



**THIRD QUARTER
REPORT 2008**



TO OUR SHAREHOLDERS, EMPLOYEES, CLIENTS, AND FRIENDS,

In our third quarter, your Bank surpassed a significant milestone of \$200 million in total assets, and again recorded double digit percentage gains in total assets, total deposits, and gross loans on a year to year basis, comparing September 30, 2008 to September 30, 2007.

We are keenly aware of our Nation's turbulent economy and its impact on you. These uncertainties have made all of us more vigilant than ever. There is no question that in these times individuals are seeking safety, security and quality. We want to assure you of the soundness and stability of Santa Cruz County Bank. The sale of Wachovia and Washington Mutual, who together control over 35% of the deposits in our County, has resulted in significant gains for us. As the community's 5-Star Bauer rated local Bank, we are welcoming a record number of new customer relationships. We anticipate a major shift in the County's deposit market share in favor of local banking institutions.

We continually monitor economic conditions which may affect the quality of our loan portfolio and which may lead to declines in real estate valuations. In a time of economic downturns, unfortunate circumstances result in losses and depreciation of property values. Our loan clients were not immune to these conditions and as a result we experienced our first net charge off in our nearly five years of operations.

With tremendous growth during the quarter and being well positioned for future growth, we felt it was an opportune time to take a prudent position with our reserves. Taking into consideration global as well as local economic conditions including the decline in real estate values, the Bank contributed \$1.4 million to its loan loss reserves during the quarter. The Bank's total loan loss reserve of \$2.9 million represents a 2.12% reserve, which is far in excess of the historic industry standard. The Bank's primary market is a tourist, government, agricultural, and consumer-based economy resulting in a loan portfolio which is small business based and dependent on consumer spending. The funds placed in our loan loss reserve remain part of the Bank's capital resulting in a strong capital position and ample reserves. The Bank's current conservative 70% loan to deposit ratio provides the ability to continue lending money at a time when a large number of banks have had to reduce lending and focus efforts on deposit gathering.

This action at this time will make us stronger. To illustrate this, our past due loans combined with non-performing loans represent less than 1% of our total outstanding loans. A significant portion of our past dues are two non performing real estate loans totaling \$1.1 million. One of the loans which represents 50% of the total is in escrow in an amount in excess of what is carried on our books. The losses that we have experienced were primarily in our SBA portfolio; such loans have a 75-85% government guaranty and represent mainly the retail sector.

Due to the \$1.4 million contribution to loan loss reserves in the third quarter and non-recurring expenses associated with the relocation of our Santa Cruz office, we are reporting an after tax net loss of \$581 thousand for the quarter-ended September 30, 2008 as compared to \$195 thousand profit reported for the quarter-ended June 30, 2008. Without the abundance of caution reflected in our additional loan

SELECTED FINANCIAL DATA (UNAUDITED)

BALANCE SHEET	QUARTER ENDED	QUARTER ENDED	Change		QUARTER ENDED	RESTATED* QUARTER ENDED	Change	
	09/30/08	06/30/08	\$	%	9/30/08	9/30/07	\$	%
TOTAL ASSETS	\$ 217,097,339	\$ 191,764,130	\$ 25,333,209	13%	\$ 217,097,339	\$ 153,034,797	\$ 64,062,542	42%
GROSS LOANS	138,982,747	129,880,177	9,102,570	7%	138,982,747	104,531,544	34,451,203	33%
ALLOWANCE FOR LOAN LOSSES	2,950,484	1,867,849	1,082,635	58%	2,950,484	1,614,679	1,335,805	83%
NON-INTEREST BEARING DEPOSITS	63,735,823	55,169,610	8,566,213	16%	63,735,823	43,760,013	19,975,810	46%
TOTAL DEPOSITS	196,218,915	170,523,147	25,695,768	15%	196,218,915	132,421,782	63,797,133	48%
SHAREHOLDERS' EQUITY	18,577,206	19,016,223	(439,017)	-2%	18,577,206	18,411,654	165,552	1%
					NINE-MONTHS ENDED	NINE-MONTHS ENDED	Change	
					9/30/08	9/30/07	\$	%
INCOME STATEMENT								
INTEREST INCOME	\$ 2,906,106	\$ 2,713,553	192,553	7%	\$ 8,407,014	\$ 7,950,075	456,939	6%
INTEREST EXPENSE	651,362	726,834	(75,472)	-10%	2,177,891	2,213,778	(35,887)	-2%
NET INTEREST INCOME	2,254,744	1,986,719	268,025	13%	6,229,123	5,736,297	492,826	9%
PROVISION FOR LOAN LOSSES	1,420,541	77,675	1,342,866	1729%	1,576,176	346,000	1,230,176	356%
NON-INTEREST INCOME	496,505	376,497	120,008	32%	1,185,727	808,620	377,107	47%
NON-INTEREST EXPENSE	2,348,316	1,943,775	404,541	21%	6,190,936	4,992,266	1,198,670	24%
NET INCOME (LOSS) BEFORE TAXES	(1,017,608)	341,766	(1,359,374)	-398%	(352,262)	1,206,651	(1,558,913)	-129%
INCOME TAX EXPENSE/(CREDIT)	(436,988)	146,527	(583,515)	-398%	(151,488)	514,892	(666,380)	-129%
NET INCOME (LOSS) AFTER TAXES	\$ (580,620)	\$ 195,239	(775,859)	-397%	\$ (200,774)	\$ 691,759	(892,533)	-129%
RATIOS								
NET INTEREST MARGIN	4.67%	4.56%			4.75%	5.77%		
EQUITY CAPITAL-TO-TOTAL ASSETS	8.6%	9.9%			8.6%	12%		

*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.

loss provision, there would have been a net profit during the quarter. The Bank's non-interest income showed a significant 32% improvement in the third quarter and a 47% increase year over year. The Bank's net interest income improved 13% in the third quarter and showed a 9% increase year over year.

The Bank is subject to various regulatory capital adequacy requirements administered by the banking regulatory agencies. As of September 30, 2008, Santa Cruz County Bank surpassed all capital adequacy requirements which it is subject to and is rated "well-capitalized", the highest possible ranking of capital strength by regulatory standards.

Santa Cruz County Bank does not originate residential mortgage loans and is not a subprime lender. The Bank meets the lending needs of Santa Cruz County with safe and sound lending practices and through government guaranteed loan programs. Some banks reported losses this quarter as a result of their investments in Freddie Mac or Fannie Mae preferred stocks. We do not hold any such stocks in our investment portfolio.

Financial data is presented directly above this narrative and below is a summary of key financial highlights for the third quarter-ended September 30, 2008, as compared to the second quarter-ended June 30, 2008:

Total deposits increased by \$25.7 million, 15%, to \$196.2 million

Gross loans increased by \$9.1 million, 7%, to \$138.9 million

Total assets increased by \$ 25.3 million, 13%, to \$217.1 million

On a year over year basis our deposits have increased 48%. Non-interest bearing deposits grew by \$8.6 million or 16% during the quarter and these deposits represent 32.5% of our total deposits. We remain in the 98th percentile in non-interest bearing deposits compared to other banks.

As always, thank you for your continued support and referrals.


George Gallucci
Chairman of the Board


David Neira
President & CEO



\$200 Million Milestone!

We did it! Together we have surpassed the \$200 Million mark in total assets. Thank you for helping us achieve this important milestone!

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)

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