
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): July 27, 2021

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 July 27, 2021, the registrant issued the press release attached hereto as Exhibit 99.1 and incorporated herein by reference regarding the declaration of dividend and results of operations for the three and six months ended June 30, 2021.

Common stock cash dividend of \$0.12 per share declared on July 26, 2021, payable on August 20, 2021 to shareholders of record on August 13, 2021.

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: July 27, 2021

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 July 27, 2021, announcing results of operation for the three and six months ended June 30, 2021 and declaration of quarterly dividend.

Summit State Bank Reports 76% Increase in Net Income to \$3,898,000 for Second Quarter 2021 and Declaration of Dividend

SANTA ROSA, CA – (July 27, 2021) – Summit State Bank (Nasdaq: SSBI) today reported record net income for the quarter ended June 30, 2021 of \$3,898,000 and diluted earnings per share of \$0.64. This compares to net income of \$2,218,000 and diluted earnings per share of \$0.37 for the quarter ended June 30, 2020. Additionally, a quarterly dividend of \$0.12 per share was declared for common shareholders.

Dividend

The Board of Directors declared a \$0.12 per share quarterly dividend on July 26, 2021 to be paid on August 20, 2021 to shareholders of record on August 13, 2021.

Net Income and Results of Operations

Net income increased \$1,680,000 or 76% the second quarter of 2021 compared to second quarter of 2020. Net interest income increased to \$8,976,000 in the second quarter of 2021 compared to \$7,174,000 in the second quarter of 2020.

“The Bank continues to experience strong core earnings growth in the first half of 2021,” noted Brian Reed, President and CEO. “The full opening of local businesses in June was a welcomed change. Although the future impacts to the economy is unknown and many economic indicators provide a mixed review on the speed of the recovery, we are pleased to see many businesses beginning to feel the positive impact of this transition.”

The net interest margin for the second quarter of 2021 was 4.13%, annualized return on average assets was 1.76% and annualized return on average equity was 20.18%. The second quarter of 2020 had a net interest margin was 3.71%, annualized return on average assets was 1.12% and annualized return on average equity was 12.71%. The Bank is experiencing growth in its margin due to a reduction in cost of funds; this reduction was caused by repricing high-cost maturing deposits and an increase in low-cost, non-maturing deposit volume.

Interest income increased to \$10,082,000 in the second quarter of 2021 compared to \$8,816,000 in the second quarter of 2020, this was an increase of 14%. The increase in interest income is primarily attributable to \$1,201,000 from increases in loan balances and \$87,000 from increases in income, net of fees, due to the Paycheck Protection Program (“PPP”) loans. The fees collected from all SBA PPP loans are amortized over the life of the loan and upon forgiveness the remaining fee income, net of cost, is taken into interest income. In the second quarter of 2021, the Bank recorded \$468,000 in PPP fees net of costs; the Bank has \$1,094,000 in remaining PPP fees net of costs left to amortize.

“The Bank funded \$134,000,000 of PPP loans for both Round 1 and Round 2 to over 860 loans averaging about \$156,000 per loan,” said Reed. “We are pleased to have the

opportunity to provide our customers and communities with these loans. We are now focused on actively working with our customers to request forgiveness from the SBA for both rounds of PPP loans. Currently the Bank has approximately \$13,000,000 in SBA Round 1 loans and \$35,000,000 in SBA Round 2 loans remaining to be forgiven.”

Loans increased 8% to \$765,461,000 at June 30, 2021 compared to \$709,689,000 at June 30, 2020. Excluding PPP loans, loans increased 17% to \$717,295,000 at June 30, 2021 compared to \$614,155,000 at June 30, 2020. Total deposits increased 8% to \$763,953,000 at June 30, 2021 compared to \$709,473,000 at June 30, 2020.

Non-interest income increased in the second quarter of 2021 to \$1,597,000 compared to \$693,000 in the second quarter of 2020. The Bank recognized \$1,160,000 in gains on sales of SBA guaranteed loan balances in the second quarter of 2021 compared to \$320,000 in gains on sales of SBA guaranteed loans balances in the second quarter of 2020.

Operating expenses increased \$821,000 or 19% in the second quarter of 2021 to \$5,037,000 compared to \$4,216,000 in the second quarter of 2020. The increase in expenses is primarily due to deferred loan costs for PPP loans boarded Q2 2020 totaling approximately \$590,000; these costs are amortized over two-years and all remaining balances are expensed when a PPP loan is paid in full, or the forgiveness payment is received by the SBA. Other factors causing the increase in expense is a \$113,000 increase in commissions directly related to the Bank’s loan portfolio growth and a \$70,000 increase in salary expenses net of deferred loan costs. The Bank is achieving economies of scale as it grows, resulting in an efficiency ratio improvement which went from 53.59% for the second quarter of 2020 to 47.86% for the second quarter of 2021.

Nonperforming assets were \$464,000 or 0.05% of total assets at June 30, 2021 compared to \$407,000 or 0.05% on June 30, 2020. The nonperforming assets on June 30, 2021 consist of 2 loans that are secured by real property and another loan that has a guarantee.

The Bank had no provision expense in the second quarter of 2021. The allowance for credit losses to total loans including SBA-guaranteed PPP loans was 1.50% on June 30, 2021 and 1.11% on June 30, 2020. Excluding \$48,166,000 of PPP loan balances, the non-GAAP financial measurement ratio of allowance for credit losses increases to 1.60% and 1.28% on June 30, 2021 and 2020, respectively.

As of June 30, 2021, 5 loans totaling \$3,169,000 or 0.4% of the loan portfolio excluding PPP loans were in principal and interest deferral. The loan to value ranges from 11% to 68%, and 93% of the deferred loans are real estate secured.

Reed further explains “we are fortunate to maintain improved financial performance on our core operations during an unforgettable global crisis. With the recent change to fully opening businesses Sonoma County, we continue to support our customers as they transition into the post-pandemic recovery process.”

About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$902 million and total equity of \$79 million at June 30, 2021. Headquartered in Sonoma County, the Bank specializes in providing exceptional customer service and customized financial solutions to aid in the success of local small businesses and nonprofits throughout Sonoma County.

Summit State Bank is committed to embracing the diverse backgrounds, cultures, and talents of its employees to create high performance and support the evolving needs of its customers and community it serves. At the center of diversity is inclusion, collaboration, and a shared vision for delivering superior service and results for shareholders. Presently, 66% 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, Corporate Philanthropy Award and Best Places to Work in the North Bay. Summit State Bank's stock is traded on the Nasdaq Global Market under the symbol SSBI. Further information can be found at www.summitstatebank.com.

Forward-looking Statements

Except for historical information contained herein, the statements contained in this news release, are forward-looking statements within the meaning of the "safe harbor" provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. This release may contain forward-looking statements that are subject to risks and uncertainties. Such risks and uncertainties may include but are not necessarily limited to fluctuations in interest rates, inflation, government regulations and general economic conditions, and competition within the business areas in which the Bank will be conducting its operations, including the real estate market in California and other factors beyond the Bank's control. Such risks and uncertainties could cause results for subsequent interim periods or for the entire year to differ materially from those indicated. You should not place undue reliance on the forward-looking statements, which reflect management's view only as of the date hereof. The Bank undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

SUMMIT STATE BANK
STATEMENTS OF INCOME

(In thousands except earnings per share data)

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30, 2021</u> (Unaudited)	<u>June 30, 2020</u> (Unaudited)	<u>June 30, 2021</u> (Unaudited)	<u>June 30, 2020</u> (Unaudited)
Interest income:				
Interest and fees on loans	\$ 9,618	\$ 8,329	\$ 19,591	\$ 16,148
Interest on deposits with banks	7	7	15	51
Interest on investment securities	396	393	779	762
Dividends on FHLB stock	61	87	104	146
Total interest income	<u>10,082</u>	<u>8,816</u>	<u>20,489</u>	<u>17,107</u>
Interest expense:				
Deposits	818	1,343	1,751	2,788
Federal Home Loan Bank advances	194	205	387	433
Junior Subordinated Debt	94	94	187	188
Total interest expense	<u>1,106</u>	<u>1,642</u>	<u>2,325</u>	<u>3,409</u>
Net interest income before provision for credit losses	8,976	7,174	18,164	13,698
Allowance for credit losses (1)	-	500	335	1,100
Net interest income after provision for credit losses	<u>8,976</u>	<u>6,674</u>	<u>17,829</u>	<u>12,598</u>
Non-interest income:				
Service charges on deposit accounts	208	178	411	393
Rental income	88	88	175	175
Net gain on loan sales	1,160	320	1,509	1,017
Net securities gain	49	-	56	871
Other income	92	107	142	167
Total non-interest income	<u>1,597</u>	<u>693</u>	<u>2,293</u>	<u>2,623</u>
Non-interest expense:				
Salaries and employee benefits	3,153	2,431	6,170	5,154
Occupancy and equipment	418	424	832	807
Other expenses	1,466	1,361	2,874	2,676
Total non-interest expense	<u>5,037</u>	<u>4,216</u>	<u>9,876</u>	<u>8,637</u>
Income before provision for income taxes	5,536	3,151	10,246	6,584
Provision for income taxes	1,638	933	3,031	1,950
Net income	<u>\$ 3,898</u>	<u>\$ 2,218</u>	<u>\$ 7,215</u>	<u>\$ 4,634</u>
Basic earnings per common share	\$ 0.64	\$ 0.37	\$ 1.19	\$ 0.76
Diluted earnings per common share	\$ 0.64	\$ 0.37	\$ 1.19	\$ 0.76
Basic weighted average shares of common stock outstanding	6,070	6,070	6,070	6,070
Diluted weighted average shares of common stock outstanding	6,075	6,074	6,072	6,072

(1) Allowance in 2021 reported with current expected credit loss ("CECL") method, all prior period allowance is reported in accordance with previous GAAP incurred loss method.

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

	June 30, 2021	December 31, 2020	June 30, 2020
	(Unaudited)	(Unaudited)	(Unaudited)
ASSETS			
Cash and due from banks	\$ 56,143	\$ 30,826	\$ 67,954
Total cash and cash equivalents	56,143	30,826	67,954
Investment securities:			
Available-for-sale (at fair value; amortized cost of \$66,666, \$66,335 and \$58,807)	67,096	67,952	60,472
Total investment securities	67,096	67,952	60,472
Loans, less allowance for credit losses of \$11,482, \$8,882 and \$7,881 (1)	753,979	745,939	701,808
Bank premises and equipment, net	5,841	5,994	6,191
Investment in Federal Home Loan Bank stock, at cost	4,320	3,429	3,429
Goodwill	4,119	4,119	4,119
Accrued interest receivable and other assets	10,145	7,595	6,686
Total assets	\$ 901,643	\$ 865,854	\$ 850,659
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 232,206	\$ 199,097	\$ 202,012
Demand - interest-bearing	120,664	88,684	79,570
Savings	50,380	42,120	36,887
Money market	162,157	167,113	136,754
Time deposits that meet or exceed the FDIC insurance limit	32,535	35,765	44,092
Other time deposits	166,011	193,516	210,158
Total deposits	763,953	726,295	709,473
Federal Home Loan Bank advances	48,500	53,500	58,500
Junior subordinated debt	5,884	5,876	5,869
Accrued interest payable and other liabilities	4,329	4,554	5,581
Total liabilities	822,666	790,225	779,423
Shareholders' equity			
Preferred stock, no par value; 20,000,000 shares authorized; no shares issued and outstanding	-	-	-
Common stock, no par value; shares authorized - 30,000,000 shares; issued and outstanding 6,069,600, 6,069,600 and 6,069,600	36,981	36,981	36,981
Retained earnings	41,693	37,510	33,083
Accumulated other comprehensive income, net	303	1,138	1,172
Total shareholders' equity	78,977	75,629	71,236
Total liabilities and shareholders' equity	\$ 901,643	\$ 865,854	\$ 850,659

(1) Allowance in 2021 reported with current expected credit loss ("CECL") method, all prior period allowance is reported in accordance with previous GAAP incurred loss method.

Financial Summary
(Dollars in thousands except per share data)

	As of and for the Three Months Ended		As of and for the Six Months Ended	
	June 30, 2021 (Unaudited)	June 30, 2020 (Unaudited)	June 30, 2021 (Unaudited)	June 30, 2020 (Unaudited)
Statement of Income Data:				
Net interest income	\$ 8,976	\$ 7,174	\$ 18,164	\$ 13,698
Provision for credit losses (5)	-	500	335	1,100
Non-interest income	1,597	693	2,293	2,623
Non-interest expense	5,037	4,216	9,876	8,637
Provision for income taxes	1,638	933	3,031	1,950
Net income	<u>\$ 3,898</u>	<u>\$ 2,218</u>	<u>\$ 7,215</u>	<u>\$ 4,634</u>
Selected per Common Share Data:				
Basic earnings per common share	\$ 0.64	\$ 0.37	\$ 1.19	\$ 0.76
Diluted earnings per common share	\$ 0.64	\$ 0.37	\$ 1.19	\$ 0.76
Dividend per share	\$ 0.12	\$ 0.12	\$ 0.24	\$ 0.24
Book value per common share (1)	\$ 13.01	\$ 11.74	\$ 13.01	\$ 11.74
Selected Balance Sheet Data:				
Assets	\$ 901,643	\$ 850,659	\$ 901,643	\$ 850,659
Loans, net (5)	753,979	701,808	753,979	701,808
Deposits	763,953	709,473	763,953	709,473
Average assets	888,439	794,442	880,752	741,642
Average earning assets	872,483	775,852	864,616	724,791
Average shareholders' equity	77,477	69,969	76,520	69,269
Nonperforming loans	464	407	464	407
Total nonperforming assets	464	407	464	407
Troubled debt restructures (accruing)	2,160	2,214	2,160	2,214
Selected Ratios:				
Return on average assets (2)	1.76%	1.12%	1.65%	1.25%
Return on average common shareholders' equity (2)	20.18%	12.71%	19.01%	13.42%
Efficiency ratio (3)	47.86%	53.59%	48.41%	55.90%
Net interest margin (2)	4.13%	3.71%	4.24%	3.81%
Common equity tier 1 capital ratio	10.03%	10.40%	10.03%	10.40%
Tier 1 capital ratio	10.03%	10.40%	10.03%	10.40%
Total capital ratio	12.04%	12.60%	12.04%	12.60%
Tier 1 leverage ratio	8.29%	8.20%	8.29%	8.20%
Common dividend payout ratio (4)	37.38%	32.82%	20.19%	31.44%
Average shareholders' equity to average assets	8.72%	8.81%	8.69%	9.34%
Nonperforming loans to total loans	0.06%	0.06%	0.06%	0.06%
Nonperforming assets to total assets	0.05%	0.05%	0.05%	0.05%
Allowance for credit losses to total loans (5)	1.50%	1.11%	1.50%	1.11%
Allowance for credit losses to total loans excluding PPP (5)*	1.60%	1.28%	1.60%	1.28%
Allowance for credit losses to nonperforming loans (5)	2476.35%	1938.33%	2476.35%	1938.33%

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

(2) Annualized.

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

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

(5) Allowance in 2021 reported with current expected credit loss ("CECL") method, all prior period allowance is reported in accordance with previous GAAP incurred loss method.

***Non-GAAP Financial Measures:**

This news release contains a non-GAAP (Generally Accepted Accounting Principles) financial measure in addition to results presented in accordance with GAAP for the allowance for credit 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 credit 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 credit 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.

	June 30, 2021	March 31, 2021	December 30, 2020	September 30, 2020	June 30, 2020
	(In thousands)				
Allowance for Credit Losses (ACL) on loans to Loans receivable, excluding SBA PPP loans					
Allowance for credit losses on loans (1)	\$ (11,482)	\$ (11,476)	\$ (8,882)	\$ (8,393)	\$ (7,881)
Loans receivable (GAAP)	\$ 765,461	\$ 761,416	\$ 754,820	\$ 735,252	\$ 709,689
Excluding SBA PPP loans	48,166	66,313	69,583	96,710	95,534
Loans receivable, excluding SBA PPP (non-GAAP)	<u>\$ 717,295</u>	<u>\$ 695,103</u>	<u>\$ 685,237</u>	<u>\$ 638,542</u>	<u>\$ 614,155</u>
ACL on loans to Loans receivable (GAAP)	1.50%	1.51%	1.18%	1.14%	1.11%
ACL on loans to Loans receivable, excluding SBA PPP loans (non-GAAP)	1.60%	1.65%	1.30%	1.31%	1.28%

(1) Allowance in 2021 reported with current expected credit loss ("CECL") method, all prior period allowance is reported in accordance with previous GAAP incurred loss method.