



**Santa Cruz County Bank Reports Record Earnings
For Year Ended December 31, 2020
Tenth successive year of record earnings
Assets over \$1.4 billion**

SANTA CRUZ, CA – Jan 27, 2021: 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 earnings for the fourth quarter and year ended December 31, 2020. Net income for the year was a record \$17.5 million, an increase of \$5.3 million, or 43%, over prior year.

Santa Cruz County Bank Board Chairman and acting CEO, William J. Hansen, commented, “We are pleased to deliver another record setting year of financial performance to our shareholders. In 2020, we successfully completed the integration of Lighthouse Bank, issued funding to support businesses through the Paycheck Protection Program and seamlessly repositioned over a third of our workforce to work remotely during the COVID-19 Pandemic and the wildfire evacuations. We begin our seventeenth year with the opening of our newest branch located in Monterey and the resources necessary to support small businesses through the PPP as well as traditional financing. We look forward to welcoming our new President and CEO Krista Snelling on March 1st and the Bank’s continued growth and profitability under her skilled leadership in the years ahead.”

Selected Unaudited Financial Information:

	<u>Year ended</u> <u>12/31/20</u>	<u>Year ended</u> <u>12/31/19</u>	<u>Change</u>	
			<u>\$</u>	<u>%</u>
Balance Sheet				
Total assets	\$1,422,872,123	\$1,070,983,369	\$351,888,754	33%
Gross loans	1,237,748,028	758,076,034	479,671,994	63%
Allowance for loan losses	13,021,249	10,296,230	2,725,019	26%
Non interest-bearing deposits	552,645,185	345,604,709	207,040,476	60%
Total deposits	1,194,783,699	904,348,022	290,435,677	32%
Shareholders' equity	168,485,888	151,098,368	17,387,520	12%
Income Statement				
Interest income	\$51,695,633	\$37,373,287	\$14,322,346	38%
Interest expense	<u>2,709,781</u>	<u>2,188,193</u>	521,588	24%
Net interest income	48,985,852	35,185,094	13,800,758	39%
Provision for loan losses	2,815,917	450,000	2,365,917	526%
Non-interest income	4,212,631	3,446,555	766,076	22%
Merger expense	351,055	3,341,558	(2,990,503)	-89%
Non-interest expense	<u>25,353,764</u>	<u>17,412,130</u>	7,941,634	46%
Net income before taxes	24,677,747	17,427,961	7,249,786	42%

Income tax expense	<u>7,128,112</u>	<u>5,152,711</u>	1,975,401	38%
Net income after taxes	<u>\$17,549,635</u>	<u>\$ 12,275,250</u>	5,274,385	43%
BASIC EARNINGS PER SHARE	\$4.56	\$4.51	\$0.05	1%
DILUTED EARNINGS PER SHARE	\$4.54	\$4.47	\$0.07	2%
Book value per share	\$43.74	\$39.24	\$4.50	11%
Tangible book value per share	\$35.83	\$31.12	\$4.70	15%
SHARES OUTSTANDING	3,852,341	3,849,841		

Ratios

Tier 1 leverage ratio	10.27%	11.70%
Net interest margin	3.99%	4.80%
Efficiency ratio	48.32%	53.72%
Return on average assets	1.35%	1.56%
Return on average equity	10.92%	13.65%
Return on tangible equity	12.72%	14.66%

Fourth Quarter Earnings

For the fourth quarter 2020, net income was \$4.0 million, compared to \$5.3 million in the third quarter and \$3.0 million in the fourth quarter of 2019. In quarter four 2020, \$2.1 million was provided for loan loss reserves reflecting an increase in core loans of over \$84 million during the same period. A provision of \$360 thousand was recorded for loan losses in the third quarter of 2020.

Pretax income for the quarter ended December 31, 2020 was \$5.7 million compared to \$7.5 million for the previous quarter ended September 30, 2020. Basic earnings per share for the fourth quarter ended December 31, 2020 was \$1.05 per share, a 24% or \$0.20 per share increase over the same period in 2019.

Year to Date Earnings

Net income for the year ended December 31, 2020 was \$17.5 million compared to \$12.3 million for the same period in 2019. Pretax income for the year ended December 31, 2020 was \$24.7 million compared to \$17.4 million in the same period in 2019. Expense associated with the Lighthouse Bank merger was \$351 thousand in 2020 compared to \$3.3 million in 2019.

Financial Highlights:

- Assets of \$1.4 billion
- Total deposits of \$1.2 billion
- Pretax income of \$24.7 million for the year, a new record
- Net interest margin of 3.99%
- Return on average assets of 1.35%
- Return on average tangible equity of 12.72%
- Efficiency ratio of 48.32% for the year
- Well capitalized with a total risk based capital ratio of 15.59%
- Continued exceptional credit quality with only one loan for \$31,000 on non-accrual
- Book value per share after cash dividends increased by \$4.50 or 11% to \$43.74 at year end

Interest Income /Interest Expense and Net Interest Margin

Net interest income is the major earnings component of the Bank. Net interest income of \$14.1 million for the quarter ended December 31, 2020 exceeded prior quarter by 9% or \$1.1 million and improved over the 2019 fourth quarter by 26% or \$2.9 million. For the twelve months ended December 31, 2020 and December 31, 2019, net interest income was \$49.0 million compared to \$35.2 million, respectively. The year over year increase is due primarily to the larger volume of the combined earning assets of both banks resulting from the merger and the addition of PPP Loans during 2020. The Bank's cost of funds is 0.19% for the quarter and 0.24% for the year. As of September 30, 2020 the Bank was in the 27th percentile of peers/median at 0.37%.

Net interest margin at 3.99% declined 81 basis points from prior year but improved 28 basis points over the third 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 Bank's loans and securities with contractual maturity/repricing over 3 years as a percentage of total assets was 27.52% at September 30, 2020, which is in the 13th percentile of peers, with the peer group median at 42.98%.

Assets

Total assets at 2020 year-end increased by \$351.9 million or 33% compared to prior year. This was due, in part, to asset growth generated through PPP loan origination and also planned organic growth such as expansion into Monterey County. 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. Comparing Q4 to Q3, total assets declined by \$16.2 million to \$1.423 billion because some loans obtained through the Federal Reserve Bank PPP Liquidity Facility were paid down as deposits continued to rise.

Loans & Asset Quality

In the fourth quarter 2020, gross loans increased by \$33.9 million, and year over year increased \$479.7 million, 63% to \$1.238 billion. Year over year growth represented a combination of PPP loan generation and core loan growth while Q4 resulted from \$84.5 million in core loan growth as PPP loans were forgiven.

Allowance for loan losses of \$13.0 million at December 31, 2020 represents a \$2.7 million, 26% increase over the same period last year. The Bank's asset quality remained exceptional with only \$31 thousand in non-accrual at year-end and Management decided a \$2.1 million provision for loan losses in Q4 was appropriate given the growth in core loans.

Loans Past Due 30-89 Days	\$68,513
Delinquent Loans (Past Due 90+ days still accruing)	0
Non-Accrual Loans	31,462
OREO	0
Nonperforming Assets	31,462
Net Loan Charge-Offs YTD	90,899

An additional \$1.7 million, not included in the ALLL, is held in reserve for potential contingencies that could arise from the origination of PPP loans.

Loan Mix at December 31, 2020 (% of Gross Loans):

Loans Held For Sale	3%
---------------------	----

SBA and B&I Loans	10%
PPP Loans	26%
Commercial Loans	6%
Revolving Commercial Lines	9%
Construction Loans	6%
Real Estate Loans	38%
Home Equity Lines of Credit	2%
Installment, Overdraft, O/D Loans	0%
Non-accrual Loans and Unposted Loans	0%
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 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 which peaked in October at approximately 8% of the non-SBA portfolio, with 84% of deferrals secured by conforming real estate. In December many borrowers were able to resume regular payments and as of December 31, 2020, only 1.7% of the Banks' non-SBA portfolio was under a COVID-related payment deferral. The Bank continues to work closely with its customers to ensure their success. The passage of The Economic Aid Act will provide continued support for the Bank's SBA 7(a) portfolio with at least 3 months of payment support on behalf of the borrower. The Bank's exposure to the hospitality industry remains well managed as follows: exposure to hotels/motels at \$95 million, a modest 63% of capital, and exposure to restaurants at \$31 million or 20% of capital.

Deposits

Deposits grew by 32% or \$290.4 million since December 31, 2019, resulting in \$552.6 million in non-interest bearing deposits at year-end. The Bank's total deposits, at a record \$1.195 billion, increased by 1% or \$15.1 million since September 30, 2020. Year over year, non-interest bearing deposits grew by 60%. Deposit growth between the third and fourth quarter in 2020 was primarily organic due to seasonal patterns. Year over year growth was enhanced by the PPP related deposits. 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.

Composition of deposits and borrowings at December 31, 2020:

Deposits:

Non Interest-Bearing	\$	552,645,185
Interest-Bearing Demand for DDA and NOW Accounts		170,803,770
Money Market Accounts		243,645,371
Time Deposits		127,793,997
Savings		<u>99,895,376</u>
Total Deposits		1,194,783,699

FHLB advances and other borrowings

40,364,392

Non-Interest Income / Expense

Non-interest income for the quarter ended December 31, 2020 was \$1.2 million compared to \$764 thousand for the same period last year with the difference concentrated within gains on SBA loans sold, which was \$430 thousand in Q4 2020 versus none for the same period in 2019. For the full year, non-interest income was \$4.2 million, an increase of 22% or \$766 thousand from prior year. Non-interest income during 2020 improved over 2019 due to the combined totals of both banks even though the banking industry experienced a decline in service charge income due to the pandemic.

Non-interest expense for the quarter ended December 31, 2020, excluding merger expense, was \$7.4 million or 18% more than prior quarter and increased 68% or \$3.0 million compared to the same period last year. On a year-to-date basis, non-interest expense, excluding merger expense, increased by 46%. Totals for 2020 reflect a full year of the combined operational expenses of Santa Cruz County Bank and Lighthouse Bank after the merger was completed in October of 2019 as well as the additional work force to provide PPP lending to the community.

Shareholders' Equity

Total shareholders' equity was \$168.5 million at December 31, 2020, a \$17.4 million or 12% increase over December 31, 2019, primarily from 2020 earnings. Equity was reduced by the payout of cash dividends on common stock of \$1.16 million in 2020. There was approximately \$29 million of intangible assets on the books at December 31, 2020 due to the 2019 merger of which \$25.8 million was Goodwill.

For the year ended December 31, 2020, the Bank's return on average equity was 10.92% with a return on tangible equity of 12.72%. Return on average assets was 1.35%. The book value per share of Santa Cruz County Bank's common stock after cash dividends at December 31, 2020 was \$43.74 up \$4.50 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 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.

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.: The Bank is rated 5-star "Superior" based upon its financial performance.

The 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

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.

	Selected Financial Data (unaudited)										
	Quarter ended		Change		Quarter ended		Change				
	12/31/20	12/31/19	\$	%	09/30/20	\$	%				
Balance Sheet											
Total assets	\$ 1,422,872,123	\$ 1,070,983,369	\$ 351,888,754	33%	\$ 1,439,025,329	\$ (16,153,206)	-1%				
Gross loans	1,237,748,028	758,076,034	479,671,994	63%	1,203,864,948	33,883,080	3%				
Allowance for loan losses	13,021,249	10,296,230	2,725,019	26%	10,965,784	2,055,465	19%				
Non interest-bearing deposits	552,645,185	345,604,709	207,040,476	60%	557,993,338	(5,348,153)	-1%				
Total deposits	1,194,783,699	904,348,022	290,435,677	32%	1,179,708,978	15,074,721	1%				
Shareholders' equity	168,485,888	151,098,368	17,387,520	12%	164,947,239	3,538,649	2%				
Income Statement											
								Change			
								\$	%		
Interest income	\$ 14,650,749	\$ 11,946,612	2,704,137	23%	\$ 13,558,755	1,091,994	8%	\$ 51,695,633	\$ 37,373,287	\$ 14,322,346	38%
Interest expense	593,392	820,625	(227,233)	-28%	642,213	(48,821)	-8%	2,709,781	2,188,193	521,588	24%
Net interest income	14,057,357	11,125,987	2,931,370	26%	12,916,542	1,140,815	9%	48,985,852	35,185,094	13,800,758	39%
Provision for loan losses	2,055,578	150,000	1,905,578	1270%	360,339	1,695,239	470%	2,815,917	450,000	2,365,917	526%
Non-interest income	1,194,127	764,269	429,858	56%	1,330,657	(136,530)	-10%	4,212,631	3,446,555	766,076	22%
Merger expense	114,725	3,034,901	(2,920,176)	-96%	87,676	27,049	31%	351,055	3,341,558	(2,990,503)	-89%
Non-interest expense	7,427,551	4,416,709	3,010,842	68%	6,268,272	1,159,279	18%	25,353,764	17,412,130	7,941,634	46%
Net income before taxes	5,653,630	4,288,646	1,364,984	32%	7,530,912	(1,877,282)	-25%	24,677,747	17,427,961	7,249,786	42%
Income tax expense	1,610,307	1,272,789	337,518	27%	2,191,363	(581,056)	-27%	7,128,112	5,152,711	1,975,401	38%
Net income after taxes	\$ 4,043,323	\$ 3,015,857	1,027,466	34%	\$ 5,339,549	(1,296,226)	-24%	\$ 17,549,635	\$ 12,275,250	5,274,385	43%
BASIC EARNINGS PER SHARE	\$ 1.05	\$ 0.85	0.20	24%	\$ 1.39	(0.34)	-24%	\$ 4.56	\$ 4.51	\$ 0.05	1%
DILUTED EARNINGS PER SHARE	\$ 1.05	\$ 0.85	0.20	24%	\$ 1.38	(0.33)	-24%	\$ 4.54	\$ 4.47	\$ 0.07	2%
Book value per share	\$ 43.74	\$ 39.24	4.50	11%	\$ 42.83	0.91	2%	\$ 43.74	\$ 39.24	\$ 4.50	11%
Tangible book value per share	\$ 35.83	\$ 31.12	4.71	15%	\$ 34.87	0.96	3%	\$ 35.83	\$ 31.12	\$ 4.71	15%
SHARES OUTSTANDING	3,852,241	3,849,841			3,851,041						
Ratios											
Tier 1 leverage ratio	10.27%	11.70%			10.25%			10.27%	11.70%		
Net interest margin	4.08%	4.70%			3.80%			3.99%	4.80%		
Efficiency ratio	49.45%	62.67%			44.61%			48.32%	53.72%		
Return on average assets	1.12%	1.18%			1.50%			1.35%	1.56%		
Return on average equity	9.58%	8.61%			13.04%			10.92%	13.65%		
Return on tangible equity	11.66%	10.47%			15.82%			12.72%	14.66%		
% of non interest bearing to total deposits	46%	38%			47%						