

Santa Cruz County Bank Reports Earnings for Three-Month and Nine-Month Periods Ended September 30, 2018

SANTA CRUZ, CA – Oct 18, 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 record unaudited net income for the third quarter ended September 30, 2018 of \$2.9 million. This represents the best quarter in the Bank’s history, an increase of 8% compared to the prior quarter and an increase of 40% compared to the same quarter in 2017. Basic earnings per share increased \$0.34 to \$1.21, a 39% increase over the third quarter in 2017.

Pretax income for the quarter ended September 30, 2018 was \$4.1 million, an increase of \$642 thousand, 18%, compared to \$3.5 million for the quarter ended September 30, 2017.

President and CEO David V. Heald commented, “Achieving a third consecutive quarter of historical earnings puts us on pace to complete a record year. During the third quarter, we opened our new headquarters in Santa Cruz in a prime location. The community has responded to our new location with resounding interest and support. We anticipate this highly visible facility will draw more business and enhance our efficiencies.”

Selected financial information is presented in the following table:

	Three-Months Ended,		
	09.30.18	09.30.17	06.30.18
Balance Sheet			
Total assets	\$664,894,703	\$634,286,574	\$635,257,256
Gross loans	469,099,353	447,997,128	472,416,858
Allowance for loan losses	9,643,305	8,934,461	9,505,222
Non-interest-bearing deposits	258,929,228	256,053,980	236,977,923
Total deposits	589,706,102	568,721,855	563,842,148
Shareholders’ equity	65,427,695	56,616,575	62,571,082
Net Income	\$2,949,777	\$2,110,024	\$2,721,464
Ratios			
Net interest margin	4.65%	4.28%	4.69%
Tier 1 leverage ratio	9.90%	9.16%	9.96%
Return on average assets	1.77%	1.35%	1.73%
Return on average equity	18.17%	14.92%	17.73%
Efficiency ratio	48.80%	49.85%	49.73%
Share and Per Share Data			
Basic earnings per common share	\$1.21	\$0.87	\$1.12
Book value per common share	\$26.81	\$25.74	\$25.64
Total common shares outstanding	2,439,969	2,199,347	2,439,969

Third Quarter Financial Highlights:

- Net interest margin of 4.65%
- Third quarter return on average assets and equity of 1.77% and 18.17%, respectively
- Well capitalized with a total risk based capital ratio of 13.69%
- Continued exceptional credit quality with no loans on non-accrual or past due
- 5% growth in loans, \$21.1million increase over the third quarter of 2017
- 4% growth in deposits, \$21 million increase over the third quarter of 2017
- Basic earnings per share increased to \$1.21 from \$0.87 over the third quarter of 2017
- Book value per share after cash and stock dividends increased by \$1.07 or 4%, to \$26.81 over the third quarter of 2017

Loans, Asset Quality & Deposits

Total assets increased by \$29.6 million to \$664.9 million in the third quarter, which reflects a seasonal pattern. The Bank's asset quality remained exceptional. For the third quarter, gross loans decreased by \$3.3 million, but year over year increased \$21.1 million, 5% to \$469.1 million. Allowance for loan losses of \$9.6 million at September 30, 2018 represents an 8% increase over the same period last year. Deposits grew by 4%, \$21 million since September 30, 2017.

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 third quarter of 2018, the non-interest income total was \$830 thousand which included \$190 thousand of gains on loans sold compared to \$976 thousand for the same period last year which included \$353 thousand of gains on loans sold.

Non-interest expense for the three-month period ended September 30, 2018, at \$4 million was slightly over prior quarter but increased 9% or \$352 thousand compared to the same period last year. Most of the year over year variance exists in salary expense related to employee recruitment and retention, and occupancy expense, much of which is associated with the move into the new facility at 75 River Street.

Net interest income of \$7.5 million for the quarter ended September 30, 2018 improved 5% or \$363 thousand over prior quarter and exceeded the third quarter of 2017 by \$1 million or 16%. The year over year improvement is 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 4.65% improved 37 basis points over prior year.

Shareholders' Equity

Total shareholders' equity was \$65.4 million at September 30, 2018, an \$8.8 million, 16% increase over September 30, 2017. 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 \$183 thousand or \$0.075 per share for the quarter ended September 30, 2018. Historically, the Bank has paid twenty consecutive \$0.05 cash dividends, and most recently, two \$0.075 cash dividends, totaling approximately \$2.5 million to shareholders. The Bank also issued one 10% stock dividend in November 2017.

For the nine-month period ended September 30, 2018, the Bank's return on average equity was 17.79% and return on average assets was 1.71%. The book value per share of Santa Cruz County Bank's common stock after stock at cash dividends at September 30, 2018 was \$26.81, up \$1.07 from the same period in 2017.

NATIONAL, STATE, AND LOCAL RATINGS AND AWARDS

S&P Global Top 100 Community Banks 2017: 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 159 banks, and also ranked 1st in asset quality as well as 1st (lowest) in

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

The Findley Reports, Inc.: Santa Cruz County Bank was named a Super Premier Performing Bank for its 2017 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 rated five star or "Superior" for its financial strength for the quarter ended June 30, 2018.

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 has ranked in the Top 200 Community Banks in the United States for five 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

2018: Santa Cruz Chamber of Commerce, Business of the Year Award

2018: Farm Bureau of Santa Cruz County, Al Smith Friend of Agriculture Award, for support of the agricultural industry.

2018: Voted "Best Bank" by the readers of Good Times, a weekly publication with distribution throughout Santa Cruz County for six consecutive years.

2018: Voted "Best Bank" by the readers of Santa Cruz Sentinel, a daily publication with distribution throughout Santa Cruz County for four consecutive years.

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 and leadership.

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 ten 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.



Selected Financial Data (unaudited)

	Change				Change					
	Quarter ended	Quarter ended			Quarter ended					
	9/30/18	9/30/17	\$	%	6/30/18	\$	%			
Balance Sheet										
Total assets	\$ 664,894,703	\$ 634,286,574	\$ 30,608,129	5%	\$ 635,257,256	\$ 29,637,447	5%			
Gross loans	469,099,353	447,997,128	21,102,225	5%	472,416,858	(3,317,505)	-1%			
Allowance for loan losses	9,643,305	8,934,461	708,844	8%	9,505,222	138,083	1%			
Non interest-bearing deposits	258,929,228	256,053,980	2,875,248	1%	236,977,923	21,951,305	9%			
Total deposits	589,706,102	568,721,855	20,984,247	4%	563,842,148	25,863,954	5%			
Shareholders' equity	65,427,695	56,616,575	8,811,120	16%	62,571,082	2,856,613	5%			
Income Statement										
								Change		
								Nine-months	Nine-months	
								ended 9/30/18	ended 9/30/17	\$ %
Interest income	7,862,778	6,694,991	1,167,787	17%	7,444,742	418,036	6%	22,374,047	19,283,227	\$ 3,090,820 16%
Interest expense	352,198	210,719	141,479	67%	297,400	54,798	18%	940,508	563,014	377,494 67%
Net interest income	7,510,580	6,484,272	1,026,308	16%	7,147,342	363,238	5%	21,433,539	18,720,213	2,713,326 14%
Provision for loan losses	125,000	237,500	(112,500)	-47%	187,500	(62,500)	-33%	500,000	725,000	(225,000) -31%
Non-interest income	830,170	975,617	(145,447)	-15%	824,404	5,766	1%	2,599,498	2,793,951	(194,453) -7%
Non-interest expense	4,070,355	3,718,559	351,796	9%	3,965,251	105,104	3%	11,999,740	11,007,041	992,699 9%
Net income before taxes	4,145,395	3,503,830	641,565	18%	3,818,995	326,400	9%	11,533,297	9,782,123	1,751,174 18%
Income tax expense	1,195,618	1,393,806	(198,188)	-14%	1,097,531	98,087	9%	3,331,067	3,869,529	(538,462) -14%
Net income after taxes	\$ 2,949,777	\$ 2,110,024	839,753	40%	\$ 2,721,464	228,313	8%	\$ 8,202,230	\$ 5,912,594	2,289,636 39%
BASIC EARNINGS PER SHARE	\$ 1.21	\$ 0.87	0.34	39%	\$ 1.12	0.09	8%	\$ 3.37	\$ 2.45	\$ 0.92 38%
Book value per share	\$ 26.81	\$ 25.74	1.07	4%	\$ 25.64	1.17	5%	\$ 26.81	\$ 25.74	\$ 1.07 4%
SHARES OUTSTANDING	2,439,969	2,199,347			2,439,969					
Ratios										
Tier 1 leverage ratio	9.90%	9.16%			9.96%			9.90%	9.16%	
Net interest margin	4.65%	4.28%			4.69%			4.60%	4.30%	
Efficiency ratio	48.80%	49.85%			49.73%			49.93%	51.16%	
Return on average assets	1.77%	1.35%			1.73%			1.71%	1.31%	
Return on average equity	18.17%	14.92%			17.73%			17.79%	14.62%	
% of non interest bearing to total deposits	44%	45%			42%					