



Santa Cruz County Bank Reports Record Earnings For Three-Month and Six-Month Periods Ended June 30, 2017

*Net Interest Margin 4.35%
Return on Average Equity 14.31%*

SANTA CRUZ, CA – July 18, 2017: 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 record net income for the second quarter ended June 30, 2017 of \$1.93 million. This represents an increase of 3% compared to the prior quarter and an increase of 26% comparing this quarter with the same quarter in 2016. For the first six months of 2017, net income also reached a record, \$3.8 million. For the quarter, basic earnings per share increased \$0.18 to \$0.88, a 26% increase over the second quarter in 2016.

Pretax income for the quarter ended June 30, 2017 was \$3.19 million, an increase of \$683 thousand, 27%, compared to \$2.51 million for the quarter ended June 30, 2016.

President and CEO David V. Heald commented, “We are pleased to report another record quarter for earnings, a 26% increase year over year. We continue our trend of improving earnings quarter by quarter, adding to shareholder value. We attribute this achievement to strong loan demand and our experienced lending team.”

Selected financial information is presented in the following table:

	Three-Months Ended,		
	06.30.17	06.30.16	03.31.17
Balance Sheet			
Total assets	\$ 595,987,021	\$ 558,029,387	\$ 597,775,823
Gross loans	431,236,076	384,643,935	421,525,389
Allowance for loan losses	8,691,576	7,725,187	8,496,599
Non-interest-bearing deposits	226,963,043	223,453,562	228,355,095
Total deposits	532,848,989	502,899,156	537,260,071
Shareholders' equity	54,581,855	47,496,868	52,652,008
Net Income	<u>\$ 1,927,312</u>	<u>\$ 1,525,945</u>	<u>\$ 1,875,258</u>
Ratios			
Net interest margin	4.35%	4.12%	4.27%
Tier 1 leverage ratio	9.26%	8.87%	8.95%
Return on average assets	1.30%	1.14%	1.29%
Return on average equity	14.31%	13.06%	14.61%
Efficiency ratio	52.71%	56.99%	50.97%
Share and Per Share Data			
Basic earnings per common share	\$0.88	\$0.70	\$0.86
Book value per common share	\$24.82	\$21.70	\$23.96
Total common shares outstanding	2,198,946	2,189,236	2,197,436

Second Quarter Financial Highlights:

- Net interest margin of 4.35%
- Second quarter return on average assets and equity of 1.30% and 14.31%, respectively
- Well capitalized with a total risk based capital ratio of 12.85%
- Continued exceptional credit quality with no loans on non-accrual or past due
- 12% growth in loans, \$46.6 million increase over the second quarter of 2016
- 6% growth in deposits, \$29.9 million increase over the second quarter of 2016
- Basic earnings per share increased to \$0.88 from \$0.70 over the second quarter of 2016
- Book value per share after dividends increased by \$3.12 to \$24.82 over the second quarter of 2016

Loans, Asset Quality & Deposits

Deposits declined by 1%, \$4.4 million since March 31, 2017. Consequently, total assets declined by \$1.79 million to \$596 million in the second quarter but grew by \$38 million over the last twelve months. The Bank's asset quality remained exceptional. For the second quarter, gross loans increased by \$9.7 million, and year over year increased \$46.6 million, 12% to \$431.2 million. Allowance for loan losses of \$8.7 million at June 30, 2017 represents a 13% increase over the same period last year. The ratio of loan loss reserves to loans not held for sale is at 2.14%. As of March 31, 2017, Santa Cruz County Bank was in the 93rd percentile of its peer group for this metric.

Non-Interest Income / Expense and Net Interest Margin

A component of the Bank's core business is the origination and sale of loans generated by its top producing SBA Department, which results in gains that are included in non-interest income. For the second quarter of 2017, the non-interest income total was \$933 thousand which included \$319 thousand of gains on loans sold. This represented an increase in non-interest income of \$48 thousand compared to prior quarter, when \$229 thousand in gains was recognized, and a decrease of \$19 thousand compared to the same period in 2016, which included \$385 thousand in gains on loans sold.

Non-interest expense for the three-month period ended June 30, 2017, increased 7% or \$246 thousand compared to prior quarter and increased 5% or \$193 thousand compared to the same period last year. Most of the increase falls within the category of salaries and employee benefits, but remains under projections for 2017. A bank's efficiency ratio measures total overhead expense expressed as a percentage of net interest income (TE) plus non-interest income. The Bank's efficiency ratio at 52.71% is in the best 10th percentile of national peers (the lower the better) with the median at 65.58%.

Net interest income of \$6.2 million for the quarter ended June 30, 2017 exceeded the prior quarter by \$191 thousand or 3% and exceeded the second quarter of 2016 by \$895 thousand or 17%. The improvement is driven by a continued focus on building high quality earning assets through loan production and the benefit from recent rate increases implemented by the Federal Open Market Committee. Consequently, net interest margin at 4.35% climbed from 4.27% in the prior quarter and improved 23 basis points compared to the second quarter in 2016.

Shareholders' Equity

Total shareholders' equity was \$54.6 million at June 30, 2017, a \$7.1 million, 15% increase over June 30, 2016. The value added to our shareholders was due to continued strong earnings. This increase was reduced by the payout of quarterly cash dividends. Common stock cash dividends totaled \$110 thousand or \$0.05 per share for the quarter ended June 30, 2017. Historically, the Bank has paid seventeen consecutive \$0.05 cash dividends totaling over \$1.8 million to shareholders.

For the three month period ended June 30, 2017, the Bank's return on average equity was 14.31% and return on average assets was 1.30%. The book value per share of Santa Cruz County Bank's common stock at June 30, 2017 was \$24.82, up from \$21.70 for the same period in 2016.

NATIONAL, STATE, AND LOCAL RATINGS AND AWARDS

OTCQX Best 50: Santa Cruz County Bank was named one of 50 best performing companies on OTCQX based on total return and growth in average daily dollar volume in 2015.

Financial Management Consulting (FMC) Group: Santa Cruz County Bank ranked 1st in overall performance among all California banks for the first quarter of 2017. The Bank ranked 2nd in overall performance among 185 California banks and ranked 1st (lowest) in non-performing assets for the full year in 2016. The Bank has ranked in FMC's top ten banks in California for the past two years.

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

Bauer Financial Reports, Inc.: Santa Cruz County Bank rated five star or "Superior" for its financial strength for the quarter ended March 31, 2017.

American Banker Magazine: Santa Cruz County Bank ranked 44th out of 684 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 three consecutive years.

Independent Banker Magazine, published by the ICBA: Santa Cruz County Bank ranked 22nd 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 "Big Step Award" for the 2016 Holiday Food Drive.

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

2017, 2016, 2015, 2014, 2013: Voted "Best Bank" by the readers of Good Times, a weekly publication with distribution throughout Santa Cruz County.

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

2013: Volunteer Center of Santa Cruz County "Be the Difference" Business Award for leadership and volunteerism.

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. For the past nine years, the Bank's SBA Department has been recognized as a top SBA lender in Santa Cruz County. 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, please visit our website 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	
	6/30/17	6/30/16	\$	%	3/31/17	\$	%	
Balance Sheet								
Total assets	\$ 595,987,021	\$ 558,029,387	\$ 37,957,634	7%	\$ 597,775,823	\$ (1,788,802)	0%	
Gross loans	431,236,076	384,643,935	46,592,141	12%	421,525,389	9,710,687	2%	
Allowance for loan losses	8,691,576	7,725,187	966,389	13%	8,496,599	194,977	2%	
Non interest-bearing deposits	226,963,043	223,453,562	3,509,481	2%	228,355,095	(1,392,052)	-1%	
Total deposits	532,848,989	502,899,156	29,949,833	6%	537,260,071	(4,411,082)	-1%	
Shareholders' equity	54,581,855	47,496,868	7,084,987	15%	52,652,008	1,929,847	4%	
Income Statement								
								Change
								\$ %
Interest income	6,393,880	5,458,159	935,721	17%	6,194,356	199,524	3%	12,588,236 11,010,109 \$ 1,578,127 14%
Interest expense	180,541	140,258	40,283	29%	171,754	8,787	5%	352,295 276,792 75,503 27%
Net interest income	6,213,339	5,317,901	895,438	17%	6,022,602	190,737	3%	12,235,941 10,733,317 1,502,624 14%
Provision for loan losses	187,500	187,500	-	0%	300,000	(112,500)	-38%	487,500 375,000 112,500 30%
Non-interest income	933,317	952,478	(19,161)	-2%	885,017	48,300	5%	1,818,334 1,917,101 (98,767) -5%
Non-interest expense	3,767,193	3,573,810	193,383	5%	3,521,289	245,904	7%	7,288,482 7,255,367 33,115 0.5%
Net income before taxes	3,191,963	2,509,069	682,894	27%	3,086,330	105,633	3%	6,278,293 5,020,051 1,258,242 25%
Income tax expense	1,264,651	983,124	281,527	29%	1,211,072	53,579	4%	2,475,723 1,993,933 481,790 24%
Net income after taxes	\$ 1,927,312	\$ 1,525,945	401,367	26%	\$ 1,875,258	52,054	3%	\$ 3,802,570 \$ 3,026,118 776,452 26%
Basic Earnings Per Share	\$0.88	\$0.70	0.18	26%	\$ 0.86	0.02	2%	\$1.74 \$1.39 \$ 0.35 25%
Book value per share	\$24.82	\$21.70	3.12	14%	\$ 23.96	0.86	4%	\$24.82 \$21.70 \$ 3.12 14%
Ratios								
Net interest margin	4.35%	4.12%			4.27%			4.31% 4.21%
Tier 1 leverage ratio	9.26%	8.87%			8.95%			9.26% 8.87%
Return on average assets	1.30%	1.14%			1.29%			1.29% 1.15%
Return on average equity	14.31%	13.06%			14.61%			14.46% 13.19%
Efficiency ratio	52.71%	56.99%			50.97%			51.85% 57.35%
% of non interest bearing to total deposits	43%	44%			43%			