



**Santa Cruz County Bank Reports Earnings  
For Quarter Ended June 30, 2021**  
*Assets Over \$1.6 Billion*  
*Net Income Increase of 40% Year Over Year*

**SANTA CRUZ, CA – July 21, 2021:** Santa Cruz County Bank (OTCQX: SCZC), with assets over \$1.6 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, 2021. Net income for the quarter was \$5.3 million, an increase of \$1.5 million, or 40%, over the same period in 2020. Year-to-date earnings for the six-month period ended June 30, 2021 was a record \$11.1 million, 36% over prior year.

Santa Cruz County Bank President and CEO, Krista Snelling, commented, “During the second quarter, we surpassed \$1.6 billion in assets. The influx of capital from the economic stimulus programs, coupled with California’s reopening, has positively impacted our region, which relies heavily on the visitor and tourist industry. We continue to experience strong (non-PPP) loan demand from businesses finding opportunities to reinvest capital into infrastructure, business expansion and new technology. Our recent expansion into Monterey County has contributed to our loan demand and new business relationships. Our focus in the second half of 2021 remains to assist businesses impacted by the pandemic, thereby aiding in the economic recovery of the communities we serve.”

**Financial Highlights**

Performance highlights as of and for the quarter ended June 30, 2021 included the following:

- Assets of \$1.63 billion as of June 30, 2021, an increase of \$246.3 million or 18%, compared to June 30, 2020.
- Deposits of \$1.43 billion, an increase of \$285.1 million or 25%, compared to June 30, 2020.
- Pretax income was \$7.5 million for the quarter ended June 30, 2021, compared to \$5.3 million and \$8.2 million for the quarters ended June 30, 2020 and March 31, 2021, respectively.
- Net interest margin was 4.07% for the second quarter of 2021, as compared to 4.10% in the trailing quarter and 3.69% in the same quarter of 2020.
- For the quarters ended June 30, 2021 and March 31, 2021, return on average assets was 1.34% and 1.60%, respectively, and the return on average tangible equity was 14.14% and 16.20%, respectively.
- Efficiency ratio was 43.79% for the second quarter of 2021, as compared to 45.60% in the trailing quarter and 52.18% in the same quarter of 2020.
- All capital ratios were above regulatory requirements for a well-capitalized institution with a total risk-based capital ratio of 15.31%.
- Continued exceptional credit quality with only two loans on nonaccrual totaling \$98 thousand.
- Book value per share after cash dividends increased to \$46.15 at June 30, 2021 compared to \$44.95 at March 31, 2021.

## **Second Quarter Earnings**

For the second quarter 2021, net income was \$5.3 million, compared to \$5.8 million in the first quarter of 2021 and \$3.8 million in the second quarter of 2020. In the second quarter of 2021, \$2.1 million was provided for loan loss reserves compared to \$375 thousand in the first quarter of 2021 and \$250 thousand in the second quarter of 2020. The large provision in the second quarter of 2021 was due to the volume of core loan growth during that period. Both basic and diluted earnings per share improved over prior year by \$0.39 and \$0.38, respectively.

Pretax income for the quarter ended June 30, 2021 was \$7.5 million compared to \$8.2 million for the previous quarter ended March 31, 2021 and \$5.3 million for the same period in prior year.

## **Interest Income / Interest Expense and Net Interest Margin**

Net interest income is the major earnings component of the Bank. Net interest income of \$15.4 million for the quarter ended June 30, 2021 exceeded prior quarter by 9%, or \$1.2 million, and improved over the 2020 second quarter by 40% or \$4.4 million. The year over year increase is due primarily to growth in the loan portfolio which increased by \$163.7 million over the twelve months ended June 30, 2021. As of June 30, 2021, PPP loans accounted for \$284.8 million of the loan portfolio, \$198.4 million of which were originated in 2021. The Bank's cost of funds was 0.14% for the current quarter compared to 0.25% over the same period last year.

For the second quarter of 2021, net interest margin was 4.07%, an improvement of 38 basis points from prior year and a decrease of three basis points from the first quarter of 2021. The year over year increase in net interest margin was due primarily to the fees generated from PPP loan origination.

## **Assets**

Total assets for the second quarter 2021 increased by \$246.3 million or 18% compared to prior year. This was due primarily to asset growth generated through PPP loan origination but also planned organic growth such as expansion into Monterey County. With over 50% of 2020 PPP loan originations made to new customers, 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**

In the second quarter 2021, gross loans decreased by \$67 million, but year over year increased \$163.7 million, 15% to \$1.28 billion. Year over year growth represented a combination of PPP loan generation and core loan growth while decline from first quarter 2021 was due to PPP loan forgiveness. Non-PPP loans grew by \$80.5 million during the second quarter of 2021.

Allowance for loan losses of \$15.5 million at June 30, 2021 represents a \$4.8 million, or 46%, increase over the same period last year. The Bank's asset quality remained exceptional with only \$98 thousand in nonaccrual at quarter-end and the allowance increase is driven by loan volume.

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

### **Delinquent and Nonperforming Loans**

	<b>As of or for the Quarter Ended <u>06/30/2021</u></b>
<i>(Dollars in thousands)</i>	
Loans past due 30-89 days	\$64
Delinquent loans (past due 90+ days still accruing)	-
Nonaccrual loans	98
Other real estate owned	-
Nonperforming assets	98
Net loan charge-offs (recoveries) YTD	(5)

### **Loan Mix (% of Gross Loans)**

Loans held for sale	3%
SBA and B&I loans	
PPP loans	22%
Commercial loans	
Revolving commercial lines	7%
Construction loans	
Real estate loans	39%
Home equity lines of credit	
Installment, overdraft, and O/D loans	0%
Nonaccrual loans and unposted loans	
OREO as a % of gross loans	0%

The Bank continues to experience good credit quality within its loan portfolio with minimal past due loans and two loans on nonaccrual with limited loss potential. The Bank proactively worked with its clients during the pandemic, and has been processing COVID-related payment deferral requests, which peaked at 8% of the non-SBA portfolio. The deferred loan amount continues to decline, and now totals \$7.3 million, with the majority well-secured by real property. At June 30, 2021, exposure to hotels/motels was \$182.1 million and exposure to restaurants was \$27.2 million, of which 46% and 58% are supported by SBA guarantees, respectively.

### **Deposits**

Deposits grew by 25% or \$285.1 million since June 30, 2020, which included \$703.4 million in noninterest-bearing deposits at quarter-end. The Bank's total deposits, at a record \$1.433 billion, increased by 6% or \$76.7 million since March 31, 2021. Growth in both periods was enhanced by the PPP related deposits. Santa Cruz County Bank ranked 4<sup>th</sup> in overall deposit market share in Santa Cruz County, 1<sup>st</sup> in Santa Cruz and 2<sup>nd</sup> in Watsonville based upon FDIC data as of June 30, 2020.

### **Deposit Mix (% of Total Deposits)**

Noninterest-bearing demand	49%
Interest-bearing demand	
Money markets	20%
Time certificates of deposit $\geq$ \$250,000	
Time certificates of deposit $<$ \$250,000	3%
Savings	
Total deposits – personal	
Total deposits – business	62%

### **Noninterest Income / Expense**

Noninterest income for the quarter ended June 30, 2021 was \$1.6 million compared to \$670 thousand for the same period last year with the difference concentrated within gains on SBA loans sold, which was \$693 thousand in Q2 2021 versus none for the same period in 2020. Noninterest income was up \$51 thousand over Q1 2021 with most of the variance again concentrated within SBA gains.

Noninterest expense for the quarter ended June 30, 2021 was \$266 thousand or 4% more than prior quarter but increased 24% or \$1.4 million compared to the same period last year. The year over year increase is due to multiple reasons including the ongoing cost associated with providing PPP loan origination services to our community, fully staffing and equipping our branch in Monterey and pandemic related expenses such as janitorial and security.

## **Shareholders' Equity**

Total shareholders' equity was \$178.6 million at June 30, 2021, a \$5.1 million or 3% increase over March 31, 2021 and an \$18.9 million increase over prior year. Equity was reduced by the payout of cash dividends on common stock of \$484 thousand in the second quarter 2021 at \$0.125 per share and \$1.4 million over the last twelve months. There was approximately \$28.4 million of intangible assets on the books due to the 2019 merger of which \$25.8 million was goodwill.

For the quarter ended June 30, 2021, the Bank's return on average equity was 11.97% with a return on tangible equity of 14.14%. Return on average assets was 1.34%. The book value per share of Santa Cruz County Bank's common stock after cash dividends at June 30, 2021 was \$46.15 up \$4.68 from the same period in 2020.

## **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 eight branches—Aptos, Capitola, Cupertino, Monterey, Santa Cruz (2), 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, 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 marketplace under the symbol SCZC. For more information about Santa Cruz County Bank, visit [www.sccountybank.com](http://www.sccountybank.com).

## **NATIONAL, STATE, AND LOCAL RATINGS AND AWARDS**

- S&P Global Top 100 Community Banks: The Bank has ranked in the Top 100 Community Banks in the nation for performance for banks under \$3 billion in assets for 5 consecutive years.
- Financial Management Consulting (FMC) Group: The Bank has ranked in FMC's top ten banks in California for the past 6 years.
- The Findley Reports, Inc.: The Bank has received the top ranking of Super Premier by Findley for 11 consecutive years.
- Bauer Financial Reports, Inc.: The Bank is rated 5-star "Superior" based upon its financial performance.
- Santa Cruz County Bank ranked 11th in the Silicon Valley for the number of SBA loans lent to Silicon Valley businesses for the SBA's 2020 fiscal year.

## **COMMUNITY AWARDS AND RECOGNITION**

- Good Times, 2021 Best of Santa Cruz County Award, Voted "Best Bank" for 9 consecutive years.
- Santa Cruz Sentinel, 2020 Reader's Choice Award, number one bank in Santa Cruz County as voted by Santa Cruz Sentinel readers.
- Santa Cruz Waves Magazine, 2020 Swellies Awards, Voted "Favorite Bank" in Santa Cruz County.
- Second Harvest Food Bank, Platinum Level Award for the 2020 Holiday Food & Fund Drive.

*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

	<u>As of or for the Quarter Ended</u>				<u>As of or for the</u>		
	<u>June 30,</u>				<u>Quarter Ended</u>		
	<u>2021</u>	<u>2020</u>	<u>Change \$</u>	<u>Change %</u>	<u>2021</u>	<u>Change \$</u>	<u>Change %</u>
<i>(Dollars in thousands, except per share amounts)</i>							
<b>Balance Sheet</b>							
Total assets	\$ 1,631,136	\$ 1,384,830	\$ 246,306	18%	\$ 1,549,976	\$ 81,160	5%
Gross loans	1,283,884	1,120,222	163,662	15%	1,350,804	(66,920)	(5%)
Allowance for loan losses	15,451	10,602	4,849	46%	13,399	2,052	15%
Noninterest-bearing deposits	703,373	548,400	154,973	28%	640,796	62,577	10%
Total deposits	1,432,707	1,147,585	285,122	25%	1,356,054	76,653	6%
Shareholders' equity	178,594	159,691	18,903	12%	173,484	5,110	3%
<b>Income Statement</b>							
Interest income	\$ 15,860	\$ 11,649	\$ 4,211	36%	\$ 14,661	\$ 1,199	8%
Interest expense	486	682	(196)	(29%)	492	(6)	(1%)
Net interest income	15,374	10,967	4,407	40%	14,169	1,205	9%
Provision for loan losses	2,050	250	1,800	720%	375	1,675	447%
Noninterest income	1,584	670	914	136%	1,533	51	3%
Merger expense	-	83	(83)	(100%)	-	-	0%
Noninterest expense	7,426	5,989	1,437	24%	7,160	266	4%
Net income before taxes	7,482	5,315	2,167	41%	8,167	(685)	(8%)
Income tax expense	2,190	1,530	660	43%	2,378	(188)	(8%)
Net income after taxes	\$ 5,292	\$ 3,785	\$ 1,507	40%	\$ 5,789	\$ (497)	(9%)
Basic earnings per share	\$ 1.37	\$ 0.98	\$ 0.39	40%	\$ 1.50	\$ (0.13)	(9%)
Diluted earnings per share	\$ 1.36	\$ 0.98	\$ 0.38	39%	\$ 1.49	\$ (0.13)	(9%)
Book value per share	\$ 46.15	\$ 41.47	\$ 4.68	11%	\$ 44.95	\$ 1.20	3%
Tangible book value per share	\$ 38.80	\$ 33.45	\$ 5.35	16%	\$ 37.55	\$ 1.25	3%
Shares outstanding	3,870,264	3,851,041			3,859,464		
<b>Ratios</b>							
Tier 1 leverage ratio	9.67%	10.65%			10.13%		
Net interest margin	4.07%	3.69%			4.10%		
Efficiency ratio	43.79%	52.18%			45.60%		
Return on average assets	1.34%	1.20%			1.60%		
Return on average equity	11.97%	9.65%			13.66%		
Return on average tangible equity	14.14%	11.82%			16.20%		
% of noninterest-bearing to total deposits	49.09%	47.79%			47.25%		

## Selected Unaudited Financial Information

(Dollars in thousands,  
except per share amounts)

### For the Six Months Ended

June 30,

	<u>2021</u>	<u>2020</u>	<u>Change \$</u>	<u>Change %</u>
<b>Income Statement</b>				
Interest income	\$ 30,521	\$ 23,486	\$ 7,035	30%
Interest expense	978	1,474	(496)	(34%)
Net interest income	29,543	22,012	7,531	34%
Provision for loan losses	2,425	400	2,025	506%
Noninterest income	3,117	1,688	1,429	85%
Merger expense	-	149	(149)	(100%)
Noninterest expense	14,586	11,658	2,928	25%
Net income before taxes	15,649	11,493	4,156	36%
Income tax expense	4,568	3,326	1,242	37%
Net income after taxes	\$ 11,081	\$ 8,167	\$ 2,914	36%
<b>Basic earnings per share</b>				
Basic earnings per share	\$ 2.87	\$ 2.12	\$ 0.75	35%
<b>Diluted earnings per share</b>				
Diluted earnings per share	\$ 2.86	\$ 2.11	\$ 0.75	36%
<b>Book value per share</b>				
Book value per share	\$ 46.15	\$ 41.47	\$ 4.68	11%
<b>Tangible book value per share</b>				
Tangible book value per share	\$ 38.80	\$ 33.45	\$ 5.35	16%
<b>Shares outstanding</b>				
Shares outstanding	3,870,264	3,851,041		
<b>Ratios</b>				
Tier 1 leverage ratio	9.67%	10.65%		
Net interest margin	4.09%	4.06%		
Efficiency ratio	44.66%	49.82%		
Return on average assets	1.46%	1.41%		
Return on average equity	12.79%	10.53%		
Return on average tangible equity	14.88%	12.75%		