



COMMUNITY BANCORP OF SANTA MARIA

P.O. Box 5307, Santa Maria, CA 93456 • (805) 922-2900

July 16, 2020

To Our Valued Shareholders,

We are pleased to share with you the financial highlights for the Second Quarter, 2020. We hope you share our satisfaction with the following performance results.

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Percentage Increase</u>
Net Loans	\$231,580,000	\$180,129,000	28.6%
Total Deposits	\$290,204,000	\$225,918,000	28.5%
Total Assets	\$330,505,000	\$256,561,000	28.8%
Net Income	\$ 1,057,326	\$ 1,279,483	-17.4%

We wish to acknowledge that the extraordinary growth numbers presented above were bolstered by the Bank's participation in the Paycheck Protection Program ('PPP') offered by the Small Business Administration ('SBA') under the CARES Act. But that is not the whole picture. While the Bank had funded \$56.5 million in PPP loans as of June 30, 2020, we also grew our customer base, which has had a material positive impact on our Total Deposits. The Bank's ability to process and fund PPP loans expeditiously, while maintaining close contact with the applicant, differentiated us from the competition. As a result, we have moved entire new relationships, grown our customer base, and captured more market share. In other words, we took advantage of an opportunity to harvest our next generation of loyal Community Bank of Santa Maria customers. This will serve us well both in the short-term and the long-term. And that is something that would not have been accomplished if we had strictly focused on the short term (i.e. funding PPP loans).

To speak to the reduction in Net Income takes some explanation of how the fee income on the PPP loans will be recognized over time. You may have heard that banks received fees from the SBA for processing PPP loans, and that is true. However, in accordance with accounting rules, that was booked as a receivable, and will not be booked as income until the borrower either qualifies for loan forgiveness and the loan is repaid in full by the SBA, or over the term of the loan if the borrower fails to qualify and repays the loan in accordance with the loan terms (i.e. 2-5 years). We anticipate the vast majority, if not all, of the PPP loans the bank funded will qualify for forgiveness. Therefore, we anticipate recognizing the SBA fee income in the 4th quarter. However, we had upfront processing expenses that occurred in the 2nd quarter, contributing to the decline in Net Income. On a positive note, Total Income (i.e. income before expenses) was up from 2019. Total Income year-to-date at June 30, 2020 was \$6.204 million, compared to \$6.093 million at June 30, 2019.

The Board of Directors is confident in the Company's level of Capital, and therefore announced a \$0.15 cash dividend to all shareholders of record on June 23, 2020, which was paid on July 3, 2020. Our credit quality continues to be strong, and we have sufficient capital to weather an economic downturn. That said, the changes in the interest rate environment, and the unexpected impacts of a pandemic, has caused us to adjust our original strategic plan for 2020. The good news is, we anticipate nearly reaching our original strategic financial initiatives. At the bottom of this letter we have provided the relevant financial ratios, our adjusted goals, and the goals as originally disclosed. As this current environment plays out into next year, our goals beyond 2020 will likely be adjusted, but for now, we are staying our current course.

In closing, we want to thank you for your continued support. We value you as a shareholder, and ask that you please refer your family, friends, and business associates to *your* bank for all their banking needs. And during this challenging time, if there is any way we may assist you or any of your friends or colleagues, please don't hesitate to give us a call. We're here to help.

Sincerely,

Janet Silveria
President
Chief Executive Officer

	<u>ACTUAL</u>	<u>YEAR-END GOALS</u>	
	<u>06/30/20¹</u>	<u>Revised</u>	<u>Original</u>
		<u>2020</u>	<u>2020</u>
Return on Average Assets	0.74%	1.05%	1.15%
Return on Average Equity	8.06%	11.0%	11.5%

¹ Annualized