



**SECOND QUARTER REPORT  
2016**



To our Shareholders,

It is our pleasure to report the results of our second quarter 2016. We enjoyed visiting with many of you at the Bank's Annual Meeting in May and appreciate your ongoing support of your investment.

As reported at our Annual Meeting, here are highlights of the most recent top national recognition for our performance, which deserve repeating. For a third consecutive year, the Bank was recognized in American Banker Magazine's *Top 200 Best Performing Community Banks and Thrifts* in the United States, and ranked 44<sup>th</sup> out of 684 institutions included in this nationwide ranking. The ranking, based upon 3-year average return on equity from 2013-2015, also places Santa Cruz County Bank 5<sup>th</sup> in California out of a total of 18 California banks that made the Top 200 list. Additionally, in May, the Bank was recognized as one of the Top 25 performers for highest return on average equity by Independent Banker Magazine.

The financial data presented below and to the right summarizes the results of our second quarter of 2016. Comparing the six-months ended June 30, 2016 to the six-months ended June 30, 2015:

Net income increased \$425 thousand, 16% to \$3.0 million

Total deposits increased \$50.5 million, 11% to \$502.9 million

Gross loans increased \$47.6 million, 14% to \$384.6 million

Total assets increased \$57.5 million, 11% to \$558.0 million

Basic earnings per share of \$1.39 for the six-months ended June 30, 2016 increased 15% or \$0.18 over the same period in 2015. Shareholders' equity grew to \$47.5 million at June 30, 2016, a \$6.3 million, 15% increase over the prior year.

Our thirteenth consecutive quarterly cash dividend was paid to shareholders in July resulting in \$1.4 million paid to shareholders since July 2013. In the last twelve

## SELECTED FINANCIAL DATA (UNAUDITED)

BALANCE SHEET	QUARTER ENDED	QUARTER ENDED	CHANGE		QUARTER ENDED	QUARTER ENDED	CHANGE	
	6/30/16	6/30/15	\$	%	6/30/16	3/31/16	\$	%
TOTAL ASSETS	\$ 558,029,387	\$ 500,494,009	\$ 57,535,378	11%	\$ 558,029,387	\$ 524,680,478	\$ 33,348,909	6%
GROSS LOANS	384,643,935	336,999,353	47,644,582	14%	384,643,935	375,200,453	9,443,482	3%
ALLOWANCE FOR LOAN LOSSES	7,725,187	6,812,866	912,321	13%	7,725,187	7,535,908	189,279	3%
NON-INTEREST BEARING DEPOSITS	223,453,562	193,775,744	29,677,818	15%	223,453,562	194,380,033	29,073,529	15%
TOTAL DEPOSITS	502,899,156	452,438,802	50,460,354	11%	502,899,156	472,004,239	30,894,917	7%
SHAREHOLDERS' EQUITY	47,496,868	41,225,768	6,271,100	15%	47,496,868	46,013,587	1,483,281	3%
BOOK VALUE PER SHARE	\$ 21.70	\$ 19.18			\$ 21.70	\$ 21.02		
					SIX-MONTHS ENDED	SIX-MONTHS ENDED	CHANGE	
					6/30/16	6/30/15	\$	%
<b>INCOME STATEMENT</b>								
INTEREST INCOME	\$ 5,458,159	\$ 5,047,939	\$ 410,220	8%	\$ 11,010,109	\$ 9,754,611	\$ 1,255,498	13%
INTEREST EXPENSE	140,258	114,424	25,834	23%	276,792	225,250	51,542	23%
NET INTEREST INCOME	5,317,901	4,933,515	384,386	8%	10,733,317	9,529,361	1,203,956	13%
PROVISION FOR LOAN LOSSES	187,500	187,500	-	0%	375,000	375,000	-	0%
NON-INTEREST INCOME	952,478	1,050,029	(97,551)	-9%	1,917,101	1,958,714	(41,613)	-2%
NON-INTEREST EXPENSE	3,573,810	3,525,802	48,008	1%	7,255,367	6,816,183	439,184	6%
NET INCOME BEFORE TAXES	2,509,069	2,270,242	238,827	11%	5,020,051	4,296,892	723,159	17%
INCOME TAX EXPENSE	983,124	919,618	63,506	7%	1,993,933	1,696,116	297,817	18%
NET INCOME AFTER TAXES	\$ 1,525,945	\$ 1,350,624	\$ 175,321	13%	\$ 3,026,118	\$ 2,600,776	\$ 425,342	16%
BASIC EARNINGS PER SHARE	\$ 0.70	\$ 0.63			\$ 1.39	\$ 1.21		
<b>RATIOS</b>								
NET INTEREST MARGIN	4.12%	4.26%			4.21%	4.22%		
TIER 1 LEVERAGE RATIO	8.87%	8.61%			8.87%	8.61%		
RETURN ON AVERAGE ASSETS	1.14%	1.12%			1.15%	1.11%		
RETURN ON AVERAGE EQUITY	13.06%	13.22%			13.19%	13.00%		
EFFICIENCY RATIO	56.99%	58.92%			57.35%	59.33%		

months, we have added \$2.52 in book value per share to your investment. The book value per share of Santa Cruz County Bank stock at June 30, 2016 of \$21.70 increased in comparison to \$19.18 at June 30, 2015.

Advancing technology continues to drive our industry. In the months ahead, we will introduce a new fleet of ATMs at all locations. With technology designed to provide greater convenience, streamlined transactions, and simplified deposit making, our new machines will eliminate the need for envelopes and deposit slips. Enhanced technology will also help improve Bank operating efficiencies and reduce our expenses over time. We look forward to providing even greater technology for our customers and our community.

We invite you to experience our new ATMs and welcome your feedback.

As always, we thank you for your investment in Santa Cruz County Bank.



*George Gallucci*  
George Gallucci  
Chairman of the Board



*David Heald*  
David Heald  
President & CEO

## SCZC CASH DIVIDEND HISTORY

Record Date	Payable Date
June 28, 2013	July 10, 2013
September 27, 2013	October 10, 2013
December 27, 2013	January 10, 2014
March 27, 2014	April 10, 2014
June 25, 2014	July 10, 2014
September 25, 2014	October 10, 2014
December 30, 2014	January 12, 2015
March 27, 2015	April 10, 2015
July 1, 2015	July 14, 2015
September 30, 2015	October 15, 2015
December 21, 2015	January 11, 2016
March 30, 2016	April 11, 2016
July 1, 2016	July 11, 2016

**All \$0.05 cash dividends**

## STOCK LISTING OTCQX: SCZC

### SHAREHOLDER INFORMATION

Shareholders with questions regarding their stockholder account, stock transfer and registration, lost certificates or change of address should contact their broker, or if held directly, contact the Bank's stock transfer agent, Computershare Investor Services, at 800.962.4284 or [www.computershare.com](http://www.computershare.com). For other assistance with stock related matters, shareholders may contact Mary Anne Carson, Shareholder Relations at 831.457.5000.

The Bank's quarterly reports, 2015 Annual Report and stock quotes are available at [www.sccountybank.com](http://www.sccountybank.com) in the Investor Relations section.

### BOARD OF DIRECTORS

Tila Bañuelos

Kenneth R. Chappell

George R. Gallucci

Thomas N. Griffin

William J. Hansen

David V. Heald

Harvey J. Nickelson



## RECENT AWARDS

### Top 200 Community Banks

We are thrilled to announce for a third consecutive year, Santa Cruz County Bank has ranked in American Banker Magazine's *Top 200 Best Performing Community Banks and Thrifts* in the United States. Our Bank ranked 44<sup>th</sup> out of 684 institutions with less than \$2 billion in assets that were included in the nationwide ranking, based upon 3-year average return on equity from 2013-2015. Santa Cruz County Bank ranked 5<sup>th</sup> in California out of a total of 18 California banks that made the Top 200 list.

### Best of the Best

The Bank was recognized in the May issue of Independent Banker Magazine as a Top 25 community bank performer for highest return on average equity. Based on the strength of competitive banking services and operational efficiencies throughout 2015, Santa Cruz County Bank ranked 22<sup>nd</sup> for return on average equity of 13.15%.

### New ATMs are on their way!

Starting in August we will introduce a new fleet of next generation ATMs in every location. We invite you to experience our new machines that promise to save you time.

## BANKING OFFICES:

**APTOS:** 7775 Soquel Drive

**CAPITOLA:** 819 Bay Avenue

**SANTA CRUZ:** 720 Front Street

**SCOTTS VALLEY:** 4604 Scotts Valley Drive

**WATSONVILLE:** 595 Auto Center Drive

**P.O. Box 8426**

**Santa Cruz, CA 95061**

**[sccountybank.com](http://sccountybank.com)**

**831.457.5000**

**MEMBER  
FDIC**

