



# **Santa Cruz County Bank Reports Earnings for the Second Quarter Ended June 30, 2016**

***Assets surpass new milestone of \$550 Million  
Deposits surpass new milestone of \$500 Million***

**SANTA CRUZ, CA – July 19, 2016:** Santa Cruz County Bank (OTCQX: SCZC), a top rated, locally owned and operated full-service community bank headquartered in Santa Cruz County, today announced unaudited net income for the second quarter ended June 30, 2016 of \$1.526 million. This represents an increase of 2% compared to the prior quarter and an increase of 13% comparing this quarter with the same quarter in 2015. For the quarter, basic earnings per share increased \$.07 to \$.070 an 11% increase over the second quarter in 2015.

Pretax income for the quarter ended June 30, 2016 was \$2.5 million, an increase of \$239 thousand, 11%, compared to \$2.3 million for the quarter ended June 30, 2015. Year to date net income as of June 30, 2016 was \$3.026 million, a 16% or \$425 thousand increase over the prior year.

President and CEO David V. Heald commented, “We are extremely pleased with second quarter results and the Bank’s historical financial performance, which continues to place us in top rankings in the state and the nation for exceptional performance within our industry.”

Selected financial information is presented in the following table:

|                                 | Three-Months Ended, |                |                |
|---------------------------------|---------------------|----------------|----------------|
|                                 | 06.30.16            | 06.30.15       | 03.31.16       |
| <b>Balance Sheet</b>            |                     |                |                |
| Total assets                    | \$ 558,029,387      | \$ 500,494,009 | \$ 524,680,478 |
| Gross loans                     | 384,643,935         | 336,999,353    | 375,200,453    |
| Allowance for loan losses       | 7,725,187           | 6,812,866      | 7,535,908      |
| Non-interest-bearing deposits   | 223,453,562         | 193,775,744    | 194,380,033    |
| Total deposits                  | 502,899,156         | 452,438,802    | 472,004,239    |
| Shareholders’ equity            | 47,496,868          | 41,225,768     | 46,013,587     |
| <b>Net Income</b>               | \$ 1,525,945        | \$ 1,350,624   | \$ 1,500,173   |
| <b>Ratios</b>                   |                     |                |                |
| Net interest margin             | 4.12%               | 4.26%          | 4.31%          |
| Tier 1 leverage ratio           | 8.87%               | 8.61%          | 8.84%          |
| Return on average assets        | 1.14%               | 1.12%          | 1.15%          |
| Return on average equity        | 13.06%              | 13.22%         | 13.33%         |
| Efficiency ratio                | 56.99%              | 58.92%         | 57.70%         |
| <b>Share and Per Share Data</b> |                     |                |                |

|                                 |           |           |           |
|---------------------------------|-----------|-----------|-----------|
| Basic earnings per common share | \$ 0.70   | \$0.63    | \$0.69    |
| Book value per common share     | \$ 21.70  | \$19.18   | \$21.02   |
| Total common shares outstanding | 2,189,736 | 2,149,283 | 2,189,236 |

## Second Quarter Financial Highlights:

- Net interest margin of 4.12%
- Second quarter return on average assets and equity of 1.14% and 13.06%, respectively
- Well capitalized with a total risk based capital ratio of 13.13%
- Continued exceptional credit quality with no loans on non-accrual or past due
- 14% growth in loans, \$47.6 million increase over the second quarter of 2015
- 11% growth in deposits, \$50.5 million increase over the second quarter of 2015
- Basic earnings per share increased to \$0.70 from \$0.63 over the second quarter of 2015
- Book value per share after dividends increased by \$2.52 to \$21.70 over the second quarter of 2015

## Loans, Asset Quality & Deposits

Total assets grew by \$33.3 million to \$558 million in the second quarter and by \$57.5 million over the last twelve months. The Bank's asset quality remained exceptional. For the second quarter, gross loans increased by \$9.4 million, and year over year increased \$47.6 million, 14% to \$384.6 million. Allowance for loan losses of \$7.7 million at June 30, 2016 represents a 13% increase over the same period last year. Deposits grew by 7%, \$30.9 million since March 31, 2016 and grew 11%, \$50.5 million to \$502.9 million, a new record, over the last twelve months.

## Non-Interest Income / Expense and Net Interest Margin

A component of the Bank's core business is the origination and sale of loans generated by its top producing SBA Department which results in gains that are included in non-interest income. The amount of these gains may fluctuate based on the amount of loans sold or the economic environment at the time of sale. When strategically beneficial, management may elect to forgo these sales to retain higher yielding earning assets which can benefit future earnings. For the second quarter of 2016, loan sales generated approximately \$385 thousand in gains which were included in the non-interest income total of \$952 thousand. This represented a slight decrease of \$12 thousand from prior quarter and a decrease of \$98,000 over the same period in 2015, which demonstrates strength in the Bank's core earnings.

Non-interest expense for the three-month period ended June 30, 2016, decreased 3% or \$108 thousand compared to prior quarter and rose slightly by 1% or \$48 thousand compared to the same period last year, thus remaining relatively stable over each reporting period.

Net interest income of \$5.3 million for the quarter ended June 30, 2016 was \$98 thousand or 2% less than prior quarter but exceeded the second quarter of 2015 by \$384 thousand or 8%. The improvement year over year is driven by a continued focus on building high quality earning assets through loan production. However there was some downward pressure on margin as loans pay-off and are replaced at lower yields. Consequently, net interest margin declined to 4.12% compared to 4.26% for the same period last year and 4.31% for the first quarter of 2016.

## Shareholders' Equity

Total shareholders' equity was \$47.5 million at June 30, 2016, a \$6.3 million, 15% increase over June 30, 2015. The value added to our shareholders was due to continued strong earnings. This increase was reduced by the payout of quarterly cash dividends. Common stock cash dividends

totaled \$109 thousand or \$0.05 per share for the quarter ended June 30, 2016. Historically, the Bank has paid thirteen consecutive \$0.05 cash dividends totaling over \$1.4 million to shareholders. For the three month period ended June 30, 2016, the Bank's return on average equity was 13.06% and return on average assets was 1.14%. The book value per share of Santa Cruz County Bank's common stock at June 30, 2016 was \$21.70, up from \$19.18 for the same period in 2015.

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

OTCQX Best 50: Santa Cruz County Bank was named one of 50 best performing companies on OTCQX based on total return and growth in average daily dollar volume in 2015.

Financial Management Consulting (FMC) Group: Santa Cruz County Bank ranked 2<sup>nd</sup> in overall performance among 185 California banks in 2015. The Bank ranked 1<sup>st</sup> (lowest) in non-performing assets and asset quality. The Bank has ranked in FMC's top ten banks for two consecutive years.

The Findley Reports, Inc.: Santa Cruz County Bank named a Super Premier Performing Bank for its 2015 performance. This is the sixth year the Bank has received the top ranking of Super Premier by Findley.

Bauer Financial Reports, Inc.: Santa Cruz County Bank rated five star or "Superior" for its financial performance for the quarter ended March 31, 2016.

American Banker Magazine: Santa Cruz County Bank ranked 44<sup>th</sup> out of 684 institutions in American Banker Magazine's "Top Performing 200 Community Banks & Thrifts in the United States" based upon 3-year average return on equity. The Bank has ranked in the Top 200 Community Banks in the United States for three consecutive years.

Independent Banker Magazine, published by the ICBA: Santa Cruz County Bank ranked 22<sup>nd</sup> in its Top Best Performing Member Community Banks for return on average equity.

### **Community Awards and Recognition**

2016: United Way of Santa Cruz County "Corporate Spirit Award" for outstanding support.

2016, 2015, 2014, 2013: Voted "Best Bank" by the readers of Good Times, a weekly publication with distribution throughout Santa Cruz County.

2016, 2015: Voted "Best Bank" by the readers of Santa Cruz Sentinel, a daily publication with distribution throughout Santa Cruz County.

2013: Volunteer Center of Santa Cruz County "Be the Difference" Business Award for leadership and volunteerism.

## **ABOUT SANTA CRUZ COUNTY BANK**

Santa Cruz County Bank, founded in 2004, is a locally owned and operated community bank with offices located in Aptos, Capitola, Santa Cruz, Scotts Valley and Watsonville. The bank offers a variety of competitive deposit and lending solutions for businesses and individuals; including business loans, lines of credit, commercial real estate financing, agricultural loans, SBA and USDA government guaranteed loans, credit cards, merchant services, remote deposit capture, mobile and online banking, bill payment, and cash management. For the past nine years, the Bank's SBA Department has been recognized as a top SBA lender in Santa Cruz County. Santa Cruz County Bank is a top USDA lender in the state of California.

Santa Cruz County Bank stock is publicly traded on the OTCQX marketplace under the stock symbol SCZC. Stock purchase orders may be placed through a brokerage firm or one of the Market Makers listed in the Investor Relations section of the bank's website. For more information about Santa Cruz County Bank, please visit our website [www.sccountybank.com](http://www.sccountybank.com).

*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.*

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| Selected Financial Data (unaudited) |                |                |               |     |                |               |       |                  |                  |              |      |
|-------------------------------------|----------------|----------------|---------------|-----|----------------|---------------|-------|------------------|------------------|--------------|------|
|                                     | Quarter ended  | Quarter ended  | Change        |     | Quarter ended  | Change        |       |                  |                  |              |      |
|                                     | 6/30/16        | 6/30/15        | \$            | %   | 3/31/16        | \$            | %     |                  |                  |              |      |
| <b>Balance Sheet</b>                |                |                |               |     |                |               |       |                  |                  |              |      |
| Total assets                        | \$ 558,029,387 | \$ 500,494,009 | \$ 57,535,378 | 11% | \$ 524,680,478 | \$ 33,348,909 | 6%    |                  |                  |              |      |
| Gross loans                         | 384,643,935    | 336,999,353    | 47,644,582    | 14% | 375,200,453    | 9,443,482     | 3%    |                  |                  |              |      |
| Allowance for loan losses           | 7,725,187      | 6,812,866      | 912,321       | 13% | 7,535,908      | 189,279       | 3%    |                  |                  |              |      |
| Non interest-bearing deposits       | 223,453,562    | 193,775,744    | 29,677,818    | 15% | 194,380,033    | 29,073,529    | 15%   |                  |                  |              |      |
| Total deposits                      | 502,899,156    | 452,438,802    | 50,460,354    | 11% | 472,004,239    | 30,894,917    | 7%    |                  |                  |              |      |
| Shareholders' equity                | 47,496,868     | 41,225,768     | 6,271,100     | 15% | 46,013,587     | 1,483,281     | 3%    |                  |                  |              |      |
| <b>Income Statement</b>             |                |                |               |     |                |               |       |                  |                  |              |      |
|                                     |                |                |               |     |                |               |       | Six-months ended | Six-months ended | Change       |      |
|                                     |                |                |               |     |                |               |       | 6/30/16          | 6/30/15          | \$           | %    |
| Interest income                     | 5,458,159      | 5,047,939      | 410,220       | 8%  | 5,551,950      | (93,791)      | -2%   | 11,010,109       | 9,754,611        | \$ 1,255,498 | 13%  |
| Interest expense                    | 140,258        | 114,424        | 25,834        | 23% | 136,534        | 3,724         | 3%    | 276,792          | 225,250          | 51,542       | 23%  |
| Net interest income                 | 5,317,901      | 4,933,515      | 384,386       | 8%  | 5,415,416      | (97,515)      | -2%   | 10,733,317       | 9,529,361        | 1,203,956    | 13%  |
| Provision for loan losses           | 187,500        | 187,500        | -             | 0%  | 187,500        | -             | 0%    | 375,000          | 375,000          | -            | 0%   |
| Non-interest income                 | 952,478        | 1,050,029      | (97,551)      | -9% | 964,623        | (12,145)      | -1%   | 1,917,101        | 1,958,714        | (41,613)     | -2%  |
| Non-interest expense                | 3,573,810      | 3,525,802      | 48,008        | 1%  | 3,681,557      | (107,747)     | -3%   | 7,255,367        | 6,816,183        | 439,184      | 6.4% |
| Net income before taxes             | 2,509,069      | 2,270,242      | 238,827       | 11% | 2,510,982      | (1,913)       | -0.1% | 5,020,051        | 4,296,892        | 723,159      | 17%  |
| Income tax expense                  | 983,124        | 919,618        | 63,506        | 7%  | 1,010,809      | (27,685)      | -3%   | 1,993,933        | 1,696,116        | 297,817      | 18%  |
| Net income after taxes              | \$ 1,525,945   | \$ 1,350,624   | 175,321       | 13% | \$ 1,500,173   | 25,772        | 2%    | \$ 3,026,118     | \$ 2,600,776     | 425,342      | 16%  |
| Basic earnings per share            | \$ 0.70        | \$ 0.63        |               |     | \$ 0.69        |               |       | \$ 1.39          | \$ 1.21          | \$ 0.18      | 15%  |
| Book value per share                | \$ 21.70       | \$ 19.18       |               |     | \$ 21.02       |               |       | \$ 21.70         | \$ 19.18         | \$ 2.52      | 13%  |
| <b>Ratios</b>                       |                |                |               |     |                |               |       |                  |                  |              |      |
| Net interest margin                 | 4.12%          | 4.26%          |               |     | 4.31%          |               |       | 4.21%            | 4.22%            |              |      |
| Tier 1 leverage ratio               | 8.87%          | 8.61%          |               |     | 8.84%          |               |       | 8.87%            | 8.61%            |              |      |
| Return on average assets            | 1.14%          | 1.12%          |               |     | 1.15%          |               |       | 1.15%            | 1.11%            |              |      |
| Return on average equity            | 13.06%         | 13.22%         |               |     | 13.33%         |               |       | 13.19%           | 13.00%           |              |      |
| Efficiency ratio                    | 56.99%         | 58.92%         |               |     | 57.70%         |               |       | 57.35%           | 59.33%           |              |      |