

Santa Cruz County Bank Reports Earnings for the Second Quarter Ended June 30, 2020

Total Assets Near \$1.4 Billion

SANTA CRUZ, CA – July 21, 2020: Santa Cruz County Bank (OTC Pink: SCZC), with assets of nearly \$1.4 billion, is a top rated community bank headquartered in Santa Cruz County. Today the Bank announced unaudited net income for the second quarter ended June 30, 2020 of \$3.8 million, an increase of 16%, compared to the same quarter in 2019. For the quarter, basic earnings per share decreased \$0.35 or 26% to \$0.98 compared to the second quarter in 2019. The decline reflects the increased number of shares outstanding as the result of the Bank’s merger with Lighthouse Bank in the fourth quarter of 2019. Unaudited net income for the six-month period ended June 30, 2020 was \$8.2 million compared to \$6.2 million, a 31% increase, over the same period in 2019.

Pretax income for the quarter ended June 30, 2020 was \$5.3 million, an increase of \$722 thousand, 16%, compared to \$4.6 million for the quarter ended June 30, 2019.

President and CEO David V. Heald commented, “Following in the steps of our first quarter, in which we reported the amazing accomplishments of our team who went above and beyond to process SBA Paycheck Protection Program loans to the maximum capacity of our resources, we continued at a marathon pace throughout the second quarter. With over 50% of PPP loans funded to non-customers, we are welcoming new business relationships in the tri-county market area and continue to capitalize on opportunities afforded by the PPP program. We are pleased with the results of our ongoing loan portfolio monitoring and the resiliency of our clients. We continue to maintain reserves for loan losses well above industry standards to protect our shareholder equity in these uncertain times.”

Selected financial information is presented in the following table:

	06.30.20	03.31.20	06.30.19
Balance Sheet			
Total assets	1,384,830,355	1,069,462,569	702,419,918
Gross loans	1,120,222,016	752,562,735	508,240,050
Allowance for loan losses	10,602,444	10,349,444	9,992,368
Non interest-bearing deposits	548,399,507	356,715,560	270,953,853
Total deposits	1,147,585,446	899,126,540	614,934,326
Shareholders' equity	159,691,195	154,891,396	74,816,723
Net Income			
	\$3,785,302	\$4,381,461	\$3,266,929
Ratios			
Tier 1 leverage ratio	10.65%	12.26%	10.78%
Net interest margin	3.69%	4.51%	4.82%
Efficiency ratio	52.18%	47.55%	46.97%
Return on average assets	1.20%	1.67%	1.89%
Return on average equity	9.65%	11.42%	17.82%
Return on tangible equity	11.82%	14.23%	17.96%

Share and Per Share Data			
Basic earnings per common share	\$0.98	\$1.14	\$1.33
Diluted earnings per common share	\$0.98	\$1.13	\$1.32
Book value per common share	\$41.47	\$40.22	\$30.48
Tangible book value per share	\$33.45	\$32.15	\$29.72
Total common shares outstanding	3,851,041	3,851,041	2,454,498

Second Quarter Financial Highlights:

- Net interest margin of 3.69%
- Second quarter return on average assets and equity of 1.20% and 9.65%, respectively
- Well capitalized with a total risk based capital ratio of 17.63%
- 120% growth in loans, \$612 million increase over the second quarter of 2019
- 87% growth in deposits, \$533 million increase over the second quarter of 2019
- Basic earnings per share decreased to \$0.98 from \$1.33 in the second quarter of 2019
- Book value per share after dividends increased by \$10.99 or 36%, to \$41.47 compared to the second quarter of 2019

Assets, Loans, Asset Quality & Deposits

Total assets grew by \$315 million to \$1.38 billion in the second quarter and by \$682 million over the last twelve months.

For the second quarter, gross loans increased by \$368 million, and year over year increased \$612 million, 120% to \$1.1 billion. Loans made under the Payroll Protection Program “PPP” accounted for a significant portion of the loan growth during the second quarter while significant growth year over year included loans acquired through the merger with Lighthouse Bank. Allowance for loan losses of \$10.6 million at June 30, 2020 represents a 6% increase over the same period in 2019.

Core loan growth of \$11.6 million represents a 1.5% increase over the prior quarter. Line utilization has been below prior year levels due to business shut downs and general economic uncertainty among our business clients. As expected, we experienced a reduction in construction loan requests and draws on existing loans. The reduction in commercial lines and construction loan draws, within our existing loan portfolio, was offset by growth in our commercial real estate loan portfolio.

Due to core portfolio growth, \$250 thousand was provided for loan and lease losses during the current reporting quarter and \$400 thousand for the six months of 2020. An additional \$1.9 million, not included in the ALLL, is held in reserve for potential contingencies that could arise from the origination of PPP loans. The ratio of loan loss reserves to net loans not held for sale, excluding PPP Loans, which are guaranteed by the SBA, was 1.44%.

We continue to experience good credit quality within our loan portfolio with only three past due loans which are non-COVID-related defaults. In working with our clients, we have received and processed payment deferral requests representing approximately 7% of the non-SBA portfolio.

The Bank’s total deposits, at a record \$1.1 billion, increased by 28% or \$248.5 million since March 31, 2020 and by 87% since June 30, 2019. Year over year, non-interest bearing deposits grew by 102%. Growth between the first and second quarter in 2020 was primarily due to deposits generated from loan originations. Year over year growth was enhanced by the PPP deposits and deposits acquired in the Lighthouse merger.

2020, is the combination of a reduction in market rates which negatively impacted earnings, offset in part by the income generated from PPP loan origination. Net interest margin at 3.69% declined 113 basis points from prior year and was down 82 basis points from the first quarter of 2020. The reduction in net interest margin is due primarily to the Bank's asset sensitivity, which means earnings will follow in the same direction as rates, and the origination of a material amount of PPP loans with interest set at 1%.

Shareholders' Equity

Total shareholders' equity was \$159.7 million at June 30, 2020, a \$84.9 million, 113% increase over June 30, 2019. The majority of the increase was due to the issuance of common stock related to the merger and the value added to our shareholders due to continued strong earnings. Approximately \$29 million of intangible value arising from the merger is included in the \$84.9 million increase. This increase was reduced by the payout of quarterly cash dividends. Common stock cash dividends totaled \$839 thousand in 2019 and \$289 thousand or \$0.075 per share for the quarters ended March 31, 2020 and June 30, 2020, respectively. Historically, the Bank has paid twenty-nine consecutive cash dividends and issued one 10% stock dividend to shareholders.

For the three-month period ended June 30, 2020 the Bank's return on average equity was 9.65% and return on average assets was 1.20%. The book value per share of Santa Cruz County Bank's common stock at June 30, 2020 was \$41.47, up \$10.99 from the same period in 2019.

ABOUT SANTA CRUZ COUNTY BANK

Santa Cruz County Bank was founded in 2004. It is a top-rated, locally-owned and operated, full-service community bank headquartered in Santa Cruz, California. The bank has seven branches—Aptos, Capitola, Cupertino, Santa Cruz (2), Scotts Valley and Watsonville – all of which are Green Business Certified in accordance with the Bank's commitment to the environment. Santa Cruz County Bank is distinguished from "big banks" by its relationship-based service, problem-solving focus, and direct access to decision makers. The bank is a leading SBA lender in Santa Cruz County and Silicon Valley, and a top USDA lender in the state of California. As a full-service bank, Santa Cruz County Bank offers competitive deposit and lending solutions for businesses and individuals; including business loans, lines of credit, commercial real estate financing, construction lending, agricultural loans, SBA and USDA government guaranteed loans, credit cards, merchant services, remote deposit capture, mobile and online banking, bill payment, and treasury management. True to its community roots, Santa Cruz County Bank has supported regional well-being by actively participating in and donating to local not-for-profit organizations.

Santa Cruz County Bank stock is publicly traded on the OTC marketplace under the symbol SCZC. Stock purchase orders may be placed online, through a brokerage firm, or through Market Makers listed in the Investor Relations section of the bank's website. For more information about Santa Cruz County Bank, visit www.sccountybank.com.

NATIONAL, STATE, AND LOCAL RATINGS AND AWARDS

S&P Global Top 100 Community Banks: ranked 4th in the nation out of more than 4,200 banks with assets under \$3 billion based upon 2019 performance. The Bank has ranked in the Top 100 Community Banks by S&P Global for four consecutive years.

Financial Management Consulting (FMC) Group: The Bank has ranked in FMC's top ten banks in California for the past five years.

Impact of and Response to the COVID-19 Pandemic

In response to the COVID-19 pandemic, the Bank focused first on the well-being of its employees, customers and communities. Masks and social distancing are required for customers and employees in all banking offices. Additional preventive health measures were put in place including elimination of business-related travel requirements, mandatory work from home for all employees able to do so, social distancing precautions for all employees in the office and customers visiting branches, and preventive cleaning at offices and branches including the implementation of protective barriers. Customer-facing employees were also provided additional pay for their essential service.

The Bank also focused on business continuity measures including monitoring potential business interruptions, making improvements to our remote working technology, and conducting regular discussions with our technology vendors to ensure full functionality throughout this event.

The Bank took measures to both support customers affected by the pandemic and to maintain strong asset quality, including:

- Helping business clients through the Paycheck Protection Program (“PPP”) and other loan products; following its launch in April, we originated \$356 million in PPP loans.
- Offering flexible repayment options to current clients and a streamlined loan modification process, when appropriate
- Implementing a broad-based risk management strategy to manage credit segments on a real-time basis
- Monitoring portfolio risk and related mitigation strategies by segments
- Proactively contacting clients in order to assess credit situations and needs and develop long-term financial contingency plans

The Bank is currently taking advantage of participation in the Federal Reserve Bank Liquidity Facility although only utilizing about 15% of the available capacity to date.

Non-Interest Income / Expense and Net Interest Margin

For the second quarter of 2020, the non-interest income total was \$670 thousand with no gains on loans sold. Gains are taken strategically and represent the primary variant within non-interest income comparisons to second quarter 2020 and second quarter 2019. In addition, the recession in the second quarter of 2020 resulting from the COVID-19 pandemic, negatively impacted non-interest income.

Non-interest expense for the three-month period ended June 30, 2020, increased 6% or \$321 thousand compared to prior quarter and increased 43% or \$1.8 million compared to the same period last year. Second quarter non-interest expense is the combination of both banks (resulting from the merger with Lighthouse Bank), hence the increase, compared to the second quarter of 2019, which represents non-interest expense of Santa Cruz County Bank only. Comparing the first quarter to the second quarter of 2020, the increase in non-interest expense is due primarily to an increase in salary expense for the ramping up of resources for the bank’s emphasis on PPP loan generation while striving to save jobs in our service area.

Net interest income is the major earnings component of the Bank. Net interest income of \$11 million for the quarter ended June 30, 2020 fell short of prior quarter by 1% or \$78 thousand, but improved over the 2019 second quarter by 37% or \$3 million. The year over year increase again is due to the larger volume of the combined earning assets of both banks resulting from the merger. The slight variance from the first quarter of

The Findley Reports, Inc.: The Bank has received the top ranking of Super Premier by Findley for ten consecutive years.

Bauer Financial Reports, Inc.: rated 5-star "Superior" based upon its financial performance.

American Banker Magazine: ranked 13th out of 511 institutions in American Banker Magazine's "Top Performing 200 Community Banks & Thrifts in the United States" based upon 3-year average return on equity. The Bank ranked 4th out of 26 California banks. The Bank has ranked in the Top 200 Community Banks in the United States for seven consecutive years.

The Bank ranks 4th in the Silicon Valley for the number of SBA loans lent to Silicon Valley businesses for the SBA's 2019 fiscal year.

COMMUNITY AWARDS AND RECOGNITION

Santa Cruz Chamber of Commerce, 2018 Business of the Year Award.

Farm Bureau of Santa Cruz County, 2018 Al Smith Friend of Agriculture Award for support of the agricultural industry and providing access to capital.

Second Harvest Food Bank, Platinum Level Award for the 2019 Holiday Food & Fund Drive.

Santa Cruz Sentinel, 2019 Reader's Choice Award, number one bank in Santa Cruz County as voted by Santa Cruz Sentinel readers.

Good Times, 2019 Best of Santa Cruz County Award, Voted "Best Bank" for the seven consecutive years.

Santa Cruz Waves Magazine, 2019 Swellies Awards, Voted "Favorite Bank" in Santa Cruz County.

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 is 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. Readers 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.

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	Selected Financial Data (unaudited)										
	Quarter ended		Change		Quarter ended		Change				
	06/30/20	06/30/19	\$	%	03/31/20	\$	%				
Balance Sheet											
Total assets	\$ 1,384,830,355	\$ 702,419,918	\$ 682,410,437	97%	\$ 1,069,462,569	\$ 315,367,786	29%				
Gross loans	1,120,222,016	508,240,050	611,981,966	120%	752,562,735	367,659,281	49%				
Allowance for loan losses	10,602,444	9,992,368	610,076	6%	10,349,444	253,000	2%				
Non interest-bearing deposits	548,399,507	270,953,853	277,445,654	102%	356,715,560	191,683,947	54%				
Total deposits	1,147,585,446	614,934,326	532,651,120	87%	899,126,540	248,458,906	28%				
Shareholders' equity	159,691,195	74,816,723	84,874,472	113%	154,891,396	4,799,799	3%				
Income Statement											
								Change			
								\$ %			
Interest income	\$ 11,648,797	\$ 8,481,062	3,167,735	37%	\$ 11,837,332	(188,535)	-2%	Six-months ended 6/30/20	Six -months ended 6/30/19	\$	%
Interest expense	<u>682,022</u>	<u>485,920</u>	196,102	40%	<u>792,154</u>	(110,132)	-14%	<u>23,486,129</u>	<u>16,643,871</u>	\$	41%
Net interest income	10,966,775	7,995,142	2,971,633	37%	11,045,178	(78,403)	-1%	1,474,176	893,300	580,876	65%
Provision for loan losses	250,000	150,000	100,000	100%	150,000	100,000	67%	22,011,953	15,750,571	6,261,382	40%
Non-interest income	669,963	949,572	(279,609)	-29%	1,017,884	(347,921)	-34%	400,000	150,000	250,000	100%
Merger expense	82,704	-	82,704	100%	65,950	16,754	25%	1,687,847	1,813,547	(125,700)	-7%
Non-interest expense	<u>5,989,226</u>	<u>4,202,025</u>	1,787,201	43%	<u>5,668,715</u>	320,511	6%	148,654	-	148,654	100%
Net income before taxes	5,314,808	4,592,689	722,119	16%	6,178,397	(863,589)	-14%	11,657,941	8,660,226	2,997,715	35%
Income tax expense	<u>1,529,506</u>	<u>1,325,760</u>	203,746	15%	<u>1,796,936</u>	(267,430)	-15%	<u>11,493,205</u>	<u>8,753,892</u>	2,739,313	31%
Net income after taxes	<u>\$ 3,785,302</u>	<u>\$ 3,266,929</u>	518,373	16%	<u>\$ 4,381,461</u>	(596,159)	-14%	<u>3,326,442</u>	<u>2,522,054</u>	804,388	32%
BASIC EARNINGS PER SHARE	\$ 0.98	\$ 1.33	(0.35)	-26%	\$ 1.14	(0.16)	-14%	<u>\$ 8,166,763</u>	<u>\$ 6,231,838</u>	1,934,925	31%
DILUTED EARNINGS PER SHARE	\$ 0.98	\$ 1.32	(0.34)	-26%	\$ 1.13	(0.15)	-13%	\$ 2.12	\$ 2.55	\$ (0.43)	-17%
Book value per share	\$ 41.47	\$ 30.48	10.99	36%	\$ 40.22	1.25	3%	\$ 2.11	\$ 2.52	\$ (0.41)	-16%
Tangible book value per share	\$ 33.45	\$ 29.72	3.73	13%	\$ 32.15	1.30	4%	\$ 41.47	\$ 30.48	\$ 10.99	36%
SHARES OUTSTANDING	3,851,041	2,454,498			3,851,041			\$ 33.45	\$ 29.72	\$ 3.73	13%
Ratios											
Tier 1 leverage ratio	10.65%	10.78%			12.26%			10.65%	10.78%		
Net interest margin	3.69%	4.82%			4.51%			4.06%	4.87%		
Efficiency ratio	52.18%	46.97%			47.55%			49.82%	49.30%		
Return on average assets	1.20%	1.89%			1.67%			1.41%	1.85%		
Return on average equity	9.65%	17.82%			11.42%			10.53%	17.45%		
Return on tangible equity	11.82%	17.96%			14.23%			12.75%	17.23%		
% of non interest bearing to total deposits	48%	44%			40%						