
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 26, 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 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 26, 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 twelve months ended December 31, 2020.

Common stock cash dividend of \$0.12 per share declared on January 25, 2021, payable on February 19, 2021 to shareholders of record on February 12, 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: January 26, 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 January 26, 2021, announcing results of operation for the three and twelve months ended December 31, 2020 and declaration of quarterly dividend.

Summit State Bank Reports Record Earnings, a 62% Increase in Net Income to \$10,517,000 for 2020 and Declaration of Dividend

SANTA ROSA, CA – (January 26, 2021) – Summit State Bank (Nasdaq: SSBI) today reported record net income for the year ended December 31, 2020 of \$10,517,000 and diluted earnings per share of \$1.73. This compares to net income of \$6,477,000 and diluted earnings per share of \$1.07 for the year ended December 31, 2019. 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 January 25, 2021 to be paid on February 19, 2021 to shareholders of record on February 12, 2021.

Net Income and Results of Operations

For the year ended December 31, 2020, Summit State Bank (“Bank”) had net income of \$10,517,000 and diluted earnings per share of \$1.73 compared to net income of \$6,477,000 and \$1.07 diluted earnings per share for the year ended December 31, 2019, a 62% increase in net income and diluted earnings per share.

“In late April 2020, I transitioned from CEO to Chairman of the Board and Brian Reed was promoted to CEO,” noted Jim Brush, Chairman. “We are pleased that this transition has gone so well during these turbulent economic times. The Bank is well poised to maintain its strong momentum going forward.”

For the quarter ended December 31, 2020, the Bank had net income of \$2,929,000 and diluted earnings per share of \$0.48 compared to \$1,834,000 of net income and \$0.30 diluted earnings per share, for the same period in 2019, a 60% increase in net income and diluted earnings per share.

The 2020 net interest margin was 3.91%, return on average assets was 1.33% and return on average equity was 14.68%. In 2019 net interest margin was 3.66%, return on average assets was 1.00% and return on average equity was 9.99%. The Bank is experiencing growth in its margin because its balance sheet is liability sensitive, this means when rates went down in 2020, the Bank’s cost of funds decreased faster than its yield on earning assets causing the net interest margin to improve.

“In 2020 we continue to experience record earnings for the Bank,” said Brian Reed, President and CEO. “We recently updated our 5-year strategic plan and remain on our path to grow core earnings by strategically managing our balance sheet growth.”

Interest income increased to \$36,425,000 in 2020 compared to 30,001,000 in 2019, this was an increase of 21% from 2019. The increase in interest income is attributable to \$4,671,000 from increases in loan balances, \$2,377,000 from increases in income net of

fees due to the Paycheck Protection Program (“PPP”) loans, and (\$624,000) from decreases in investment income and deposits with Banks due to lower interest rates.

“In 2020 we funded almost \$96,710,000 of PPP loans to over 600 businesses and have been actively working with our customers on the forgiveness process,” said Reed. “Through year-end \$25,167,000 in PPP loans have been forgiven. We are actively working with our customers in 2021 to request forgiveness from the SBA for the remaining balance.”

Net loans and deposits increased when comparing 2020 to 2019. Net loans increased 29% to \$745,939,000 at December 31, 2020 compared to \$576,548,000 at December 31, 2019. Total deposits increased 27% to \$726,295,000 at December 31, 2020 compared to \$573,837,000 at December 31, 2019.

Non-interest income increased in 2020 to \$4,448,000 compared to \$2,662,000 in 2019. The Bank recognized \$2,108,000 in gains on sales of SBA guaranteed loan balances in 2020 compared to \$1,253,000 in gains on sales of SBA guaranteed loans balances in 2019; the gains primarily reflect the Bank’s continued growth in the SBA lending group. The Bank also recognized \$874,000 in one-time investment security gains in 2020 caused by investments being called because of the reduced interest rate environment.

Operating expenses increased 10% in 2020 to \$17,671,000 compared to \$16,063,000 in 2019. The increase in expenses is primarily due to an increase in employee expenses and third-party service and professional fees. The Bank is leveling off from a growth trend in operating expenses since the middle of 2019 resulting in an efficiency ratio improvement of 10.41% when comparing 52.23% for 2020 to 62.64% for 2019.

Nonperforming assets were \$264,000 or 0.03% of total assets on December 31, 2020 compared to \$315,000 or 0.05% on December 31, 2019. Nonperforming assets on December 31, 2020 consist of one loan that is secured by real property and another loan that has a guarantee from the State of California. The Bank had a provision expense of \$2,100,000 in 2020. The allowance for loan losses to total loans including SBA-guaranteed PPP loans was 1.18% on December 31, 2020 and 1.16% on December 31, 2019. Excluding \$69,583,000 of PPP loans increases the ratio of allowance for loans losses to 1.30% on December 31, 2020 compared to 1.31% at September 30, 2020.

“Our staff has been focused on supporting our customers through this pandemic. They have worked long into the night and on weekends to provide our customers with the support they need and deserve,” notes Reed. “We feel fortunate to have navigated through the first round of the pandemic with few credit problems. With the resurgence of the stay-at-home order, we will continue monitoring trends in the economy and will be adjusting loan loss reserves as needed to account for any measured increase in risk of loss.”

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. The deferral portfolio has an average loan to value ratio of 55% and 99% of the deferred loans are real estate secured.

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 process increases the total balance due on the loan and re-amortizes the monthly payment through the original maturity date.

Reed further explains “we are fortunate to have had stable financial performance during an unforgettable global crisis. With news of an indefinite stay at home order in Sonoma County and a new round of SBA PPP loans being released, we continue to be available to support our customers both through the existing forgiveness process and through a new wave of PPP loans.”

About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$866 million and total equity of \$76 million at December 31, 2020. 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, 76% of management are women and minorities with 75% 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, 2020 (Unaudited)	December 31, 2019 (Unaudited)	December 31, 2020 (Unaudited)	December 31, 2019 (Unaudited)
Interest income:				
Interest and fees on loans	\$ 9,731	\$ 7,473	\$ 34,633	\$ 27,585
Interest on deposits with banks	4	46	65	251
Interest on investment securities	372	417	1,498	1,941
Dividends on FHLB stock	40	59	229	224
Total interest income	<u>10,147</u>	<u>7,995</u>	<u>36,425</u>	<u>30,001</u>
Interest expense:				
Deposits	1,030	1,643	4,956	6,422
Federal Home Loan Bank advances	201	101	833	414
Junior subordinated debt	94	94	375	189
Total interest expense	<u>1,325</u>	<u>1,838</u>	<u>6,164</u>	<u>7,025</u>
Net interest income before provision for loan losses	8,822	6,157	30,261	22,976
Provision for loan losses	500	210	2,100	700
Net interest income after provision for loan losses	<u>8,322</u>	<u>5,947</u>	<u>28,161</u>	<u>22,276</u>
Non-interest income:				
Service charges on deposit accounts	215	233	808	869
Rental income	87	87	351	344
Net gain on loan sales	305	447	2,108	1,253
Net securities gain (loss)	-	-	874	(6)
Other income	30	60	307	202
Total non-interest income	<u>637</u>	<u>827</u>	<u>4,448</u>	<u>2,662</u>
Non-interest expense:				
Salaries and employee benefits	2,975	2,522	10,748	9,836
Occupancy and equipment	383	420	1,605	1,693
Other expenses	1,441	1,226	5,318	4,534
Total non-interest expense	<u>4,799</u>	<u>4,168</u>	<u>17,671</u>	<u>16,063</u>
Income before provision for income taxes	4,160	2,606	14,938	8,875
Provision for income taxes	1,231	772	4,421	2,398
Net income	<u>\$ 2,929</u>	<u>\$ 1,834</u>	<u>\$ 10,517</u>	<u>\$ 6,477</u>
Basic earnings per common share	\$ 0.48	\$ 0.30	\$ 1.73	\$ 1.07
Diluted earnings per common share	\$ 0.48	\$ 0.30	\$ 1.73	\$ 1.07
Basic weighted average shares of common stock outstanding	6,070	6,070	6,070	6,069
Diluted weighted average shares of common stock outstanding	6,074	6,074	6,074	6,074

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

(In thousands except share data)

	December 31, 2020	December 31, 2019
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
ASSETS		
Cash and due from banks	\$ 30,826	\$ 38,299
Total cash and cash equivalents	<u>30,826</u>	<u>38,299</u>
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	<u>67,952</u>	<u>62,239</u>
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	<u>7,595</u>	<u>5,130</u>
Total assets	<u>\$ 865,854</u>	<u>\$ 695,978</u>
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	<u>726,295</u>	<u>573,837</u>
Federal Home Loan Bank advances	53,500	45,600
Junior subordinated debt	5,876	5,862
Accrued interest payable and other liabilities	<u>4,554</u>	<u>3,335</u>
Total liabilities	<u>790,225</u>	<u>628,634</u>
Total shareholders' equity	<u>75,629</u>	<u>67,344</u>
Total liabilities and shareholders' equity	<u>\$ 865,854</u>	<u>\$ 695,978</u>

Financial Summary
(In thousands except per share data)

	As of and for the		As of and for the	
	Three Months Ended		Year Ended	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Statement of Income Data:				
Net interest income	\$ 8,822	\$ 6,157	\$ 30,261	\$ 22,976
Provision for loan losses	500	210	2,100	700
Non-interest income	637	827	4,448	2,662
Non-interest expense	4,799	4,168	17,671	16,063
Provision for income taxes	1,231	772	4,421	2,398
Net income	\$ 2,929	\$ 1,834	\$ 10,517	\$ 6,477
Selected per Common Share Data:				
Basic earnings per common share	\$ 0.48	\$ 0.30	\$ 1.73	\$ 1.07
Diluted earnings per common share	\$ 0.48	\$ 0.30	\$ 1.73	\$ 1.07
Dividend per share	\$ 0.12	\$ 0.12	\$ 0.48	\$ 0.48
Book value per common share (1)	\$ 12.46	\$ 11.09	\$ 12.46	\$ 11.09
Selected Balance Sheet Data:				
Assets	\$ 865,854	\$ 695,978	\$ 865,854	\$ 695,978
Loans, net	745,939	576,548	745,939	576,548
Deposits	726,295	573,837	726,295	573,837
Average assets	848,900	675,015	791,059	644,618
Average earning assets	831,481	658,667	774,037	628,311
Average shareholders' equity	74,941	67,223	71,637	64,847
Average common shareholders' equity	74,941	67,223	71,637	64,847
Nonperforming loans	264	315	264	315
Total nonperforming assets	264	315	264	315
Troubled debt restructures (accruing)	2,189	2,578	2,189	2,578
Selected Ratios:				
Return on average assets (2)	1.37%	1.08%	1.33%	1.00%
Return on average common shareholders' equity (2)	15.55%	10.82%	14.68%	9.99%
Efficiency ratio (3)	50.73%	59.68%	52.23%	62.64%
Net interest margin (2)	4.22%	3.71%	3.91%	3.66%
Common equity tier 1 capital ratio	10.35%	10.38%	10.35%	10.38%
Tier 1 capital ratio	10.35%	10.38%	10.35%	10.38%
Total capital ratio	12.62%	12.61%	12.62%	12.61%
Tier 1 leverage ratio	8.15%	9.40%	8.15%	9.40%
Common dividend payout ratio (4)	24.85%	39.69%	27.70%	44.97%
Average common shareholders' equity to average assets	8.83%	9.96%	9.06%	10.06%
Nonperforming loans to total loans	0.03%	0.05%	0.03%	0.05%
Nonperforming assets to total assets	0.03%	0.05%	0.03%	0.05%
Allowance for loan losses to total loans	1.18%	1.16%	1.18%	1.16%
Allowance for loan losses to total loans excluding PPP*	1.30%	0.00%	1.30%	0.00%
Allowance for loan losses to nonperforming loans	3369.08%	2150.07%	3369.08%	2150.07%

(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.

***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 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.

	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
	(In thousands)				
Allowance for Loan and Lease Losses (ALLL) on loans to Loans receivable, excluding SBA PPP loans					
Allowance for loan losses on loans	\$ (8,882)	\$ (8,393)	\$ (7,881)	\$ (7,375)	\$ (6,769)
Loans receivable (GAAP)	\$ 754,820	\$ 735,252	\$ 709,689	\$ 608,775	\$ 583,317
Excluding SBA PPP loans	69,583	96,710	95,534	-	-
Loans receivable, excluding SBA PPP (non-GAAP)	<u>\$ 685,237</u>	<u>\$ 638,542</u>	<u>\$ 614,155</u>	<u>\$ 608,775</u>	<u>\$ 583,317</u>
ALLL on loans to Loans receivable (GAAP)	1.18%	1.14%	1.11%	1.21%	1.16%
ALLL on loans to Loans receivable, excluding SBA PPP loans (non-GAAP)	1.30%	1.31%	1.28%	1.21%	1.16%