



**SANTA CRUZ  
COUNTY BANK**

*Put your money where your life is.*



**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





## *\$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](http://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](http://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](http://www.sccountybank.com)**

**831.457.5000**