



**Santa Cruz County Bank Reports Earnings  
For Quarter and Year Ended December 31, 2021**  
*Eleventh successive year of record net income*  
*Record assets of \$1.701 billion*

**SANTA CRUZ, CA – January 24, 2022:** Santa Cruz County Bank (**OTCQX: SCZC**), with assets of \$1.701 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, 2021. Net income for the year ended December 31, 2021 was a record \$21.3 million, 21% over prior year, while fourth quarter net income was \$4.7 million. Pretax, pre-provision net earnings for 2021 exceeded 2020 by \$9.4 million.

Santa Cruz County Bank President and CEO Krista Snelling commented, “We recorded an incredible year of growth as evidenced by double-digit percentage increases, comparing 2021 to 2020, in assets, loans, deposits and net income, all of which set new historical milestones for Santa Cruz County Bank.

We continue to make a positive impact in the communities we serve through community engagement and as a trusted financial partner. Our amazing employees logged over 500 hours in community volunteer hours in 2021. Throughout 2021, we supported business owners as they navigated through a challenging year, providing guidance on the PPP forgiveness process to help position them for success in 2022. Santa Cruz County Bank, as a trusted partner, continues to build and strengthen relationships with local business owners. In our eighteenth year of delivering community banking at its best, we look forward to further expansion, welcoming new partnerships and clients, and the opening of our new Salinas branch by third quarter 2022.”

**Financial Highlights**

Performance highlights as of and for the quarter ended December 31, 2021 included the following:

- Assets of \$1.70 billion as of December 31, 2021, an increase of \$277.7 million or 20%, compared to December 31, 2020.
- Total gross loans (excluding PPP) of \$1.11 billion, an increase of \$192.9 million or 21%, compared to December 31, 2020.
- Deposits of \$1.5 billion, an increase of \$301.6 million or 25%, compared to December 31, 2020.
- Basic earnings per share of \$1.11 and \$5.01 for the three and twelve-month periods ended December 31, 2021, respectively.
- Provision for loan losses was \$2.3 million for the fourth quarter of 2021 compared to \$2.1 million for the trailing quarter and \$2.1 million for the same period in 2020. The increase was driven primarily by growth in the non-PPP sector of the loan portfolio and qualitative reserve factors associated with the Omicron variant.
- Pretax, pre-provision net earnings were \$9.0 million for the quarter ended December 31, 2021, compared to \$9.9 million and \$7.7 million for the quarters ended September 30, 2021 and December 31, 2020, respectively. Pretax, pre-provision net earnings for 2021 exceeded 2020 by \$9.4 million.
- Net interest margin was 3.78% for the fourth quarter of 2021, as compared to 4.04% in the trailing quarter and 4.08% in the same quarter of 2020.

- For the quarters ended December 31, 2021 and September 30, 2021, return on average assets was 1.09% and 1.30%, respectively, and the return on average tangible equity was 11.85% and 14.10%, respectively.
- Efficiency ratio was 45.40% for the fourth quarter of 2021, as compared to 42.63% in the trailing quarter and 49.45% 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 14.89%.
- Continued strong credit quality with nonaccrual loans totaling only \$376 thousand.
- Book value per share after cash dividends increased to \$43.61 at December 31, 2021 compared to \$42.92 at September 30, 2021.

#### **Fourth Quarter and Year-To-Date Earnings**

For the fourth quarter 2021, net income was \$4.7 million, compared to \$5.5 million in the third quarter of 2021 and \$4.0 million in the fourth quarter of 2020. In the fourth quarter of 2021, \$2.3 million was provided for loan loss reserves compared to \$2.1 million in both the third quarter of 2021 and the fourth quarter of 2020. The increase was driven primarily by growth in the non-PPP sector of the loan portfolio and qualitative reserve factors associated with the Omicron variant.

Pretax, pre-provision net earnings, was \$9.0 million for the quarter ended September 30, 2021, compared to \$9.9 million and \$7.7 million for the quarters ended September 30, 2021 and December 31, 2020, respectively. The primary factor in year-over-year improvement was interest income driven by growth in core loans.

For the quarter, both basic and diluted earnings per share improved over prior year by \$0.16 and \$0.15, respectively.

Net income for the twelve months ended December 31, 2021 was \$21.3 million compared to \$17.6 million over the same period in 2020. Consistent with the quarterly improvement, the primary factor in the improvement was interest income driven by growth in core loans. Pretax, pre-provision net earnings was \$9.4 million more in 2021 than 2020.

On a year-to-date basis, both basic and diluted earnings per share improved over prior year by \$0.87.

#### **Noninterest Income / Expense**

Noninterest income for the quarter ended December 31, 2021 was \$823 thousand compared to \$835 thousand for the trailing quarter. Noninterest income for fourth quarter 2020 was \$1.2 million with the difference concentrated within gains on SBA loans sold which was \$430 thousand in the fourth quarter of 2020 versus none in 2021. Prior to the second half of 2021, management elected to curtail SBA loan sales, increase core loan balances and deploy liquidity. Notwithstanding, noninterest income for the twelve months ended December 31, 2021 exceeded prior year by \$563 thousand.

Noninterest expense remained well controlled at \$7.5 million for the quarter ended December 31, 2021, only \$129 thousand or 2% more than prior quarter and only \$37 thousand more 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 \$15.6 million for the quarter ended December 31, 2021 was less than prior quarter by 4.9%, or \$800 thousand, but improved over the 2020 fourth quarter by 11.1% or \$1.6 million. The year over year increase is due primarily to growth in the non-PPP loan portfolio which increased by \$192.9 million over the twelve months ended December 31, 2021. As of December 31, 2021, PPP loans accounted for \$93.3 million of the loan portfolio, the majority of which was originated during 2021 while most PPP loans originated during 2020 have been forgiven. The Bank's cost of funds was 0.11% for the current quarter compared to 0.19% over the same period last year.

For the fourth quarter of 2021, net interest margin was 3.78%, compared to 4.04% in the trailing quarter and 4.08% for the corresponding period in 2020. For the twelve months ended December 31, 2021 and 2020 net interest margin was 3.99% for both periods. The reduction of net interest margin and net interest income experienced in fourth

quarter 2021 is attributed to slower PPP loan forgiveness which resulted in less PPP loan fee income recognition. PPP forgiveness was \$55.2 million in the fourth quarter versus \$136.4 million in the third quarter. Consequently, PPP fee income was \$2.3 million for fourth quarter 2021 compared to \$3.5 million in third quarter 2021.

### **Assets**

Total assets at December 31, 2021 increased by \$277.7 million or 20% compared to prior year. This was due primarily to asset growth generated through PPP loan origination and planned organic growth including the Bank's 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**

Non-PPP loans increased by \$192.9 million or 21% compared to the prior year, nearly replacing the \$227.5 million year-over year reduction in PPP loans.

Allowance for loan losses of \$20.0 million at December 31, 2021 represents a \$7.0 million, or 53%, increase over the same period last year. The increase was primarily due to non-PPP loan growth, qualitative reserve factors related to the potential impact of Omicron and a specific reserve for one classified yet still performing loan in the amount of \$1.3 million. The Bank's asset quality remained strong with \$376 thousand in nonaccrual loans at quarter end.

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

#### **Loan Mix**

<i>(Dollars in thousands)</i>	<b><u>As of</u></b>		
	<b><u>12/30/2020</u></b>	<b><u>09/30/2021</u></b>	<b><u>12/31/2021</u></b>
Loans held for sale	\$ 31,630	\$ 54,871	\$ 69,507
SBA and B&I loans	124,072	124,015	119,680
PPP loans	320,818	148,446	93,278
Commercial loans	79,644	80,689	91,425
Revolving commercial lines	107,590	101,846	102,534
Construction loans	76,567	133,357	142,827
Real estate loans	465,697	523,549	554,397
Home equity lines of credit	27,961	24,799	24,538
Installment, overdraft, and O/D loans	3,769	5,338	4,895
Total loans	<u>\$ 1,237,748</u>	<u>\$ 1,196,910</u>	<u>\$ 1,203,081</u>

#### **Delinquent and Nonperforming Loans**

<i>(Dollars in thousands)</i>	<b><u>As of or for the Quarter Ended</u></b>		
	<b><u>12/31/2020</u></b>	<b><u>09/30/2021</u></b>	<b><u>12/31/2021</u></b>
PPP loans past due 30-89 days	\$ 69	\$ 933	\$ 66
PPP loans past due 90+ days still accruing	-	-	105
Nonaccrual loans	31	384	376
Other real estate owned	-	-	-
Nonperforming assets	31	384	481
Net loan charge-offs (recoveries) QTD	1	(5)	(89)
Net loan charge-offs (recoveries) YTD	91	(10)	(99)

The Bank continues to experience good credit quality within the loan portfolio. Past due loans are minimal and are related to PPP loans that are pending forgiveness or performance on the SBA guaranty. COVID-related payment deferral requests, which peaked at 8% of the non-SBA portfolio totaling \$9.3 million, with the majority secured by real estate, returned to regular payment schedules. As of December 31, 2021, non-SBA guaranteed exposure to hotels/motels was \$134 million and non-SBA guaranteed exposure to restaurants was \$14 million.

## **Deposits**

Deposits were \$1.50 billion at December 31, 2021, representing growth of 25% or \$301.6 million since December 31, 2020, and included \$716.9 million in noninterest-bearing deposits. Year over year growth was enhanced by PPP related deposits. Deposits declined slightly from the third quarter to fourth quarter 2021 which is typical and reflects the business cycle of some major depositors.

Santa Cruz County Bank ranked 4th in overall deposit market share in Santa Cruz County, 2nd in Santa Cruz and 3rd in Watsonville based upon FDIC data as of June 30, 2021.

### **Deposit Mix**

<i>(Dollars in thousands)</i>	<u>As of</u>		
	<u>12/31/2020</u>	<u>09/30/2021</u>	<u>12/31/2021</u>
Noninterest-bearing demand	\$ 552,645	\$ 719,451	\$ 716,888
Interest-bearing demand	170,804	216,904	219,072
Money markets	243,645	313,747	314,541
Time certificates of deposit $\geq$ \$250,000	78,779	71,060	68,716
Time certificates of deposit $<$ \$250,000	49,016	47,083	45,666
Savings	99,895	130,499	131,453
Total deposits	<u>\$ 1,194,784</u>	<u>\$ 1,498,744</u>	<u>\$ 1,496,336</u>
Total deposits – personal	\$ 489,104	\$ 562,311	\$ 585,061
Total deposits – business	\$ 705,680	\$ 936,433	\$ 911,275

## **Shareholders' Equity**

Total shareholders' equity was \$186.1 million at December 31, 2021, a \$3.1 million or 1.7% increase over September 30, 2021 and an increase of \$17.6 million over prior year. Equity was reduced by the payout of cash dividends on common stock of \$533 thousand in the fourth quarter 2021 at \$0.125 per share and \$1.9 million over the last twelve months. There was approximately \$28.2 million of intangible assets on the books due to the 2019 merger of which \$25.8 million was goodwill.

For the quarter ended December 31, 2021, the Bank's return on average equity was 10.03% with a return on tangible equity of 11.85%. Return on average assets was 1.09%. The book value per share of Santa Cruz County Bank's common stock after cash dividends at December 31, 2021 was \$43.61 up \$3.85 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 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, 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**

- 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.
- 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, 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

<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>December 31,</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>
<b>Balance Sheet</b>							
Total assets	\$ 1,700,576	\$ 1,422,872	\$ 277,704	20%	\$ 1,699,550	\$ 1,026	0%
Gross loans, excluding PPP Loans	1,109,804	916,930	192,874	21%	1,048,464	61,340	6%
SBA PPP Loans	93,278	320,818	(227,540)	-71%	148,446	(55,168)	-37%
Allowance for loan losses	19,978	13,021	6,957	53%	17,555	2,423	14%
Noninterest-bearing deposits	716,888	552,645	164,243	30%	719,451	(2,563)	0%
Total deposits	1,496,336	1,194,784	301,552	25%	1,498,744	(2,408)	0%
Shareholders' equity	186,114	168,486	17,628	10%	183,045	3,069	2%
<b>Income Statement</b>							
Interest income	\$ 16,019	\$ 14,650	\$ 1,369	9%	\$ 16,810	\$ (791)	-5%
Interest expense	401	593	(192)	-32%	437	(36)	-8%
Net interest income	15,618	14,057	1,561	11%	16,373	(755)	5%
Provision for loan losses	2,334	2,056	278	14%	2,099	235	11%
Noninterest income	823	1,194	(371)	-31%	835	(12)	-1%
Merger expense	-	115	(115)	-100%	-	-	0%
Noninterest expense	7,464	7,427	37	0%	7,335	129	2%
Net income before taxes	6,643	5,653	990	18%	7,774	(1,131)	-15%
Income tax expense	1,927	1,610	317	20%	2,274	(347)	-15%
Net income after taxes	\$ 4,716	\$ 4,043	\$ 673	17%	\$ 5,500	\$ (784)	-14%
<b>Basic earnings per share</b>							
Basic earnings per share	\$ 1.11	\$ 0.95	\$ 0.16	17%	\$ 1.29	\$ (0.18)	-14%
Diluted earnings per share	\$ 1.10	\$ 0.95	\$ 0.15	16%	\$ 1.29	\$ (0.19)	-15%
Book value per share	\$ 43.61	\$ 39.76	\$ 3.85	10%	\$ 42.92	\$ 0.69	2%
Tangible book value per share	\$ 37.00	\$ 32.99	\$ 4.01	12%	\$ 36.28	\$ 0.72	2%
Shares outstanding	4,268,000	4,237,512			4,260,857		
<b>Ratios</b>							
Tier 1 leverage ratio	9.51%	10.27%			9.44%		
Net interest margin	3.78%	4.08%			4.04%		
Cost of funds	0.11%	0.19%			0.12%		
ALLL / Non PPP Loans	1.80%	1.42%			1.67%		
Efficiency ratio	45.40%	49.45%			42.63%		
Return on average assets	1.09%	1.12%			1.30%		
Return on average equity	10.03%	9.58%			11.95%		
Return on average tangible equity	11.85%	11.66%			14.10%		
% of noninterest-bearing to total deposits	47.91%	46.25%			48.00%		

## Selected Unaudited Financial Information

(Dollars in thousands,  
except per share amounts)

### For the Twelve Months Ended

#### December 31,

	<u>2021</u>	<u>2020</u>	<u>Change \$</u>	<u>Change %</u>
<b>Income Statement</b>				
Interest income	\$ 63,350	\$ 51,696	\$ 11,654	23%
Interest expense	1,816	2,710	(894)	-33%
Net interest income	61,534	48,986	12,548	26%
Provision for loan losses	6,858	2,816	4,042	144%
Noninterest income	4,776	4,213	563	13%
Merger expense	-	351	(351)	-100%
Noninterest expense	29,385	25,354	4,031	16%
Net income before taxes	30,067	24,678	5,389	22%
Income tax expense	8,769	7,128	1,641	23%
Net income after taxes	\$ 21,298	\$ 17,550	\$ 3,748	21%
<b>Basic earnings per share</b>				
Basic earnings per share	\$ 5.01	\$ 4.14	\$ 0.87	21%
<b>Diluted earnings per share</b>				
Diluted earnings per share	\$ 4.99	\$ 4.12	\$ 0.87	21%
<b>Book value per share</b>				
Book value per share	\$ 43.61	\$ 39.76	\$ 3.85	10%
<b>Tangible book value per share</b>				
Tangible book value per share	\$ 37.00	\$ 32.99	\$ 4.01	12%
<b>Shares outstanding</b>				
Shares outstanding	4,268,000	4,237,512		
<b>Ratios</b>				
Tier 1 leverage ratio	9.51%	10.27%		
Net interest margin	3.99%	3.99%		
Cost of funds	0.13%	0.24%		
ALLL / Non PPP Loans	1.80%	1.42%		
Efficiency ratio	44.32%	48.32%		
Return on average assets	1.32%	1.35%		
Return on average equity	11.86%	10.92%		
Return on average tangible equity	13.49%	12.72%		
% of noninterest-bearing to total deposits	47.91%	46.25%		