVID-19 outbreak ("national emergency") or (b) January 1, 2022. Eligible COVID-19 loan modifications are not required to be classified as TDRs and will not be reported as past due provided they are performing in accordance with the modified terms. Interest income will continue to be recognized in accordance with GAAP, unless the loans is placed on non-accrual status.

COVID-19-loan modification deferrals increases the total balance due on the loan and re-amortizes the monthly payment through the original maturity date. For loans subject to the program, each borrower is required to resume making regularly scheduled loan payments at the end of the modification period. Management anticipates deferment activity will continue into 2021.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the un-collectability of a loan balance is confirmed. Loans or portions of loans are charged off when there is a distinct probability of loss identified. A distinct probability of loss exists when it has been determined that any remaining sources of repayment are not sufficient to cover all outstanding principal. The probable loss is immediately calculated based on the value of the remaining sources of repayment and charged to the allowance for loan losses. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions at the local, state and national level, including economic uncertainties of the COVID-19 pandemic, the economic impact caused by this disease and the government's responses thereto, and other factors including historical loss experience. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Commercial & agricultural, real estate-commercial, real estate-construction and land, and real estate-multifamily loans are individually evaluated for impairment. Large groups of smaller balance homogeneous loans such as real estate-single family units and consumer & lease financing are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. Impaired loans are measured on the present value of expected future cash flows discounted at the loan's original effective interest rate. As a practical expedient, impairment may be measured based on the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through an allocation of a portion of the allowance for loan losses. Loans, for which the terms have been modified granting concessions to the borrower that the Bank would not otherwise consider, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Troubled debt restructurings are measured at the present value of estimated future cash flows using the loan's effective interest rate at inception.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component covers loans that are both non-impaired and non-classified and is based on historical loss experience adjusted for qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Bank. This actual loss experience is supplemented with other qualitative factors based on the risks present for each portfolio segment. These factors include consideration of the following: levels of and trends in delinquencies and impaired loans; economic/sector trends, COVID-19 pandemic economic forecasts, lending policy changes, changes in loan review, growth trends, concentrations as a percent of capital, collateral value, changes in personnel and changes is delinquencies. The following portfolio segments have been identified: commercial & agricultural, real estate mortgage loans and consumer & lease financing. Real estate mortgage loans have been further classified according to the following risk characteristics: commercial, construction and land, single family units and multifamily units. Loan categories used in presentations in this report conform to the categorizations used by regulatory Call Reports as described by the instructions issued by the Federal Financial Institutions Examination Council (FFIEC).

Commercial and Agricultural Loans - Commercial and agricultural credit is extended to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, farmland, or other projects. The majority of these borrowers are customers doing business within our geographic regions. These loans are generally underwritten individually and secured with the assets of the company and the personal guarantee of the business owners. Commercial & agricultural loans are made based primarily on the historical and projected cash flow of the borrower and the underlying collateral provided by the borrowers. This category includes loans secured by farmland.

Commercial and Multifamily Real Estate Loans - Commercial and multifamily real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the property. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and property type.

Construction and Land Real Estate Loans - Construction and land real estate loans are extended to qualified commercial and individual customers and are underwritten and secured by the assets of the company or individual. Commercial construction credits may also be secured with personal guarantees of the business owner. Credits are underwritten to meet the general credit policy criteria for current and projected cash flow coverage and loan-to-value. Terms for construction and land loans are typically of shorter duration and have more restrictive advance rates than similar commercial credit or single-family residences. Both types of credit may be refinanced to a long-term loan upon completion of construction. The majority of these credits are with customers doing business within the Bank's geographic region.

Consumer and Lease Financing Loans - Consumer and lease financing loans are primarily comprised of loans made directly to consumers. These loans have a specific underwriting matrix which consists of several factors including debt to income, type of collateral and loan to collateral value, credit history and relationship to the borrower. Consumer and lease financing lending uses risk-based pricing in the underwriting process.

Single Family Residential Loans - Single family residential mortgage loans represent loans to consumers for the purchase or refinance of a residence. These loans are generally financed up to 30 years, and in most cases, are extended to borrowers to finance their primary residence. Real estate market values at the time of origination directly affect the amount of credit extended, and in the event of default, subsequent changes in these values may impact the severity of losses. Additionally, commercial loans may be categorized as Single Family Residential if the loan is secured by a mortgage on a home. These loans are underwritten as described in Commercial and Agricultural Loans above and have terms such as interest rates and maturities as a standard Commercial Loan.

The Bank is subject to periodic examinations by its federal and state regulatory examiners and may be required by such regulators to recognize additions to the allowance for loan losses based on their assessment of credit information available to them at the time of their examinations. The process of assessing the adequacy of the allowance for loan losses is necessarily subjective. Further, and particularly in times of economic downturns, it is reasonably possible that future credit losses may exceed historical loss levels and may also exceed management's current estimates of incurred credit losses inherent within the loan portfolio. As such, there can be no assurance that future charge-offs will not exceed management's current estimate of what constitutes a reasonable allowance for credit losses.

Valuation of Goodwill

Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Bank has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Management assesses the carrying value of our goodwill at least annually in order to determine if this intangible asset is impaired. In reviewing the carrying value of our goodwill, we assess the recoverability of such assets by evaluating the fair value of the related business unit. If the carrying amount of goodwill exceeds its fair value, or other factors are identified that may impact valuation, an impairment loss is recognized for the amount of the excess and the carrying value of goodwill is reduced accordingly. Any impairment would be required to be recorded during the period identified.

Accounting standards require an annual evaluation of goodwill for impairment using various estimates and assumptions. The Bank typically performs its evaluation of goodwill for impairment at year end, as of December 31. Due to recent economic impacts caused by the COVID-19 pandemic, the Bank performed a goodwill assessment test each quarter in 2020 to determine if conditions warrant a detailed impairment analysis to make a final determination. The latest goodwill assessment test was performed as of December 31, 2020. The Bank's qualitative assessment includes the following considerations:

- Net income: The Bank's net income increased in the first three quarters of 2020.
- Uninterrupted operations: The Bank has been deemed an Essential Business and has provided uninterrupted operations throughout the extent of the pandemic.
- Asset quality: The Bank maintains good asset quality including minimal loan delinquencies, nonaccrual loans remain low and no new charge offs have been recorded.
- Stock price: Summit's stock price was $13.48 at closing on December 31, 2020 and is 1.1 times its book value.

The Bank's goodwill value is $4,119,000 at December 31, 2020, this represents less than 1% of total assets. Based on the qualitative factors listed above, the Bank concludes goodwill is not impaired as of December 31, 2020.

No impairment was recorded related to this intangible asset in 2020, 2019 or 2018.

Other Real Estate Owned

Other real estate owned includes real estate acquired in full or partial settlement of loan obligations. When property is acquired, any excess of the Bank's recorded investment in the loan balance and accrued interest income over the estimated fair market value of the property, less costs to sell, is charged against the allowance for loan losses. A valuation allowance for losses on other real estate, if needed, is maintained to provide for declines in value. The allowance is established through a provision for losses on other real estate which is included in other expenses. Subsequent gains or losses on sales or write-downs resulting from impairment are recorded in other income or expenses as incurred. Operating costs after acquisition are expensed and any rental income from the properties are recorded as income. There was no other real estate owned at December 31, 2020 and 2019.

Bank Premises and Equipment

Land is carried at cost. Buildings, furniture, fixtures, and equipment are carried at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets. The useful lives of buildings are estimated to be 39 years and furniture, fixtures and equipment are estimated to be 3 to 15 years. Leasehold improvements are amortized over the estimated useful life of the asset or the term of the related lease, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

The Bank evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Income Taxes

The Bank files its income taxes on a consolidated basis with its subsidiary. The allocation of income tax expense (benefit) represents each entity's proportionate share of the consolidated provision for income taxes. Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities.

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. On the consolidated balance sheet, net deferred tax assets are included in accrued interest receivable and other assets.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Bank recognizes interest and/or penalties related to income tax matters in income tax expense. The Bank has not accrued any potential interest and penalties as of December 31, 2020 and December 31, 2019 and for the three years ended December 31, 2020 for uncertainties related to income taxes.

Earnings Per Common Share

Basic earnings per common share (EPS), which excludes dilution, is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if contracts to issue common stock, such as stock options, result in the issuance of common stock which shares in the earnings of the Bank. Stock options for 3,104, 2,260 and 3,318 shares of common stock were not considered in computing diluted earnings per share for 2020, 2019 and 2018 because they were anti-dilutive.

The factors used in the earnings per common share computation follow:

	Year Ended December 31		
(in thousands except earnings per share)	2020	2019	2018
Basic			
Net income available for common shareholders	$ 10,517	$ 6,477	$ 5,827
Weighted average common shares outstanding	6,070	6,069	6,065
Basic earnings per common share	$ 1.73	$ 1.07	$ 0.96
Diluted			
Net income available for common shareholders	$ 10,517	$ 6,477	$ 5,827
Weighted average common shares outstanding for basic earnings per common share	6,070	6,069	6,065
Add: Dilutive effects of assumed exercises of stock options	4	5	7
Average shares and dilutive potential common shares	6,074	6,074	6,072
Diluted earnings per common share	$ 1.73	$ 1.07	$ 0.96

Share-Based Compensation

Compensation cost is recognized for stock options and stock appreciation rights (“SARs) granted to employees, based on the fair value of these awards at the date of grant. A calculation of the Bank’s volatility is utilized to estimate the fair value of stock options and SARs. Compensation cost is recognized over the required service period, generally defined as the vesting period.

Revenue Recognition

The Bank records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("Topic 606"). Under Topic 606, the Bank must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Bank satisfies a performance obligation.

Most of our revenue-generating transactions are not subject to Topic 606, including revenue generated from financial instruments, such as our loans and investment securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, gains on sales of loans, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. The Bank's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as asset management fees based on month-end market values. Consideration is often received immediately or shortly after the Bank satisfies its performance obligation and revenue is recognized. The Bank does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2020, and December 31, 2019, the Bank did not have any significant contract balances. The Bank has evaluated the nature of its revenue streams and determined that further disaggregation of revenue into more granular categories beyond what is presented on the Consolidated Statements of Income was not necessary. The following are descriptions of revenues within the scope of ASC 606.

Deposit service charges - The Bank earns fees from its deposit customers for account maintenance, transaction-based and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied, and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposit accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Debit and ATM interchange fee income and expenses - Debit and ATM interchange income represent fees earned when a debit card issued by the Bank is used. The Bank earns interchange fees from debit cardholder transactions through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied, and the fees are earned when the cost of the transaction is charged to the cardholders' debit card. Certain expenses directly associated with the credit and debit card are recorded on a net basis with the interchange income.

Rental income – Leases originated by the Bank are recorded as rental income and included in the other non-interest income category. Rental income is recognized in the month in which the revenue covers. Leasehold improvements and operational expenses associated with the rental proper are recorded separate from the income as an expense.

Gain/loss on other real estate owned, net - The Bank records a gain or loss from the sale of other real estate owned when control of the property transfers to the buyer, which generally occurs at the time of an executed deed of trust. When the Bank finances the sale of other real estate owned to the buyer, the Bank assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the other real estate owned asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on sale, the Bank adjusts the transaction price and related gain or loss on sale if a significant financing component is present

Adoption of New Accounting Standards

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this update remove, modify or add disclosure requirements for fair value measurements to improve the effectiveness of disclosures. The update is effective for the Bank on January 1, 2020, with early adoption permitted, and allows for either the prospective or retrospective adoption method. Management does not anticipate any potential impact from the new standard on our consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848). The amendments in this ASU are elective and provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform. The amendments in this ASU provide optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in this ASU may be elected as of March 12, 2020 through December 31, 2022. An entity may choose to elect the amendments in this update at an interim period subsequent to March 12, 2020 with the method of adoption varying based on transaction type. Currently the Bank only has no loans but one subordinated debt agreement that references LIBOR. The impact this ASU will have on the Bank is anticipated to be minimal and the Bank has not elected to apply these amendments. The Bank will continue to assess the applicability of the ASU and monitor guidance for reference rate reform from the FASB and its impact on the Bank's financial condition and results of operations.

Accounting Standards Pending Adoption

In June of 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments are intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users to better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, the ASU amends the accounting guidance for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. In October 2019 FASB updated the effective date for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Early application will be permitted on January 1 for fiscal years beginning after December 15, 2018. The Bank has been running an Advanced Risk Consulting Expected Loss Model (ARC ELM) parallel to the current "incurred loss" model since January 1, 2019. The ARC ELM meets the "current expected credit loss" ("CECL") model standard by projecting expected net losses for loan pools with similar default risks over the lives of the loans under a defined set of short-term and long-term economic variables, including COVID-19 pandemic economic forecasts. The model further uses actual historical nonaccrual rates, gross charge-off rates and recovery rates that are modeled against key economic variables. The Bank has elected to early adopt the new CECL model effective January 1, 2021. Upon adoption of CECL the Bank has recorded a one-time adjustment to its credit loss allowances as of the beginning of the fiscal year equal to the difference, between the amount of credit loss allowances under the current methodology and the amount required under CECL. In 2018, the federal banking regulators (the Federal Reserve, the OCC and the FDIC) adopted a rule that gives a banking organization the option to phase in over a three-year period the day-one adverse effects of CECL on its regulatory capital. The Bank has recognized the one-time cumulative-effect adjustment on January 1, 2021 by recording a $1,575,000 reduction in retained earnings, an increase in the allowance reserve of $2,250,000 and an increase in the deferred tax asset of $675,000.

In April 2019, the FASB issued ASU No. 2019-04, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments. With respect to Topic 815, Derivatives and Hedging, ASU 2019-04 clarifies that the reclassification of a debt security from held-to-maturity ("HTM") to available-for-sale ("AFS") under the transition guidance in ASU 2017-12 would not (1) call into question the classification of other HTM securities, (2) be required to actually designate any reclassified security in a last-of-layer hedge, or (3) be restricted from selling any reclassified security. As part of the transition of ASU 2019-04, entities may reclassify securities that would qualify for designation as the hedged item in a last-of-layer hedging relationship from HTM to AFS; however, entities that already made such a reclassification upon their adoption of ASU 2017-12 are precluded from reclassifying additional securities. ASU 2019-04 has the same effective date as ASU 2016-13. Management does not anticipate any potential impact from this new standard. The Bank will continue evaluating the potential impact of this standard in connection with the adoption of ASU 2016-13.

In May 2019, the FASB issued ASU No. 2019-05, Financial Instruments - Credit Losses (Topic 326); Targeted Transition Relief. This ASU allows entities to irrevocably elect, upon adoption of ASU 2016-13, the fair value option on financial instruments that (1) were previously recorded at amortized cost and (2) are within the scope of ASC 326-20 if the instruments are eligible for the fair value option under ASC 825-10. The fair value option election does not apply to held-to-maturity debt securities. Entities are required to make this election on an instrument-by-instrument basis. ASU 2019-05 has the same effective date as ASU 2016-13 (i.e., the first quarter of 2020). Management does not anticipate any potential impact from the new standard on our consolidated financial statements.

Operating Segments

While the Bank's chief decision makers monitor the revenue streams of the Bank's various products and services, operations are managed and financial performance is evaluated on a bank-wide basis. Operating segments are aggregated into one segment as operating results for all segments are substantially the same.

2. INVESTMENT SECURITIES

The amortized costs and estimated fair value of investment securities at December 31, 2020 and 2019 consisted of the following:

	December 31, 2020			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale:				
Government agencies	$ 40,992	$ 114	$ (83)	$ 41,023
Mortgage-backed securities - residential	6,469	348	-	6,817
Corporate debt	18,874	1,257	(19)	20,112
Total available-for-sale	66,335	1,719	(102)	67,952
Total investment securities	$ 66,335	$ 1,719	$ (102)	$ 67,952

	December 31, 2019			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held-to-maturity:				
Government agencies	$ 7,998	$ -	$ (17)	$ 7,981
Available-for-sale:				
Government agencies	39,487	574	(174)	39,887
Mortgage-backed securities - residential	8,841	133	-	8,974
Corporate debt	5,263	132	(15)	5,380
Total available-for-sale	53,591	839	(189)	54,241
Total investment securities	$ 61,589	$ 839	$ (206)	$ 62,222

The activity related to recorded gross gains and gross losses from sales of investment securities for the years ended December 31 is reflected in the table below:

	Year Ended December 31		
(in thousands)	2020	2019	2018
Proceeds from sales	$ -	$ 9,059	$ -
Proceeds from calls	39,864	699	1,366
Gross realized gains on sales and calls	874	117	27
Gross realized losses on sales and calls	-	(123)	-

Net unrealized gains (losses) on available-for-sale investment securities totaling $1,617,000, $650,000 and $(2,542,000) are recorded, net of $(479,000), $(193,000), $753,000 in tax (expense) benefit, as accumulated other comprehensive income within shareholders' equity at December 31, 2020, 2019 and 2018, respectively.

There were no investment securities in a continuous unrealized loss position greater than 12 months at December 31, 2020. At December 31, 2020, the Bank held 8 investment securities which were in an unrealized loss position for less than twelve months. Management periodically evaluates each investment security for other-than-temporary-impairment (OTTI), relying primarily on industry analyst reports and observation of market conditions and interest rate fluctuations. All impairments appearing in the investment securities portfolio valuations are considered temporary. The measured impairment in the securities values is primarily attributable to changes in long-term interest rates, market shifts of the Treasury yield curve and other variable market and economic conditions including the COVID-19 pandemic. The measured impairment in securities values did not result from any significant or persistent deterioration in the underlying credit quality of any of the investments. The securities portfolio consists primarily of debt securities with non-contingent contractual cash flows. Full realization of the principal balance is expected upon final maturity. Management has no specific plans to sell any of the impaired securities, is not anticipating it will be required to sell any impaired securities prior to full recovery, and has the intent and ability to hold the securities until it received full recovery of the carrying value, which could be at the final maturity or prior to maturity for investments with a make-whole call provision. There was no OTTI recorded in 2020, 2019 or 2018.

Investment securities with unrealized losses at December 31, 2020 and 2019 are summarized and classified according to the duration of the loss period as follows:

	December 31, 2020					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt Securities:						
Available-for-sale:						
Government agencies	$ 12,911	$ (83)	$ -	$ -	$12,911	$ (83)
Corporate debt	1,384	(19)	-	-	1,384	(19)
Total available-for-sale	14,295	(102)	-	-	14,295	(102)
Total investment securities	$ 14,295	$ (102)	$ -	$ -	$14,295	$ (102)

	December 31, 2019					
	Less than 12 Months		12 Months or More		Total	
(in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt Securities:						
Held-to-maturity:						
Government agencies	$ 4,992	$ (5)	$ 2,989	$ (12)	$ 7,981	$ (17)
Available-for-sale:						
Government agencies	$ 17,769	$ (174)	$ -	$ -	$17,769	$ (174)
Corporate debt	-	-	235	(15)	235	(15)
Total available-for-sale	17,769	(174)	235	(15)	18,004	(189)
Total investment securities	$ 22,761	$ (179)	$ 3,224	$ (27)	$25,985	$ (206)

The amortized cost and estimated fair value of investment securities at December 31, 2020 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

(in thousands)	Available-for-Sale Amortized Cost	Fair Value
Within one year	$ 480	$ 485
After one year through five years	8,157	8,796
After five years through ten years	14,235	14,837
After ten years	36,994	37,017
	59,866	61,135
Investment securities not due at a single maturity date:		
Mortgage-backed securities - residential	6,469	6,817
	$ 66,335	$ 67,952

Investment securities with amortized costs totaling $5,000,000 and $5,865,000 and estimated fair values totaling $5,000,000 and $6,000,000 were pledged to secure State of California and other municipal deposits at December 31, 2020 and 2019 (see Note 6).

3. LOANS

Outstanding loans are summarized as follows:

(in thousands)	December 31, 2020	December 31, 2019
Commercial & agricultural (1)	$ 191,762	$ 129,590
Real estate - commercial	420,384	312,758
Real estate - construction and land	35,444	44,689
Real estate - single family	60,633	54,357
Real estate - multifamily	46,574	41,870
Consumer & lease financing	24	53
	754,821	583,317
Allowance for loan losses	(8,882)	(6,769)
	$ 745,939	$ 576,548

(1) Includes loans secured by farmland. Also includes all PPP loans, totaling $69,583 as of December 31, 2020.

Changes in the allocation of allowance for loan losses by loan class for the years ended December 31, 2020, 2019 and 2018 are as follows:

(in thousands)	Year Ended December 31, 2020				
	Balance at December 31, 2019	Provision (reversal)	Charge-offs	Recoveries	Balance at December 31, 2020
Commercial & agricultural	$ 887	$ 89	$ (20)	$ 33	$ 989
Real estate - commercial	1,976	2,966	-	-	4,942
Real estate - construction and land	1,602	(310)	-	-	1,292
Real estate - single family	323	81	-	-	404
Real estate - multifamily	510	89	-	-	599
Consumer & lease financing	2	(1)	-	-	1
Unallocated	1,469	(814)	-	-	655
Total	$ 6,769	$ 2,100	$ (20)	$ 33	$ 8,882

(in thousands)	Year Ended December 31, 2019				
	Balance at December 31, 2018	Provision (reversal)	Charge-offs	Recoveries	Balance at December 31, 2019
Commercial & agricultural	$ 904	$ (57)	$ -	$ 40	$ 887
Real estate - commercial	2,830	(854)	-	-	1,976
Real estate - construction and land	705	897	-	-	1,602
Real estate - single family	684	(361)	-	-	323
Real estate - multifamily	308	202	-	-	510
Consumer & lease financing	6	(4)	-	-	2
Unallocated	592	877	-	-	1,469
Total	$ 6,029	$ 700	$ -	$ 40	$ 6,769

(in thousands)	Year Ended December 31, 2018				
	Balance at December 31, 2017	Provision (reversal)	Charge-offs	Recoveries	Balance at December 31, 2018
Commercial & agricultural	$ 682	$ 173	$ (28)	$ 77	$ 904
Real estate - commercial	2,697	133	-	-	2,830
Real estate - construction and land	443	262	-	-	705
Real estate - single family	595	(102)	-	191	684
Real estate - multifamily	319	(11)	-	-	308
Consumer & lease financing	14	(31)	-	23	6
Unallocated	486	106	-	-	592
Total	$ 5,236	$ 530	$ (28)	$ 291	$ 6,029

The following table presents the balance in the allowance for loan losses and loan balances by class and based on impairment method as of December 31, 2020 and 2019:

(in thousands)	December 31, 2020					
	Allowance for Loan Losses			Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Ending Allowance Balance	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total Ending Loans Balance
Commercial & agricultural	$ 326	$ 663	$ 989	$ 563	$ 191,199	$ 191,762
Real estate - commercial	-	4,942	$ 4,942	1,103	419,281	420,384
Real estate - construction and land	-	1,292	$ 1,292	-	35,444	35,444
Real estate - single family	-	404	$ 404	940	59,693	60,633
Real estate - multifamily	-	599	$ 599	-	46,574	46,574
Consumer & lease financing	-	1	$ 1	-	24	24
Unallocated	-	655	$ 655	-	-	-
Total	$ 326	$ 8,556	$ 8,882	$ 2,606	$ 752,215	$ 754,821

(in thousands)	December 31, 2019					
	Allowance for Loan Losses			Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Ending Allowance Balance	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Total Ending Loans Balance
Commercial & agricultural	$ 330	$ 557	$ 887	$ 910	$ 128,680	$ 129,590
Real estate - commercial	-	1,976	1,976	1,277	311,481	312,758
Real estate - construction and land	-	1,602	1,602	-	44,689	44,689
Real estate - single family	-	323	323	963	53,394	54,357
Real estate - multifamily	-	510	510	-	41,870	41,870
Consumer & lease financing	-	2	2	-	53	53
Unallocated	-	1,469	1,469	-	-	-
Total	$ 330	$ 6,439	$ 6,769	$ 3,150	$ 580,167	$ 583,317

The recorded investment in the aforementioned disclosure and the next several disclosures do not include accrued interest receivable because such amounts are not considered material. Accrued interest receivable for the total loan portfolio was $4,005,000 and $1,645,000 as of December 31, 2020 and 2019. Net deferred loan costs were $1,931,000 and $268,000 as of December 31, 2020 and 2019. The increases in interest receivable and net deferred loan costs are attributed to the loans that were in deferral status due to the COVID-19 pandemic. The deferral process increases the total balance due on the loan at the end of the deferment period and re-amortizes the monthly payment through the original maturity. As of the date of this report, all loans in deferral due to the COVID-19 pandemic are expected to begin repayment within the agreed upon timeframe and no loans are anticipated to be a loss for the Bank.

Salaries and employee benefits totaling $3,417,000, $2,138,000 and $1,181,000 have been deferred as loan origination costs for the years ended December 31, 2020, 2019 and 2018, respectively.

The following table presents impaired loans individually evaluated for impairment by class of loans:

(in thousands)	Commercial & agricultural	Real estate - commercial	Real estate - construction and land	Real estate - single family	Real estate - multifamily	Consumer & lease financing	Total
December 31, 2020							
Recorded investment in impaired loans:							
With no related allowance recorded	$ 146	$ 1,253	$ -	$ 940	$ -	$ -	$ 2,339
With an allowance recorded	417	-	-	-	-	-	417
Total recorded investment in impaired loans	$ 563	$ 1,253	$ -	$ 940	$ -	$ -	$ 2,756
Unpaid principal balance of impaired loans:							
With no related allowance recorded	$ 209	$ 1,438	$ -	$ 1,000	$ -	$ -	$ 2,647
With an allowance recorded	417	-	-	-	-	-	417
Total unpaid principal balance of impaired loans	$ 626	$ 1,438	$ -	$ 1,000	$ -	$ -	$ 3,064
Allowance for loan losses allocation	$ 326	$ -	$ -	$ -	$ -	$ -	$ 326
Average recorded investment in impaired loans during the year ended December 31, 2020	572	1,375	-	1,010	-	-	2,957
Interest income recognized on impaired loans during the year ended December 31, 2020	27	72	-	64	-	-	163
December 31, 2019							
Recorded investment in impaired loans:							
With no related allowance recorded	$ 488	$ 1,441	$ -	$ 964	$ -	$ -	$ 2,893
With an allowance recorded	307	-	-	88	-	-	395
Total recorded investment in impaired loans	$ 795	$ 1,441	$ -	$ 1,052	$ -	$ -	$ 3,288
Unpaid principal balance of impaired loans:							
With no related allowance recorded	$ 612	$ 1,717	$ -	$ 1,023	$ -	$ -	$ 3,352
With an allowance recorded	307	-	-	88	-	-	395
Total unpaid principal balance of impaired loans	$ 919	$ 1,717	$ -	$ 1,111	$ -	$ -	$ 3,747
Allowance for loan losses allocation	$ 330	$ -	$ -	$ -	$ -	$ -	$ 330
Average recorded investment in impaired loans during the year ended December 31, 2019	1,036	1,476	-	1,046	94	-	3,652
Interest income recognized on impaired loans during the year ended December 31, 2019	58	63	-	50	6	-	177
Average recorded investment in impaired loans during the year ended December 31, 2018	585	1,992	-	1,482	120	-	4,179
Interest income recognized on impaired loans during the year ended December 31, 2018	27	47	-	51	12	-	137

The following table presents the recorded investment in nonaccrual loans and loans past due over 90 days still accruing by class of loans as of December 31, 2020 and 2019:

(in thousands)	December 31, 2020 Nonaccrual	December 31, 2020 Loans Past Due Over 90 Days Still Accruing	December 31, 2019 Nonaccrual	December 31, 2019 Loans Past Due Over 90 Days Still Accruing
Commercial & agricultural	$ 114	$ -	$ -	$ -
Real estate - commercial	150	-	315	-
Real estate - construction and land	-	-	-	-
Real estate - single family	-	-	-	-
Real estate - multifamily	-	-	-	-
Consumer & lease financing	-	-	-	-
Total	$ 264	$ -	$ 315	$ -

The following table presents the aging of the recorded investment in past due loans, inclusive of nonaccrual loans, as of December 31, 2020 by class of loans:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial & agricultural	$ -	$ 114	$ -	$ 114	$ 191,648	$ 191,762
Real estate - commercial	-	150	-	150	420,234	420,384
Real estate - construction and land	-	-	-	-	35,444	35,444
Real estate - single family	-	-	-	-	60,633	60,633
Real estate - multifamily	-	-	-	-	46,574	46,574
Consumer & lease financing	-	-	-	-	24	24
Total	$ -	$ 264	$ -	$ 264	$ 754,557	$ 754,821

The following table presents the aging of the recorded investment in past due loans, inclusive of nonaccrual loans, as of December 31, 2019 by class of loans:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial & agricultural	$ 146	$ -	$ -	$ 146	$ 129,444	$ 129,590
Real estate - commercial	-	-	315	315	312,443	312,758
Real estate - construction and land	-	-	-	-	44,689	44,689
Real estate - single family	-	-	-	-	54,357	54,357
Real estate - multifamily	-	-	-	-	41,870	41,870
Consumer & lease financing	-	-	-	-	53	53
Total	$ 146	$ -	$ 315	$ 461	$ 582,856	$ 583,317

A loan is considered past due if a scheduled payment of interest or principal that is due is unpaid for 30 days or more.

Troubled Debt Restructurings

From time to time, the Bank may agree to modify the contractual terms of a borrower's loan. In cases where such modifications represent a concession to a borrower experiencing financial difficulty, the modification is considered a troubled debt restructuring ("TDR"). At December 31, 2020 and 2019, loans modified in a TDR totaled $2,189,000 and $2,729,000 which are included in the impaired loan disclosures above. The total TDRs includes $0 and $151,000 that are also included in nonperforming loans at December 31, 2020 and 2019. TDRs had specific loss allocations of $0 as of December 31, 2020 and 2019.

As of December 31, 2020, there were a total of 4 loans that were modified as troubled debt restructurings. The pre-modification and post-modification balances of the restructured loans were $2,189,000 and $2,189,000 respectively.

No additional allowances or charge-offs resulted from loans modified as troubled debt restructurings during the years ended December 31, 2020 and 2019. There were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the years ended December 31, 2020 and 2019. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Bank's internal underwriting policy.

On March 27, 2020, Section 4103 "Temporary Relief From Troubled Debt Restructurings" of the CARES Act was signed into law. Section 4013 provides banks the option to temporarily suspend certain requirements under GAAP related to troubled debt restructurings (TDR) for a limited period of time to account for the effects of COVID-19. This applied to modifications of loans that were not more than 30 days past due as of December 31, 2019 and that occur beginning on March 1, 2020, until the earlier of 60 days after the COVID-19 national emergency is terminated or as of December 31, 2020. Section 541 of the Consolidated Appropriations Act, 2021 (CAA) was signed into law on December 27, 2020, which extends the provisions in Section 4013 of the CARES Act to January 1, 2022. Year-to-date through December 31, 2020, the Bank modified principal and interest payments on a total of 135 loans totaling $193,705,000 or 26% of total loans due to the COVID-19 pandemic. As of December 31, 2020, 12 loans totaling $28,960,000 or 4% of the loan portfolio excluding PPP loans were in deferral due to the COVID-19 pandemic. Of the loans in deferral, 9 of those loans totaling $22,833,000 are extended deferments for a total deferment period up to one year. The deferral portfolio has an average loan to value ratio of 55%. Also, 99% of the deferred loans, or $28,723,000, are real estate secured.

Credit Quality Indicators

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a quarterly basis for loans in excess of $250,000. Smaller balances are graded at origination and updated based on payment status and other information obtained from borrowers. The Bank uses the following definitions for risk ratings:

SPECIAL MENTION- Loans in this category are considered "criticized" from a regulatory point of view but are not considered "classified" until the risk classification becomes substandard or worse. Loans in this category represent above average risk and potential weakness which may, if not corrected, weaken the loan and threaten repayment at some future date.

SUBSTANDARD- Loans in this category have well defined weakness that jeopardize full repayment of the debt, although loss does not seem likely. Loss potential does not have to exist in individual loans in the Substandard classification, but will be apparent in the aggregate. Typically, these loans have not met repayment plans as agreed. The primary source of repayment may have failed to materialize; repayment may be dependent on collateral liquidation or other secondary sources. Bankrupt borrowers and those with continuously past due payments are considered substandard.

DOUBTFUL- Loans in this category have all the characteristics of substandard loans with the added weakness that payment in full or liquidation in full is highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the strengthening of the loan, its classification as an estimated loss is deferred until the amount of the loss may be more accurately determined.

PASS- Loans not meeting any of the three criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

Based on recent analysis performed as of December 31, 2020 and 2019, the risk category of loans by class of loans is as follows:

2020 (in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial & agricultural	$176,365	$ 11,640	$ 3,643	$ 114	$ 191,762
Real estate - commercial	416,126	3,168	1,090	-	420,384
Real estate - construction and land	34,680	-	764	-	35,444
Real estate - single family	60,468	-	165	-	60,633
Real estate - multifamily	46,574	-	-	-	46,574
Consumer & lease financing	24	-	-	-	24
Total	$ 734,237	$ 14,808	$ 5,662	$ 114	$ 754,821

2019 (in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
Commercial & agricultural	$122,864	$ -	$ 6,726	$ -	$ 129,590
Real estate - commercial	312,443	-	315	-	312,758
Real estate - construction and land	44,689	-	-	-	44,689
Real estate - single family	54,185	-	172	-	54,357
Real estate - multifamily	41,870	-	-	-	41,870
Consumer & lease financing	53	-	-	-	53
Total	$ 576,104	$ -	$ 7,213	$ -	$ 583,317

Loans totaling $409,945,000 and $352,723,000 were pledged to secure borrowings with the Federal Home Loan Bank and the Federal Reserve Bank at December 31, 2020 and 2019, respectively (see Notes 6 and 8).

4. OTHER REAL ESTATE OWNED

There was no other real estate owned (OREO) at year end December 31, 2020 and 2019. There were no sales of OREO properties in 2020, 2019 or 2018.

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following:

(in thousands)	December 31, 2020	December 31, 2019
Land	$ 1,184	$ 1,184
Building	7,766	7,803
Furniture, fixtures and equipment	3,643	3,520
Leasehold improvements	866	840
	13,459	13,347
Less accumulated depreciation and amortization	(7,465)	(7,046)
	$ 5,994	$ 6,301

Depreciation and amortization included in occupancy and equipment expense totaled $419,000, $395,000 and $346,000 for the years ended December 31, 2020, 2019 and 2018, respectively.

6. INTEREST-BEARING DEPOSITS

The aggregate amount of maturities of all time deposits is as follows:

Year Ending December 31,	(in thousands)
2021	$ 131,871
2022	24,141
2023	29,403
2024	13,897
2025	29,969
	$ 229,281

Interest expense recognized on interest-bearing deposits was as follows:

(in thousands)	Year Ended December 31, 2020	2019	2018
Interest-bearing demand	$ 122	$ 91	$ 79
Savings	94	63	47
Money market	1,193	1,073	764
Time deposits	3,547	5,195	2,619
	$ 4,956	$ 6,422	$ 3,509

Significant deposit relationships included $0 and $27,000,000 at December 31, 2020 and 2019 of public deposits from the State of California with maturity terms of one to three months. Wholesale brokered deposits included in deposits were $77,430,000 and $22,500,000 at December 31, 2020 and 2019. Deposits of $54,325,000 and $46,284,000 at December 31, 2020 and 2019 were through reciprocal deposit programs.

7. BORROWINGS

The Bank had a total of $86,500,000 in Federal funds lines of credit with two correspondent banks at December 31, 2020 with interest payable at the then current rate. There were $0 and $1,846,000 in letters of credit issued on behalf of the Bank's customers as of December 31, 2020 and 2019, respectively. There were no borrowings outstanding under the Federal funds lines of credit as of December 31, 2020 or 2019.

8. FEDERAL HOME LOAN BANK ADVANCES

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by $409,945,000 and $352,723,000 of loans under a blanket lien arrangement at December 31, 2020 and 2019. Based on this collateral the Bank was eligible to borrow up to a total of $244,356,000 and $223,944,000 of which $190,856,000 and $148,644,000 was available for additional advances as of December 31, 2020 and 2019. Advance balances averaged $61,290,000 and $17,992,000 in 2020 and 2019.

Advances outstanding from the Federal Home Loan Bank were $53,500,000 at December 31, 2020, with maturities from April 2021 through February 2025 and fixed rates from 0% to 1.90%. Advances outstanding were $45,600,000 at December 31, 2019, with maturities from January 2020 through December 2024 and fixed rates from 1.57% to 1.90%.

At December 31, 2020, FHLB fixed rate advances are scheduled to mature as follows:

(in thousands)	Weighted Average Interest Rate	December 31, 2020
Due on or before December 31, 2021	0.00%	$ 5,000
Due on or before December 31, 2022	1.71%	$ 7,500
Due on or before December 31, 2023	1.51%	$ 18,000
Due on or before December 31, 2024	1.87%	$ 5,000
Due on or before December 31, 2025	1.59%	$ 18,000
		$ 53,500

9. INCOME TAXES

The provision for income taxes for the years ended December 31, 2020, 2019 and 2018 consisted of the following:

(in thousands)

2020	Federal	State	Total
Current	$3,203	$1,886	$5,089
Deferred	(403)	(265)	(668)
Provision for income taxes	$2,800	$1,621	$4,421
2019	**Federal**	**State**	**Total**
Current	$1,750	$1,186	$2,936
Deferred	(341)	(197)	(538)
Provision for income taxes	$1,409	$ 989	$2,398
2018	**Federal**	**State**	**Total**
Current	$1,494	$1,028	$2,522
Deferred	(128)	(177)	(305)
Provision for income taxes	$1,366	$ 851	$2,217

Deferred tax assets (liabilities) are comprised of the following:

(in thousands)	December 31, 2020	December 31, 2019
Deferred tax assets:		
Allowance for loan losses	$ 2,736	$ 2,073
Mortgage servicing rights, net of discount	765	235
Future benefit of state tax deduction	396	364
Lease Liability	405	292
Other accruals	135	38
Total deferred tax assets	4,437	3,002
Deferred tax liabilities:		
Federal Home Loan Bank stock dividends	(64)	(64)
Deferred loan costs	(1,475)	(1,006)
Net unrealized gain on available-for-sale investment securities	(479)	(192)
Prepaid expenses and other	(38)	(28)
Right of use assets	(399)	(288)
Bank premises and equipment	(594)	(417)
Total deferred tax liabilities	(3,049)	(1,995)
Net deferred tax assets	$ 1,388	$ 1,007

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits NOL carryovers and carrybacks to offset 100% of taxable income for taxable years beginning before 2021. In addition, the CARES Act allows NOLs incurred in 2018, 2019, and 2020 to be carried back to each of the five preceding taxable years to generate a refund of previously paid income taxes. The Bank has evaluated the impact of the CARES Act and determined that none of the changes would result in a material income tax benefit to the Bank.

On December 27, 2020, the Consolidated Appropriations Act, 2021 was signed into law and extends several provisions of the CARES Act. As of December 31, 2020, the Bank has determined that neither this Act nor changes to income tax laws or regulations in other jurisdictions have a significant impact on our effective tax rate.

The provision for income taxes differs from amounts computed by applying the statutory Federal income tax rates to operating income before income taxes. The significant items comprising these differences for the years ended December 31, 2020, 2019 and 2018 consisted of the following:

	2020		2019		2018	
(in thousands)	Amount	Rate %	Amount	Rate %	Amount	Rate %
Federal income tax expense, at statutory rate	$ 3,137	21.0%	$ 1,864	21.0%	$ 1,689	21.0%
State franchise tax expense, net of Federal tax effect and other	1,284	8.6%	738	8.3%	528	6.6%
Impact of Solar Tax Credit	-		(204)	-2.3%	-	
Total income tax expense	$ 4,421	29.6%	$ 2,398	27.0%	$ 2,217	27.6%

The Bank had no unrecognized tax benefits and recorded no interest and penalties for the years ended December 31, 2020 and 2019. The Bank does not expect a significant change in unrecognized tax benefits in the next twelve months. The Bank is subject to U.S. Federal income tax as well as income tax of the State of California. The Bank is no longer subject to examination by Federal taxing authorities for tax years 2016 and prior and by California taxing authorities for tax years 2015 and prior.

10. COMMITMENTS AND CONTINGENCIES

Federal Reserve Requirements

Banks are required to maintain reserves with the Federal Reserve Bank equal to a percentage of their reservable deposits less vault cash. The Bank had no reserve requirement as of December 31, 2020 and 2019.

Financial Instruments with Off-Balance-Sheet Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its clients and to reduce its own exposure to fluctuations in interest rates. These financial instruments consist of commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and standby letters of credit as it does for loans included on the consolidated balance sheets.

The contractual amounts of financial instruments with off-balance-sheet risk at year end were as follows:

	December 31,			
(in thousands)	2020		2019	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to make loans	$ -	$ 780	$ 140	$ 1,000
Unused lines of credit	6,760	96,408	1,580	66,965
Standby letters of credit	75	334	-	1,846

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each client's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of the credit, is based on management's credit evaluation of the borrower. Collateral held relating to these commitments varies, but may include securities, equipment, accounts receivable, inventory and deeds of trust on residential real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a client to a third party. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to clients. The fair value of the liability related to these standby letters of credit, which represents the fees received for issuing the guarantees, was not significant at December 31, 2020 and 2019. The Bank recognizes these fees as revenue over the term of the commitment or when the commitment is used.

At December 31, 2020, real estate loan commitments represent 54% of total commitments and are generally secured by property with a loan-to-value ratio not to exceed 80%. Commercial loan commitments represent approximately 46% of total commitments and are generally secured by collateral other than real estate or are unsecured.

Concentrations of Credit Risk

The Bank's business activity is primarily with clients located within Northern California. Although the Bank has a diversified loan portfolio, a significant portion of its clients' ability to repay loans is dependent upon the real estate market and various economic factors within Sonoma County. Generally, loans are secured by various forms of collateral. The Bank's loan policy requires sufficient collateral be obtained as necessary to meet the Bank's relative risk criteria for each borrower. The Bank's collateral consists primarily of real estate, accounts receivable, inventory and other financial instruments.

Correspondent Banking Agreements

The Bank maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements, and $1,075,000 in deposits were uninsured at December 31, 2020.

Contingencies

The Bank is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the consolidated financial condition or results of operations of the Bank.

11. SHAREHOLDERS' EQUITY

Regulatory Capital

The Bank is subject to certain regulatory capital requirements administered by the Federal Deposit Insurance Corporation (FDIC). Failure to meet these minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's consolidated assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

On July 2, 2013, the federal banking agencies substantially amended the regulatory risk-based capital rules applicable to the Bank. Effective January 1, 2015 the revised rules create "Common equity tier 1," a new measure of regulatory capital closer to pure tangible common equity than the present Tier 1 definition. The required minimum risk-based capital ratio for Common equity tier 1 is 4.5 percent and with a 2.5 percent capital conservation buffer. The revised capital rules require the Bank to meet the capital conservation buffer requirement on January 1, 2019 in order to avoid constraints on capital distributions, such as dividends and equity repurchases, and certain bonus compensation for executive officers. These new capital rules also change the risk-weights of certain assets for purposes of the risk-based capital ratios and phase out certain instruments as qualifying capital.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Each of these components is defined in the regulations. The Bank met all its capital adequacy requirements as of December 31, 2020 and 2019.

At December 31, 2020, The Bank's capital levels exceeded the minimums necessary to be considered well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum common equity Tier 1 capital, total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth below.

The Bank elected not to include Other Accumulated Comprehensive Income in the regulatory capital calculations.

The Bank's actual and required capital amounts and ratios consisted of the following:

(in thousands)	2020 Amount	2020 Ratio	2019 Amount	2019 Ratio
Common Equity Tier 1 Capital Ratio				
Summit State Bank	$ 68,758	10.1%	$ 62,071	10.2%
Minimum requirement with capital conservation buffer (1)	$ 47,899	7.0%	$ 42,472	7.0%
Minimum requirement for "Well-Capitalized" institution	$ 44,478	6.5%	$ 39,438	6.5%
Minimum regulatory requirement	$ 30,792	4.5%	$ 27,303	4.5%
Tier 1 Capital Ratio				
Summit State Bank	$ 68,758	10.1%	$ 62,071	10.2%
Minimum requirement with capital conservation buffer (1)	$ 58,163	8.5%	$ 51,573	8.5%
Minimum requirement for "Well-Capitalized" institution	$ 54,742	8.0%	$ 48,539	8.0%
Minimum regulatory requirement	$ 41,056	6.0%	$ 36,404	6.0%
Total Capital Ratio				
Summit State Bank	$ 83,196	12.2%	$ 74,986	12.4%
Minimum requirement with capital conservation buffer (1)	$ 71,848	10.5%	$ 63,708	10.5%
Minimum requirement for "Well-Capitalized" institution	$ 68,427	10.0%	$ 60,674	10.0%
Minimum regulatory requirement	$ 54,742	8.0%	$ 48,539	8.0%
Tier 1 Leverage Ratio				
Summit State Bank	$ 68,758	8.2%	$ 62,071	9.3%
Minimum requirement for "Well-Capitalized" institution	$ 42,158	5.0%	$ 33,510	5.0%
Minimum regulatory requirement	$ 33,727	4.0%	$ 26,808	4.0%

(1) Includes 2.5% capital conservation buffer.

Dividends

Upon declaration by the Board of Directors, all shareholders of record will be entitled to receive dividends. The California Financial Code restricts the total dividend payment of any bank in any calendar year without approval of the California Department of Financial Protection and Innovation, to the lesser of (1) the Bank's retained earnings or (2) the Bank's net income for its last three fiscal years, less distributions made to shareholders during the same three-year period. At December 31, 2020, the current regular dividend rate of $0.12 per quarter was not subject to the foregoing approval requirement.

Stock-Based Compensation Plans

The Bank has granted Stock Appreciation Rights ("SARs") in 2020, 2019 and 2018 to key employees and directors. The SARs provide long-term incentives to the employees and directors by providing a cash payment of the difference between the market price of the Bank's common stock at time of exercise and the price at the grant date. The expiration of the SARs is ten years, and each has an annual vesting of 20% for the first five years. The

SARs granted to Directors and the CEO will either have immediate vesting in their entirety or partially vest immediately and annual vesting for the next two years; these SARs also have an expiration of 10 years. The compensation expense is accrued each reporting period as a liability.

In addition to SARs, in 2013 the Bank issued an Equity Incentive Plan approved by shareholders that permits the grant of up to 187,500 shares of stock. As of December 31, 2020, there were 187,500 shares available for future grants under the 2013 Plan.

The fair value of each option and SARs award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model that uses the assumptions noted in the table below. In 2018 expected volatility is based on the historical volatilities of the Bank's stock. In 2019 and 2020 the Bank began calculating its own volatility based on historical actuals using 2 standard deviations. The Bank uses historical data to estimate option and SARs exercise and post-vesting termination behavior. Employee and management options are tracked separately. The expected term of options and SARs granted is based on historical data and represents the period of time that options and SARs granted are expected to be outstanding, which takes into account that the options and SARs are not transferable. The risk-free interest rate for the expected term of the option and SARs is based on the U.S. Treasury yield curve in effect at the time of the grant. The dividend yield of the Bank's common stock is used as of the date of the grant.

For the years ended December 31, 2020, 2019 and 2018, there was $25,000, $76,000 and $69,000 in compensation costs related to non-vested stock options and SARs granted. As of December 31, 2020, 2019 and 2018, there was $326,000, $138,000 and $204,000 of total unrecognized compensation costs related to non-vested stock options and SARs granted. At December 31, 2020, there were 7,500 vested options outstanding with an exercise price of $4.40 and no options exercised during the year.

Information related to the stock option plan follows:

	2020	2019	2018
Intrinsic value of options exercised	$ -	$ 24,000	$ 199,000
Cash received from option exercises	-	14,000	120,000
Tax benefit realized from option exercises	-	7,000	59,000
Weighted average fair value of options granted	-	-	-

A summary of the activity in the stock option plan follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Year Ended December 31, 2020				
Outstanding at beginning of the year	7,500	$ 4.40		
Granted	-	-		
Exercised	-	-		
Forfeited or expired	-	-		
Outstanding at end of the year	7,500	$ 4.40	1 years	$ 68,000
Vested or expected to vest	7,500	$ 4.40	1 years	$ 68,000
Exercisable at end of year	7,500	$ 4.40	1 years	$ 68,000
Year Ended December 31, 2019				
Outstanding at beginning of the year	10,625	$ 4.40		
Granted	-	-		
Exercised	(3,125)	4.40		
Forfeited or expired	-	-		
Outstanding at end of the year	7,500	$ 4.40	2 years	$ 64,000
Vested or expected to vest	7,500	$ 4.40	2 years	$ 64,000
Exercisable at end of year	7,500	$ 4.40	2 years	$ 64,000
Year Ended December 31, 2018				
Outstanding at beginning of the year	35,625	$ 4.69		
Granted	-	-		
Exercised	(25,000)	4.81		
Forfeited or expired	-	-		
Outstanding at end of the year	10,625	$ 4.40	3 years	$ 78,000
Vested or expected to vest	10,625	$ 4.40	3 years	$ 78,000
Exercisable at end of year	10,625	$ 4.40	3 years	$ 78,000

A summary of the activity for the SARs agreements follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Year Ended December 31, 2020				
Outstanding at beginning of the year	212,000	$ 13.09		
Granted	63,000	12.25		
Exercised	-	-		
Forfeited or expired	-	-		
Outstanding at end of the year	275,000	$ 12.90	8.3 years	$ 622,807
Vested or expected to vest	275,000	$ 12.90	8.3 years	$ 622,807
Exercisable at end of year	141,667	$ 13.54	7.7 years	$ 251,431
Year Ended December 31, 2019				
Outstanding at beginning of the year	135,000	$ 13.55		
Granted	77,000	12.31		
Exercised	-	-		
Forfeited or expired	-	-		
Outstanding at end of the year	212,000	$ 13.09	8.9 years	$ 384,733
Vested or expected to vest	212,000	$ 13.09	8.9 years	$ 384,733
Exercisable at end of year	91,334	$ 13.95	8.4 years	$ 209,421
Year Ended December 31, 2018				
Outstanding at beginning of the year	45,000	$ 12.00		
Granted	90,000	14.33		
Exercised	-	-		
Forfeited or expired	-	-		
Outstanding at end of the year	135,000	$ 13.55	10 years	$ 360,090
Vested or expected to vest	135,000	$ 13.55	10 years	$ 360,090
Exercisable at end of year	64,000	$ 12.41	10 years	$ 139,238

The weighted average fair value of SARs granted was $1.98, $0.32 and $2.53, for the SAR grants made in 2020, 2019 and 2018, respectively. Weighted average assumptions used in the determination of the fair value of the SAR grants were as follows:

	2020	2019	2018
Expected life in years	10	10	10
Expected dividend yield	3.92%	3.70%	4.15%
Expected price volatility	29.99%	6.28%	32.09%
Risk-free interest rate	0.93%	1.89%	2.83%

12. OTHER EXPENSES

Other expenses consisted of the following:

	Year Ended December 31,		
(in thousands)	2020	2019	2018
Data processing	$ 1,723	$ 1,500	$ 1,497
Professional fees	735	641	598
Director fees and expenses	510	523	545
Nasdaq listing and regulatory license expense	192	155	144
Advertising and promotion	764	649	808
Deposit and other insurance premiums	515	216	297
Telephone and postage	97	82	79
Other expenses	782	768	702
	$ 5,318	$ 4,534	$ 4,670

13. EMPLOYEE BENEFIT PLAN

401(k) Employee Savings Plan

The Bank offers a 401(k) matching contribution Employee Savings Plan (the "Plan"). The Plan is qualified under the Internal Revenue Code (Code), whereby participants may defer a percentage of their compensation, but not in excess of the maximum allowed under the Code.

Under the Plan, participating employees may make a pre-tax contribution of 1% to 80% of their eligible compensation (within federal limits) to the Plan. Employees over the age of 50 may elect to make catch-up contributions ($6,500 for 2020, indexed). The Bank makes matching contributions on behalf of the participants up to 5% of their eligible compensation, or $1.00 match for every $1.00 the employee contributes.

An employee becomes eligible to enroll in the Plan upon completing at least 250 hours of employment in a three consecutive month period. Initial eligibility is measured from the employee's date of hire, and subsequent eligibility is measured over three-month periods and has a 2-year cliff vesting schedule. The Bank will begin making matching contributions on the first of the month following the completion of least 1,000 hours of employment in a 12 consecutive month period.

The Bank's contributions to the Plan are determined by the Board of Directors, are discretionary and vest immediately. Contributions by the Bank totaled $336,000, $209,000 and $224,000 for the years ended December 31, 2020, 2019 and 2018, respectively.

14. RELATED PARTY TRANSACTIONS

During the normal course of business, the Bank enters into loans with related parties, including executive officers and directors. Other changes are the result of changes in related parties during the year. The following is a summary of the aggregate activity involving related party borrowers. These loans are made at arm's length and are consistent with what other borrowers receive.

(in thousands)	2020	2019	2018
Balance, January 1	$ 10,952	$ 8,052	$ 8,498
New borrowings	4,703	5,278	1,599
Amounts repaid	(11,609)	(2,378)	(2,045)
Balance, December 31	$ 4,046	$ 10,952	$ 8,052
Undisbursed commitments to related parties	$ 475	$ 512	$ 1,250

At December 31, 2020, 2019 and 2018, deposits of related parties amounted to $1,441,000, $6,465,000 and $3,727,000 respectively.

15. FAIR VALUE

Accounting standards establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

> Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of most securities available for sale are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The fair value of impaired loans that are collateral dependent are generally based on real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. These estimates do not reflect any premium or discount that could result from offering the Bank's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

Because no active market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented.

The following table presents a summary of the carrying value and fair value by level of financial instruments on the Bank's consolidated balance sheets at December 31, 2020 and 2019:

	December 31, 2020			December 31, 2019		
(in thousands)	Carrying Amount	Fair Value	Fair Value Hierarchy	Carrying Amount	Fair Value	Fair Value Hierarchy
Financial assets:						
Cash and due from banks	$ 30,826	$ 30,826	Level 1	$ 38,299	$ 38,299	Level 1
Investment securities - held-to-maturity	-	-	Level 2	7,998	7,981	Level 2
Investment securities - available-for-sale	67,952	67,952	Level 2	54,241	54,241	Level 2
Loans, net of allowance	745,939	752,412	Level 3	576,548	580,524	Level 3
Investment in FHLB stock	3,429	3,429	Level 2	3,342	3,342	Level 2
Accrued interest receivable	3,933	3,933	Level 1	1,936	1,936	Level 1
Financial liabilities:						
Deposits	$726,295	$ 727,930	Level 2	$573,837	$573,502	Level 2
FHLB advances	53,500	55,357	Level 2	45,600	45,730	Level 2
Junior subordinated debt	5,876	4,271	Level 3	5,862	5,574	Level 3
Accrued interest payable	314	314	Level 1	293	293	Level 1

Assets and Liabilities Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements at December 31, 2020 (In thousands)		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available-for-sale:				
Government agencies	$ 41,023	$ -	$ 41,023	$ -
Mortgage-backed securities - residential	6,817	-	6,817	-
Corporate debt	20,112	-	20,112	-
Total securities available-for-sale	$ 67,952	$ -	$ 67,952	$ -

		Fair Value Measurements at December 31, 2019 (In thousands)		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Securities available-for-sale:				
Government agencies	$ 39,887	$ -	$ 39,887	$ -
Mortgage-backed securities - residential	8,974	-	8,974	-
Corporate debt	5,380	-	5,380	-
Total securities available-for-sale	$ 54,241	$ -	$ 54,241	$ -

No liabilities were measured at fair value on a recurring basis at December 31, 2020 or 2019.

Changes in fair value are recognized in other comprehensive income.

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally corresponds with the Bank's quarterly valuation process. There were no transfers between any levels during 2020, 2019 or 2018.

Assets and Liabilities Measured on a Non-Recurring Basis

No assets or liabilities were measured at fair value on a non-recurring basis at December 31, 2020 or 2019.

Impaired loans are valued at the fair value less estimated disposal costs of collateral. Impaired loans with specific loss allocations had a principal balance of $326,000 at December 31, 2020. Impaired loans with specific loss allocations had a principal balance of $330,000 with a valuation allowance of $330,000 at December 31, 2019.

16. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the consolidated balance sheet date but before the consolidated financial statements are issued. The Bank recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including these estimates inherent in the process of preparing the consolidated financial statements. The Bank's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before consolidated financial statements are available to be issued. The Bank has evaluated subsequent events after December 31, 2020 for potential recognition and disclosure matters.

On January 25, 2021, the Board of Directors declared a $0.12 per common share cash dividend to shareholders of record at the close of business on February 12, 2021, that was paid on February 19, 2021.

17. COVID-19 PANDEMIC

On March 11, 2020, the outbreak of COVID-19 was recognized as a pandemic by the World Health Organization. On March 13, 2020, the President of the United States declared the COVID-19 pandemic a national emergency. The spread of COVID-19 has created a global public health crisis that has resulted in unprecedented uncertainty, volatility and disruption in financial markets and in governmental, commercial and consumer activity in the United States and globally, including the markets that the Bank serves. Governmental responses to the pandemic have included orders closing businesses not deemed essential and directing individuals to restrict their movements, observe social distancing and shelter in place. These actions, together with responses to the pandemic by businesses and individuals, have resulted in rapid decreases in commercial and consumer activity, temporary or permanent closures of many businesses that have led to a loss of revenues and a rapid increase in unemployment, material decreases in business valuations, disrupted global supply chains, market downturns and volatility, changes in consumer behavior related to pandemic fears, related emergency response legislation and an expectation that Federal Reserve policy will maintain a low interest rate environment for the foreseeable future.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law. The CARES Act contains provisions to assist individuals and businesses, including the SBA's Paycheck Protection Program ("PPP"). The CARES Act included a $349 billion loan program administered through the SBA referred to as the Paycheck Protection Program ("PPP"). Congress approved an expansion of the PPP and an additional $310 billion was made available on April 27, 2020. The SBA also began accepting Second Draw PPP loans beginning January 13, 2021 for businesses that meet a modified criterion including 300 or fewer employees and can demonstrate a 25% reduction in gross receipts in Q4 2020. Under the PPP, small businesses and other entities and individuals can apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to qualifications and eligibility criteria.

On March 22, 2020, the U.S. banking agencies issued an Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised). The statement describes accounting for COVID-19-related loan modifications, including clarifying the interaction between current accounting rules and the temporary relief provided by the CARES Act. The statement also encourages institutions to work constructively with borrowers affected by COVID-19 and states the agencies will not criticize supervised institutions for prudent loan modifications. Both the CARES Act and the interagency statement provide relief from the accounting and reporting implications of troubled debt restructurings. The Bank has been providing payment relief to borrowers with hardship requests. Year-to-date through December 31, 2020, the Bank modified principal and interest payments on a total of 135 loans totaling $193,705,000 or 26% of total loans due to the COVID-19 pandemic. As of December 31, 2020, 12 loans totaling $28,960,000 or 4% of the loan portfolio excluding PPP loans were in deferral. Of the loans in deferral, 9 of those loans totaling $22,833,000 are extended deferments for a total deferment period up to one year. The deferral portfolio has an average loan to value ratio of 55%. Also, 99% of the deferred loans, or $28,723,000 are real estate secured.

18. QUARTERLY FINANCIAL DATA (Unaudited)

(in thousands except EPS data)	2020				
				Earnings Per Common Share	
	Interest Income	Net Interest Income	Net Income	Basic	Diluted
First quarter	$ 8,292	$ 5,925	$ 2,416	$ 0.40	$ 0.40
Second quarter	8,816	6,674	2,218	0.37	0.37
Third quarter	9,170	7,240	2,954	0.49	0.49
Fourth quarter	10,147	8,322	2,929	0.48	0.48

	2019				
				Earnings Per Common Share	
	Interest Income	Net Interest Income	Net Income	Basic	Diluted
First quarter	$ 7,197	$ 5,447	$ 1,425	$ 0.23	$ 0.23
Second quarter	7,191	5,319	1,172	0.19	0.19
Third quarter	7,619	5,563	2,045	0.34	0.34
Fourth quarter	7,995	5,947	1,834	0.30	0.30

	2018				
				Earnings Per Common Share	
	Interest Income	Net Interest Income	Net Income	Basic	Diluted
First quarter	$ 6,054	$ 5,164	$ 1,740	$ 0.29	$ 0.29
Second quarter	6,119	5,090	1,461	0.24	0.24
Third quarter	6,551	5,432	1,505	0.25	0.25
Fourth quarter	6,848	5,406	1,121	0.18	0.18

19. LEASES

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plan or equipment for a period of time in exchange for consideration. On January 1, 2019, the Bank adopted ASU No. 2016-02 “Leases” (Topic 842) and all subsequent ASUs that modified Topic 842. For the Bank, Topic 842 primarily affected the accounting treatment for operating lease agreements in which the Bank is the lessee.

The types of leases where the Bank is a lessee are real estate properties for four branches located in Healdsburg, Rohnert Park, Petaluma and Santa Rosa, office spaces in Santa Rosa, a lending office in Roseville and photocopier equipment. These leases have variable terms maturing prior to 2025. A majority of the leases are classified as operating leases and were previously not recognized on the Bank’s consolidated balance sheets. With the adoption of Topic 842, operating lease agreements are required to be recognized on the consolidated balance sheets as a right-of-use (“ROU”) asset and a corresponding lease liability.

The calculated amount of the ROU assets and lease liabilities in the table below are calculated by discounting the minimum contractual balance due of all future payments through the end of the current term to present value. When the Bank determines exercising the renewal option for any lease agreement is reasonably certain, it will include the extended term in the calculation of the ROU asset and lease liability.

As it pertains to the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Bank uses its incremental borrowing rate in calculating the discounted present value.

The following table represents the consolidated balance sheets classification of the Bank's ROU assets and lease liabilities. The Bank elected not to include short-term leases (i.e., leases with initial terms of twelve months or less) on the consolidated balance sheet.

(in thousands)		December 31, 2020
Operating Leases	**Classification**	
Lease right-of-use assets	Accrued Int Rec & Other Assets	$ 1,327
Lease liabilities	Accrued Int Payable & Other Liabilities	1,346
Financing Leases		
Lease right-of-use assets	Bank Premises & Equip	$ 22
Lease liabilities	Accrued Int Payable & Other Liabilities	22

The following table represents lease costs for the year ended December 31, 2020:

(in thousands)	Year Ended December 31, 2020
Lease Costs	
Operating lease cost	$ 386
Financing lease cost	
Interest on lease liabilities	1
Amortization of right-of-use assets	13
Sublease income	(351)
Net lease cost	$ 49

(in thousands)	Year Ended December 31, 2020
Other Information	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 379
Operating cash flows from finance leases	1
Financing cash flows from finance leases	13

	December 31, 2020
Weighted-average remaining lease term	
Operating leases	4.2 years
Financing leases	2.0 years
Weighted-average discount rate	
Operating leases	2.80%
Financing leases	2.87%

Future minimum payments for finance leases and operating leases as of December 31, 2020 were as follows:

(in thousands)

Twelve Months Ended:	Operating Leases	Financing Leases
December 31, 2021	$ 340	$ 13
December 31, 2022	331	7
December 31, 2023	339	3
December 31, 2024	296	-
December 31, 2025	124	-
Thereafter	-	-
Total Future Minimum Lease Payments	1,430	23
Amounts Representing Interest	(84)	(1)
Present Value of Net Future Minimum Lease Payments	$ 1,346	$ 22

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Effectiveness of Disclosure Controls and Procedures

The Bank, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of the Bank's "disclosure controls and procedures" (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of December 31, 2020. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Bank's disclosure controls and procedures are effective.

During the quarter ended December 31, 2020, there have been no changes in the Bank's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, these controls.

Report of Management on Internal Control Over Financial Reporting

Management of the Bank is responsible for establishing and maintaining effective internal control over financial reporting for the Bank (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Management has designed disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under their supervision, that ensure changes that have or are reasonably likely to materially affect internal controls are included in the quarterly or annual report on Form 10-Q or Form 10-K. These controls provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Bank's financial statements for external reporting purposes, in accordance with GAAP.

Management conducted an assessment of the effectiveness of the Bank's internal control over financial reporting as of December 31, 2020, presented in conformity with accounting principles generally accepted in the United States of America. In making this assessment, management used the criteria applicable to the Bank as set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 *Internal Control—Integrated Framework.*

Based on the assessment, overall control environment and testing performed, management concludes the control system is deemed to be effective and provide materially correct presentation of the Bank's financial statements and financial disclosures. No material weaknesses in the Bank's internal controls have been identified by management. Management concludes that the Bank maintained effective internal control over financial reporting, as of December 31, 2020.,

There are inherent limitations to the effectiveness of any system of internal control over financial reporting. These limitations include the possibility of human error, the circumvention of overriding of the systems and reasonable resource constraints. Because of its inherent limitations, the Bank's internal control over financial reporting may not prevent or detect misstatements. Projections or any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We intend to file a definitive proxy statement for the 2021 Annual Meeting of Shareholders (or "the Proxy Statement") with the FDIC within 120 days of December 31, 2020. Information regarding directors of Summit State Bank will appear under the caption —Proposal 1: "Election of Directors" in the Proxy Statement and is incorporated herein by reference. Information about Summit State Bank's Audit Committee Financial Expert will appear under the caption "The Committees of the Board—Audit Committee" and is incorporated herein by reference. The Bank has adopted a code of ethics applicable to all of our directors and employees, including the principal executive officer, principal financial officer and principal accounting officer.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation will appear under the captions "EXECUTIVE OFFICERS OF THE BANK," "EXECUTIVE COMPENSATION, EMPLOYMENT CONTRACTS" AND BOARD OF DIRECTORS' REPORT ON COMPENSATION," in the Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table summarizes information as of December 31, 2020 relating to equity compensation plans of Summit State Bank pursuant to which grants of options, restricted stock, or other rights to acquire shares may be granted from time to time.

Plan category	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans: Approved by security holders	7,500	$ 4.40	187,500

Information regarding security ownership of certain beneficial owners and management and related shareholder matters will appear under the caption "EQUITY COMPENSATION PLAN INFORMATION," "SECURITY OWNERSHIP OF MANAGEMENT" AND "PRINCIPAL SHAREHOLDERS" in the Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and related transactions will appear under the caption "TRANSACTIONS WITH RELATED PERSONS" in the Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding fees paid to our independent registered public accounting firm, will appear under the caption —Proposal 2. Ratification of Selection of Independent Public Accounts "FEES PAID TO INDEPENDENT PUBLIC ACCOUNTANTS" in the Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. *Financial Statements*
The following documents are filed as part of this report:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets at December 31, 2020 and 2019
Consolidated Statements of Income for each of the years in the three-year period ended December 31, 2020
Consolidated Statements of Comprehensive Income for each of the years in the three-year period ended December 31, 2020
Consolidated Statements of Changes in Shareholders' Equity for each of the years in the three-year period ended December 31, 2020
Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2020
Notes to Consolidated Financial Statements

2. *Financial Statement Schedules*
Not applicable

3. *Exhibits*
(b) *Exhibits Required by Item 601 of Regulation S-K*

EXHIBIT NO.	EXHIBIT
3.1	Articles of Incorporation of the registrant (1) (2) (3)
3.2	Amendment of Articles of Incorporation dated January 23, 2017 (4)
3.3	By-laws of the registrant (5)
4.1	Specimen of the registrant's common stock certificate (1) (2) (3)
4.2	The total amount of the registrant's long-term debt does not exceed 10 percent of the total assets of the registrant and its subsidiaries on a consolidated basis. Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the registrant agrees to file any instrument with respect to such long-term debt upon request of the FDIC.

4.3 Description of securities registered under Section 12 of the Exchange Act Incorporated by reference to Exhibit 4.3 to Summit State Bank's Form 10-K filed with the FDIC on March 16, 2020

10.1 2007 Stock Option Plan [6]

10.2 2013 Equity Incentive Plan [7]

10.3 Change in Control Agreement with Genie Del Secco [8]

10.4 Change in Control Agreement with Brandy Seppi [9]

10.5 Change in Control Agreement with Brian Reed [10]

10.6 Change in Control Agreement with Camille Kazarian [11]

10.7 Cash Incentive Bonus Plan [12]

10.8 Stock Appreciation Rights Agreement with Directors and Officers [13]

14.1 Code of Ethics [14]

21.1 Subsidiaries of the registrant [1]

31.1 Rule 13a-14(a)/15d-14(a) Certification

31.2 Rule 13a-14(a)/15d-14(a) Certification

32.1 Section 1350 certifications

(1) Incorporated by reference from Summit State Bank's Form 10 filed with the FDIC on June 19, 2006.
(2) Incorporated by reference from Summit State Bank's Form 10/A Amendment No. 1 filed with the FDIC on July 12, 2006.
(3) Incorporated by reference from Summit State Bank's Form 10/A Amendment No. 2 filed with the FDIC on July 13, 2006.
(4) Incorporated by reference from Summit State Bank's Form 10-K filed with the FDIC on March 23, 2017.
(5) Incorporated by reference from Summit State Bank's Form 8-K filed with the FDIC on January 24, 2018.
(6) Incorporated by reference from Summit State Bank's Definitive Proxy Statement filed with the FDIC on April 27, 2007.
(7) Incorporated by reference from Summit State Bank's Definitive Proxy Statement filed with the FDIC on June 10, 2013.
(8) Incorporated by reference from Summit State Bank's Form 8-K filed with the FDIC on January 18, 2018.
(9) Incorporated by reference from Summit State Bank's Form 10-K filed with the FDIC on March 12, 2015.
(10) Incorporated by reference from Summit State Bank's Form 8-K filed with the FDIC on February 14, 2017.
(11) Incorporated by reference from Summit State Bank's Form 8-K filed with the FDIC on December 4, 2018.
(12) Incorporated by reference from Summit State Bank's Form 8-K filed with the FDIC on April 22, 2016.
(13) Incorporated by reference from Summit State Bank's Form 8-K filed with the FDIC on December 14, 2016, December 22, 2017, August 2, 2018 and December 18, 2018.
(14) Incorporated by reference from Summit State Bank's Form 10-K filed with the FDIC on March 28, 2007.

(c) *Additional Financial Statements*

Not applicable.

ITEM 16. FORM 10-K SUMMARY

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Summit State Bank

By */s/ Camille D. Kazarian* March 24, 2021

Camille D. Kazarian
Executive Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

Summit State Bank

By */s/ Brian J. Reed* March 24, 2021

Brian J. Reed
President and
Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Dated:	March 24, 2021	*/s/ Brian J. Reed* Brian J. Reed, President and Chief Executive Officer (Principal Executive Officer) and Director
Dated:	March 24, 2021	*/s/ Jeffery B. Allen* Jeffery B. Allen, Director
Dated:	March 24, 2021	*/s/ Josh C. Cox, Jr.* Josh C. Cox, Jr., Director
Dated:	March 24, 2021	*/s/ Dawn M. Ross* Dawn M. Ross, Director
Dated:	March 24, 2021	*/s/ Todd R. Fry* Todd R. Fry, Director
Dated:	March 24, 2021	*/s/ James E. Brush* James E. Brush, Chairman of the Board and Director
Dated:	March 24, 2021	*/s/ Camille D. Kazarian* Camille D. Kazarian, Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
Dated:	March 24, 2021	*/s/ Richard E. Pope* Richard E. Pope, Director
Dated:	March 24, 2021	*/s/ Nicholas J. Rado* Nicholas J. Rado, Director
Dated:	March 24, 2021	*/s/ Marshall T. Reynolds* Marshall T. Reynolds, Director
Dated:	March 24, 2021	*/s/ John W. Wright* John W. Wright, Director
Dated:	March 24, 2021	*/s/ Sharon S. Wright* Sharon S. Wright, Director

EXHIBIT 21

None.

EXHIBIT 31.1
Certification pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.

I, Brian J. Reed, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Summit State Bank (the Registrant);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's Board of Directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(a) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: March 24, 2021

/s/ Brian J. Reed
Brian J. Reed
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2
Certification pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.

I, Camille D. Kazarian, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Summit State Bank (the Registrant);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a- 15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

> (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
>
> (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
>
> (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
>
> (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's Board of Directors (or persons performing the equivalent functions):

> (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: March 24, 2021

/s/ Camille D. Kazarian
Camille D. Kazarian
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1
Certification pursuant to 18 U.S.C. §1350

In connection with the annual report on Form 10-K of Summit State Bank (the Registrant) for the year ended December 31, 2020, as filed with the Federal Deposit Insurance Corporation, the undersigned hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1) such Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2) the information contained in such Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: March 24, 2021

/s/ Brian J. Reed
Brian J. Reed
President and Chief Executive Officer
(Principal Executive Officer)

Dated: March 24, 2021

/s/ Camille D. Kazarian
Camille D. Kazarian
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)