
FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 12 or 15(d) of the
Securities Exchange Act of 1934

Date of report (Date of earliest event reported): April 24, 2023

Summit State Bank

(Exact Name of Registrant as Specified in Charter)

California
(State of Other Jurisdiction
Of Incorporation)

32203
(FDIC
Certificate Number)

94-2878925
(I.R. S. Employer
Identification No.)

500 Bicentennial Way
Santa Rosa, CA
(Address of Principal Executive Offices)

95403
(Zip Code)

Registrant's Telephone Number, Including Area Code, 707-568-6000

(Former Name or Former Address, if Changes Since Last Report)

Check the Appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communication pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communication pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communication pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging Growth Company

If an emerging growth company, indicate my check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	SSBI	NASDAQ Global Market

Item 2.02. Results of Operations and Financial Condition.

On April 25, 2023, the registrant issued the press release attached hereto as Exhibit 99.1 and incorporated herein by reference regarding the declaration of dividend and results of operations for the three months ended March 31, 2023.

Common stock cash dividend of \$0.12 per share declared on April 24, 2023 to be paid on May 18, 2023 to shareholders of record on May 11, 2023.

Item 9.01. Financial Statements and Exhibits

(c) Exhibits:

The exhibit list called for by this item is incorporated by reference to the Exhibit Index filed as part of this report.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

Dated: April 25, 2023

SUMMIT STATE BANK

By: /S/ Camille Kazarian
Camille Kazarian
*Executive Vice President
and Chief Financial Officer
(Duly Authorized Officer)*

Exhibit Index

<u>Exhibit Number</u>	<u>Description</u>
99.1	Press release of Summit State Bank dated April 25, 2023, announcing results of operation for the three months ended March 31, 2023 and declaration of quarterly dividend.



News Release

For Immediate Release

Contact: Brian Reed, President and CEO, Summit State Bank (707) 568-4908

Summit State Bank Earnings Increase 5% to \$4.1 Million for First Quarter 2023; Declares Quarterly Cash Dividend of \$0.12 Per Common Share

SANTA ROSA, CA – (April 25, 2023) – Summit State Bank (Nasdaq: SSBI) today reported net income for the first quarter ended March 31, 2023 increased \$181,000, or 5%, to \$4,116,000, or \$0.62 per diluted share, compared to net income of \$3,935,000, or \$0.59 per diluted share for the first quarter ended March 31, 2022. Steady deposit growth and reduced operating expenses contributed to profitability for the quarter. Additionally, a quarterly dividend of \$0.12 per share was declared for common shareholders.

The Board of Directors declared a quarterly cash dividend of \$0.12 per share on April 24, 2023. The quarterly dividend will be paid on May 18, 2023 to shareholders of record on May 11, 2023.

"We posted strong first quarter earnings, fueled by solid net interest income growth, continued non-interest income generation, and lower non-interest expenses," said Brian Reed, President and CEO "While the net interest margin decrease was primarily related to pressure from the funding side of the balance sheet, we remain prudent with all new loan pricing, as customer deposits are still our main source of loan funding. Despite unusual challenges presented to us by rapidly rising interest rates, highly publicized bank failures and continued discussion of a pending economic recession, we continue to implement new strategies to help our customers while also growing our operations."

First Quarter 2023 Financial Highlights (at or for the three months ended March 31, 2023)

- Net income was \$4,116,000, or \$0.62 per diluted share, compared to \$3,935,000, or \$0.59 per diluted share, in the first quarter of 2022 and \$4,553,000, or \$0.68 per diluted share, for the quarter ended December 31, 2022.
- Provision for credit losses was \$400,000, compared to \$135,000 in the first quarter a year ago.
- Net interest margin was 3.69%, compared to 4.29% in the preceding quarter and 4.28% in the first quarter a year ago.
- First quarter revenues (net interest income plus noninterest income) increased 1.3% to \$11,996,000, compared to \$11,837,000 in the first quarter a year ago.
- Annualized return on average assets was 1.47%, compared to 1.66% in the first quarter of 2022.

- Annualized return on average equity was 18.38%, compared to 18.69% in the first quarter a year ago.
- Net loans increased \$89,452,000 to \$907,623,000 at March 31, 2023, compared to \$818,171,000 one year earlier.
- Net loans decreased \$6,084,000 during the quarter to \$907,623,000 at March 31, 2023, compared to \$913,707,000 three months earlier. The Bank's loan growth was reduced due to the sale of approximately \$23,000,000 of SBA guaranteed loan balances in the first quarter of 2023.
- Total deposits increased 22% to \$1,015,652,000 at March 31, 2023 compared to \$831,934,000 at March 31, 2022 and increased 6% when compared to the prior quarter end. Deposit growth during the quarter consisted primarily of core customer deposits gathered from the Bank's existing five-branch network.
- The Bank maintains reserves at the high-end when compared to peers as exhibited by some increases in non-performing loans and decreases in delinquent loans, resulting in an increase in nonperforming loans to gross loans to 1.13% and nonperforming assets to total assets to 0.91%, at March 31, 2023. This is compared to nonperforming loans to gross loans of 0.40% and nonperforming assets to total assets of 0.34% at December 31, 2022 and 0% for both of these ratios as March 31, 2022.
- Tangible book value was \$13.76 per share, compared to \$12.52 per share a year ago.
- Declared a quarterly cash dividend of \$0.12 per share for the three months ended March 31, 2023, December 31, 2022 and March 31, 2022.

Operating Results

For the first quarter of 2023, the annualized return on average assets was 1.47% and the annualized return on average equity was 18.38%. This compared to an annualized return on average assets of 1.66% and an annualized return on average equity of 18.69%, respectively, for the first quarter of 2022. These results were above the 1.14% return on average assets and 12.95% return on average equity posted by the 158 bank index peers that make up the Dow Jones U.S. MicroCap Bank index as of December 31, 2022.*

Summit's net interest margin was 3.69% in the first quarter of 2023, compared to 4.29% in the preceding quarter and 4.28% in the first quarter of 2022. "Our net interest margin was impacted during the first quarter by higher funding costs due to the rapid rise in market interest rates. The cost of deposits in the first quarter was 1.79% as customers continue to seek higher rates," said Reed.

Interest and dividend income increased 35% to \$14,648,000 in the first quarter of 2023 compared to \$10,879,000 in the first quarter of 2022. The increase in interest income is attributable to a \$2,520,000 increase in loan interest yield primarily driven by increased loan volume and secondarily by increased rates, \$894,000 increase in interest on deposits with banks and \$336,000 increase in investment interest.

Non-interest income increased slightly in the first quarter of 2023 to \$1,961,000 compared to \$1,955,000 in the first quarter of 2022. The Bank recognized \$1,435,000 in

gains on sales of SBA and USDA guaranteed loan balances in the first quarter of 2023 compared to \$1,546,000 in gains on sales of SBA guaranteed loans balances in the first quarter of 2022.

Operating expenses decreased in the first quarter of 2023 to \$5,818,000 compared to \$6,286,000 in the first quarter of 2022. The decrease is primarily due to a \$845,000 reduction in stock appreciation rights expense offset by a \$257,000 increase in salaries and benefits net of deferred fees and costs.

Balance Sheet Review

Net loans increased 11% to \$907,623,000 at March 31, 2023 compared to \$818,171,000 at March 31, 2022 and decreased 1% compared to December 31, 2022.

Total deposits increased 22% to \$1,015,652,000 at March 31, 2023 compared to \$831,934,000 at March 31, 2022 and increased 6% when compared to the prior quarter end. Most of the deposit increase year-over-year was due to the Bank's ongoing focus on growing local deposits organically. At March 31, 2023, noninterest bearing demand deposit accounts decreased 9% compared to a year ago and represented 23% of total deposits; savings, NOW and money market accounts decreased 11% compared to a year ago and represented 36% of total deposits, and CDs increased 298% compared to a year ago and comprised 41% of total deposits. The average cost of deposits was 1.79% in the first quarter of 2023, compared to 0.35% in the first quarter of 2022.

Shareholders' equity was \$92,665,000 at March 31, 2023, compared to \$88,546,000 three months earlier and \$83,708,000 a year earlier. The increase in shareholders' equity compared to a year ago was primarily due to an increase of \$13,901,000 in retained earnings offset by the \$5,147,000 increase in accumulated other comprehensive income; this change was related to an increase in the unrealized loss on available for sale securities reflecting the increase in market interest rates during the year. At March 31, 2023 tangible book value was \$13.76 per share, compared to \$13.15 three months earlier, and \$12.52 at March 31, 2022.

Summit State Bank continues to maintain capital levels in excess of the requirements to be categorized as "well-capitalized" with tangible equity to tangible assets of 7.99% at March 31, 2023, compared to 8.10% at December 31, 2022, and 8.90% at March 31, 2022. The decrease compared to March 2022 is due to the Bank's assets outgrowing the retention of capital to build liquidity.

Credit Quality

Nonperforming assets were \$10,411,000, or 0.91% of total assets, at March 31, 2023, and consisted of five loans; two loans totaling \$9,085,000 are real estate secured commercial loans and three loans totaling \$1,326,000 are commercial and agriculture secured loans. There were no nonperforming assets at March 31, 2022.

Due to strong loan production when compared to the first quarter of 2022 and increases in expected losses, the Bank recorded a \$400,000 provision for credit loss expense in the

first quarter of 2023. This compared to \$135,000 provision for credit loss expense in the first quarter of 2022. The allowance for credit losses to total loans was 1.65% on March 31, 2023 and 1.50% on March 31, 2022.

“We remain focused on being a reliable resource for our customers and communities through all economic cycles,” said Reed. “While recent developments in the banking markets have been unsettling in the short term, we believe that with our strong deposit franchise, solid capital levels, enhanced liquidity position, and good credit quality we are well positioned to grow in the year ahead.”

About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$1,147 million and total equity of \$93 million at March 31, 2023. Headquartered in Sonoma County, the Bank specializes in providing exceptional customer service and customized financial solutions to aid in the success of local small businesses and nonprofits throughout Sonoma County.

Summit State Bank is committed to embracing the diverse backgrounds, cultures and talents of its employees to create high performance and support the evolving needs of its customers and community it serves. At the center of diversity is inclusion, collaboration, and a shared vision for delivering superior service to customers and results for shareholders. Presently, 63% of management are women and minorities with 60% represented on the Executive Management Team. Through the engagement of its team, Summit State Bank has received many esteemed awards including: Best Business Bank, Best Places to Work in the North Bay, Top Community Bank Loan Producer, Raymond James Bankers Cup, Super Premier Performing Bank, and Piper Sandler SM-ALL Star. Summit State Bank’s stock is traded on the Nasdaq Global Market under the symbol SSBI. Further information can be found at www.summitstatebank.com.

**As of December 31, 2022, the Dow Jones U.S. MicroCap Bank Index tracked 158 banks with total common market capitalization under \$250 million for the following ratios: Return on average assets (ROAA) 1.14%, and return on average equity (ROAE) 12.95%.*

Forward-looking Statements

The financial results in this release are preliminary. Final financial results and other disclosures will be reported in Summit State Bank’s quarterly report on Form 10-Q for the period ended March 31, 2023 and may differ materially from the results and disclosures in this release due to, among other things, the completion of final review procedures, the occurrence of subsequent events or the discovery of additional information.

Except for historical information contained herein, the statements contained in this news release, are forward-looking statements within the meaning of the “safe harbor” provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. This release may contain forward-looking statements that are subject to risks and uncertainties. Such risks and uncertainties may include but are not necessarily limited to fluctuations in interest rates, inflation, government regulations and general economic conditions, and competition within the

business areas in which the Bank will be conducting its operations, including the real estate market in California and other factors beyond the Bank's control. Such risks and uncertainties could cause results for subsequent interim periods or for the entire year to differ materially from those indicated. You should not place undue reliance on the forward-looking statements, which reflect management's view only as of the date hereof. The Bank undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

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

	Three Months Ended		
	March 31, 2023 (Unaudited)	December 31, 2022 (Unaudited)	March 31, 2022 (Unaudited)
Interest and dividend income:			
Interest and fees on loans	\$ 12,939	\$ 13,097	\$ 10,419
Interest on deposits with banks	906	369	12
Interest on investment securities	719	624	383
Dividends on FHLB stock	84	98	65
Total interest income	<u>14,648</u>	<u>14,188</u>	<u>10,879</u>
Interest expense:			
Deposits	4,400	2,380	710
Federal Home Loan Bank advances	119	463	193
Junior Subordinated Debt	94	94	94
Total interest expense	<u>4,613</u>	<u>2,937</u>	<u>997</u>
Net interest income before provision for credit losses	10,035	11,251	9,882
Provision for credit losses on loans	400	807	135
Reversal of credit losses on unfunded loan commitments	(33)	(145)	(24)
Net interest income after provision for (reversal of) credit losses on loans and unfunded loan commitments	<u>9,668</u>	<u>10,589</u>	<u>9,771</u>
Non-interest income:			
Service charges on deposit accounts	208	219	209
Rental income	39	37	79
Net gain on loan sales	1,435	1,762	1,546
Net (loss) gain on securities	-	(3)	6
Other income	279	117	115
Total non-interest income	<u>1,961</u>	<u>2,132</u>	<u>1,955</u>
Non-interest expense:			
Salaries and employee benefits	3,793	3,873	3,964
Occupancy and equipment	452	506	409
Other expenses	1,573	2,016	1,913
Total non-interest expense	<u>5,818</u>	<u>6,395</u>	<u>6,286</u>
Income before provision for income taxes	5,811	6,326	5,440
Provision for income taxes	1,695	1,773	1,505
Net income	<u>\$ 4,116</u>	<u>\$ 4,553</u>	<u>\$ 3,935</u>
Basic earnings per common share	\$ 0.62	\$ 0.68	\$ 0.59
Diluted earnings per common share	\$ 0.62	\$ 0.68	\$ 0.59
Basic weighted average shares of common stock outstanding	6,688	6,688	6,685
Diluted weighted average shares of common stock outstanding	6,688	6,688	6,685

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

	March 31, 2023	December 31, 2022	March 31, 2022
	(Unaudited)	(Unaudited)	(Unaudited)
ASSETS			
Cash and due from banks	\$ 116,569	\$ 77,567	\$ 65,897
Total cash and cash equivalents	116,569	77,567	65,897
Investment securities:			
Available-for-sale (at fair value; amortized cost of \$97,951, \$98,017 and \$69,131)	84,841	83,785	63,332
Loans, less allowance for credit losses of \$15,252, \$14,839 and \$12,453	907,623	913,707	818,171
Bank premises and equipment, net	5,507	5,461	5,584
Investment in Federal Home Loan Bank stock (FHLB), at cost	4,737	4,737	4,320
Goodwill	4,119	4,119	4,119
Affordable housing tax credit investments	8,773	8,881	9,136
Accrued interest receivable and other assets	14,854	17,086	11,728
Total assets	\$ 1,147,023	\$ 1,115,343	\$ 982,287
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 232,825	\$ 252,033	\$ 256,253
Demand - interest-bearing	153,214	143,767	152,823
Savings	63,895	67,117	61,563
Money market	148,433	137,362	174,447
Time deposits that meet or exceed the FDIC insurance limit	84,800	141,691	29,585
Other time deposits	332,485	220,685	157,263
Total deposits	1,015,652	962,655	831,934
Federal Home Loan Bank advances	23,000	41,000	48,500
Junior subordinated debt	5,909	5,905	5,895
Affordable housing commitment	4,435	4,677	6,573
Accrued interest payable and other liabilities	5,362	12,560	5,677
Total liabilities	1,054,358	1,026,797	898,579
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 6,732,699, 6,732,699 and 6,684,759	37,217	37,179	37,014
Retained earnings	64,678	61,386	50,777
Accumulated other comprehensive loss, net	(9,230)	(10,019)	(4,083)
Total shareholders' equity	92,665	88,546	83,708
Total liabilities and shareholders' equity	\$ 1,147,023	\$ 1,115,343	\$ 982,287

Financial Summary
(Dollars in thousands except per share data)

	As of and for the Three Months Ended		
	March 31, 2023	December 31, 2022	March 31, 2022
	(Unaudited)	(Unaudited)	(Unaudited)
Statement of Income Data:			
Net interest income	\$ 10,035	\$ 11,251	\$ 9,882
Provision for credit losses on loans	400	807	135
Reversal of credit losses on unfunded loan commitments	(33)	(145)	(24)
Non-interest income	1,961	2,132	1,955
Non-interest expense	5,818	6,395	6,286
Provision for income taxes	1,695	1,773	1,505
Net income	\$ 4,116	\$ 4,553	\$ 3,935
Selected per Common Share Data:			
Basic earnings per common share	\$ 0.62	\$ 0.68	\$ 0.59
Diluted earnings per common share	\$ 0.62	\$ 0.68	\$ 0.59
Dividend per share	\$ 0.12	\$ 0.12	\$ 0.12
Book value per common share (1)	\$ 13.76	\$ 13.15	\$ 12.52
Selected Balance Sheet Data:			
Assets	\$ 1,147,023	\$ 1,115,343	\$ 982,287
Loans, net	907,623	913,707	818,171
Deposits	1,015,652	962,655	831,934
Average assets	1,135,912	1,070,000	959,680
Average earning assets	1,104,134	1,040,154	935,736
Average shareholders' equity	90,814	86,675	85,405
Nonperforming loans	10,411	3,756	-
Total nonperforming assets	10,411	3,756	-
Selected Ratios:			
Return on average assets (2)	1.47%	1.69%	1.66%
Return on average common shareholders' equity (2)	18.38%	20.84%	18.69%
Efficiency ratio (3)	48.50%	47.77%	53.13%
Net interest margin (2)	3.69%	4.29%	4.28%
Common equity tier 1 capital ratio	9.44%	9.41%	9.41%
Tier 1 capital ratio	9.44%	9.41%	9.41%
Total capital ratio	11.28%	11.27%	11.27%
Tier 1 leverage ratio	8.30%	8.53%	8.53%
Common dividend payout ratio (4)	20.04%	17.72%	20.38%
Average shareholders' equity to average assets	7.99%	8.10%	8.90%
Nonperforming loans to total loans	1.13%	0.40%	0.00%
Nonperforming assets to total assets	0.91%	0.34%	0.00%
Allowance for credit losses to total loans	1.65%	1.60%	1.50%
Allowance for credit losses to nonperforming loans	146.49%	395.09%	N/A

(1) Total shareholders' equity divided by total common shares outstanding.

(2) Annualized.

(3) Non-interest expenses to net interest and non-interest income, net of securities gains.

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