



**SECOND QUARTER
REPORT 2008**



TO OUR SHAREHOLDERS, EMPLOYEES, CLIENTS, AND FRIENDS,

To our shareholders, employees, clients, and friends,

The strong balance sheet we have established over the past four years continues to provide returns to our shareholders. Financial data is presented to the right of this narrative and below is a summary of key financial highlights for the second quarter-ended June 30, 2008, as compared to the first quarter-ended March 31, 2008:

Total deposits increased by \$4.2 million, 3%, to \$170.6 million
Gross loans increased by \$5.5 million, 4%, to \$129.9 million
Total assets increased by \$3.9 million, 2%, to \$191.8 million

On a year over year basis our deposits have increased 36%. We have concentrated on bringing in non-interest bearing deposits to minimize the impact on reduced returns in earning assets due to the Federal Reserve's action of lowering interest rates. We grew our non-interest bearing deposits by \$5.9 million or 12% in the last three months and by \$11 million or 25% in the first six months of this year. Non-interest bearing deposits represent 32% of our total deposits. At March 31, 2008, banking statistics indicate we are in the top 2% in non-interest bearing deposits as compared to peer banks.

The Bank's net interest margin decreased from 5.06% to 4.56% for the second quarter 2008 compared to the prior quarter. The compression in our net interest margin is attributable to dramatic declines in interest rates as a result of the Federal Reserve's interest rate cuts of 2.25% since the beginning of the year.

The Bank's gross loans have increased by \$34.9 million or 37% on a year to year basis. Santa Cruz County Bank does not originate sub-prime loans. We do not have high cost brokered deposits or utilize borrowings to fund our loan growth. We continue our plan to build a solid foundation of local deposits and loans.

The Bank's quarterly net income after taxes was \$195,239 as compared to \$184,607 for the quarter ended March 31, 2008, a 6% or \$10,632 increase. On a year to date basis for the six-months ended June 30, 2008 as compared to the same period in 2007, net income after taxes decreased by 11% or \$48,569.

Our ongoing initiative to build a strong source of non-interest income has shown tremendous success with a 20% increase in this source of income for the last quarter and a 35% increase year over year.

The Bank is subject to various regulatory capital adequacy requirements administered by the banking regulatory agencies. As of June 30, 2008, Santa Cruz County Bank surpassed all capital adequacy requirements to

BALANCE SHEET	QUARTER ENDED	QUARTER ENDED	Change		QUARTER ENDED	RESTATED* QUARTER ENDED	Change	
	06/30/08	03/31/08	\$	%	6/30/08	6/30/07	\$	%
TOTAL ASSETS	\$ 191,764,130	\$ 187,861,217	\$ 3,902,913	2%	\$ 191,764,130	\$ 145,736,058	\$ 46,028,072	32%
GROSS LOANS	129,880,177	124,363,503	5,516,674	4%	129,880,177	94,982,174	34,898,003	37%
ALLOWANCE FOR LOAN LOSSES	1,867,849	1,865,960	1,889	0%	1,867,849	1,463,000	404,849	28%
NON-INTEREST BEARING DEPOSITS	55,169,610	49,237,405	5,932,205	12%	55,169,610	38,256,212	16,913,398	44%
TOTAL DEPOSITS	170,523,147	166,307,430	4,215,717	3%	170,523,147	125,825,672	44,697,475	36%
SHAREHOLDERS' EQUITY	19,016,223	19,430,476	(414,253)	-2%	19,016,223	17,916,149	1,100,074	6%
					SIX-MONTHS ENDED	SIX-MONTHS ENDED	Change	
					6/30/08	6/30/07	\$	%
INCOME STATEMENT								
INTEREST INCOME	\$ 2,713,553	\$ 2,787,355	(73,802)	-3%	\$ 5,500,908	\$ 5,067,744	433,164	9%
INTEREST EXPENSE	726,834	799,695	(72,861)	-9%	1,526,529	1,444,565	81,964	6%
NET INTEREST INCOME	1,986,719	1,987,660	(941)	0%	3,974,379	3,623,179	351,200	10%
PROVISION FOR LOAN LOSSES	77,675	77,960	(285)	0%	155,635	187,000	(31,365)	-17%
NON-INTEREST INCOME	376,497	312,725	63,772	20%	689,222	510,766	178,456	35%
NON-INTEREST EXPENSE	1,943,775	1,898,845	44,930	2%	3,842,620	3,182,145	660,475	21%
NET INCOME BEFORE TAXES	341,766	323,580	18,186	6%	665,346	764,800	(99,454)	-13%
INCOME TAX EXPENSE/(CREDIT)	146,527	138,973	7,554	5%	285,500	336,385	(50,885)	-15%
NET INCOME AFTER TAXES	\$ 195,239	\$ 184,607	10,632	6%	\$ 379,846	\$ 428,415	(48,569)	-11%
RATIOS								
NET INTEREST MARGIN	4.56%	5.06%			4.80%	5.64%		
EQUITY CAPITAL-TO-TOTAL ASSETS	9.9%	10.3%			9.9%	12.3%		

*The Bank's financial statements were restated to correct an error in the calculation of the Bank's deferred tax asset balance as of December 31, 2006.

which it is subject and is rated "well-capitalized", the highest possible ranking of capital strength by regulatory standards. We will continue to build a strong bank for our shareholders and will not compromise our asset base for unrealistic immediate gains.

As always, thank you for your support and referrals.



George Gallucci
George Gallucci
Chairman of the Board



David Heald
David Heald
President & CEO



We began our third quarter with a celebratory ribbon cutting at our new banking office at 720 Front Street in downtown Santa Cruz.



Pictured here are Bill Tysseling, Executive Director of the Santa Cruz Chamber, David V. Heald, President and CEO, and Mary Anne Carson, Senior Vice President and Director of Marketing.

During the quarter, we announced that Victor Davis joined our management team as Senior Vice President, Chief Financial Officer and Cashier. Mr. Davis has an extensive 29 year community banking career, which began at the old County Bank of Santa Cruz and included positions with San Benito Bank as Chief Financial Officer and as a senior level auditor and consultant for Bank Vision, a risk management consulting firm.



COMPANY INFORMATION

BOARD OF DIRECTORS

Kenneth R. Chappell, CPA, Partner In Charge, Hutchinson & Bloodgood, LLP
George R. Gallucci, (Chairman), Director of Client Relations, Scharf Investments
Thomas N. Griffin, Director & President, Grunsky, Ebey, Farrar & Howell
Tila Guerrero, President & CEO, Mas Mac Inc., McDonald's Restaurants
William J. Hansen, (Vice Chairman), President & CEO, Hansen Insurance Co.
David V. Heald, President & CEO, Santa Cruz County Bank
Steven G. John, President, Ocean Honda
Gary A. Reece, President, The ATG Group

STOCK LISTING

Santa Cruz County Bank's common stock is listed on the Over the Counter Bulletin Board under the ticker symbol SCZC.

SHAREHOLDER INFORMATION

Shareholders with questions regarding their stockholder account, stock transfer and registration, lost certificates or change of address should contact their broker, or if held directly, contact the Bank's stock transfer agent listed below:

Computershare Investor Services
350 Indiana Street, Suite 800
Golden, CO 80401
Phone: 800.962.4284
Internet: www.computershare.com

For other assistance with stock related matters, shareholders may contact the bank:

Mary Anne Carson, Shareholder Relations
Santa Cruz County Bank
1500 41st Avenue, Capitola, CA 95010
831.457.5000

Detailed information on the Bank's quarterly reports, 2007 Annual Report, Bank stock quotes and recent press releases are available at www.sccountybank.com.

BANKING OFFICES:

CAPITOLA

819 Bay Avenue, Suite D
Capitola, CA 95010

SANTA CRUZ

720 Front Street
Santa Cruz, CA 95060

SCOTTS VALLEY

4604 Scotts Valley Drive
Scotts Valley, CA 95066

WATSONVILLE

595 Auto Center Drive
Watsonville, CA 95076

BUSINESS LENDING OFFICE

1500 41st Avenue, Suite 100
Capitola, CA 95010

ATM & NIGHT DEPOSITORY LOCATIONS:

SANTA CRUZ

1555 Soquel Drive
Santa Cruz, CA 95062
(At Dominican Hospital Campus)

APTOS

783-25 Rio Del Mar Blvd.
Aptos, CA 95003
(At Deluxe Foods of Aptos)

www.sccountybank.com
831.457.5000



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