SANTA CRUZ COUNTY BANK

Santa Cruz County Bank Reports Earnings For the Quarter Ended March 31, 2023

Record gross loans of $1.3 billion (excluding PPP)

SANTA CRUZ, CA – April 20, 2023: Santa Cruz County Bank (the "Bank", **OTCQX: SCZC**), with assets of $1.73 billion, is a top-rated community bank headquartered in Santa Cruz County. Today, the Bank announced unaudited earnings for the first quarter ended March 31, 2023. Net income for the quarter was $8.9 million, an increase of 65% from $5.4 million over the prior year and down 11% from $10.0 million in the prior quarter. Basic and diluted earnings per share in the first quarter of 2023 both improved over the same quarter in 2022 by $0.42. Basic and diluted earnings per share decreased over the prior quarter by $0.13.

Santa Cruz County Bank President and CEO Krista Snelling commented, "As a community bank, we make a positive impact on the communities we serve. The Bank's liquidity position remains strong, and the funds entrusted to us by depositors are reinvested through loans to individuals and businesses for expansion and enterprise growth. We reported a milestone in gross loans for the quarter, which grew by $51 million and by $176 million over the prior year, while maintaining strong credit quality. The Bank's overall decrease in deposits of 4% compared to last year-end largely reflected our large depositors' business cycle for their planned activities.

During the quarter, we announced our rank as the #6 best performing community bank in the nation for banks under $3 billion in asset size by S&P Global Market Intelligence. This achievement marks our 6th year in the Top 100 Banks in the nation and is credit to the diligence of our entire team on the oversight and execution of our strong financial performance."

Financial Highlights

Performance highlights as of and for the quarter ended March 31, 2023 included the following:

- Quarterly net income of $8.9 million increased 65% from $5.4 million in the first quarter ended March 31, 2022, and down 11% from $10.0 million in the prior quarter.
- Our liquidity position remains healthy, as our primary liquidity ratio (cash and equivalents, deposits held in other banks and unpledged available-for-sale ("AFS") securities as a percentage of total assets) was 16.1% at March 31, 2023, compared to 19.6% at December 31, 2022.
- Total assets of $1.73 billion as of March 31, 2023, an increase of $4.2 million or 0.25%, compared to $1.72 billion as of March 31, 2022, and a decrease of $17.1 million or 1% compared to $1.74 billion as of December 31, 2022.
- Record gross loans (excluding PPP) of $1.3 billion, an increase of $176.3 million or 15%, compared to March 31, 2022, and an increase of $51.1 million or 4%, compared to December 31, 2022. The Bank continues to capitalize on lending opportunities in the core Santa Cruz market with a strong mix of loans serving our business community and the development of housing, including a $24 million multifamily loan.
- Credit quality remains solid. Nonaccrual loans totaled $2.6 million, or 0.20% of gross loans, as of March 31, 2023, compared to $3.2 million, or 0.25% of total loans as of year-end 2022. The decrease during the first quarter is primarily due to the sale of a delinquent home equity line of credit of $800,000 without experiencing a loss.
- Deposits totaled $1.46 billion at March 31, 2023, a decrease of $61.7 million or 4%, compared to March 31, 2022, and a decrease of $68.9 million or 4%, compared to December 31, 2022. The overall banking industry experienced elevated net deposit outflows surrounding the announcements of the Silicon Valley Bank and Signature Bank closures in mid-March. Total uninsured deposits, excluding collateralized deposits, represent approximately 43% of total deposits at March 31, 2023, compared to 48% at year-end.
- Current Expected Credit Loss ("CECL") methodology was adopted January 1, 2023 and as a result, retained earnings was negatively impacted by $3.3 million upon adoption. Allowance for Credit Losses increased by $4.1

million under CECL, which is based on estimating loss for the life of the loans in the portfolio. In addition, allowance on unfunded credit commitments, presented as part of other liabilities, increased $530 thousand due to the CECL adoption. Loans previously acquired through acquisition with unamortized purchased discount are now included in the calculation of the CECL reserve requirement. Acquired loans that were not impaired at January 1, 2023 totaled $107.2 million and contributed $2.0 million of the increase to the Allowance for Credit Losses at the date of adoption.

- Provision for credit losses was $315 thousand for the first quarter of 2023 compared to $642 thousand for the trailing quarter and $645 thousand for the same period in 2022. The provision was driven by growth in the portfolio and partially offset by slight reductions in loss factors due to the shortening of average life of loans used in the CECL methodology in a slightly lower interest rate environment at March 31, 2023 compared to January 1, 2023.
- Net interest margin was 5.08%, compared to 4.83% in the trailing quarter and 3.76% for the corresponding quarter in 2022. The Bank's large proportion of adjustable rate loans benefited from the rising prime index rate.
- For the quarters ended March 31, 2023 and December 31, 2022, return on average assets was 2.08% and 2.22%, respectively, and the return on average tangible equity was 20.90% and 24.04%, respectively.
- The efficiency ratio was 39.78% for the first quarter of 2023, as compared to 31.75% in the trailing quarter and 47.98% in the same quarter of 2022.
- All capital ratios were above regulatory requirements for a well-capitalized institution with a total risk-based capital ratio of 14.71% at March 31, 2023, compared to 14.94% at December 31, 2022. The capital ratio decreased 24 basis points upon the adoption of the CECL on January 1, 2023. The Bank did not opt in for the 3-year phase-in CECL transition adjustment to regulatory capital due to the Bank's strong capital position.
- Book value per share after cash dividends increased to $24.19 at March 31, 2023, compared to $23.32 at December 31, 2022 and $21.42 at March 31, 2022.

Liquidity

Our liquidity position remains strong, as our primary liquidity ratio (cash and equivalents, deposits held in other banks and unpledged available-for-sale ("AFS") securities as a percentage of total assets) was 16.1% at March 31, 2023. As of March 31, 2023, on-balance sheet liquidity including cash and equivalents, deposits held in other banks and unpledged available-for-sale securities totaled $277.8 million. This combined with available borrowing capacity of $422.9 million, exceeded uninsured and uncollateralized deposits of $630.9 million, with a coverage ratio greater than 111%. SBA loans held for sale of $41.5 million at March 31, 2023 also provides additional liquidity.

U.S. Treasury bonds, securities issued by U.S. Government sponsored agencies and SBA accounted for 78%, 15% and 4% of the investment portfolio as of March 31, 2023, respectively, thus presented minimal credit or liquidity risk. The investment portfolio of $301.7 million at March 31, 2023 has an average life of 2.7 years, and the Bank expects to receive principal, in full, when the investments mature. Unrealized losses on investment securities have improved since year-end primarily due to the lower treasury rate environment. Net unrealized losses on AFS securities totaled $19.8 million ($13.9 million after-tax), which improved from $24.0 million ($16.9 million after-tax) at year-end. Held-to-maturity securities totaled $2.8 million at both March 31, 2023, and year-end with negligible amount of unrealized losses.

As of quarter-end, the Bank had no borrowings outstanding from the Federal Reserve's discount window or its new Bank Term Funding Program. Available secured borrowing capacity with the Federal Home Loan Bank of San Francisco totaled $342.9 million and $43.5 million overnight borrowing was outstanding as of March 31, 2023.

The Bank does not hold any cryptocurrency assets or engage in crypto activities, nor do we have any correspondent banking relationship with any of the recently failed banks.

First Quarter Earnings

For the first quarter 2023, net income was $8.9 million, compared to $5.4 million in the first quarter of 2022 and $10.0 million in the fourth quarter of 2022. Net interest income increased $5.6 million compared to first quarter 2022 due to rising rates, despite a diminishing amount of PPP loan fee recognition. There was an increase in noninterest expense of $934 thousand or 12% in the first quarter of 2023 compared to the same quarter last year to support bank growth. In the first quarter of 2023, $315 thousand was provided to loan loss reserve, PPP loan fee income was $18 thousand, and noninterest expense increased $1.7 million over prior quarter. In the fourth quarter of 2022, $642 thousand was provided to credit loss reserve, and PPP loan fee income was $57 thousand.

Interest Income / Interest Expense and Net Interest Margin

Net interest income is the major earnings component of the Bank. Net interest income of $20.7 million in the first quarter of 2023 improved over the same quarter last year by $5.6 million, or 37%, primarily due to the rise in market interest rates during 2022 and to a lesser degree, the organic loan growth during the first quarter of 2023 and 2022. A decrease of $58 thousand from $20.8 million for the quarter ended December 31, 2022, is primarily due to fewer interest earning days in the first quarter, partially offset by the benefit of higher prime rate. The Bank's cost of funds increased slightly from 0.16% in the fourth quarter of 2022 to 0.38% in the first quarter of 2023.

For the first quarter of 2023, net interest margin was 5.08%, compared to 4.83% in the trailing quarter and 3.76% for the corresponding quarter in 2022. The increase is attributed to an improvement on yield from earning assets, favorably impacted by multiple rate increases in prime and other indices, despite the net interest margin for 2022 benefiting from a significantly greater amount of PPP fee income.

	As of or for the Quarter Ended					
	March 31, 2023			December 31, 2022		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Avg Yield/ Cost	Average Balance	Interest Income/ Expense	Avg Yield/ Cost
ASSETS						
Interest-earning due from banks	$ 38,630	$ 283	2.98%	$ 131,829	$ 1,202	3.62%
Investments	327,856	1,232	1.52%	328,843	1,229	1.48%
Loans	1,288,518	20,631	6.49%	1,248,829	18,999	6.04%
Total interest-earning assets	1,655,004	22,146	5.43%	1,709,501	21,430	4.97%
Noninterest-earning assets	76,589			83,980		
Total assets	$ 1,731,593			$ 1,793,481		
LIABILITIES						
Interest-bearing deposits	$ 842,824	1,134	0.55%	$ 852,387	637	0.30%
Borrowings	22,603	278	4.99%	104	1	4.83%
Total interest-bearing liabilities	865,427	1,412	0.66%	852,491	638	0.30%
Noninterest-bearing deposits	651,050			730,335		
Other noninterest-bearing liabilities	15,032			17,396		
Total liabilities	1,531,509			1,600,222		
EQUITY	200,084			193,259		
Total liabilities and equity	$ 1,731,593			$ 1,793,481		
Net interest income /margin		$ 20,734	5.08%		$ 20,792	4.83%
Cost of funds			0.38%			0.16%

Noninterest Income / Expense

Noninterest income for the quarter ended March 31, 2023 was $733 thousand compared to $804 thousand for the trailing quarter and $789 thousand in the first quarter of 2022. There were no SBA sales in either the first quarter of 2023 or 2022, nor the fourth quarter of 2022. The market premium on SBA loans declined, in making it less favorable to sell SBA loans.

Noninterest expense was $8.6 million in the first quarter of 2023, $1.7 million or 25% more than prior quarter, and $934 thousand, or 12% more than the same period last year. The increase mainly reflected lower bonus expenses in the prior quarter and reduction in split-dollar life insurance plans reflecting a higher discount rate in 2022.

Loans and Asset Quality

Non-PPP loans increased by $176.3 million or 15% compared to the prior year, more than replacing the $46.1 million year-over-year reduction in PPP loans. Non-PPP loans increased by $51.1 million or 4% from the prior quarter. Growth in the non-PPP loan portfolio was driven by new loan originations in real estate, construction and commercial loans.

The reserve for credit losses was $25.9 million at March 31, 2023, compared to $21.4 million at December 31, 2022. The increase was due to the adoption of CECL on January 1, 2023 and a provision of $315 thousand in the current quarter related to loan growth.

The reserve for credit losses includes specific reserves in the amount of $1.5 million for individually evaluated loans on nonaccrual status. Two additional loans for $1.1 million are past due and have been placed on nonaccrual. These loans were individually evaluated and are collateral dependent, but are adequately secured by real estate and have no recorded reserves. One secured loan for $800 thousand was on non-accrual at December 31, 2022 and has since been sold during the first quarter 2023 with no loss. The Bank's total nonaccrual loans remained relatively low at $2.6 million at the first quarter-end.

The following tables summarize the Bank's loan mix and delinquent/nonperforming loans:

Loan Mix

		As of	
(Dollars in thousands)	**03/31/2023**	**12/31/2022**	**03/31/2022**
Loans held for sale	$ 41,456	$ 45,263	$ 74,182
SBA and B&I loans	144,709	139,732	119,206
PPP loans	3,079	3,202	49,182
Commercial loans	115,579	111,591	87,117
Revolving commercial lines	119,075	126,439	102,563
Asset-based lines of credit	5,468	2,314	--
Construction loans	163,244	154,070	152,002
Real estate loans	688,519	646,295	574,484
Home equity lines of credit	28,687	29,382	26,892
Consumer and other loans	5,894	6,480	2,366
Deferred loan expenses, net of fees	3,017	2,971	558
Total gross loans	$ 1,318,727	$ 1,267,739	$ 1,188,552

Delinquent and Nonperforming Loans

		As of or for the Quarter Ended	
(Dollars in thousands)	**03/31/2023**	**12/31/2022**	**03/31/2022**
Loans past due 30-89 days, excluding PPP loans	$ 1,041	$ 959	$ 994
PPP loans past due 30-89 days	1,168	26	26
Delinquent loans (past due 90+ days still accruing)	--	10	2
Nonaccrual loans	2,616	3,161	59
Other real estate owned	--	--	--
Nonperforming assets	2,616	3,171	61
Net loan charge-offs (recoveries) QTD	--	--	69
Net loan charge-offs (recoveries) YTD	--	126	69

Deposits
Deposits were $1.46 billion at March 31, 2023, representing a decrease of 4% or $61.7 million since the same quarter last year, and included $619.2 million in noninterest-bearing deposits. Deposits decreased $68.9 million during the first quarter of 2023. The ten largest depositors, excluding fully collateralized government agency deposits, represent approximately 11% of total deposits as of March 31, 2023.

Deposit Mix

	As of		
(Dollars in thousands)	03/31/2023	12/31/2022	03/31/2022
Noninterest-bearing demand	$ 619,178	$ 669,489	$ 708,936
Interest-bearing demand	217,270	246,265	217,840
Money markets	346,074	363,092	341,460
Time certificates of deposit ≥ $250,000	120,037	76,152	72,310
Time certificates of deposit < $250,000	37,106	37,976	45,724
Savings	122,261	137,808	137,383
Total deposits	$ 1,461,926	$ 1,530,782	$ 1,523,653
Total deposits – personal	$ 566,573	$ 614,151	$ 596,169
Total deposits – business	$ 895,353	$ 916,631	$ 927,484

Shareholders' Equity
Total shareholders' equity was $204.2 million at March 31, 2023, a $6.6 million or 3% increase over December 31, 2022 and an increase of $21.4 million or 12% over March 31, 2022. Equity improved by $3.0 million, as the amount of after-tax unrealized losses on available–for-sale securities ("AFS") decreased during the first quarter of 2023, which is a component of equity (accumulated other comprehensive income/loss or "AOCI"). The adoption of CECL on January 1, 2023 resulted in a decrease in retained earnings by $3.3 million. The declaration of cash dividends on common stock of $1.3 million in the first quarter of 2023 at $0.15 per share and $4.0 million in 2022 also reduced total shareholders' equity.

The after-tax unrealized losses on AFS improved slightly from $16.9 million as of December 31, 2022 to $13.9 million as of March 31, 2023, as the interest rate environment continued to moderate.

For the quarter ended March 31, 2023, the Bank's return on average equity was 18.00% with a return on average tangible equity of 20.90%. Return on average assets was 2.08%. The book value per share of Santa Cruz County Bank's common stock, after cash dividends at March 31, 2023, was $24.19, up $2.77 from the same period in 2022.

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 26, 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. As of March 31, 2023, 118,800 shares were repurchased totaling $2.9 million and were accounted for as a reduction in equity.

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, Salinas, 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.

NATIONAL, STATE, AND LOCAL RATINGS AND AWARDS

- S&P Global Market Intelligence: The Bank is ranked #6 in the nation for 2022 performance for banks under $3 billion in assets and ranked #3 for the best-performing community banks in the Western U.S. with assets under $10 billion.
- The Findley Reports, Inc.: The Bank has received the top ranking of Super Premier by Findley for 13 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 15th in volume of SBA loans lent to Silicon Valley businesses from October 1, 2021 to September 1, 2022.
- Good Times, 2023 Best of Santa Cruz County Award, Voted "Best Bank" for 11 consecutive years.
- Santa Cruz Sentinel, 2022 Reader's Choice Award, number one bank in Santa Cruz County as voted by Santa Cruz Sentinel readers for 8 years.

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

(Dollars in thousands, except per share amounts)	As of or for the Quarter Ended March 31, 2023	As of or for the Quarter Ended March 31, 2022	Change $	Change %	As of or for the Quarter Ended December 31, 2022	Change $	Change %
Balance Sheet							
Assets							
Cash and due from banks	$ 37,006	$ 134,712	$ (97,706)	-73%	$ 77,383	$ (40,377)	-52%
Securities – AFS	298,960	331,608	(32,648)	-10%	320,730	(21,770)	-7%
Securities – HTM	2,780	3,127	(347)	-11%	2,840	(60)	-2%
Gross loans, excluding PPP	1,315,648	1,139,370	176,278	15%	1,264,537	51,111	4%
SBA PPP loans	3,079	49,182	(46,103)	-94%	3,202	(123)	-4%
Allowance for credit losses	(25,879)	(20,555)	(5,324)	26%	(21,444)	(4,435)	21%
Goodwill and other intangibles	27,705	28,100	(395)	-1%	27,796	(91)	-0.3%
Other assets	68,115	57,645	10,470	18%	69,443	(1,328)	-2%
Total assets	$ 1,727,414	$ 1,723,189	$ 4,225	0.2%	$ 1,744,487	$ (17,073)	-1%
Liabilities and Equity							
Noninterest-bearing deposits	$ 619,178	$ 708,936	$ (89,758)	-13%	$ 669,489	$ (50,311)	-8%
Interest-bearing deposits	842,748	814,717	28,031	3%	861,293	(18,545)	-2%
Other liabilities	61,248	16,652	44,596	268%	16,029	45,219	282%
Shareholders' equity	204,240	182,884	21,356	12%	197,676	6,564	3%
Total liabilities and equity	$ 1,727,414	$ 1,723,189	$ 4,225	0.2%	$ 1,744,487	$ (17,073)	-1%
Income Statement							
Interest income	$ 22,146	$ 15,459	$ 6,687	43%	$ 21,430	$ 716	3%
Interest expense	1,412	370	1,042	282%	638	774	121%
Net interest income	20,734	15,089	5,645	37%	20,792	(58)	-0.3%
Provision for credit losses	315	645	(330)	-51%	642	(327)	-51%
Noninterest income	733	789	(56)	-7%	804	(71)	-9%
Noninterest expense	8,552	7,618	934	12%	6,858	1,694	25%
Net income before taxes	12,600	7,615	4,985	65%	14,096	(1,496)	-11%
Income tax expense	3,721	2,232	1,489	67%	4,075	(354)	-9%
Net income after taxes	$ 8,879	$ 5,383	$ 3,496	65%	$ 10,021	$ (1,142)	-11%
Basic earnings per share	$ 1.05	$ 0.63	$ 0.42	67%	$ 1.18	$ (0.13)	-11%
Diluted earnings per share	$ 1.05	$ 0.63	$ 0.42	67%	$ 1.18	$ (0.13)	-11%
Book value per share	$ 24.19	$ 21.42	$ 2.77	13%	$ 23.32	$ 0.87	4%
Tangible book value per share	$ 20.91	$ 18.13	$ 2.78	15%	$ 20.04	$ 0.87	4%
Shares outstanding	8,442,240	8,536,924			8,477,272		
Ratios							
Net interest margin	5.08%	3.76%			4.83%		
Cost of funds	0.38%	0.10%			0.16%		
Efficiency ratio	39.78%	47.98%			31.75%		
Return on:							
Average assets	2.08%	1.28%			2.22%		
Average equity	18.00%	11.63%			20.57%		
Average tangible equity	20.90%	13.69%			24.04%		
Tier 1 leverage ratio	10.99%	9.81%			10.39%		
Total risk-based capital ratio	14.71%	14.83%			14.94%		
Tangible common equity ratio	10.39%	9.13%			9.90%		
ACL / Non-PPP loans	1.97%	1.80%			1.70%		
Noninterest-bearing to total deposits	42.35%	46.53%			43.74%		