



**Santa Cruz County Bank Reports Earnings
For the Quarter Ending March 31, 2022**
Record assets of \$1.723 billion
Record deposits of \$1.524 billion

SANTA CRUZ, CA – April 20, 2022: Santa Cruz County Bank (**OTCQX: SCZC**), with assets of \$1.723 billion, is a top-rated community bank headquartered in Santa Cruz County. Today the Bank announced unaudited earnings for the first quarter ended March 31, 2022. Net income for the quarter was \$5.4 million, 15% over prior quarter, and 7% or \$400 thousand less than the same quarter in 2021 which benefited from significantly more fee income from the Paycheck Protection Program (“PPP”). The Bank announced a 2-for-1 stock split on February 16, 2022, and paid on March 16, 2022 to shareholders of record as of March 3, 2022. All share data for prior periods has been adjusted to reflect stock dividends and stock splits.

Santa Cruz County Bank President and CEO Krista Snelling commented, “We are pleased to achieve record assets, deposits and loans (excluding PPP) in our first quarter of 2022. Year over year, the Bank recorded significant loan growth, excluding PPP, of over \$220 million. Our steady performance has resulted in the Bank’s continuity as a financial industry leader and top performer. On a local level, our entire team is to be commended for the Bank’s recent recognition from the Santa Cruz County Chamber of Commerce as a Business of the Year, and for being voted for a 10th consecutive year, “Best Bank” in Santa Cruz County. These accolades are the result of the tremendous expertise and service delivered to our clients and community by our dedicated employees.”

Financial Highlights

Performance highlights as of and for the quarter ended March 31, 2022 included the following:

- Record assets of \$1.72 billion as of March 31, 2022, an increase of \$173.2 million or 11%, compared to March 31, 2021.
- Record gross loans (excluding PPP) of \$1.14 billion, an increase of \$220.2 million or 24%, compared to March 31, 2021.
- Record deposits of \$1.52 billion, an increase of \$167.6 million or 12%, compared to March 31, 2021.
- Basic earnings per share of \$0.63 for the quarter ended March 31, 2022.
- Provision for loan losses was \$645 thousand for the first quarter of 2022 compared to \$2.3 million for the trailing quarter and \$375 thousand for the same period in 2021. The increase in fourth quarter 2021 was driven primarily by growth in the non-PPP sector of the loan portfolio. Non-PPP loan growth was \$29 million for the first quarter of 2022 compared to \$1.7 million for the first quarter of 2021, driving the quarter over quarter increase in provision.
- Pretax, pre-provision net earnings were \$8.3 million for the quarter ended March 31, 2022, compared to \$9.0 million and \$8.5 million for the quarters ended December 31, 2021 and March 31, 2021, respectively.
- Net interest margin was 3.76% for the first quarter of 2022, as compared to 3.78% in the trailing quarter and 4.10% in the same quarter of 2021.
- For the quarters ended March 31, 2022 and December 31, 2021, return on average assets was 1.28% and 1.09%, respectively, and the return on average tangible equity was 13.69% and 11.77%, respectively.
- Efficiency ratio was 47.98% for the first quarter of 2022, as compared to 45.41% in the trailing quarter and 45.60% in the same quarter of 2021.

- All capital ratios were above regulatory requirements for a well-capitalized institution with a total risk-based capital ratio of 14.83%.
- Continued strong credit quality with nonaccrual loans totaling only \$59 thousand.
- Book value per share after cash and stock dividends decreased to \$21.42 at March 31, 2022 compared to \$21.80 at December 31, 2021.

First Quarter Earnings

For the first quarter 2022, net income was \$5.4 million, compared to \$4.7 million in the fourth quarter of 2021 and \$5.8 million in the first quarter of 2021. Major factors impacting each quarter include provisions to loan loss reserves, a diminishing amount of PPP loan fee recognition and the gain on sale of SBA loans. In the first quarter of 2022, \$645 thousand was provided to loan loss reserve, PPP loan fee income was \$1.5 million and with no gains on SBA loan sales. In the trailing quarter, \$2.3 million was provided to loan loss reserve, PPP loan fee income was \$1.9 million and with no gains on SBA loan sales. In the first quarter of 2021, \$375 thousand was provided to loan loss reserve, PPP loan fee income was \$2.3 million and \$618 thousand was taken as gains on SBA loan sales.

Pretax, pre-provision net earnings were \$8.3 million for the quarter ended March 31, 2022, compared to \$9.0 million and \$8.5 million for the quarters ended December 31, 2021 and March 31, 2021, respectively. The primary factors in year-over-year variance was the gain on SBA loan sales combined with more PPP fee income. For the quarter over quarter variance, the primary factor was PPP fee income.

Both basic and diluted earnings per share improved over prior quarter by \$0.08.

Noninterest Income / Expense

Noninterest income for the quarter ended March 31, 2022 was \$789 thousand compared to \$823 thousand for the trailing quarter. Noninterest income for first quarter 2021 was \$1.5 million with the difference concentrated within gains on SBA loans sold which was \$618 thousand in the first quarter of 2021 versus none in 2022. Prior to the second half of 2021, management elected to curtail SBA loan sales and increase core loan balances.

Noninterest expense remained well-controlled at \$7.6 million for the quarter ended March 31, 2022, only \$152 thousand or 2% more than prior quarter and only \$457 thousand more than the same period last year.

Interest Income / Interest Expense and Net Interest Margin

Net interest income is the major earnings component of the Bank. Net interest income of \$15.1 million for the quarter ended March 31, 2022 was less than prior quarter by 3.4%, or \$529 thousand, and improved over the 2021 first quarter by 6.5% or \$919 thousand. The year over year increase is due primarily to growth in the non-PPP loan portfolio which increased by \$220.2 million over the twelve months ended March 31, 2022. As of March 31, 2022, PPP loans accounted for \$49.2 million of the loan portfolio, the majority of which were originated during 2021, while nearly all PPP loans originated during 2020 have been forgiven. The Bank's cost of funds was 0.10% for the current quarter compared to 0.16% over the same period last year.

For the first quarter of 2022, net interest margin was 3.76%, compared to 3.78% in the trailing quarter and 4.10% for the corresponding period in 2021. The slight decline of net interest margin and net interest income experienced in first quarter 2022 is attributed to lesser PPP loan forgiveness which resulted in less PPP loan fee income recognition. PPP forgiveness was \$44.1 million in the first quarter versus \$55.2 million in the previous quarter. Consequently, PPP fee income was \$1.5 million for first quarter 2022 compared to \$1.9 million in fourth quarter 2021.

Assets

Total assets at March 31, 2022 increased by \$173.2 million or 11% compared to prior year. This was due primarily to asset growth generated through PPP loan origination and planned organic growth including the Bank's expansion into Monterey County. The Bank made over 50% of its PPP loan originations to new clients, the Bank's business relationships in the tri-county 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 increased by \$220.2 million or 24% compared to the prior year, partially replacing the \$383.0 million year-over year reduction in PPP loans.

Allowance for loan losses of \$20.6 million at March 31, 2022 represents a \$7.2 million, or 53%, increase over the same period last year. The increase was primarily due to growth in the non-PPP portfolio and a specific reserve in the amount of \$1.3 million for one impaired, yet still performing, loan. The Bank's asset quality remained strong with \$59 thousand in nonaccrual loans at quarter end.

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

Loan Mix

<i>(Dollars in thousands)</i>	As of		
	<u>03/31/2021</u>	<u>12/31/2021</u>	<u>03/31/2022</u>
Loans held for sale	\$ 26,582	\$ 69,507	\$ 74,182
SBA and B&I loans	127,707	119,680	119,206
PPP loans	432,195	93,278	49,182
Commercial loans	72,711	91,425	87,117
Revolving commercial lines	97,219	102,534	102,563
Construction loans	87,882	142,827	152,002
Real estate loans	477,996	554,397	574,484
Home equity lines of credit	24,568	24,538	26,892
Installment, overdraft, and O/D loans	3,944	4,895	2,366
Total loans	<u>\$ 1,350,804</u>	<u>\$ 1,203,081</u>	<u>\$ 1,187,994</u>

Delinquent and Nonperforming Loans

<i>(Dollars in thousands)</i>	As of or for the Quarter Ended		
	<u>03/31/2021</u>	<u>12/31/2021</u>	<u>03/31/2022</u>
Loans past due 30-89 days, excluding PPP loans	\$ --	\$ --	\$ 994
PPP loans past due 30-89 days	--	66	26
Delinquent loans (past due 90+ days still accruing)	69	107	2
Nonaccrual loans	30	376	59
Other real estate owned	--	--	--
Nonperforming assets	99	483	61
Net loan charge-offs (recoveries) QTD	(2)	(89)	69
Net loan charge-offs (recoveries) YTD	(2)	(99)	69

The Bank continues to experience good credit quality in the loan portfolio. Past due loans are minimal and nearly all of the past due amount is related to one loan which is real estate secured. The Bank has not received any new COVID-related payment deferral requests, and borrowers who were granted deferrals in the past have returned to regular payment schedules. COVID deferral requests peaked at 8% of the non-SBA portfolio, totaling \$9.3 million, with the majority secured by real estate. As of March 31, 2022, non-SBA guaranteed exposure to hotels/motels was \$137.3 million and non-SBA guaranteed exposure to restaurants was \$16.8 million.

Deposits

Deposits were \$1.52 billion at March 31, 2022, representing growth of 12% or \$167.6 million since March 31, 2021, and including \$708.9 million in noninterest-bearing deposits. Year over year growth was enhanced by PPP related deposits and organic expansion. Deposits grew \$27.3 million from the fourth quarter of 2021 to first quarter 2022 with nearly half generated from the Bank's offices in Silicon Valley and Monterey.

Santa Cruz County Bank ranked 4th in overall deposit market share in Santa Cruz County, 2nd in Santa Cruz, 3rd in Watsonville, and 15th in Silicon Valley based upon FDIC data as of June 30, 2021.

Deposit Mix

<i>(Dollars in thousands)</i>	As of		
	<u>03/31/2021</u>	<u>12/31/2021</u>	<u>03/31/2022</u>
Noninterest-bearing demand	\$ 640,796	\$ 716,888	\$ 708,936
Interest-bearing demand	183,796	219,072	217,840
Money markets	286,900	314,541	341,460
Time certificates of deposit \geq \$250,000	79,653	68,716	72,310

Time certificates of deposit < \$250,000	47,846	45,666	45,724
Savings	117,063	131,453	137,383
Total deposits	\$ 1,356,054	\$ 1,496,336	\$ 1,523,653
Total deposits – personal	\$ 529,008	\$ 585,061	\$ 596,169
Total deposits – business	\$ 827,046	\$ 911,275	\$ 927,484

Shareholders' Equity

Total shareholders' equity was \$182.9 million at March 31, 2022, a \$3.2 million or 1.7% decrease over December 31, 2021 and an increase of \$9.4 million over prior year. Equity was reduced by the payout of cash dividends on common stock of \$768 thousand in the first quarter of 2022 at \$0.09 per share and \$2.3 million over the last twelve months. There was approximately \$28.1 million of intangible assets on the books due to the 2019 merger of which \$25.8 million was goodwill.

Another important factor in the 1.7% decrease in equity during the first quarter of 2022 is the result of unrealized losses in the available-for-sale sector of the investment portfolio. The after-tax unrealized loss on available-for-sale securities which is a component of equity, went from \$2.1 million to \$10.1 million. Industry-wide there has been a material decline in market value, consistent with the significant increase in market yields. Bonds have a maturity and, with minimal credit risk, the Bank expects to receive principal, in full, when the bonds mature. The Bank's investment portfolio is comprised of U.S. Treasury bonds, SBA pools and Certificates of Deposit which together account for 85% with a zero-risk weighting, 13% is in U.S. Government sponsored agencies and 2% is in municipal bonds.

For the quarter ended March 31, 2022, the Bank's return on average equity was 11.63% with a return on average tangible equity of 13.69%. Return on average assets was 1.28%. The book value per share of Santa Cruz County Bank's common stock, after cash and stock dividends at March 31, 2022, was \$21.42 up \$0.99 from the same period in 2021.

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 U.S. Premier 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

- Financial Management Consulting (FMC) Group: The Bank is ranked 13th in overall financial performance for 2021 and has ranked in FMC's top ten banks in California for the previous 6 years.
- The Findley Reports, Inc.: The Bank has received the top ranking of Super Premier by Findley for 12 consecutive years.
- Bauer Financial Reports, Inc.: The Bank is rated 5-star "Superior" based upon its financial performance.
- U.S. Small Business Administration: The Bank is in the Top 100 most active SBA 7(a) lenders in the nation.
- Silicon Valley Business Journal: The Bank is ranked 14th in SBA loan volume and 11th in number of loans lent to Silicon Valley businesses from October 1, 2020 to September 1, 2021.
- Good Times, 2022 Best of Santa Cruz County Award, Voted "Best Bank" for 10 consecutive years.
- Santa Cruz Sentinel, 2021 Reader's Choice Award, number one bank in Santa Cruz County as voted by Santa Cruz Sentinel readers for 7 years.

- Second Harvest Food Bank, Big Step and Platinum Level Awards for the 2021 Holiday Food & Fund Drive.
- Santa Cruz County Chamber of Commerce: Business of the Year, 2021 and 2018.

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.

Selected Unaudited Financial Information

	<u>As of or for the Quarter Ended</u>				<u>As of or for the</u>		
	<u>March 31,</u>				<u>Quarter Ended</u>		
	<u>2022</u>	<u>2021</u>	<u>Change \$</u>	<u>Change %</u>	<u>2021</u>	<u>Change \$</u>	<u>Change %</u>
<i>(Dollars in thousands, except per share amounts)</i>							
Balance Sheet							
Total assets	\$ 1,723,189	\$ 1,549,976	\$ 173,213	11%	\$ 1,701,250	\$ 21,939	1%
Gross loans, excluding PPP loans	1,138,812	918,609	220,203	24%	1,109,804	29,008	3%
SBA PPP Loans	49,182	432,195	(383,013)	-89%	93,278	(44,096)	-47%
Allowance for loan losses	20,555	13,399	7,156	53%	19,978	577	3%
Noninterest-bearing deposits	708,936	640,796	68,140	11%	716,888	(7,952)	-1%
Total deposits	1,523,653	1,356,054	167,599	12%	1,496,336	27,317	2%
Shareholders' equity	182,884	173,484	9,400	5%	186,090	(3,206)	-2%
Income Statement							
Interest income	\$ 15,459	\$ 14,662	\$ 797	5%	\$ 16,019	\$ (560)	-3%
Interest expense	370	492	(122)	-25%	401	(31)	-8%
Net interest income	15,089	14,170	919	6%	15,618	(529)	-3%
Provision for loan losses	645	375	270	72%	2,333	(1,688)	-72%
Noninterest income	789	1,533	(744)	-49%	823	(34)	-4%
Noninterest expense	7,618	7,161	457	6%	7,466	152	2%
Net income before taxes	7,615	8,167	(552)	-7%	6,642	973	15%
Income tax expense	2,232	2,378	(146)	-6%	1,949	283	14%
Net income after taxes	\$ 5,383	\$ 5,789	\$ (406)	-7%	\$ 4,693	\$ 690	15%
Basic earnings per share	\$ 0.63	\$ 0.68	\$ (0.05)	-7%	\$ 0.55	\$ 0.08	15%
Diluted earnings per share	\$ 0.63	\$ 0.68	\$ (0.05)	-7%	\$ 0.55	\$ 0.08	15%
Book value per share	\$ 21.42	\$ 20.43	\$ 0.99	5%	\$ 21.80	\$ (0.38)	-2%
Tangible book value per share	\$ 18.13	\$ 17.07	\$ 1.06	6%	\$ 18.50	\$ (0.37)	-2%
Shares outstanding	8,536,924	8,490,820			8,536,000		
Ratios							
Tier 1 leverage ratio	9.81%	10.13%			9.50%		
Net interest margin	3.76%	4.10%			3.78%		
Cost of funds	0.10%	0.16%			0.11%		
ALLL / Non-PPP loans	1.80%	1.46%			1.80%		
Efficiency ratio	47.98%	45.60%			45.41%		
Return on average assets	1.28%	1.60%			1.09%		
Return on average equity	11.63%	13.66%			9.98%		
Return on average tangible equity	13.69%	16.39%			11.77%		
% of noninterest-bearing to total deposits	46.53%	47.25%			47.91%		

Share data for prior periods has been adjusted to reflect stock dividends and stock splits.