
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): January 28, 2020

Summit State Bank

(Exact Name of Registrant as Specified in Charter)

California
(State of Other Jurisdiction
Of Incorporation)

32203
(FDIC
Certificate Number)

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

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

95403
(Zip Code)

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

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

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

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

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

Emerging Growth Company

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

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

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

Item 2.02. Results of Operations and Financial Condition.

On January 28, 2020, 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 twelve months ended December 31, 2019.

Common stock cash dividend of \$0.12 per share declared on January 27, 2020, payable on February 21, 2020 to shareholders of record on February 14, 2020.

Item 9.01. Financial Statements and Exhibits

(c) Exhibits:

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

SIGNATURE

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

Dated: January 28, 2020

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 January 28, 2020, announcing results of operation for the three and twelve months ended December 31, 2019 and declaration of quarterly dividend.

Summit State Bank Reports 11% Increase in Net Income for 2019 and Declaration of Dividend

SANTA ROSA, CA – (January 28, 2020) – Summit State Bank (Nasdaq: SSBI) today reported net income for the year ended December 31, 2019, of \$6,477,000 and diluted earnings per share of \$1.07. 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 January 27, 2020 to be paid on February 21, 2020 to shareholders of record on February 14, 2020.

Net Income and Results of Operations

For the year ended December 31, 2019, Summit State Bank (“Bank”) had net income of \$6,477,000 and diluted earnings per share of \$1.07 compared to net income of \$5,827,000 and \$0.96 diluted earnings per share for the year ended December 31, 2018, an 11% increase in net income and diluted earnings per share.

For the quarter ended December 31, 2019, the Bank had net income of \$1,834,000 and diluted earnings per share of \$0.30 compared to \$1,122,000 of net income and \$0.18 diluted earnings per share, for the same period in 2018, a 64% increase in net income and a 67% increase diluted earnings per share.

Summit has consistently paid quarterly dividends to its shareholders for over 13 consecutive years with its last dividend change occurring February 13, 2015; at that time dividends increased to \$0.12 per share per quarter. Summit’s 2019 average share price for the quarter ended December 31, 2019 was \$12.42 and for the year ended December 31, 2019 was \$11.94. When compared to 2018, Summit’s average share price for the quarter ended December 31, 2018 was \$13.00 and for the year ended December 31, 2018 was \$14.18.

A portion of the increase in net income is related to non-interest income. In 2019 non-interest income was \$2,662,000 compared to \$2,309,000 in 2018. The primary difference between years was the Bank sold more SBA loans in 2019 generating \$1,253,000 in gain on sale compared \$748,000 in gain on sale in 2018.

“Summit spent the past three years implementing a strategic plan that, in the beginning, focused the Bank to restructure its balance sheet and increase its payroll costs in order to grow assets and earnings,” said Jim Brush, President and CEO. “We have been successful in making this strategy a reality and the Bank’s performance in the second half of 2019 is a testament to this. We also added a productive SBA lending department to our infrastructure which is now consistently contributing to our income.”

Net interest income increased to \$30,001,000 in 2019 compared to \$25,572,000 in 2018 and \$20,713,000 in 2017. This was an increase of 17% from 2018 and 45% from 2017 and reflects increases in both average loans outstanding and average yield.

Total loans increased when comparing 2019 to 2018 and 2017. Net loans increased 14% to \$576,548,000 at December 31, 2019 compared to \$504,549,000 at December 31, 2018 and 32% when compared to \$437,594,000 at December 31, 2017.

“We are experiencing consistent growth in our loan portfolio,” said Brush. “It is important to highlight that our growth is organic and not through a merger or acquisition. Our growth is a direct result from enhancements we made to our core operations, in accordance with our plan.”

The 2019 net interest margin was 3.66%, return on average assets was 1.00% and return on average equity was 9.99%. The 2018 net interest margin was 3.75%, return on average assets was 0.99% and return on average equity was 9.66%.

“Because Summit is liability sensitive, the rising rate environment in 2017 and 2018 presented several challenges that compressed our net interest margins,” explained Brush. “There was a turning point halfway into 2019 where our headwinds turned into tailwinds due to the three Fed rate decreases. This worked to Summit’s advantage because we began stabilizing our cost of funds which improved our net interest income.”

There was a \$706,000, or 5%, increase in operating expenses in 2019 compared to 2018. The increase is primarily related to salary and benefits.

“In addition to our improved margins, we have also seen non-interest expenses stabilize in the second half of 2019. We expect our efficiency ratio will continue improving into 2020,” said Brush. “Our strategic plan is beginning to take hold and Summit is poised for continued improvement in its financial performance into 2020 and beyond.”

Nonperforming assets were \$315,000, or 0.05%, of total assets at December 31, 2019 compared to \$2,124,000, or 0.34%, at December 31, 2018. The nonperforming assets at December 31, 2019 consist of loans which are predominantly secured by real property. The Bank had a loan loss provision expense of \$700,000 in 2019 compared to \$530,000 in 2018. The allowance for loan losses to loans was 1.16% at December 31, 2019 compared to 1.18% at December 31, 2018.

About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$696 million and total equity of \$67 million at December 31, 2019. 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, 75% 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 AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(In thousands except earnings per share data)

	Three Months Ended		Year Ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest income:				
Interest and fees on loans	\$ 7,473	\$ 6,101	\$ 27,585	\$ 22,663
Interest on deposits with banks	46	62	251	247
Interest on federal funds sold	-	-	-	14
Interest on investment securities	417	582	1,941	2,382
Dividends on FHLB stock	59	104	224	266
Total interest income	7,995	6,849	30,001	25,572
Interest expense:				
Deposits	1,643	1,050	6,422	3,509
Federal Home Loan Bank advances	101	241	414	441
Junior subordinated debt	94	-	189	-
Total interest expense	1,838	1,291	7,025	3,950
Net interest income before provision for loan losses	6,157	5,558	22,976	21,622
Provision for loan losses	210	150	700	530
Net interest income after provision for loan losses	5,947	5,408	22,276	21,092
Non-interest income:				
Service charges on deposit accounts	233	196	869	765
Rental income	87	109	344	553
Net gain on loan sales	447	206	1,253	748
Net securities gain (loss)	-	9	(6)	27
Other income	60	31	202	216
Total non-interest income	827	551	2,662	2,309
Non-interest expense:				
Salaries and employee benefits	2,522	2,628	9,836	9,151
Occupancy and equipment	420	404	1,693	1,536
Other expenses	1,226	1,334	4,534	4,670
Total non-interest expense	4,168	4,366	16,063	15,357
Income before provision for income taxes	2,606	1,593	8,875	8,044
Provision for income taxes	772	471	2,398	2,217
Net income	\$ 1,834	\$ 1,122	\$ 6,477	\$ 5,827
Basic earnings per common share	\$ 0.30	\$ 0.18	\$ 1.07	\$ 0.96
Diluted earnings per common share	\$ 0.30	\$ 0.18	\$ 1.07	\$ 0.96
Basic weighted average shares of common stock outstanding	6,070	6,066	6,069	6,065
Diluted weighted average shares of common stock outstanding	6,074	6,074	6,074	6,072

**SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS**

(In thousands except share data)

	December 31, 2019	December 31, 2018
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
ASSETS		
Cash and due from banks	\$ 38,299	\$ 21,693
Total cash and cash equivalents	38,299	21,693
Investment securities:		
Held-to-maturity, at amortized cost	7,998	7,991
Available-for-sale (at fair value; amortized cost of \$53,591 in 2019 and \$72,716 in 2018)	54,241	70,174
Total investment securities	<u>62,239</u>	<u>78,165</u>
Loans, less allowance for loan losses of \$6,769 in 2019 and \$6,029 in 2018	576,548	504,549
Bank premises and equipment, net (1)	6,301	5,803
Investment in Federal Home Loan Bank stock, at cost	3,342	3,085
Goodwill	4,119	4,119
Accrued interest receivable and other assets (1)	<u>5,130</u>	<u>4,690</u>
Total assets	<u>\$ 695,978</u>	<u>\$ 622,104</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Demand - non interest-bearing	\$ 129,084	\$ 120,011
Demand - interest-bearing	69,383	65,652
Savings	28,359	25,817
Money market	128,377	104,060
Time deposits that meet or exceed the FDIC insurance limit	76,564	83,071
Other time deposits	<u>142,070</u>	<u>102,578</u>
Total deposits	573,837	501,189
Federal Home Loan Bank advances	45,600	56,800
Junior subordinated debt	5,862	-
Accrued interest payable and other liabilities (1)	<u>3,335</u>	<u>2,595</u>
Total liabilities	<u>628,634</u>	<u>560,584</u>
Total shareholders' equity	<u>67,344</u>	<u>61,520</u>
Total liabilities and shareholders' equity	<u>\$ 695,978</u>	<u>\$ 622,104</u>

(1) ASU No. 2016-02 (Topic 842) was adopted January 1, 2019 using the modified retrospective approach at the beginning of the adoption period. This standard increases the transparency by recognizing the right-to-use lease asset for the lease term. As of December 31, 2019, the right-of-use asset was recorded for \$973,000 and a lease liability was recorded for \$985,000.

Financial Summary
(In Thousands except per share data)

	As of and for the Three Months Ended		As of and for the Year Ended	
	December 31, 2019 (Unaudited)	December 31, 2018 (Unaudited)	December 31, 2019 (Unaudited)	December 31, 2018 (Unaudited)
Statement of Income Data:				
Net interest income	\$ 6,157	\$ 5,558	\$ 22,976	\$ 21,622
Provision for loan losses	210	150	700	530
Non-interest income	827	551	2,662	2,309
Non-interest expense	4,168	4,366	16,063	15,357
Provision for income taxes	772	471	2,398	2,217
Net income	<u>\$ 1,834</u>	<u>\$ 1,122</u>	<u>\$ 6,477</u>	<u>\$ 5,827</u>
Selected per Common Share Data:				
Basic earnings per common share	\$ 0.30	\$ 0.18	\$ 1.07	\$ 0.96
Diluted earnings per common share	\$ 0.30	\$ 0.18	\$ 1.07	\$ 0.96
Dividend per share	\$ 0.12	\$ 0.12	\$ 0.48	\$ 0.48
Book value per common share (1)	\$ 11.09	\$ 10.14	\$ 11.09	\$ 10.14
Selected Balance Sheet Data:				
Assets	\$ 695,978	\$ 622,104	\$ 695,978	\$ 622,104
Loans, net	576,548	504,549	576,548	504,549
Deposits	573,837	501,189	573,837	501,189
Average assets	675,015	601,871	644,618	586,978
Average earning assets	658,667	590,958	628,311	575,843
Average shareholders' equity	67,223	60,944	64,847	60,295
Average common shareholders' equity	67,223	60,944	64,847	60,295
Nonperforming loans	315	2,124	315	2,124
Total nonperforming assets	315	2,124	315	2,124
Troubled debt restructures (accruing)	2,578	1,723	2,578	1,723
Selected Ratios:				
Return on average assets (2)	1.08%	0.74%	1.00%	0.99%
Return on average common shareholders' equity (2)	10.82%	7.30%	9.99%	9.66%
Efficiency ratio (3)	59.68%	71.57%	62.64%	64.24%
Net interest margin (2)	3.71%	3.73%	3.66%	3.75%
Common equity tier 1 capital ratio	10.38%	10.49%	10.38%	10.49%
Tier 1 capital ratio	10.38%	10.49%	10.38%	10.49%
Total capital ratio	12.61%	11.61%	12.61%	11.61%
Tier 1 leverage ratio	9.40%	9.86%	9.40%	9.86%
Common dividend payout ratio (4)	39.69%	64.88%	44.97%	49.97%
Average common shareholders' equity to average assets	9.96%	10.13%	10.06%	10.27%
Nonperforming loans to total loans	0.05%	0.42%	0.05%	0.42%
Nonperforming assets to total assets	0.05%	0.34%	0.05%	0.34%
Allowance for loan losses to total loans	1.16%	1.18%	1.16%	1.18%
Allowance for loan losses to nonperforming loans	2150.07%	283.84%	2150.07%	283.84%

(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.