

Santa Cruz County Bank Reports Record Earnings for the Third Quarter Ended September 30, 2020

Double-Digit Year Over Year Growth in Assets, Loans, Deposits and EPS

SANTA CRUZ, CA – October 21, 2020: Santa Cruz County Bank (OTC Pink: SCZC), with assets over \$1.4 billion, is a top rated community bank headquartered in Santa Cruz County. Today the Bank announced unaudited record net income for the third quarter ended September 30, 2020 of \$5.3 million, an increase of 76%, compared to the same quarter in 2019.

The Lighthouse Bank merger proxy projected earnings accretion to occur in 2020 and continue thereafter. Notwithstanding difficult economic conditions created by the onset of the COVID-19 pandemic, the projection was achieved in the third quarter of 2020. For the quarter ended September 30, 2020, basic earnings per share increased \$0.15 or 12% to \$1.39 compared to the third quarter in 2019. Unaudited net income for the nine-month period ended September 30, 2020 was \$13.5 million compared to \$9.3 million, a 46% increase, over the same period in 2019.

Pretax income for the quarter ended September 30, 2020 was \$7.5 million, an increase of \$3.1 million, 72%, compared to \$4.4 million for the quarter ended September 30, 2019.

President and CEO David V. Heald commented, “Our achievement of record earnings and a double-digit increase in earnings per share in the third quarter is exceptional. We attribute our ability to consistently outperform peers in our industry to the outstanding focus and hard work of our employees, management team and Board of Directors. This has been a year of unanticipated changes and economic hardships for our community, country and entire nation.

Throughout our history, Santa Cruz County Bank has stepped up to support its customers, community and employees in the best and worst of times. During 2020 to date, we successfully finalized our merger and systems integration, adapted our entire workforce and offices to meet COVID-19 safety standards and work from home scenarios, and most recently, maintained all business operations during unexpected employee evacuations due to wildfires. I’m extremely proud of the dedication of our entire team through these hardships and our ability to adapt to change without disruption to workflows, while providing exceptional customer service. We’ve proven time and again our ability to adapt to change and navigate strong economic headwinds with success.”

Selected financial information is presented in the following table:

	09.30.20	06.30.20	09.30.19
Balance Sheet			
Total assets	1,439,025,329	1,384,830,355	722,871,518
Gross loans	1,203,864,948	1,120,222,016	503,518,953
Allowance for loan losses	10,965,784	10,602,444	10,148,293
Non interest-bearing deposits	557,993,338	548,399,507	283,739,567
Total deposits	1,179,708,978	1,147,585,446	631,410,724
Shareholders' equity	164,947,239	159,691,195	77,808,290

Net Income	\$5,339,449	\$3,785,302	\$3,027,555
Ratios			
Tier 1 leverage ratio	10.25%	10.65%	10.79%
Net interest margin	3.80%	3.69%	4.76%
Efficiency ratio	44.61%	52.18%	50.58%
Return on average assets	1.50%	1.20%	1.67%
Return on average equity	13.04%	9.65%	15.64%
Return on tangible equity	15.82%	11.82%	15.81%
Share and Per Share Data			
Basic earnings per common share	\$1.39	\$0.98	\$1.24
Diluted earnings per common share	\$1.38	\$0.98	\$1.22
Book value per common share	\$42.83	\$41.47	\$31.69
Tangible book value per share	\$34.87	\$33.45	\$30.95
Total common shares outstanding	3,851,041	3,851,041	2,455,198

Third Quarter Financial Highlights:

- Net interest margin of 3.80%
- Third quarter return on average assets and equity of 1.50% and 13.04%, respectively
- Well capitalized with a total risk based capital ratio of 16.61%
- Good credit quality with no loans 30 to 90 days past due
- 139% growth in loans, \$700.3 million increase over the third quarter of 2019
- 87% growth in deposits, \$548.3 million increase over the third quarter of 2019
- Basic earnings per share increased to \$1.39 from \$1.24 in the third quarter of 2019
- Book value per share after dividends increased by \$11.14 or 35%, to \$42.83 compared to the third quarter of 2019

Assets

Total assets grew by \$54.2 million to \$1.44 billion in the third quarter and by \$716.2 million over the last twelve months. Growth from June 30, 2020 to September 30, 2020 was organic and similar to our historic third quarter pattern. Year over year growth arose primarily from deposits acquired in the merger with Lighthouse Bank combined with deposits derived from the team's effort to process SBA Paycheck Protection Program "PPP" loans that went to the maximum capacity of our resources. With over 50% of PPP loans funded to non-customers, the Bank developed new business relationships in the tri-county market area and continues to capitalize on opportunities afforded by the PPP program.

Loans & Asset Quality

For the third quarter, gross loans increased by \$83.6 million, and year over year increased \$700.3 million, 139% to \$1.2 billion. Loans made under the Payroll Protection Program accounted for a significant portion of the loan growth over the last twelve months combined with loans from the Lighthouse merger. The material growth noted in quarter three 2020, was organic, largely due to the effort of the Bank's lending team.

Loans Past Due 30-89 Days	0
Delinquent Loans (Past Due 90+ days still accruing)	0
Non Accrual Loans	\$626,489
OREO	0

Nonperforming Assets	626,489
Net Loan Charge-Offs YTD	(12,438)

Due to core portfolio growth, \$360 thousand was provided for loan and lease losses during the current reporting quarter and \$760 thousand for the nine-months of 2020. An additional \$1.9 million, not included in the ALLL, is held in reserve for potential contingencies that could arise from the origination of PPP loans. Allowance for loan losses of \$11 million at September 30, 2020 represents an 8.1% increase over the same period in 2019. The ratio of loan loss reserves to loans not held for sale or guaranteed by the SBA was 1.37%.

The Bank continues to experience good credit quality within its loan portfolio with no past due loans and one loan on non-accrual with limited loss potential. By proactively working with our clients throughout the pandemic, the Bank has received and processed COVID-related payment deferral requests representing approximately 8% of the non-SBA portfolio, with 84% of deferrals secured by conforming real estate. The Bank continues to work closely with its customers to ensure their success. The Bank's SBA 7(a) portfolio continues to benefit from the CARES ACT legislation that makes 6 months of payments on behalf of the borrower. The Bank's exposure to the hospitality industry remains well managed as follows: exposure to hotels/motels at \$66 million, a modest 47% of capital, and exposure to restaurants at \$27 million or 19% of capital. Both categories continue to perform well with over 50% of borrowers who have not requested any COVID related accommodations.

Deposits

The Bank's total deposits, at a record \$1.2 billion, increased by 3% or \$32.1 million since June 30, 2020 and by 87% since September 30, 2019. Year over year, non-interest bearing deposits grew by 97%. Deposit growth between the second and third quarter in 2020 was primarily organic due to seasonal patterns. Year over year growth was enhanced by the PPP related deposits and deposits acquired in the Lighthouse merger. Santa Cruz County Bank ranked 4th in overall deposit market share in Santa Cruz County, 1st in Santa Cruz and 2nd in Watsonville based upon FDIC data as of June 30, 2020.

Deposit and Borrowing composition at September 30, 2020:

Deposits:

Non Interest-bearing	\$ 557,993,338
Interest-Bearing Demand (NOW)	152,117,262
Money Market Accounts	237,899,888
Time Deposits	134,567,089
Savings	<u>97,131,401</u>
Total Deposits:	1,179,708,978

PPPLF advances and other borrowings:	83,486,762
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Impact of and Response to the COVID-19 Pandemic

In response to the COVID-19 pandemic, the Bank focused first on the well-being of its employees, customers and communities. Masks and social distancing are required for customers and employees in all banking offices. Additional preventive health measures were put in place including elimination of business-related travel requirements, mandatory work from home for all employees able to do so, social distancing precautions for all employees in the office and customers visiting branches, and preventive cleaning at offices and branches including the implementation of protective barriers. Customer-facing employees were also provided additional pay for their essential service.

The Bank also focused on business continuity measures including monitoring potential business interruptions, making improvements to our remote working technology, and conducting regular discussions with our technology vendors to ensure full functionality throughout this event.

The Bank took measures to support customers affected by the pandemic and maintain strong asset quality, including:

- Helping business clients through the Paycheck Protection Program (“PPP”) and other loan products; following its launch in April, the Bank originated \$371 million in PPP loans.
- Offering flexible repayment options to current clients and a streamlined loan modification process, when appropriate
- Implementing a broad-based risk management strategy to manage credit segments on a real-time basis
- Monitoring portfolio risk and related mitigation strategies by segments
- Proactively contacting clients in order to assess credit situations and needs and develop long-term financial contingency plans

The Bank is currently taking advantage of participation in the Federal Reserve Bank Liquidity Facility although only utilizing about 15% of the available capacity to date.

Non-Interest Income / Expense

For the third quarter of 2020, non-interest income was \$1.3 million, which included \$431 thousand in gains on SBA loans sold. Gains are taken strategically and represent the primary variant within non-interest income comparisons to the second quarter 2020 and third quarter 2019. In addition, the recession in the second quarter of 2020 resulting from the COVID-19 pandemic negatively impacted non-interest income, which continued to decline in the third quarter.

Non-interest expense for the three-month period ended September 30, 2020, increased 5% or \$279 thousand compared to prior quarter and increased 45% or \$1.9 million compared to the same period last year. Third quarter non-interest expense includes the combination of both banks (resulting from the merger with Lighthouse Bank), hence the increase, compared to the third quarter of 2019, which represents non-interest expense of Santa Cruz County Bank only. Comparing the second quarter to the third quarter of 2020, the increase in non-interest expense was spread through various categories, with no material amount within a specific area.

Net Interest Margin

Net interest income is the major earnings component of the Bank. Net interest income of \$12.9 million for the quarter ended September 30, 2020 exceeded prior quarter by 18% or \$1.9 million and improved over the 2019 third quarter by 55% or \$4.6 million. The year over year increase is due primarily to the larger volume of the combined earning assets of both banks resulting from the merger. The variance from the second quarter of 2020 is the combination of a reduction in market rates which negatively impacted earnings, offset by income generated from PPP loan origination. Net interest margin at 3.80% declined 96 basis points from prior year but improved 11 basis points from the second quarter of 2020. The year over year reduction in net interest margin is due primarily to the Bank’s asset sensitivity, which means earnings will follow in the same direction as rates. The improvement between the second and third quarter of 2020 is due to the origination of a material amount of PPP loans and associated fees, plus interest.

Shareholders' Equity

Total shareholders' equity was \$164.9 million at September 30, 2020, an \$87.1 million and 112% increase over September 30, 2019. The majority of the increase was due to the issuance of common stock related to the merger and the value added to our shareholders due to continued strong earnings. Approximately \$28.8 million of intangible value arising from the merger is included in the \$87.1 million increase. This increase was reduced by the payout of quarterly cash dividends. Common stock cash dividends totaled \$866 thousand in 2020 and \$289 thousand or \$0.075 per share for the quarters ended September 30, 2020 and June 30, 2020, respectively. Historically, the Bank has paid thirty consecutive cash dividends and issued one 10% stock dividend to shareholders.

For the three-month period ended September 30, 2020 the Bank's return on average equity was 13.04% and return on average assets was 1.50%. The book value per share of Santa Cruz County Bank's common stock at September 30, 2020 was \$42.83, up \$11.14 from the same period in 2019.

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 seven branches—Aptos, Capitola, Cupertino, Santa Cruz (2), Scotts Valley and Watsonville – all of which are Green Business Certified in accordance with the Bank's commitment to the environment. 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, 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 OTC 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

S&P Global Top 100 Community Banks: ranked 4th in the nation out of more than 4,200 banks with assets under \$3 billion based upon 2019 performance. The Bank has ranked in the Top 100 Community Banks by S&P Global for four consecutive years.

Financial Management Consulting (FMC) Group: The Bank has ranked in FMC's top ten banks in California for the past five years.

The Findley Reports, Inc.: The Bank has received the top ranking of Super Premier by Findley for ten consecutive years.

Bauer Financial Reports, Inc.: rated 5-star "Superior" based upon its financial performance.

The Bank ranks 4th in the Silicon Valley for the number of SBA loans lent to Silicon Valley businesses for the SBA's 2019 fiscal year.

COMMUNITY AWARDS AND RECOGNITION

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

Farm Bureau of Santa Cruz County, 2018 Al Smith Friend of Agriculture Award for support of the agricultural industry and providing access to capital.

Second Harvest Food Bank, Platinum Level Award for the 2019 Holiday Food & Fund Drive.

Santa Cruz Sentinel, 2020 Reader's Choice Award, number one bank in Santa Cruz County as voted by Santa Cruz Sentinel readers.

Good Times, 2020 Best of Santa Cruz County Award, Voted "Best Bank" for eight consecutive years.

Santa Cruz Waves Magazine, 2020 Swellies Awards, Voted "Favorite Bank" in Santa Cruz County.

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 09/30/20	Quarter ended 09/30/19	Change		Quarter ended 06/30/20	Change	
			\$	%		\$	%

Balance Sheet

Total assets	\$ 1,439,025,329	\$ 722,871,518	\$ 716,153,811	99%	\$ 1,384,830,355	\$ 54,194,974	4%
Gross loans	1,203,864,948	503,518,953	700,345,995	139%	1,120,222,016	83,642,932	7%
Allowance for loan losses	10,965,784	10,148,293	817,491	8%	10,602,444	363,340	3%
Non interest-bearing deposits	557,993,338	283,739,567	274,253,771	97%	548,399,507	9,593,831	2%
Total deposits	1,179,708,978	631,410,724	548,298,254	87%	1,147,585,446	32,123,532	3%
Shareholders' equity	164,947,239	77,808,290	87,138,949	112%	159,691,195	5,256,044	3%

Income Statement

	Quarter ended 09/30/20	Quarter ended 09/30/19	Change \$	Change %	Quarter ended 06/30/20	Change \$	Change %	Change			
								Nine-months ended 9/30/20	Nine-months ended 9/30/19	\$	%
Interest income	\$ 13,558,755	\$ 8,782,804	4,775,951	54%	\$ 11,648,797	1,909,958	16%	\$ 37,044,884	\$ 25,426,675	\$ 11,618,209	46%
Interest expense	642,213	474,268	167,945	35%	682,022	(39,809)	-6%	2,116,389	1,367,568	748,821	55%
Net interest income	12,916,542	8,308,536	4,608,006	55%	10,966,775	1,949,767	18%	34,928,495	24,059,107	10,869,388	45%
Provision for loan losses	360,339	150,000	210,339	140%	250,000	110,339	44%	760,339	300,000	460,339	153%
Non-interest income	1,330,657	868,739	461,918	53%	669,963	660,694	99%	3,018,504	2,682,286	336,218	13%
Merger expense	87,676	306,657	(218,981)	-71%	82,704	4,972	6%	236,330	306,657	(70,327)	-23%
Non-interest expense	6,268,272	4,335,195	1,933,077	45%	5,989,226	279,046	5%	17,926,213	12,995,421	4,930,792	38%
Net income before taxes	7,530,912	4,385,423	3,145,489	72%	5,314,808	2,216,104	42%	19,024,117	13,139,315	5,884,802	45%
Income tax expense	2,191,363	1,357,868	833,495	61%	1,529,506	661,857	43%	5,517,805	3,879,922	1,637,883	42%
Net income after taxes	\$ 5,339,549	\$ 3,027,555	2,311,994	76%	\$ 3,785,302	1,554,247	41%	\$ 13,506,312	\$ 9,259,393	4,246,919	46%
BASIC EARNINGS PER SHARE	\$ 1.39	\$ 1.24	0.15	12%	\$ 0.98	0.41	42%	\$ 3.51	\$ 3.78	\$ (0.27)	-7%
DILUTED EARNINGS PER SHARE	\$ 1.38	\$ 1.22	0.16	13%	\$ 0.98	0.40	41%	\$ 3.49	\$ 3.74	\$ (0.25)	-7%
Book value per share	\$ 42.83	\$ 31.69	11.14	35%	\$ 41.47	1.36	3%	\$ 42.83	\$ 31.69	\$ 11.14	35%
Tangible book value per share	\$ 34.87	\$ 30.95	3.92	13%	\$ 33.45	1.42	4%	\$ 34.87	\$ 30.95	\$ 3.92	13%
SHARES OUTSTANDING	3,851,041	2,455,198			3,851,041						

Ratios

Tier 1 leverage ratio	10.25%	10.79%			10.65%			10.25%	10.79%
Net interest margin	3.80%	4.76%			3.69%			3.96%	4.83%
Efficiency ratio	44.61%	50.58%			52.18%			47.87%	49.74%
Return on average assets	1.50%	1.67%			1.20%			1.45%	1.78%
Return on average equity	13.04%	15.64%			9.65%			11.39%	16.82%
Return on tangible equity	15.82%	15.81%			11.82%			13.44%	16.29%

% of non interest bearing to total deposits	47%	45%			48%				
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