
FEDERAL DEPOSIT INSURANCE CORPORATION

Washington, D.C. 20429

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): **October 25, 2016**

Summit State Bank

(Exact name of registrant as specified in its charter)

<u>California</u> (State or other jurisdiction of incorporation)	<u>32203</u> (FDIC Insurance Certificate No.)	<u>94-2878925</u> (IRS Employer Identification Number)
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<u>500 Bicentennial Way</u> <u>Santa Rosa, California</u> (Address of principal executive offices)	<u>95403</u> (Zip Code)
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(707) 568-6000
(Registrant's telephone number, including area code)

N/A
(Former name or former address, if changed 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 communications 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 communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition.

On October 25, 2016, the registrant issued the press release attached hereto as Exhibit 99 and incorporated herein by reference regarding the declaration of dividend and results of operations for the three and nine months ended September 30, 2016.

Common stock cash dividend of \$0.12 per share declared on October 24, 2016, payable on November 23, 2016 to shareholders of record on November 16, 2016.

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: October 25, 2016

SUMMIT STATE BANK

By: /s/ Dennis Kelley
Dennis Kelley
*Executive Vice President
and Chief Financial Officer
(Duly Authorized Officer)*

Exhibit Index

<u>Exhibit Number</u>	<u>Description</u>
99	Press release of Summit State Bank dated October 25, 2016 announcing declaration of dividend and results of operation for the three and nine months ended September 30, 2016.

Summit State Bank Reports Third Quarter Operating Results and Declaration of Dividend

SANTA ROSA, CA – (October 25, 2016) – Summit State Bank (Nasdaq: SSBI) today reported net income for the quarter ended September 30, 2016 of \$1,198,000 and diluted earnings per share of \$0.25. 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 to be paid on November 23, 2016 to shareholders of record on November 16, 2016.

Net Income and Results of Operations

The Bank had net income of \$1,198,000 or \$0.25 per diluted share, for the third quarter ended September 30, 2016, compared to net income of \$1,280,000 or \$0.26 per diluted share, for the quarter ended September 30, 2015.

Net income and diluted earnings per common share for the nine months ended September 30, 2016 and 2015 were \$3,779,000 or \$0.78 and \$4,746,000 or \$0.96. The nine-month period in 2015 benefited from gains on sales of foreclosed properties of \$1,125,000 and reversal from the allowance for loan loss of \$800,000. There were net gains on investment securities of \$669,000 and \$108,000 for the nine months ended September 30, 2016 and 2015.

Return on average assets for the quarter and nine months ended September 30, 2016 were 0.95% and 0.98% compared to 1.03% and 1.32% for the same periods in 2016.

Return on average common equity for the quarter and nine months ended September 30, 2016 was 7.9% and 8.5% compared to 8.8% and 11.2% for the same periods in 2015.

“We are focused on the long-term success of our Bank employees, customers and community. This strategy will continue to drive improved core operating performance and shareholder value,” said Jim Brush, President and CEO.

Total assets were \$513,666,000 at September 30, 2016 compared to \$505,564,000 at September 30, 2015, representing an annual increase of 1.6%.

The increase in assets was predominantly from a 10% increase in loans while investment securities declined 15%. This shift in assets from investments to loans has enabled the net interest margin to stay relatively stable at 3.70% for the nine months ended September 30, 2016 compared to 3.72% for the same period in 2015.

The asset growth was funded primarily by a \$31 million or 22% increase in demand deposits between September 30, 2016 and 2015. Demand deposits currently represent 45% of total deposits at September 30, 2016 compared to 36% at September 30, 2015.

Nonperforming assets increased to \$3,430,000 from \$1,395,000 at September 30, 2016 compared to September 30, 2015. This represents a ratio of nonperforming assets to total assets of 0.67% compared to 0.28%. The increase in nonperforming assets was from increased nonaccrual loans which are secured by real estate.

The coverage of allowance for loan losses to gross loans was 1.29% at September 30, 2016 compared to 1.39% at September 30, 2015. The decline was primarily from 10% loan growth between the dates.

Net interest income increased 0.8% and 7.6% for the three and nine month periods ended September 30, 2016, as loan volumes increased.

Non-interest operating expenses increased in the third quarter of 2016 compared to the same quarter of 2015 by 4.6% or \$124,000, attributable to various other operating expenses, partially offset by a decline in salaries and employee benefits and occupancy expenses.

The efficiency ratios for the third quarters of 2016 and 2015 were 58% and 56%. For the nine month periods, the ratios were 62% in 2016 compared to 53% in 2015.

Summit State Bank continues to concentrate on its location in the heart of Sonoma Wine Country, which has provided a diverse economic base for its banking activities. Strategic plans have focused on supporting the net interest margin by lowering the Bank's cost of funds through increased funding of core or relationship-based deposit accounts. The net interest income generated by the increased earning asset base with loans as a greater percentage, has offset the decline in net interest margin that is being experienced in the industry.

About Summit State Bank

Summit State Bank, a local community bank, has total assets of \$514 million and total equity of \$60 million at September 30, 2016. 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's workforce resembles the diverse community it serves. Presently, 60% of management are women and minorities with 50% represented on the Executive Management Team. Through the inclusion and engagement of its workforce, Summit State Bank has earned many prestigious awards including: Best Company to do Business with in Sonoma County; Best Places to Work in the North Bay; Super Performing Bank; and Top 75 Corporate Philanthropists in the San Francisco 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)

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30, 2016</u> (Unaudited)	<u>September 30, 2015</u> (Unaudited)	<u>September 30, 2016</u> (Unaudited)	<u>September 30, 2015</u> (Unaudited)
Interest income:				
Interest and fees on loans	\$ 4,146	\$ 3,766	\$ 12,491	\$ 10,615
Interest on federal funds sold	2	1	5	2
Interest on investment securities and deposits in banks	628	917	2,257	2,816
Dividends on FHLB stock	68	67	182	267
Total interest income	<u>4,844</u>	<u>4,751</u>	<u>14,935</u>	<u>13,700</u>
Interest expense:				
Deposits	209	192	654	545
FHLB advances	90	50	278	139
Total interest expense	<u>299</u>	<u>242</u>	<u>932</u>	<u>684</u>
Net interest income before provision for loan losses	4,545	4,509	14,003	13,016
Provision for loan losses	-	-	-	(800)
Net interest income after provision for loan losses	<u>4,545</u>	<u>4,509</u>	<u>14,003</u>	<u>13,816</u>
Non-interest income:				
Service charges on deposit accounts	193	188	564	525
Rental income	142	133	418	399
Net securities gain (loss)	(20)	55	669	108
Net gain on other real estate owned	-	-	-	1,125
Loan servicing, net	2	2	6	6
Other income	9	1	8	119
Total non-interest income	<u>326</u>	<u>379</u>	<u>1,665</u>	<u>2,282</u>
Non-interest expense:				
Salaries and employee benefits	1,399	1,499	4,965	4,217
Occupancy and equipment	309	327	896	976
Other expenses	1,128	886	3,379	2,831
Total non-interest expense	<u>2,836</u>	<u>2,712</u>	<u>9,240</u>	<u>8,024</u>
Income before provision for income taxes	2,035	2,176	6,428	8,074
Provision for income taxes	837	896	2,649	3,328
Net income	<u>\$ 1,198</u>	<u>\$ 1,280</u>	<u>\$ 3,779</u>	<u>\$ 4,746</u>
Less: preferred dividends	-	23	-	92
Net income available for common shareholders	<u>\$ 1,198</u>	<u>\$ 1,257</u>	<u>\$ 3,779</u>	<u>\$ 4,654</u>
Basic earnings per common share	\$ 0.25	\$ 0.26	\$ 0.79	\$ 0.97
Diluted earnings per common share	\$ 0.25	\$ 0.26	\$ 0.78	\$ 0.96
Basic weighted average shares of common stock outstanding	4,814	4,783	4,801	4,783
Diluted weighted average shares of common stock outstanding	4,840	4,838	4,827	4,838

SUMMIT STATE BANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(In thousands except share data)

	September 30, 2016	December 31, 2015	September 30, 2015
	(Unaudited)		(Unaudited)
ASSETS			
Cash and due from banks	\$ 20,090	\$ 15,583	\$ 24,286
Federal funds sold	1,580	2,000	2,000
Total cash and cash equivalents	21,670	17,583	26,286
Time deposits with banks	248	744	744
Investment securities:			
Held-to-maturity, at amortized cost	7,974	5,988	5,987
Available-for-sale (at fair value; amortized cost of \$102,180, \$127,735 and \$124,161)	104,564	128,599	125,681
Total investment securities	112,538	134,587	131,668
Loans, less allowance for loan losses of \$4,758, \$4,731 and 4,664	363,336	343,217	330,325
Bank premises and equipment, net	5,487	5,498	5,591
Investment in Federal Home Loan Bank stock, at cost	3,085	2,701	2,701
Goodwill	4,119	4,119	4,119
Other Real Estate Owned	-	-	-
Accrued interest receivable and other assets	3,183	4,916	4,130
Total assets	\$ 513,666	\$ 513,365	\$ 505,564
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits:			
Demand - non interest-bearing	\$ 114,077	\$ 98,062	\$ 93,988
Demand - interest-bearing	58,325	56,281	46,966
Savings	27,130	27,644	28,217
Money market	52,906	59,445	65,127
Time deposits that meet or exceed the FDIC insurance limit	52,140	53,953	53,988
Other time deposits	78,132	101,861	105,320
Total deposits	382,710	397,246	393,606
Federal Home Loan Bank advances	67,500	55,800	52,000
Accrued interest payable and other liabilities	3,177	2,994	2,969
Total liabilities	453,387	456,040	448,575
Shareholders' equity			
Preferred stock, no par value; 20,000,000 shares authorized; Series B shares issued and outstanding - 0 in 2016 and 2015; per share redemption of \$1,000 for total liquidation preference of \$13,750	-	-	-
Common stock, no par value; shares authorized - 30,000,000 shares; issued and outstanding 4,814,380 in 2016 and 4,783,170 in 2015 periods	36,725	36,704	36,698
Retained earnings	22,171	20,120	19,410
Accumulated other comprehensive income	1,383	501	881
Total shareholders' equity	60,279	57,325	56,989
Total liabilities and shareholders' equity	\$ 513,666	\$ 513,365	\$ 505,564

Financial Summary
(In thousands except per share data)

	At or for the Three Months Ended		At or for the Nine Months Ended	
	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Statement of Income Data:				
Net interest income	\$ 4,545	\$ 4,509	\$ 14,003	\$ 13,016
Provision for loan losses	-	-	-	(800)
Non-interest income	326	379	1,665	2,282
Non-interest expense	2,836	2,712	9,240	8,024
Provision for income taxes	837	896	2,649	3,328
Net income	<u>\$ 1,198</u>	<u>\$ 1,280</u>	<u>\$ 3,779</u>	<u>\$ 4,746</u>
Less: preferred dividends	-	23	-	92
Net income available for common shareholders	<u>\$ 1,198</u>	<u>\$ 1,257</u>	<u>\$ 3,779</u>	<u>\$ 4,654</u>
Selected per Common Share Data:				
Basic earnings per common share	\$ 0.25	\$ 0.26	\$ 0.79	\$ 0.97
Diluted earnings per common share	\$ 0.25	\$ 0.26	\$ 0.78	\$ 0.96
Dividend per share	\$ 0.12	\$ 0.12	\$ 0.36	\$ 0.36
Book value per common share (2)(3)	\$ 12.52	\$ 11.91	\$ 12.52	\$ 11.91
Selected Balance Sheet Data:				
Assets	\$ 513,666	\$ 505,564	\$ 513,666	\$ 505,564
Loans, net	363,336	330,325	363,336	330,325
Deposits	382,710	393,606	382,710	393,606
Average assets	502,807	494,934	513,073	478,915
Average earning assets	494,849	484,515	504,869	467,636
Average shareholders' equity	60,087	65,559	59,096	67,666
Average common shareholders' equity	60,087	56,498	59,097	55,552
Nonperforming loans	3,430	1,395	3,430	1,395
Other real estate owned	-	-	-	-
Total nonperforming assets	3,430	1,395	3,430	1,395
Troubled debt restructures (accruing)	3,395	3,585	3,395	3,585
Selected Ratios:				
Return on average assets (1)	0.95%	1.03%	0.98%	1.32%
Return on average common equity (1)	7.91%	8.83%	8.54%	11.20%
Efficiency ratio (4)	57.98%	56.11%	61.60%	52.82%
Net interest margin (1)	3.64%	3.69%	3.70%	3.72%
Common equity tier 1 capital ratio	13.2%	13.7%	13.2%	13.7%
Tier 1 capital ratio	13.2%	13.7%	13.2%	13.7%
Total capital ratio	14.4%	14.9%	14.4%	14.9%
Tier 1 leverage ratio	11.0%	10.6%	11.0%	10.6%
Common dividend payout ratio (5)	48.25%	45.51%	45.73%	36.96%
Average equity to average assets	11.95%	13.25%	11.52%	14.13%
Nonperforming loans to total loans (2)	0.93%	0.42%	0.93%	0.42%
Nonperforming assets to total assets (2)	0.67%	0.28%	0.67%	0.28%
Allowance for loan losses to total loans (2)	1.29%	1.39%	1.29%	1.39%
Allowance for loan losses to nonperforming loans (2)	138.72%	334.20%	138.72%	334.20%

(1) Annualized

(2) As of period end

(3) Total shareholders' equity, less preferred stock, divided by total common shares outstanding

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

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