



## Santa Cruz County Bank Reports Record Earnings for Year Ending December 31, 2017

*Seventh successive year of record in earnings*

**SANTA CRUZ, CA – January 29, 2018:** Santa Cruz County Bank (OTC: SCZC), a top rated, locally owned and operated full-service community bank headquartered in Santa Cruz County, today announced unaudited net income of \$846 thousand for the fourth quarter and a record \$6.8 million for the year ended December 31, 2017. Fourth quarter and annual earnings were reduced by \$1.5 million due to the impact of an increase in income tax expense for the fiscal year ended December 31, 2017 as the Bank revalued its deferred tax assets to align with the lowered U.S. corporate tax rate.

President and CEO, David V. Heald commented, “We had an exceptional year with continued strong earnings and loan demand. While our earnings for the quarter and year reflect a substantial one-time downward revaluation of our deferred tax assets resulting from the recent reduction of the U.S. corporate tax rate, our pretax and after tax income for the year set another earnings record. We enter 2018 with a solid economy, a favorable corporate tax rate, and excitement in anticipation of opening our new headquarters in downtown Santa Cruz later in the year.”

Selected financial information is presented in the following table:

|                                 | Year Ended December 31, |               |        |
|---------------------------------|-------------------------|---------------|--------|
|                                 | 2017                    | 2016          | Change |
| <b>Balance Sheet</b>            |                         |               |        |
| Total assets                    | \$629,963,786           | \$588,231,651 | 7%     |
| Gross loans                     | 452,827,237             | 414,984,843   | 9%     |
| Allowance for loan losses       | 9,106,258               | 8,193,091     | 11%    |
| Non-interest-bearing deposits   | 242,497,582             | 244,897,010   | -1%    |
| Total deposits                  | 562,658,947             | 529,311,149   | 6%     |
| Shareholders' equity            | 57,280,548              | 50,716,281    | 13%    |
| <b>Net Income</b>               |                         |               |        |
|                                 | \$6,758,398             | \$6,491,464   | 4%     |
| Net interest margin             | 4.33%                   | 4.05%         |        |
| Tier 1 leverage ratio           | 9.15%                   | 8.67%         |        |
| Return on average assets        | 1.11%                   | 1.17%         |        |
| Return on average equity        | 12.27%                  | 13.58%        |        |
| Efficiency ratio                | 50.14%                  | 55.09%        |        |
| <b>Share and Per Share Data</b> |                         |               |        |
| Basic earnings per common share | \$2.80                  | \$2.98        |        |
| Book value per common share     | \$23.64                 | \$23.15       |        |
| Total common shares outstanding | 2,422,924               | 2,190,786     |        |

### Fourth Quarter Earnings

Fourth quarter 2017 net income was \$846 thousand compared to \$2.1 million in the third quarter of 2017, a 60% decrease and \$1.8 million for fourth quarter of 2016, a 54% decrease. Both decreases

were due to \$1.5 million in additional tax expense arising from the one time revaluation of deferred tax assets.

Pretax income for the quarter ended December 31, 2017 was \$3.65 million, an increase of \$617 thousand, 20%, compared to \$3 million for the quarter ended December 31, 2016 and an increase of 4%, \$152 thousand over prior quarter.

Basic earnings per share for the fourth quarter decreased \$0.49 to \$0.35, due to the impact of the increase in income tax expense for the fiscal year. Earnings per share for the year were also impacted by the 10% stock dividend granted to shareholders of record as of October 31, 2017.

### **Year-to-Date Earnings**

For the twelve months ended December 31, 2017, net income was \$6.8 million compared to \$6.5 million in 2016, an improvement of \$267 thousand or 4%. Most of the improvement is located within interest income, which climbed \$4 million, due primarily to growth in the loan portfolio combined with rising rates.

### **Financial Highlights**

- Assets of \$630 million
- Total deposits of \$563 million
- Net income of \$6.8 million for the year, a new record
- Return on average equity for the year of 12.27%
- Return on average assets of 1.11% for the year
- Efficiency ratio of 50.14% for the year
- Book value per share after dividends increased by \$0.49 to \$23.64 at year end
- Continued exceptional credit quality with no loans past due or on non-accrual

### **Loans, Asset Quality & Deposits**

Total assets declined by \$4.3 million to \$630 million in the fourth quarter but increased by \$41.7 million compared to the prior year. The Bank's asset quality remained exceptional. For the fourth quarter, gross loans increased by \$4.8 million. On a year to year basis, loans increased \$37.8 million, 9% to \$452.8 million. Allowance for loan losses of \$9.1 million at December 31, 2017 represents an 11% increase over the same period last year. Deposits declined by 1%, \$6 million since September 30, 2017 but grew 6%, \$33.3 million to \$562.7 million, over the last twelve months.

### **Non-Interest Income / Expense and Net Interest Margin**

Non-interest income for the quarter ended December 31, 2017 was \$525 thousand which represented a 45% decrease compared to the same period in 2016 and a 46% decrease compared to the quarter ended September 30, 2017. For the full year, non-interest income was \$3.3 million, a decrease of 12% or \$444 thousand from the prior year. The decrease can be attributed to the curtailment of SBA loan sales as Management decided to retain many high yielding loans generated by the Bank's top producing SBA Department. When strategically beneficial, SBA loan sales generate a significant portion of the bank's non-interest income.

Non-interest expense for the quarter ended December 31, 2017 was \$3.5 million, which was a 5% increase over the same period in 2016 but a 6% decrease from the quarter ended September 30, 2017. On a year-to-date basis, non-interest expense increased by 3.3%, most of which was due to an increase in Salaries and Employee Benefits as the Bank seeks to hire and retain the top bankers in its market.

Net interest income of \$6.8 million for the quarter ended December 31, 2017 was \$317 thousand or 5% more than prior quarter and exceeded fourth quarter of 2016 by \$1.2 million or 21%. The improvement year over year of 17% or \$3.8 million, was driven by a continued focus on building high quality earning assets through loan production. Combined with rising rates, this focus enabled an improved net interest margin of 4.33% compared to 4.05% the prior year.

## **Shareholders' Equity**

Total shareholders' equity was \$57.3 million at December 31, 2017, a \$6.6 million, 13% increase over December 31, 2016. The value added to our shareholders was due to continued strong earnings. This increase was reduced by the payout of quarterly cash dividends.

For the year ended December 31, 2017, the Bank's return on average equity was 12.27% and return on average assets was 1.11%. The book value per share of Santa Cruz County Bank's common stock at December 31, 2017 was \$23.64, up from \$23.15 for the same period in 2016.

## **NATIONAL, STATE, AND LOCAL RATINGS AND AWARDS**

Financial Management Consulting (FMC) Group: The Bank ranked #1 in California for overall bank performance for the first and second quarters in 2017 among 185 California banks. The Bank has ranked in FMC's top ten banks for three consecutive years.

The Findley Reports, Inc.: Santa Cruz County Bank named a Super Premier Performing Bank for its 2016 performance. The Bank has received the top ranking of Super Premier by Findley for seven consecutive years.

Bauer Financial Reports, Inc.: Santa Cruz County Bank rated five star or "Superior" for its financial performance for three consecutive quarters, as of the last rating ended September 30, 2017.

American Banker Magazine: Santa Cruz County Bank ranked 24<sup>th</sup> out of 669 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 has ranked in the Top 200 Community Banks in the United States for four consecutive years.

Independent Banker Magazine, published by the ICBA: Santa Cruz County Bank ranked 22<sup>nd</sup> in its Top Best Performing Member Community Banks for return on average equity.

## **Community Awards and Recognition**

2017: Second Harvest Food Bank of Santa Cruz County 2016 Holiday Food Drive "Big Step Award".

2016: United Way of Santa Cruz County "Corporate Spirit Award" for outstanding support.

2016, 2015, 2014, 2013: Voted "Best Bank in Santa Cruz County" by the readers of Good Times, a weekly publication with distribution throughout Santa Cruz County.

2017, 2016, 2015: Voted "Best Bank in Santa Cruz County" by the readers of Santa Cruz Sentinel, a daily publication with distribution throughout Santa Cruz County.

## **ABOUT SANTA CRUZ COUNTY BANK**

Santa Cruz County Bank, founded in 2004, is a locally owned and operated community bank with offices 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, Silicon Valley and the Central San Joaquin 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 OTCQX 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, please visit our website [www.sccountybank.com](http://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.*

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Selected Financial Data (unaudited)

|                               | Quarter ended  |                | Change        |      | Quarter ended  |                | Change |                        |                        |              |      |
|-------------------------------|----------------|----------------|---------------|------|----------------|----------------|--------|------------------------|------------------------|--------------|------|
|                               | 12/31/17       | 12/31/16       | \$            | %    | 9/30/17        | \$             | %      | Year Ended<br>12/31/17 | Year Ended<br>12/31/16 | \$           | %    |
| <b>Balance Sheet</b>          |                |                |               |      |                |                |        |                        |                        |              |      |
| Total assets                  | \$ 629,963,786 | \$ 588,231,651 | \$ 41,732,135 | 7%   | \$ 634,286,574 | \$ (4,322,788) | -1%    |                        |                        |              |      |
| Gross loans                   | 452,827,237    | 414,984,843    | 37,842,394    | 9%   | 447,997,128    | 4,830,109      | 1%     |                        |                        |              |      |
| Allowance for loan losses     | 9,106,258      | 8,193,091      | 913,167       | 11%  | 8,934,461      | 171,797        | 2%     |                        |                        |              |      |
| Non interest-bearing deposits | 242,497,582    | 244,897,010    | (2,399,428)   | -1%  | 256,053,980    | (13,556,398)   | -5%    |                        |                        |              |      |
| Total deposits                | 562,658,947    | 529,311,149    | 33,347,798    | 6%   | 568,721,855    | (6,062,908)    | -1%    |                        |                        |              |      |
| Shareholders' equity          | 57,280,548     | 50,716,281     | 6,564,267     | 13%  | 56,616,575     | 663,973        | 1%     |                        |                        |              |      |
| <b>Income Statement</b>       |                |                |               |      |                |                |        |                        |                        |              |      |
| Interest income               | 7,028,638      | 5,773,517      | 1,255,121     | 22%  | 6,694,991      | 333,647        | 5%     | 26,311,865             | 22,322,173             | \$ 3,989,692 | 18%  |
| Interest expense              | 226,872        | 146,628        | 80,244        | 55%  | 210,719        | 16,153         | 8%     | 789,886                | 566,707                | 223,179      | 39%  |
| Net interest income           | 6,801,766      | 5,626,889      | 1,174,877     | 21%  | 6,484,272      | 317,494        | 5%     | 25,521,979             | 21,755,466             | 3,766,513    | 17%  |
| Provision for loan losses     | 187,500        | 221,400        | (33,900)      | -15% | 237,500        | (50,000)       | -21%   | 912,500                | 783,900                | 128,600      | 16%  |
| Non-interest income           | 524,758        | 950,923        | (426,165)     | -45% | 975,617        | (450,859)      | -46%   | 3,318,709              | 3,762,539              | (443,830)    | -12% |
| Non-interest expense          | 3,483,583      | 3,318,413      | 165,170       | 5%   | 3,718,559      | (234,976)      | -6%    | 14,490,624             | 14,031,095             | 459,529      | 3.3% |
| Net income before taxes       | 3,655,441      | 3,037,999      | 617,442       | 20%  | 3,503,830      | 151,611        | 4%     | 13,437,564             | 10,703,010             | 2,734,554    | 26%  |
| Income tax expense            | 2,809,637      | 1,202,909      | 1,606,728     | 134% | 1,393,806      | 1,415,831      | 102%   | 6,679,166              | 4,211,546              | 2,467,620    | 59%  |
| Net income after taxes        | \$ 845,804     | \$ 1,835,090   | (989,286)     | -54% | \$ 2,110,024   | (1,264,220)    | -60%   | \$ 6,758,398           | \$ 6,491,464           | 266,934      | 4%   |
| BASIC EARNINGS PER SHARE      | \$0.35         | \$0.84         | (0.49)        | -58% | \$0.96         | (0.61)         | -64%   | \$2.80                 | \$2.98                 | \$ (0.18)    | -6%  |
| Book value per share          | \$23.64        | \$23.15        | 0.49          | 2%   | \$25.74        | (2.10)         | -8%    | \$23.64                | \$23.15                | \$ 0.49      | 2%   |
| <b>Ratios</b>                 |                |                |               |      |                |                |        |                        |                        |              |      |
| Net interest margin           | 4.42%          | 3.93%          |               |      | 4.28%          |                |        | 4.33%                  | 4.05%                  |              |      |
| Tier 1 leverage ratio         | 9.15%          | 8.67%          |               |      | 9.16%          |                |        | 9.15%                  | 8.67%                  |              |      |
| Return on average assets      | 0.53%          | 1.24%          |               |      | 1.35%          |                |        | 1.11%                  | 1.17%                  |              |      |
| Return on average equity      | 5.77%          | 14.52%         |               |      | 14.92%         |                |        | 12.27%                 | 13.58%                 |              |      |
| Efficiency ratio              | 47.18%         | 50.45%         |               |      | 49.85%         |                |        | 50.14%                 | 55.09%                 |              |      |