



**Santa Cruz County Bank Reports Record Earnings
For Year Ended December 31, 2018
*Eighth successive year of record earnings***

SANTA CRUZ, CA – Jan 24, 2019: Santa Cruz County Bank (OTC: SCZC), today announced unaudited record earnings for the fourth quarter and year ended December 31, 2018. Net income for the year was \$11.4 million, an increase of \$4.6 million or 68% over prior year. This represents the best year in the Bank’s history.

President and CEO David V. Heald commented, “The Board of Directors and the entire Santa Cruz County Bank team are very pleased to provide our shareholders with continued strong returns through another record year of performance. Our strategy for managing our balance sheet during a rising interest rate environment has resulted in improved net interest margin and pretax income. We are extremely satisfied with our performance over the past 15 years and look forward to carrying out our strategic initiatives in the years ahead.”

Selected financial information:

	Year Ended December 31,		
Balance Sheet			
Total assets	\$662,408,357	\$629,963,786	\$32,444,571
Gross loans	487,812,901	452,827,237	34,985,664
Allowance for loan losses	9,836,731	9,106,258	730,473
Non-interest-bearing deposits	259,724,984	242,497,582	17,227,402
Total deposits	584,125,809	562,658,947	21,466,862
Shareholders’ equity	68,523,002	57,280,548	11,242,454
Net Income	\$11,380,086	\$6,758,398	\$4,621,688
Ratios			
Tier 1 leverage ratio	10.26%	9.15%	
Net interest margin	4.66%	4.33%	
Efficiency ratio	49.04%	50.14%	
Return on average assets	1.75%	1.11%	
Return on average equity	18.05%	12.27%	
Share and Per Share Data			
Basic earnings per common share	\$4.68	\$2.80	
Book value per common share	\$27.98	\$23.64	
Total common shares outstanding	2,448,594	2,422,924	

Fourth Quarter Earnings

Net income for the quarter ended December 31, 2018 was \$3.2 million compared to \$2.9 million for the previous quarter ended September 30, 2018, and \$846 thousand for the quarter ended December 31, 2017. Pretax income for the quarter ended December 31, 2018 was \$4.3 million compared to \$4.1 million for the previous quarter ended September 30, 2018. Earnings per share for the fourth quarter ended December 31, 2018 was \$1.30 per share, a 271% or \$0.95 increase over the same period in 2017.

Year to Date Earnings

Net income for the year ended December 31, 2018 was \$11.4 million compared to \$6.8 million for the same period in 2017. Pretax income for the year ended December 31, 2018 was \$15.9 million compared

to \$13.4 million to the same period in 2017. Annual earnings for 2017 were reduced by \$1.5 million due to the impact of an increase in income tax expense for the fiscal year as the bank revalued its deferred tax assets to align with the lowered U.S. corporate tax rate.

Financial Highlights:

- Assets of \$662 million
- Total deposits of \$584 million
- Pretax income of \$15.9 million for the year, a new record
- Net interest margin of 4.66%
- Return on average assets of 1.75%
- Return on average equity of 18.05%
- Efficiency ratio of 49.04% for the year
- Well capitalized with a total risk based capital ratio of 13.81%
- Continued exceptional credit quality with no loans on non-accrual or past due
- Book value per share after cash and stock dividends increased by \$4.34 or 18%, to \$27.98 at year end

Loans, Asset Quality & Deposits

Total assets increased by \$32 million or 5% compared to prior year. This is following a seasonal decrease of \$2.5 million in assets for the fourth quarter to \$662 million. For the fourth quarter, gross loans increased by \$18.7 million, and year over year increased \$35 million, 8% to \$487.8 million. Allowance for loan losses of \$9.8 million at December 31, 2018 represents an 8% increase over the same period last year. The Bank's asset quality remained exceptional. Deposits grew by 4% or \$21.5 million, \$17.5 million of which were non-interest bearing, since December 31, 2017.

Non-Interest Income / Expense and Net Interest Margin

Non-interest income for the quarter ended December 31, 2018 was \$622 thousand compared to \$525 thousand for the same period last year. No gains on loans sold were taken in either period. For the full year, non-interest income was \$3.2 million, a decrease of 3% or \$97 thousand from prior year and attributable to a strategic decision to retain loans on balance sheet rather than take gains on the sale of loans.

Non-interest expense for the quarter ended December 31, 2018 was \$3.9 million or 3% less than prior quarter but increased 13% or \$462 thousand compared to the same period last year. On a year-to-date basis, non-interest expense increased by 10%. Most of the year over year variance exists in salary expense related to employee recruitment and retention, and non-recurring occupancy expense associated with the Bank's move into a new facility in 2018.

Net interest income of \$7.8 million for the quarter ended December 31, 2018 improved 4% or \$333 thousand over prior quarter and exceeded the fourth quarter of 2017 by \$1 million or 15%. The year over year improvement was driven by a continued focus on building high quality earning assets through loan production and the benefit from rate increases implemented by the Federal Open Market Committee. Consequently, net interest margin at 4.66% for the twelve months ended December 31, 2018 improved by 33 basis points over prior year.

Shareholders' Equity

Total shareholders' equity was \$68.5 million at December 31, 2018, an \$11.2 million or 20% increase over December 31, 2017. The value added to our shareholders was due to continued strong earnings. This increase was reduced by the payout of cash dividends on common stock of \$608 thousand in 2018.

For the year ended December 31, 2018, the Bank's return on average equity was 18.05% and return on average assets was 1.75%. The book value per share of Santa Cruz County Bank's common stock after cash dividends at December 31, 2018 was \$27.98 up \$4.34 from the same period in 2017.

NATIONAL, STATE, AND LOCAL RATINGS AND AWARDS

S&P Global Top 100 Community Banks: Santa Cruz County Bank ranked 63rd in the nation out of nearly 3,000 banks with assets under \$1 billion based upon 2017 performance. The Bank has ranked in the Top 100 Community Banks by S&P Global for two consecutive years.

Financial Management Consulting (FMC) Group: Santa Cruz County Bank is the top bank in California in overall performance among 148 banks, and also ranked 1st in asset quality as well as 1st (lowest) in

non-performing assets for its financial performance in the first, second and third quarters for 2018. The Bank has ranked in FMC's top ten banks in California for the past four years.

The Findley Reports, Inc.: Santa Cruz County Bank was named a Super Premier Performing Bank for its 2017 financial performance. The Bank has received the top ranking of Super Premier by Findley for eight consecutive years.

Bauer Financial Reports, Inc.: Santa Cruz County Bank is rated 5-star or "Superior" based upon its financial performance.

American Banker Magazine: Santa Cruz County Bank ranked 22nd out of 633 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 five consecutive years.

The Bank ranks 8th in the Silicon Valley for the number of SBA loans lent to Silicon Valley businesses for the SBA's 2018 fiscal year.

2018 COMMUNITY AWARDS AND RECOGNITION

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

Farm Bureau of Santa Cruz County, Al Smith Friend of Agriculture Award, for support of the agricultural industry.

Voted "Best Bank" by the readers of Good Times, a weekly publication with distribution throughout Santa Cruz County for six consecutive years.

Voted "Best Bank" by the readers of Santa Cruz Sentinel, a daily publication with distribution throughout Santa Cruz County for four consecutive years.

ABOUT SANTA CRUZ COUNTY BANK

Santa Cruz County Bank, founded in 2004, is a top rated, locally owned and operated full-service community bank headquartered in Santa Cruz, California. The bank operates five branches located in Aptos, Capitola, Santa Cruz, Scotts Valley and Watsonville. The bank offers a variety of competitive deposit and lending solutions for businesses and individuals; including business loans, lines of credit, commercial real estate financing, agricultural loans, SBA and USDA government guaranteed loans, credit cards, merchant services, remote deposit capture, mobile and online banking, bill payment, and cash management. The bank's SBA Department has been recognized as a top SBA lender in Santa Cruz County and in the Silicon Valley. Santa Cruz County Bank is a top USDA lender in the state of California.

Santa Cruz County Bank stock is publicly traded on the OTC marketplace under the stock symbol SCZC. Stock purchase orders may be placed through a brokerage firm or one of the 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.

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 Financial Data (unaudited)

	Quarter ended		Change		Quarter ended		Change					
	12/31/18	12/31/17	\$	%	9/30/18	\$	%					
Balance Sheet												
Total assets	\$ 662,408,357	\$ 629,963,786	\$ 32,444,571	5%	\$ 664,894,703	\$ (2,486,346)	-0.4%					
Gross loans	487,812,901	452,827,237	34,985,664	8%	469,099,353	18,713,548	4%					
Allowance for loan losses	9,836,731	9,106,258	730,473	8%	9,643,305	193,426	2%					
Non interest-bearing deposits	259,724,984	242,497,582	17,227,402	7%	258,929,228	795,756	0%					
Total deposits	584,125,809	562,658,947	21,466,862	4%	589,706,102	(5,580,293)	-1%					
Shareholders' equity	68,523,002	57,280,548	11,242,454	20%	65,427,695	3,095,307	5%					
Income Statement												
									Year Ended	Year Ended	Change	
								12/31/18	12/31/17	\$	%	
Interest income	8,236,158	7,028,638	1,207,520	17%	7,862,778	373,380	5%	30,610,205	26,311,865	\$ 4,298,340	16%	
Interest expense	<u>392,881</u>	<u>226,872</u>	166,009	73%	<u>352,198</u>	40,683	12%	<u>1,333,389</u>	<u>789,886</u>	543,503	69%	
Net interest income	7,843,277	6,801,766	1,041,511	15%	7,510,580	332,697	4%	29,276,816	25,521,979	3,754,837	15%	
Provision for loan losses	187,500	187,500	-	0%	125,000	62,500	50%	687,500	912,500	(225,000)	-25%	
Non-interest income	622,495	524,758	97,737	19%	830,170	(207,675)	-25%	3,221,993	3,318,709	(96,716)	-3%	
Non-interest expense	<u>3,945,098</u>	<u>3,483,583</u>	461,515	13%	<u>4,070,355</u>	(125,257)	-3%	<u>15,944,838</u>	<u>14,490,624</u>	1,454,214	10%	
Net income before taxes	4,333,174	3,655,441	677,733	19%	4,145,395	187,779	5%	15,866,471	13,437,564	2,428,907	18%	
Income tax expense	<u>1,155,318</u>	<u>2,809,637</u>	(1,654,319)	-59%	<u>1,195,618</u>	(40,300)	-3%	<u>4,486,385</u>	<u>6,679,166</u>	(2,192,781)	-33%	
Net income after taxes	<u>\$ 3,177,856</u>	<u>\$ 845,804</u>	2,332,052	276%	<u>\$ 2,949,777</u>	228,079	8%	<u>\$ 11,380,086</u>	<u>\$ 6,758,398</u>	4,621,688	68%	
BASIC EARNINGS PER SHARE	\$ 1.30	\$ 0.35	0.95	271%	\$ 1.21	0.09	7%	\$ 4.68	\$ 2.80	\$ 1.88	67%	
Book value per share	\$ 27.98	\$ 23.64	4.34	18%	\$ 26.72	1.26	5%	\$ 27.98	\$ 23.64	\$ 4.34	18%	
SHARES OUTSTANDING	2,448,594	2,422,924			2,448,194							
Ratios												
Tier 1 leverage ratio	10.26%	9.15%			9.90%			10.26%	9.15%			
Net interest margin	4.82%	4.42%			4.65%			4.66%	4.33%			
Efficiency ratio	46.54%	47.18%			48.80%			49.04%	50.14%			
Return on average assets	1.88%	0.53%			1.77%			1.75%	1.11%			
Return on average equity	18.74%	5.77%			18.17%			18.05%	12.27%			
% of non interest bearing to total deposits	44%	43%			44%							