Santa Cruz County Bank Reports Earnings
For Quarter Ended September 30, 2021
Assets of $1.70 billion
Year to date record earnings

SANTA CRUZ, CA – October 18, 2021: Santa Cruz County Bank **(OTCQX: SCZC),** with assets of $1.70 billion, is a top-rated community bank headquartered in Santa Cruz County. Today the Bank announced unaudited earnings for the third quarter ended September 30, 2021. Year-to-date earnings for the nine-month period ended September 30, 2021 was a record $16.6 million, 23% over prior year.

Santa Cruz County Bank President and CEO, Krista Snelling, stated, "We are pleased to report record nine-month performance and growth in assets reaching a new milestone, $1.70 billion. We continue to experience solid (non-PPP) loan demand and quarterly growth in (non-PPP) gross loans, which have increased by $216.0 million or 26%, compared to September 30, 2020. Our ability to respond to and support businesses through the PPP loan process, and grow new relationships as we move forward is a key indicator that our Bank remains focused on and in tune with the needs of the communities we serve."

Financial Highlights

Performance highlights as of and for the quarter ended September 30, 2021 included the following:

- Assets of $1.70 billion as of September 30, 2021, an increase of $260.5 million or 18%, compared to September 30, 2020.
- Total gross loans (excluding PPP) of $1.05 billion, an increase of $216.0 million or 26%, compared to September 30, 2020.
- Deposits of $1.50 billion, an increase of $319 million or 27%, compared to September 30, 2020.
- Basic earnings per share of $1.42 and $4.29 for the three and nine month periods ended September 30, 2021, respectively.
- Provision for loan losses was $2.1 million for the third quarter of 2021 compared to $2.1 million for the trailing quarter and $360 thousand for the same period in 2020. The increase was driven by growth in the non-PPP sector of the loan portfolio and a specific reserve for one classified yet still performing loan in the amount of $1.3 million.
- Pretax, pre-provision net earnings was $9.9 million for the quarter ended September 30, 2021, compared to $9.5 million and $7.9 million for the quarters ended June 30, 2021 and September 30, 2020, respectively.
- Net interest margin was 4.04% for the third quarter of 2021, as compared to 4.08% in the trailing quarter and 3.80% in the same quarter of 2020.
- For the quarters ended September 30, 2021 and June 30, 2021, return on average assets was 1.30% and 1.34%, respectively, and the return on average tangible equity was 14.10% and 14.14%, respectively.
- Efficiency ratio was 42.63% for the third quarter of 2021, as compared to 43.79% in the trailing quarter and 44.61% in the same quarter of 2020.
- All capital ratios were above regulatory requirements for a well-capitalized institution with a total risk-based capital ratio of 15.12%.

- Continued strong credit quality with nonaccrual loans totaling only $384 thousand and a single performing loan contributing to the loan loss provision.

- Book value per share after cash dividends increased to $47.21 at September 30, 2021 compared to $46.15 at June 30, 2021.

Third Quarter and Year-To-Date Earnings

For the third quarter 2021, net income was $5.5 million, compared to $5.3 million in the second quarter of 2021 and the third quarter of 2020. In the third quarter of 2021, $2.1 million was provided for loan loss reserves compared to $2.1 million in the second quarter of 2021 and $360 thousand in the third quarter of 2020. The increase was driven by growth in the non-PPP sector of the loan portfolio and a specific reserve for one classified yet still performing loan in the amount of $1.3 million.

Pretax, pre-provision net earnings, was $9.9 million for the quarter ended September 30, 2021, compared to $9.5 million and $7.9 million for the quarters ended June 30, 2021 and September 30, 2020, respectively. The primary factor in year-over-year improvement was interest income driven by growth in earning assets coupled with an increase in the net interest margin.

For the quarter, both basic and diluted earnings per share improved over prior year by $0.03 and $0.04, respectively.

Net income for the nine months ended September 30, 2021 was $16.6 million compared to $13.5 million over the same period in 2020. Consistent with the quarterly improvement, the primary factor in the improvement was interest income driven by growth in earning assets coupled with an increase in the net interest margin.

On a year-to-date basis, both basic and diluted earnings per share improved over prior year by $0.78 and $0.79, respectively

Noninterest Income / Expense

Noninterest income for the quarter ended September 30, 2021 was $835 thousand compared to $1.3 million for the same period last year with the difference concentrated in gains on SBA loans sold, which was $431 thousand in the third quarter of 2020 versus none for the same period in 2021. Noninterest income in the third quarter 2021 was down $749 thousand from Q2 2021 with most of the variance again concentrated within gains on SBA loans sold. In the third quarter 2021, management elected to curtail SBA loan sales, increase loan balances and deploy liquidity.

Noninterest expense at $7.3 million for the quarter ended September 30, 2021 was $91 thousand or 1.2% less than prior quarter but increased 17% or $1.07 million compared to the same period last year. The year-over-year increase is due to multiple factors including headcount increases to support our asset growth, fully staffing and equipping our branch in Monterey, initial staffing and associated expense for expansion into Salinas and increase in our reserve for unfunded commitments, which is related to our loan growth.

Interest Income / Interest Expense and Net Interest Margin

Net interest income is the major earnings component of the Bank. Net interest income of $16.4 million for the quarter ended September 30, 2021 exceeded prior quarter by 6.5%, or $999 thousand, and improved over the 2020 third quarter by 26.8% or $3.5 million. The year over year increase is due primarily to growth in the non-PPP loan portfolio which increased by $216 million over the twelve months ended September 30, 2021. As of September 30, 2021, PPP loans accounted for $148.4 million of the loan portfolio, the majority of which was originated during 2021 while most PPP loans originated during 2020 have been forgiven. The Bank's cost of funds was 0.12% for the current quarter compared to 0.21% over the same period last year.

For the third quarter of 2021, net interest margin was 4.04%, an improvement of 24 basis points from prior year and a decrease of four basis points from the second quarter of 2021. The year over year increase in net interest margin was due primarily to the reallocation of forgiven PPP loans to higher yielding non-PPP loans and a decrease in cost of funds.

Assets

Total assets for the third quarter 2021 increased by $260.5 million or 18% compared to prior year. This was due primarily to asset growth generated through PPP loan origination but also planned organic growth such as expansion into Monterey County. With over 50% of 2020 PPP loan originations made to new customers, the Bank's business relationships in the tricounty market area expanded and the Bank continues to capitalize on opportunities afforded by the PPP program into the current quarter.

Loans and Asset Quality

Non-PPP loans grew $49.4 million in the third quarter 2021 and $216 million year over year, helping to bring total assets to $1.7 billion. Forgiveness of PPP loans prompted a decrease of $87 million in gross loans for the quarter; gross loans were down $7 million year over year. PPP balances continue to decline according to expectations, with a reduction of $136.4 million in the third quarter, and $223 million year over year.

Allowance for loan losses of $17.6 million at September 30, 2021 represents a $6.6 million, or 60%, increase over the same period last year. The increase was mainly driven by non-PPP loan growth and specific reserves of $1.3 million related to one classified yet performing loan. The Bank's asset quality remained strong with $384 thousand in nonaccrual loans at quarter-end.

The following is a summary of delinquent and nonperforming loans, as well as the Bank's loan mix:

Delinquent and Nonperforming Loans

(Dollars in thousands)	**As of or for the Quarter Ended 09/30/2021**
PPP loans past due 30-89 days	$ 933
Delinquent loans (past due 90+ days still accruing)	-
Nonaccrual loans	384
Other real estate owned	-
Nonperforming assets	384
Net loan charge-offs (recoveries) YTD	(9)

Loan Mix (% of Gross Loans)

	As of 09/30/2021
Loans held for sale	5%
SBA and B&I loans	10%
PPP loans	12%
Commercial loans	7%
Revolving commercial lines	8%
Construction loans	11%
Real estate loans	44%
Home equity lines of credit	2%
Installment, overdraft, and O/D loans	0%
Nonaccrual loans and unposted loans	0%
OREO as a % of gross loans	0%

The Bank continues to experience good credit quality within the loan portfolio. Past due loans are minimal and are related to PPP loans that are pending forgiveness or SBA guaranty. COVID-related payment deferral requests, which peaked at 8% of the non-SBA portfolio, now total $8.5 million, with the majority secured by real estate. At September 30, non-SBA guaranteed exposure to hotels/motels was $133 million and non-SBA guaranteed exposure to restaurants was $17 million.

Deposits

Deposits reached a record $1.50 billion at September 30, 2021, representing growth of 27% or $319 million since September 30, 2020, and included $719.5 million in noninterest-bearing deposits. Year over year growth was enhanced by PPP related deposits. Third quarter deposit growth is typically higher than second quarter growth and usually related to tourism and hospitality within our market.

Santa Cruz County Bank ranked 4th in overall deposit market share in Santa Cruz County, 2nd in Santa Cruz and 3rd in Watsonville based upon FDIC data as of June 30, 2021.

Deposit Mix (% of Total Deposits)

	As of 09/30/2021
Noninterest-bearing demand	48%
Interest-bearing demand	14%
Money markets	21%
Time certificates of deposit ≥ $250,000	5%
Time certificates of deposit < $250,000	3%
Savings	9%
Total deposits – personal	38%
Total deposits – business	62%

Shareholders' Equity

Total shareholders' equity was $183 million at September 30, 2021, a $4.5 million or 2.5% increase over June 30, 2021 and an $18.1 million increase over prior year. Equity was reduced by the payout of cash dividends on common stock of $484 thousand in the third quarter 2021 at $0.125 per share and $1.6 million over the last twelve months. There was approximately $28.3 million of intangible assets on the books due to the 2019 merger of which $25.8 million was goodwill.

For the quarter ended September 30, 2021, the Bank's return on average equity was 11.95% with a return on tangible equity of 14.10%. Return on average assets was 1.30%. The book value per share of Santa Cruz County Bank's common stock after cash dividends at September 30, 2021 was $47.21 up $4.38 from the same period in 2020.

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 branches in Aptos, Capitola, Cupertino, Monterey, Santa Cruz, Scotts Valley and Watsonville. 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 OTCQX 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: The Bank has ranked in the Top 100 Community Banks in the nation for performance for banks under $3 billion in assets for 5 consecutive years.
- Financial Management Consulting (FMC) Group: The Bank has ranked in FMC's top ten banks in California for the past 6 years.
- The Findley Reports, Inc.: The Bank has received the top ranking of Super Premier by Findley for 11 consecutive years.
- Bauer Financial Reports, Inc.: The Bank is rated 5-star "Superior" based upon its financial performance.
- Good Times, 2021 Best of Santa Cruz County Award, Voted "Best Bank" for 9 consecutive years.
- Santa Cruz Sentinel, 2020 Reader's Choice Award, number one bank in Santa Cruz County as voted by Santa Cruz Sentinel readers.
- Santa Cruz Waves Magazine, 2020 Swellies Awards, Voted "Favorite Bank" in Santa Cruz County.

- Second Harvest Food Bank, Platinum Level Award for the 2020 Holiday Food & Fund Drive.

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 Unaudited Financial Information

(Dollars in thousands, except per share amounts)	As of or for the Quarter Ended September 30, 2021				As of or for the Quarter Ended June 30,		
	2021	2020	Change $	Change %	2021	Change $	Change %
Balance Sheet							
Total assets	$ 1,699,550	$ 1,439,025	$ 260,525	18%	$ 1,631,136	$ 68,414	4%
Gross loans, excluding PPP Loans	1,048,464	832,444	216,020	26%	999,073	49,391	5%
SBA PPP Loans	148,446	371,421	(222,975)	-60%	284,811	(136,365)	-48%
Allowance for loan losses	17,555	10,966	6,589	60%	15,451	2,104	14%
Noninterest-bearing deposits	719,451	557,993	161,458	29%	703,373	16,078	2%
Total deposits	1,498,744	1,179,709	319,035	27%	1,432,707	66,037	5%
Shareholders' equity	183,045	164,947	18,098	11%	178,594	4,451	2%
Income Statement							
Interest income	$ 16,810	$ 13,559	$ 3,251	24%	$ 15,860	$ 950	6%
Interest expense	437	642	(205)	-32%	486	(49)	-10%
Net interest income	16,373	12,917	3,456	27%	15,374	999	6%
Provision for loan losses	2,099	360	1,739	483%	2,050	49	2%
Noninterest income	835	1,330	(495)	-37%	1,584	(749)	-47%
Merger expense	-	88	(88)	-100%	-	-	0%
Noninterest expense	7,335	6,268	1,067	17%	7,426	(91)	-1%
Net income before taxes	7,774	7,531	243	3%	7,482	292	4%
Income tax expense	2,274	2,191	83	4%	2,190	84	4%
Net income after taxes	$ 5,500	$ 5,340	$ 160	3%	$ 5,292	$ 208	4%
Basic earnings per share	$ 1.42	$ 1.39	$ 0.03	2%	$ 1.37	$ 0.05	4%
Diluted earnings per share	$ 1.42	$ 1.38	$ 0.04	3%	$ 1.36	$ 0.06	4%
Book value per share	$ 47.21	$ 42.83	$ 4.38	10%	$ 46.15	$ 1.06	2%
Tangible book value per share	$ 39.90	$ 34.87	$ 5.03	14%	$ 38.80	$ 1.10	3%
Shares outstanding	3,877,467	3,851,041			3,870,264		
Ratios							
Tier 1 leverage ratio	9.44%	10.25%			9.67%		
Net interest margin	4.04%	3.80%			4.08%		
Cost of funds	0.12%	0.21%			0.14%		
ALLL / Non PPP Loans	1.67%	1.32%			1.55%		
Efficiency ratio	42.63%	44.61%			43.79%		
Return on average assets	1.30%	1.50%			1.34%		
Return on average equity	11.95%	13.04%			11.97%		
Return on average tangible equity	14.10%	15.82%			14.14%		
% of noninterest-bearing to total deposits	48.00%	47.30%			49.09%		

Selected Unaudited Financial Information

(Dollars in thousands, except per share amounts)	For the Nine Months Ended September 30, 2021	2020	Change $	Change %
Income Statement				
Interest income	$ 47,332	$ 37,044	$ 10,288	28%
Interest expense	1,415	2,116	(701)	-33%
Net interest income	45,917	34,928	10,989	31%
Provision for loan losses	4,524	760	3,764	495%
Noninterest income	3,952	3,019	933	31%
Merger expense	-	236	(236)	-100%
Noninterest expense	21,922	17,927	3,995	22%
Net income before taxes	23,423	19,024	4,399	23%
Income tax expense	6,842	5,518	1,324	24%
Net income after taxes	$ 16,581	$ 13,506	$ 3,075	23%
Basic earnings per share	$ 4.29	$ 3.51	$ 0.78	22%
Diluted earnings per share	$ 4.28	$ 3.49	$ 0.79	23%
Book value per share	$ 47.21	$ 42.83	$ 4.38	10%
Tangible book value per share	$ 39.90	$ 34.87	$ 5.03	14%
Shares outstanding	3,877,467	3,851,041		
Ratios				
Tier 1 leverage ratio	9.44%	10.25%		
Net interest margin	4.07%	3.96%		
Cost of funds	0.14%	0.26%		
ALLL / Non PPP Loans	1.67%	1.32%		
Efficiency ratio	43.96%	47.87%		
Return on average assets	1.41%	1.45%		
Return on average equity	12.50%	11.39%		
Return on average tangible equity	14.33%	13.44%		
% of noninterest-bearing to total deposits	48.00%	47.30%		