



Santa Cruz County Bank Reports Earnings For the Quarter Ending June 30, 2022

Record assets, gross loans (excluding PPP), deposits and quarterly net income

SANTA CRUZ, CA – July 21, 2022: Santa Cruz County Bank (OTCQX: SCZC), with assets of \$1.76 billion, is a top-rated community bank headquartered in Santa Cruz County. Today, the Bank announced unaudited earnings for the second quarter ended June 30, 2022. Net income for the quarter was \$6.37 million, 18% over prior quarter, and 20% or \$1.08 million more than the same quarter in 2021. 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 deliver new historic milestones for the Bank’s assets, gross loans (excluding PPP), deposits and quarterly net income. Our results reflect our focus on continued investment in our people, digital transformation, and generation of new business, while expanding existing relationships through exceptional service delivery. In May, we launched a new Asset-Based Lending Division. This new division diversifies our lending facilities and opens new opportunities to become a trusted partner to innovation and technology businesses throughout California. Our plan to open our eighth full-service branch in the fourth quarter of 2022 is on target. This new branch in Salinas expands our service reach within Monterey County.”

Financial Highlights

Performance highlights as of and for the quarter ended June 30, 2022 included the following:

- Record assets of \$1.76 billion as of June 30, 2022, an increase of \$38 million or 2%, compared to March 31, 2022, and an increase of \$130 million or 8%, compared to June 30, 2021.
- Record gross loans (excluding PPP) of \$1.19 billion, an increase of \$53 million or 5%, compared to March 31, 2022, and an increase of \$192 million or 19%, compared to June 30, 2021.
- Record deposits of \$1.56 billion, an increase of \$32 million or 2%, compared to March 31, 2022, and an increase of \$123 million or 9%, compared to June 30, 2021.
- Record quarterly net income of \$6.37 million, an increase of \$984 thousand or 18%, compared to March 31, 2022, and an increase of \$1.08 million or 20% compared to the quarter ended June 30, 2021.
- Basic earnings per share of \$0.75 for the quarter ended June 30, 2022.
- Provision for loan losses was \$622 thousand for the second quarter of 2022 compared to \$645 thousand for the trailing quarter and \$2.05 million for the same period in 2021.
- Pretax, pre-provision net earnings were \$9.65 million for the quarter ended June 30, 2022, compared to \$8.26 million and \$9.53 million for the quarters ended March 31, 2022 and June 30, 2021, respectively.
- Net interest margin was 3.90% for the second quarter of 2022, as compared to 3.76% in the trailing quarter and 4.07% in the same quarter of 2021.
- For the quarters ended June 30, 2022 and March 31, 2022, return on average assets was 1.49% and 1.28%, respectively, and the return on average tangible equity was 16.23% and 13.69%, respectively.
- Efficiency ratio was 44.48% for the second quarter of 2022, as compared to 47.98% in the trailing quarter and 43.79% 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 14.48%, as compared to 14.83% in the trailing quarter and 14.06% in the same quarter of 2021.

- Continued strong credit quality with nonaccrual loans totaling \$35 thousand, as compared to \$59 thousand in the trailing quarter and \$98 thousand in the same quarter of 2021.
- Book value per share after cash dividends increased to \$21.73 at June 30, 2022 compared to \$21.42 at March 31, 2022.

Second Quarter Earnings

For the second quarter 2022, net income was \$6.37 million, compared to \$5.38 million in the first quarter of 2022 and \$5.29 million in the second quarter of 2021. Major factors impacting earnings for 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 second quarter of 2022, \$622 thousand was provided to loan loss reserve, PPP loan fee income was \$809 thousand and \$587 thousand was gained through SBA loan sales. In the trailing quarter, \$645 thousand was provided to loan loss reserve and PPP loan fee income was \$1.46 million with no gains on SBA loan sales. In the second quarter of 2021, \$2.05 million was provided to loan loss reserve, PPP loan fee income was \$3.10 million and \$693 thousand was gained through SBA loan sales.

Pretax, pre-provision net earnings were \$9.65 million for the quarter ended June 30, 2022, compared to \$8.26 million and \$9.53 million for the quarters ended March 31, 2022 and June 30, 2021, respectively. Although the year-over-year variance was not material, there was a reduced provision for loan loss in 2022 offset by a higher level of PPP fee income in 2021. For the quarter over quarter variance, there was \$650 thousand less PPP fee income in second quarter 2022 and \$587 thousand in SBA loan sales gains, which offset the reduced PPP fee income. The second quarter increase of \$1.20 million in loan interest income is attributed to increases in the prime rate.

Basic and diluted earnings per share improved over prior quarter by \$0.12 and \$0.11, respectively.

Noninterest Income / Expense

Noninterest income for the quarter ended June 30, 2022 was \$1.45 million compared to \$789 thousand for the trailing quarter, with the difference due primarily to gains on SBA loan sales in the second quarter. Noninterest income for second quarter 2021 was \$1.58 million, which included SBA gains of \$693 thousand.

Noninterest expense was \$7.73 million for the quarter ended June 30, 2022, \$108 thousand or 1% more than prior quarter, and \$300 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 \$16 million for the quarter ended June 30, 2022 increased over the prior quarter by 6%, or \$830 thousand, and improved over the 2021 second quarter by 4% or \$545 thousand. The year over year increase is due primarily to growth in the non-PPP loan portfolio, which increased by \$192 million over the twelve months ended June 30, 2022, and also due to the rise in market rates experienced during the first half of 2022. The Bank's cost of funds was 0.10% for the current quarter compared to 0.14% over the same period last year.

For the second quarter of 2022, net interest margin was 3.90%, compared to 3.76% in the trailing quarter and 4.07% for the corresponding period in 2021. The net interest margin for 2021 benefited from a significantly greater amount of PPP fee income than 2022. However, the Bank's 2022 net interest margin is trending upward due to improvement on yield for earning assets, favorably impacted by multiple rate increases in prime and other indices.

Assets

Total assets at June 30, 2022 increased by \$130 million or 8% compared to prior year. This was due primarily to planned organic growth including the Bank's expansion into Monterey County and other factors. 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 \$192 million or 19% compared to the prior year, partially replacing the \$262 million year-over year reduction in PPP loans.

Allowance for loan losses of \$21 million at June 30, 2022 represents a \$5.72 million, or 37%, 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 \$1.25 million for one impaired loan. The loan matured this quarter, was not renewed, and is now considered past due; however, payments remain

current. One additional loan for \$990 thousand is also past due but is real estate secured and not impaired. The Bank's nonaccrual loans remained low at \$35 thousand at quarter end.

The deferral period for PPP loan payments has ended and payments are now due. PPP loans that are past due are either in the process of PPP loan forgiveness, or will be submitted to the SBA for guaranty reimbursement. The Bank has not received any new COVID-related payment deferral requests on non-PPP loans, and borrowers who were granted deferrals in the past have returned to regular payment schedules. As of June 30, 2022, non-SBA guaranteed exposure to hotels/motels was \$146 million and non-SBA guaranteed exposure to restaurants was \$18 million

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

Loan Mix

	<u>As of</u>		
<i>(Dollars in thousands)</i>	<u>06/30/2021</u>	<u>03/31/2022</u>	<u>06/30/2022</u>
Loans held for sale	\$ 44,876	\$ 74,182	\$ 63,874
SBA and B&I loans	131,521	119,206	121,499
PPP loans	284,811	49,182	22,460
Commercial loans	80,196	87,117	94,939
Revolving commercial lines	92,824	102,563	113,874
Construction loans	115,124	152,002	167,590
Real estate loans	503,404	574,484	600,323
Home equity lines of credit	25,645	26,892	27,658
Installment, overdraft, and O/D loans	5,483	2,366	1,628
Total loans	<u>\$ 1,283,884</u>	<u>\$ 1,187,994</u>	<u>\$ 1,213,845</u>

Delinquent and Nonperforming Loans

	<u>As of or for the Quarter Ended</u>		
<i>(Dollars in thousands)</i>	<u>06/30/2021</u>	<u>03/31/2022</u>	<u>06/30/2022</u>
Loans past due 30-89 days, excluding PPP loans	\$ 52	\$ 994	\$ 2,283
PPP loans past due 30-89 days	12	26	1,426
Delinquent loans (past due 90+ days still accruing)	--	2	298
Nonaccrual loans	98	59	35
Other real estate owned	--	--	--
Nonperforming assets	98	61	333
Net loan charge-offs (recoveries) QTD	(2)	69	3
Net loan charge-offs (recoveries) YTD	(5)	69	72

Deposits

Deposits were \$1.56 billion at June 30, 2022, representing growth of 9% or \$123 million since June 30, 2021, and included \$704 million in noninterest-bearing deposits. Year over year deposit growth was driven by organic expansion. Deposits grew \$32 million from the first quarter of 2022 compared to the second quarter 2022 as the annual summer growth cycle commenced.

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

	<u>As of</u>		
<i>(Dollars in thousands)</i>	<u>06/30/2021</u>	<u>03/31/2022</u>	<u>06/30/2022</u>
Noninterest-bearing demand	\$ 703,373	\$ 708,936	\$ 703,949
Interest-bearing demand	188,877	217,840	217,534
Money markets	291,737	341,460	373,970
Time certificates of deposit \geq \$250,000	75,809	72,310	67,789
Time certificates of deposit $<$ \$250,000	47,094	45,724	45,441
Savings	125,817	137,383	146,549
Total deposits	<u>\$ 1,432,707</u>	<u>\$ 1,523,653</u>	<u>\$ 1,555,232</u>

Total deposits – personal	\$ 543,978	\$ 596,169	\$ 636,288
Total deposits – business	\$ 888,729	\$ 927,484	\$ 918,944

Shareholders' Equity

Total shareholders' equity was \$186 million at June 30, 2022, a \$2.65 million or 1% increase over March 31, 2022 and an increase of \$6.94 million over prior year. Equity was reduced by the payout of cash dividends on common stock of \$938 thousand in the second quarter of 2022 at \$0.11 per share and \$2.72 million over the last twelve months. There were approximately \$28 million of intangible assets on the books due to the 2019 merger of which \$26 million was goodwill.

The after-tax unrealized loss on available-for-sale securities, which is a component of equity, grew from \$10 million at the end of the first quarter 2022 to \$13 million as of second quarter 2022. 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% in U.S. Government sponsored agencies and 2% in municipal bonds.

For the quarter ended June 30, 2022, the Bank's return on average equity was 13.77% with a return on average tangible equity of 16.23%. Return on average assets was 1.49%. The book value per share of Santa Cruz County Bank's common stock, after cash dividends at June 30, 2022, was \$21.73 up \$0.75 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, asset-based lending, 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

(Dollars in thousands, except per share amounts)	<u>As of or for the Quarter Ended</u>				<u>As of or for the</u> <u>Quarter Ended</u>		
	<u>June 30,</u>				<u>March 31,</u>		
	<u>2022</u>	<u>2021</u>	<u>Change \$</u>	<u>Change %</u>	<u>2022</u>	<u>Change \$</u>	<u>Change %</u>
Balance Sheet							
Total assets	\$ 1,760,873	\$ 1,631,136	\$ 129,737	8%	\$ 1,723,189	\$ 37,684	2%
Gross loans, excluding PPP loans	1,191,385	999,073	192,312	19%	1,138,812	52,573	5%
SBA PPP loans	22,460	284,811	(262,351)	-92%	49,182	(26,722)	-54%
Allowance for loan losses	21,171	15,451	5,720	37%	20,555	616	3%
Noninterest-bearing deposits	703,949	703,373	576	0.1%	708,936	(4,987)	-1%
Total deposits	1,555,232	1,432,707	122,525	9%	1,523,653	31,579	2%
Shareholders' equity	185,535	178,594	6,941	4%	182,884	2,651	1%
Income Statement							
Interest income	\$ 16,294	\$ 15,860	\$ 434	3%	\$ 15,459	\$ 835	5%
Interest expense	375	486	(111)	-23%	370	5	1%
Net interest income	15,919	15,374	545	4%	15,089	830	6%
Provision for loan losses	622	2,050	(1,428)	-70%	645	(23)	-4%
Noninterest income	1,452	1,584	(132)	-8%	789	663	84%
Noninterest expense	7,726	7,426	300	4%	7,618	108	1%
Net income before taxes	9,023	7,482	1,541	21%	7,615	1,408	18%
Income tax expense	2,656	2,190	466	21%	2,232	424	19%
Net income after taxes	\$ 6,367	\$ 5,292	\$ 1,075	20%	\$ 5,383	\$ 984	18%
Basic earnings per share							
Basic earnings per share	\$ 0.75	\$ 0.62	\$ 0.13	21%	\$ 0.63	\$ 0.12	19%
Diluted earnings per share	\$ 0.74	\$ 0.62	\$ 0.12	19%	\$ 0.63	\$ 0.11	17%
Book value per share	\$ 21.73	\$ 20.98	\$ 0.75	4%	\$ 21.42	\$ 0.31	1%
Tangible book value per share	\$ 18.45	\$ 17.63	\$ 0.82	5%	\$ 18.13	\$ 0.32	2%
Shares outstanding							
Shares outstanding	8,536,924	8,514,455			8,536,924		
Ratios							
Tier 1 leverage ratio	10.00%	9.67%			9.81%		
Cost of funds	0.10%	0.14%			0.10%		
Net interest margin	3.90%	4.07%			3.76%		
ALLL / Non-PPP loans	1.78%	1.55%			1.80%		
Efficiency ratio	44.48%	43.79%			47.98%		
Return on average assets	1.49%	1.34%			1.28%		
Return on average equity	13.77%	11.97%			11.63%		
Return on average tangible equity	16.23%	14.26%			13.69%		
% of noninterest-bearing to total deposits	45.26%	49.09%			46.53%		

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

Selected Unaudited Financial Information

(Dollars in thousands,
except per share amounts)

For the Six Months Ended June 30,

	<u>2022</u>	<u>2021</u>	<u>Change \$</u>	<u>Change %</u>
Income Statement				
Interest income	\$ 31,753	\$ 30,521	\$ 1,232	4%
Interest expense	745	978	(233)	-24%
Net interest income	31,008	29,543	1,465	5%
Provision for loan losses	1,267	2,425	(1,158)	-48%
Noninterest income	2,241	3,117	(876)	-28%
Noninterest expense	15,344	14,586	758	5%
Net income before taxes	16,638	15,649	989	6%
Income tax expense	4,888	4,568	320	7%
Net income after taxes	\$ 11,750	\$ 11,081	\$ 669	6%
Basic earnings per share				
Basic earnings per share	\$ 1.38	\$ 1.30	\$ 0.08	6%
Diluted earnings per share	\$ 1.37	\$ 1.30	\$ 0.07	5%
Book value per share	\$ 21.73	\$ 20.98	\$ 0.75	4%
Tangible book value per share	\$ 18.45	\$ 17.63	\$ 0.82	5%
Shares outstanding				
Shares outstanding	8,536,924	8,514,455		
Ratios				
Tier 1 leverage ratio	10.00%	9.67%		
Cost of funds	0.10%	0.15%		
Net interest margin	3.83%	4.09%		
ALLL / Non-PPP loans	1.78%	1.55%		
Efficiency ratio	46.15%	44.66%		
Return on average assets	1.39%	1.46%		
Return on average equity	12.70%	12.79%		
Return on average tangible equity	14.95%	15.30%		
% of noninterest-bearing to total deposits	45.26%	49.09%		

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