



## **Santa Cruz County Bank Reports Record Earnings For the Quarter Ending September 30, 2022**

### ***Record assets, gross loans (excluding PPP), deposits and quarterly net income***

**SANTA CRUZ, CA – October 20, 2022:** Santa Cruz County Bank (OTCQX: SCZC), with assets of \$1.86 billion, is a top-rated community bank headquartered in Santa Cruz County. Today, the Bank announced unaudited earnings for the third quarter ended September 30, 2022. Net income for the quarter was \$9.2 million, 44% over prior quarter, and 67% or \$3.7 million more than the same quarter in 2021. Year-to-date earnings for the nine-month period ended September 30, 2022 were a record \$20.9 million, \$4.3 million or 26% over 2021. All share data for prior periods have been adjusted to reflect stock dividends and stock splits.

Santa Cruz County Bank President and CEO, Krista Snelling commented, “We had an excellent quarter, in which we set new records for the Bank’s assets, gross loans (excluding PPP), deposits and quarterly net income. In addition to these milestones, we are pleased to report return on average assets over 2% and a record efficiency ratio under 37%. These results reflect the impact of the higher rate environment on earning assets and our focus on the implementation of cost-saving, digital transformation solutions designed to minimize resources while enhancing the client experience.

For the quarter, gross loans (excluding PPP) were up by \$40.5 million. New loan originations surpassed \$101.4 million and were offset by over \$62.1 million in non-PPP payoffs, primarily in construction loans, as expected, due to the easing of supply chain constraints which has allowed for the completion of backlogged projects.

We are pleased to report new production by the Bank’s new Asset-Based Lending Division within our record quarterly non-PPP gross loan totals for the first time. We enter the fourth quarter looking forward to celebrating the opening of our new Salinas branch and welcoming the community to our 8<sup>th</sup> full-service banking office.”

#### **Financial Highlights**

Performance highlights as of and for the quarter ended September 30, 2022 included the following:

- Record assets of \$1.86 billion as of September 30, 2022, an increase of \$101.1 million or 6%, compared to June 30, 2022, and an increase of \$162.4 million or 10%, compared to September 30, 2021.
- Record gross loans (excluding PPP) of \$1.23 billion, an increase of \$40.5 million or 3%, compared to June 30, 2022, and an increase of \$183.4 million or 17%, compared to September 30, 2021.
- Record deposits of \$1.66 billion, an increase of \$101.0 million or 6%, compared to June 30, 2022, and an increase of \$157.5 million or 11%, compared to September 30, 2021.
- Record quarterly net income of \$9.2 million, an increase of \$2.8 million or 44%, compared to June 30, 2022, and an increase of \$3.7 million or 67% compared to the quarter ended September 30, 2021.
- Basic earnings per share of \$1.08 for the quarter ended September 30, 2022.
- Provision for loan losses was a reversal of \$317 thousand for the third quarter of 2022 compared to contributions of \$622 thousand for the trailing quarter and \$2.1 million for the same period in 2021. Based on quantitative factors alone the provision would have increased for the quarter; however, this was offset by a decrease in construction loans and elimination of a qualitative factor related to the pandemic.
- Pretax, pre-provision net earnings were \$12.7 million for the quarter ended September 30, 2022, compared to \$9.7 million and \$9.9 million for the quarters ended June 30, 2022 and September 30, 2021, respectively.
- Net interest margin was 4.22% for the third quarter of 2022, as compared to 3.90% in the trailing quarter and 4.04% in the same quarter of 2021.

- For the quarters ended September 30, 2022 and June 30, 2022, return on average assets was 2.01% and 1.49%, respectively, and the return on average tangible equity was 22.38% and 16.23%, respectively.
- Efficiency ratio was 36.17% for the third quarter of 2022, as compared to 44.48% in the trailing quarter and 42.63% in the same quarter of 2021.
- All capital ratios were above regulatory requirements for a well-capitalized institution with a total risk-based capital ratio of 14.46%, as compared to 14.48% in the trailing quarter and 15.12% in the same quarter of 2021.
- Nonaccrual loans totaled \$2.4 million, or 0.19% of total loans as compared to \$35 thousand in the trailing quarter, and \$384 thousand in the same quarter of 2021.
- Book value per share after cash dividends increased to \$22.06 at September 30, 2022 compared to \$21.73 at June 30, 2022.

### **Third Quarter Earnings**

For the third quarter 2022, net income was \$9.2 million, compared to \$6.4 million in the second quarter of 2022 and \$5.5 million in the third quarter of 2021. Major factors impacting earnings for each quarter include: provisions for loan loss reserves, a diminishing amount of PPP loan fee recognition, and the gain on sale of SBA loans. In the third quarter of 2022, \$317 thousand was reversed from the loan loss reserve, PPP loan fee income was \$332 thousand and \$658 thousand was gained through SBA loan sales. In the trailing quarter, \$622 thousand was provided to loan loss reserve, PPP loan fee income was \$809 thousand and \$587 thousand was gained through SBA loan sales. In the third quarter of 2021, \$2.1 million was provided to loan loss reserve, PPP loan fee income was \$3.5 million and there were no gains through SBA loan sales.

Pretax, pre-provision net earnings were \$12.7 million for the quarter ended September 30, 2022, compared to \$9.7 million and \$9.9 million for the quarters ended June 30, 2022 and September 30, 2021, respectively. The year-over-year variance was driven by a \$2.4 million reduction in the amount of loan loss provision provided in 2022 combined with an increase of \$3.8 million in interest on loans, which more than offset a \$3.1 million decrease in PPP loan fees. For the quarter over quarter variance, there was \$2.1 million more loan interest income in the third quarter than in the second quarter and \$939 thousand less in loan loss provisions.

Basic and diluted earnings per share improved over prior quarter by \$0.43 and \$0.40, respectively.

### **Noninterest Income / Expense**

Noninterest income for the quarter ended September 30, 2022 was \$1.5 million compared to \$1.5 million for the trailing quarter. Noninterest income for third quarter 2021 was \$835 thousand. The third and second quarters in 2022 included SBA gains. There were no SBA sales in the third quarter of 2021.

Noninterest expense was \$7.2 million for the quarter ended September 30, 2022, \$526 thousand or 7% less than prior quarter, and \$135 thousand less than the same period last year.

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

Net interest income is the major earnings component of the Bank. Net interest income of \$18.4 million for the quarter ended September 30, 2022 increased over the prior quarter by 16%, or \$2.5 million, and improved over the 2021 third quarter by 12% or \$2.0 million. The year-over-year increase is due to growth in the non-PPP loan portfolio, which increased by \$183.4 million over the twelve months ended September 30, 2022, and also due to the rise in market rates experienced during 2022. The Bank's cost of funds was 0.12% for the current quarter with no change compared to the same period last year.

For the third quarter of 2022, net interest margin was 4.22%, compared to 3.90% in the trailing quarter and 4.04% for the corresponding period in 2021. The net interest margin for 2021 benefited from a significantly greater amount of PPP fee income than 2022. However, the Bank's 2022 net interest margin is trending upward due to improvement on yield for earning assets, favorably impacted by multiple rate increases in prime and other indices.

	As of or for the Quarter Ended					
	September 30, 2022			September 30, 2021		
	Average Balance	Interest Income/ Expense	Avg Yield/ Cost	Average Balance	Interest Income/ Expense	Avg Yield/ Cost
<i>(Dollars in thousands)</i>						
<b>ASSETS</b>						
Interest-earning cash	\$ 182,298	\$ 1,016	2.21%	\$ 215,239	\$ 156	0.29%
Investments	336,800	1,010	1.19%	164,251	476	1.15%
Loans	1,212,529	16,852	5.51%	1,223,447	16,178	5.25%
Total interest-earning assets	1,731,627	18,878	4.33%	1,602,937	16,810	4.16%
Noninterest-earning assets	78,666			74,142		
Total assets	<u>\$ 1,810,293</u>			<u>\$ 1,677,079</u>		
<b>LIABILITIES</b>						
Interest-bearing deposits	\$ 865,192	469	0.22%	\$ 752,125	437	0.23%
Noninterest-bearing deposits	737,924			721,876		
Other noninterest-bearing liabilities	16,630			20,472		
Total liabilities	1,619,746			1,494,473		
<b>EQUITY</b>						
	190,547			182,606		
Total liabilities and equity	<u>\$ 1,810,293</u>			<u>\$ 1,677,079</u>		
Net interest income /margin		<u>\$ 18,409</u>	<u>4.22%</u>		<u>\$ 16,373</u>	<u>4.04%</u>
Cost of funds			<u>0.12%</u>			<u>0.12%</u>

### Assets

Total assets at September 30, 2022 increased by \$162.4 million or 10% compared to prior year. This was due primarily to planned organic growth including the Bank's expansion into Monterey County and other factors. The Bank made over 50% of its PPP loan originations to new clients, creating the opportunity to expand the Bank's business relationships in the tri-county market area. The Bank continues to capitalize on opportunities afforded by the PPP program into the current quarter.

### Loans and Asset Quality

Non-PPP loans increased by \$183.4 million or 17% compared to the prior year, more than replacing the \$141.7 million year-over-year reduction in PPP loans. Non-PPP loans increased by \$40.5 million or 3% from the prior quarter, despite non-PPP loan payoffs of \$62.1 million, which included construction loan payoffs of \$39.7 million. Growth in the non-PPP loan portfolio was driven by new loan originations in real estate and commercial loans.

Allowance for loan losses of \$20.8 million at September 30, 2022 represents a \$3.2 million, or 18%, increase over the same period last year. The increase was primarily due to growth in the non-PPP portfolio. Based on quantitative factors alone, the provision would have increased for the third quarter; however, this was offset by a decrease in construction loans and elimination of a qualitative factor related to the pandemic.

The allowance for loan losses includes a specific reserve in the amount of \$1.2 million for one impaired loan that is past due and on nonaccrual. One additional loan for \$990 thousand is also past due and on nonaccrual, but is real estate secured and has no recorded impairment. The Bank's total nonaccrual loans remained relatively low at \$2.4 million at quarter end.

The deferral period for PPP loan payments has ended and payments are now due. PPP loans that are past due are either in the process of PPP loan forgiveness or will be submitted to the SBA for guaranty reimbursement. The Bank has not received any new COVID-related payment deferral requests on non-PPP loans and borrowers who were granted deferrals in the past have returned to regular payment schedules. As of September 30, 2022, non-SBA guaranteed exposure to hotels/motels was \$136.0 million and non-SBA guaranteed exposure to restaurants was \$5.0 million; commitments were \$9.9 million.

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

### **Loan Mix**

<i>(Dollars in thousands)</i>	<b>As of</b>		
	<b>09/30/2021</b>	<b>06/30/2022</b>	<b>09/30/2022</b>
Loans held for sale	\$ 54,871	\$ 63,874	\$ 56,915
SBA and B&I loans	124,015	121,499	125,388
PPP loans	148,446	22,460	6,773
Commercial loans	80,689	94,939	112,943
Revolving commercial lines	101,846	113,874	115,243
Asset-based lines of credit	--	--	489
Construction loans	133,357	167,590	146,674
Real estate loans	523,549	600,323	634,142
Home equity lines of credit	24,799	27,658	27,917
Consumer and other loans	5,338	1,628	12,170
<b>Total loans</b>	<b>\$ 1,196,910</b>	<b>\$ 1,213,845</b>	<b>\$ 1,238,654</b>

### **Delinquent and Nonperforming Loans**

<i>(Dollars in thousands)</i>	<b>As of or for the Quarter Ended</b>		
	<b>09/30/2021</b>	<b>06/30/2022</b>	<b>09/30/2022</b>
Loans past due 30-89 days, excluding PPP loans	\$ --	\$ 2,283	\$ 1,351
PPP loans past due 30-89 days	\$ 933	\$ 1,426	\$ 2,936
Delinquent loans (past due 90+ days still accruing)	\$ --	\$ 298	\$ 336
Nonaccrual loans	\$ 384	\$ 35	\$ 2,358
Other real estate owned	\$ --	\$ --	\$ --
Nonperforming assets	\$ 384	\$ 333	\$ 2,694
Net loan charge-offs (recoveries) QTD	\$ (5)	\$ 3	\$ 54
Net loan charge-offs (recoveries) YTD	\$ (9)	\$ 72	\$ 126

### **Deposits**

Deposits were \$1.66 billion at September 30, 2022, representing growth of 11% or \$157.5 million since September 30, 2021, and included \$773.5 million in noninterest-bearing deposits. Year-over-year deposit growth was driven by organic expansion. Deposits grew \$101.1 million from the second quarter of 2022 compared to the third quarter of 2022, consistent with the Bank's annual summer growth cycle.

Santa Cruz County Bank ranked 4<sup>th</sup> in overall deposit market share in Santa Cruz County, 2<sup>nd</sup> in Santa Cruz, and 2<sup>nd</sup> in Watsonville, based upon FDIC data as of June 30, 2022.

### **Deposit Mix**

<i>(Dollars in thousands)</i>	<b>As of</b>		
	<b>09/30/2021</b>	<b>06/30/2022</b>	<b>09/30/2022</b>
Noninterest-bearing demand	\$ 719,451	\$ 703,949	\$ 773,527
Interest-bearing demand	216,904	217,534	242,102
Money markets	313,747	373,970	384,845
Time certificates of deposit $\geq$ \$250,000	71,060	67,789	70,000
Time certificates of deposit $<$ \$250,000	47,083	45,441	41,994
Savings	130,499	146,549	143,803
<b>Total deposits</b>	<b>\$ 1,498,744</b>	<b>\$ 1,555,232</b>	<b>\$ 1,656,271</b>
<b>Total deposits – personal</b>	<b>\$ 562,311</b>	<b>\$ 636,288</b>	<b>\$ 636,234</b>
<b>Total deposits – business</b>	<b>\$ 936,433</b>	<b>\$ 918,944</b>	<b>\$ 1,020,037</b>

### **Shareholders' Equity**

Total shareholders' equity was \$187.0 million at September 30, 2022, a \$1.5 million or 1% increase over June 30, 2022 and an increase of \$4.0 million over prior year. Equity was reduced by the payout of cash dividends on common stock of \$1.1 million in the third quarter of 2022 at \$0.125 per share and \$3.3 million over the last twelve months. There were approximately \$27.9 million of intangible assets on the books due to the 2019 merger, of which \$25.8 million was goodwill.

The after-tax unrealized loss on available-for-sale securities, which is a component of equity (accumulated other comprehensive income or "AOCI"), grew from \$13.0 million at the end of the second quarter 2022 to \$18.1 million as of third quarter 2022. Industry-wide there has been a material decline in market value, consistent with the significant increase in market yields. These securities have a maturity and, with minimal credit risk, the Bank expects to receive principal, in full, when the investments mature. The investment portfolio has a conservative duration of 2.8 years and is comprised of U.S. Treasury bonds, SBA pools and certificates of deposit, which together account for 82% with a zero-risk weighting, 16% in U.S. Government sponsored agencies and 2% in municipal bonds.

For the quarter ended September 30, 2022, the Bank's return on average equity was 19.10% with a return on average tangible equity of 22.38%. Return on average assets was 2.01%. The book value per share of Santa Cruz County Bank's common stock, after cash dividends at September 30, 2022, was \$22.06 up \$0.60 from the same period in 2021.

### **Share Repurchase Program**

On July 25, 2022, the Bank announced the launch of a \$5.0 million Share Repurchase Program which was the first in the Bank's history. The Bank's Board of Directors authorized the Share Repurchase Program and received the required approvals from the California Department of Financial Protection and Innovation as well as the Federal Deposit Insurance Corporation. The Board's intent is to continuously align the Bank's strategic initiatives with increasing shareholder value. The Board's authorization of this Program was based upon the strength of the balance sheet, financial performance and continued growth. This Program further demonstrates the Bank's commitment to enhancing the value for all stockholders investing in Santa Cruz County Bank. The Stock Repurchase Program, which will expire on May 20, 2023, may be suspended, terminated, or modified at any time without notice. Shares purchased under the program will reduce the number of shares outstanding and will be returned to authorized but unissued status.

The timing and amount of common stock repurchases made pursuant to the Santa Cruz County Bank Share Repurchase Program are subject to various factors, including the Bank's capital position, liquidity, financial performance, alternative uses of capital, stock trading price, regulatory requirements and general market conditions. Stock repurchases are accounted for as a reduction in equity. As of September 30, 2022, 74 thousand shares had been repurchased totaling \$1.8 million.

### **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 branches in Aptos, Capitola, Cupertino, Monterey, Santa Cruz, 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, asset-based lending, 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 U.S. Premier 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](http://www.sccountybank.com).

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

- Financial Management Consulting (FMC) Group: The Bank is ranked 13<sup>th</sup> in overall financial performance for 2021 and has ranked in FMC's top ten banks in California for the previous 6 years.
- The Findley Reports, Inc.: The Bank has received the top ranking of Super Premier by Findley for 12 consecutive years.
- Bauer Financial Reports, Inc.: The Bank is rated 5-star "Superior" based upon its financial performance.
- U.S. Small Business Administration: The Bank is in the Top 100 most active SBA 7(a) lenders in the nation.
- Silicon Valley Business Journal: The Bank is ranked 14<sup>th</sup> in SBA loan volume and 11<sup>th</sup> in number of loans lent to Silicon Valley businesses from October 1, 2020 to September 1, 2021.
- Good Times, 2022 Best of Santa Cruz County Award, Voted "Best Bank" for 10 consecutive years.
- Santa Cruz Sentinel, 2021 Reader's Choice Award, number one bank in Santa Cruz County as voted by Santa Cruz Sentinel readers for 7 years.
- Second Harvest Food Bank, Big Step and Platinum Level Awards for the 2021 Holiday Food & Fund Drive.
- Santa Cruz County Chamber of Commerce: Business of the Year, 2021 and 2018.

*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

<i>(Dollars in thousands, except per share amounts)</i>	<u>As of or for the Quarter Ended</u>				<u>As of or for the</u>		
	<u>September 30,</u>				<u>Quarter Ended</u>		
	<u>2022</u>	<u>2021</u>	<u>Change \$</u>	<u>Change %</u>	<u>2022</u>	<u>Change \$</u>	<u>Change %</u>
<b>Balance Sheet</b>							
Total assets	\$ 1,861,928	\$ 1,699,550	\$ 162,378	10%	\$ 1,760,873	\$ 101,055	6%
Gross loans, excluding PPP loans	1,231,881	1,048,464	183,417	17%	1,191,385	40,496	3%
SBA PPP loans	6,773	148,446	(141,673)	-95%	22,460	(15,687)	-70%
Allowance for loan losses	20,802	17,555	3,247	18%	21,171	(369)	-2%
Noninterest-bearing deposits	773,527	719,451	54,076	8%	703,949	69,578	10%
Total deposits	1,656,271	1,498,744	157,527	11%	1,555,232	101,039	6%
Shareholders' equity	187,026	183,045	3,981	2%	185,535	1,491	1%
<b>Income Statement</b>							
Interest income	\$ 18,878	\$ 16,810	\$ 2,068	12%	\$ 16,294	\$ 2,584	16%
Interest expense	469	437	32	7%	375	94	25%
Net interest income	18,409	16,373	2,036	12%	15,919	2,490	16%
Provision for loan losses	(317)	2,099	(2,416)	-115%	622	(939)	-151%
Noninterest income	1,499	835	664	80%	1,452	47	3%
Noninterest expense	7,200	7,335	(135)	-2%	7,726	(526)	-7%
Net income before taxes	13,025	7,774	5,251	68%	9,023	4,002	44%
Income tax expense	3,852	2,274	1,578	69%	2,656	1,196	45%
Net income after taxes	\$ 9,173	\$ 5,500	\$ 3,673	67%	\$ 6,367	\$ 2,806	44%
Basic earnings per share	\$ 1.08	\$ 0.65	\$ 0.43	66%	\$ 0.75	\$ 0.33	44%
Diluted earnings per share	\$ 1.04	\$ 0.64	\$ 0.40	63%	\$ 0.74	\$ 0.30	41%
Book value per share	\$ 22.06	\$ 21.46	\$ 0.60	3%	\$ 21.73	\$ 0.33	1%
Tangible book value per share	\$ 18.77	\$ 18.14	\$ 0.63	3%	\$ 18.45	\$ 0.32	2%
Shares outstanding	8,478,622	8,530,300			8,536,924		
<b>Ratios</b>							
Tier 1 leverage ratio	9.84%	9.44%			10.00%		
Cost of funds	0.12%	0.12%			0.10%		
Net interest margin	4.22%	4.04%			3.90%		
ALLL / Non-PPP loans	1.69%	1.67%			1.78%		
Efficiency ratio	36.17%	42.63%			44.48%		
Return on average assets	2.01%	1.30%			1.49%		
Return on average equity	19.10%	11.95%			13.77%		
Return on average tangible equity	22.38%	14.10%			16.23%		
% of noninterest-bearing to total deposits	46.70%	48.00%			45.26%		

Share data for prior periods has been adjusted to reflect stock dividends and stock splits.

## Selected Unaudited Financial Information

*(Dollars in thousands,  
except per share amounts)*

### For the Nine Months Ended September 30,

	<u>2022</u>	<u>2021</u>	<u>Change \$</u>	<u>Change %</u>
<b>Income Statement</b>				
Interest income	\$ 50,631	\$ 47,332	\$ 3,299	7%
Interest expense	1,214	1,415	(201)	-14%
Net interest income	49,417	45,917	3,500	8%
Provision for loan losses	950	4,524	(3,574)	-79%
Noninterest income	3,740	3,952	(212)	-5%
Noninterest expense	22,545	21,922	623	3%
Net income before taxes	29,662	23,423	6,239	27%
Income tax expense	8,739	6,842	1,897	28%
Net income after taxes	\$ 20,923	\$ 16,581	\$ 4,342	26%
<b>Basic earnings per share</b>				
Basic earnings per share	\$ 2.45	\$ 1.95	\$ 0.50	26%
<b>Diluted earnings per share</b>				
Diluted earnings per share	\$ 2.38	\$ 1.94	\$ 0.44	23%
<b>Book value per share</b>				
Book value per share	\$ 22.06	\$ 21.46	\$ 0.60	3%
<b>Tangible book value per share</b>				
Tangible book value per share	\$ 18.77	\$ 18.14	\$ 0.63	3%
<b>Shares outstanding</b>				
Shares outstanding	8,478,622	8,530,300		
<b>Ratios</b>				
Tier 1 leverage ratio	9.84%	9.44%		
Cost of funds	0.11%	0.14%		
Net interest margin	3.97%	4.07%		
ALLL / Non-PPP loans	1.69%	1.67%		
Efficiency ratio	42.41%	43.96%		
Return on average assets	1.60%	1.41%		
Return on average equity	14.89%	12.50%		
Return on average tangible equity	17.51%	14.33%		
% of noninterest-bearing to total deposits	46.70%	48.00%		

Share data for prior periods has been adjusted to reflect stock dividends and stock splits.