2005 Annual Report

SANTA CRUZ COUNTY BANK

Put your money where your life is.

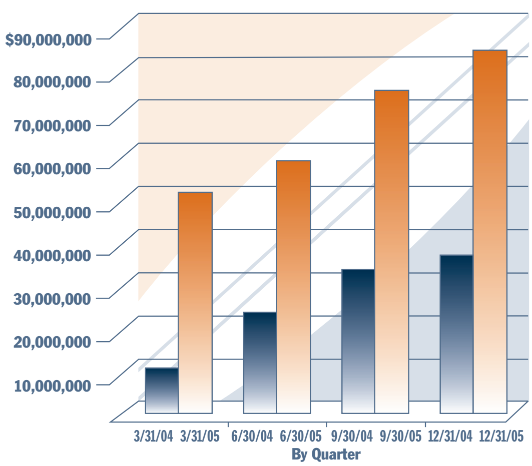
LETTER FROM CHAIRMAN, George R. Gallucci

On behalf of the Board of Directors of Santa Cruz County Bank, I want to advise you that on February 27, 2006, the Board appointed David V. Heald as President and Chief Executive Officer following the resignation of our founding President and CEO, John Rossell. We thank Mr. Rossell for guiding the Bank through its inception and establishment of a strong foundation including an excellent staff and anchor locations in Santa Cruz, Watsonville and Scotts Valley. We wish Mr. Rossell a fond farewell. Mr. Heald played an integral role in the organizational phase putting together the management team through his role in selecting and hiring key officers and staff. In addition, Mr. Heald has played a major role in the formulation of deposit, credit, and other products and services designed to meet the needs of our clients. He has also been a major force and contributor to the growth of the Bank through his business development efforts.

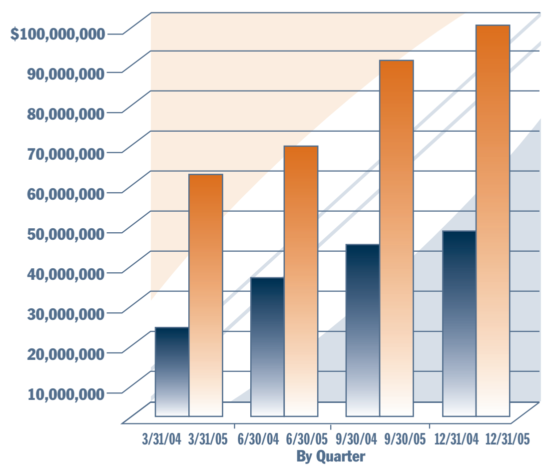
On March 16, 2006, local businessman Gary A. Reece was appointed to serve as Director on the Bank's Board. We are very fortunate to have an individual of this caliber on the Board. In addition to his strong business and banking background, Gary is also a well known community leader who serves on many charitable organization boards assuming positions that require a high degree of responsibility and expertise. We welcome Gary and look forward to his participation in the guidance and governance of our Bank.

Gary A. Reece

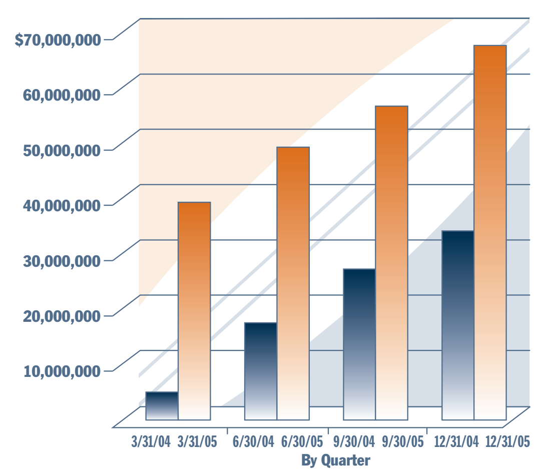
Total Deposits



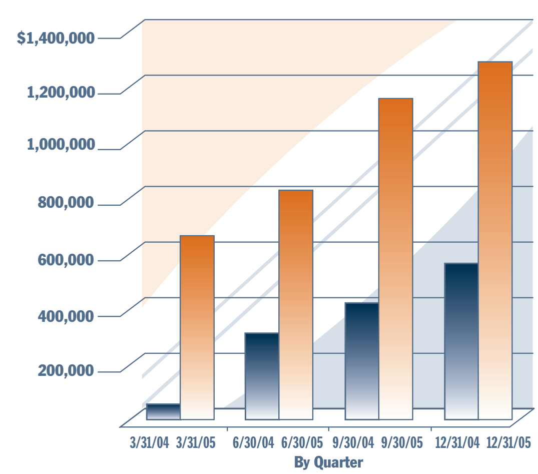
Total Assets



Gross Loans



Net Interest Income



TO OUR SHAREHOLDERS, EMPLOYEES, CLIENTS AND FRIENDS,

It is a pleasure to present to you our annual report for the year ended December 31, 2005. The pages following this letter provide in detail the Bank's financial picture so this narrative will center on the fundamentals which contributed to our gratifying financial results for 2005.

Our strategic plan for 2005 included achieving a favorable pattern of narrowing monthly losses and focusing on the growth of our three full-service locations. In 2005 we achieved consistent reduction in monthly losses, resulting in our first profitable quarter in the period ending September 30, 2005 followed by profitability in the next quarter ending December 31, 2005.

We are pleased with our progress in 2005 in the growth of the Bank's locations. From year-end 2004 to year-end 2005, the Bank overall more than doubled in deposits and assets. The Bank's first full-service banking office, which opened in Santa Cruz in February 2004, surpassed $48 million in deposits at year-end. Our second office, which opened in November 2004 in Scotts Valley, surpassed $18 million in deposits at year-end.

In February of 2005, we opened our long awaited and third full-service banking office in Watsonville. Our original plan was to open this primary anchor location simultaneously with the opening of the Santa Cruz office. The Watsonville office grew in deposits to $15 million in eleven months. Watsonville is recognized as one of the fastest growing cities in California for its size and is poised to add over 900 new homes or more than 3,000 residents within the next decade. Our position in Watsonville affords us the foothold to attract and accommodate new business in this booming marketplace.

In the fourth quarter of 2005, we augmented the Bank's three full-service banking offices by opening two self-serve banking centers within the County. These centers, which provide for an ATM and Night Depository, are well positioned in desirable target markets in Santa Cruz on the Dominican Hospital Campus and in Aptos at Deluxe Market in the Deer Park Shopping Center. These locations have served to expand our reach, provide greater access to the Bank for new and existing clients and enhance our visibility throughout the County with minimum cost.

Most of our facilities are deposit gatherers. The Bank then converts those funds into earning assets, primarily through loans. In March 2005, the Bank was awarded Preferred Lender status from the U.S. Small Business Administration (SBA) San Francisco District which has enabled us to make decisions to grant SBA guaranteed loans without prior approval by the SBA. In February 2006, the Bank received Preferred Lender status from the SBA's Fresno district, which further extends our ability to grant loans quickly to 15 other counties in the state, most importantly, in Monterey, which is contiguous to Santa Cruz County. As a Preferred Lender we have the sustainable competitive market advantage of enhanced facilitation of new SBA loans and a more simplified loan approval process which will translate to a more rapid response rate for potential borrowers.

TO OUR SHAREHOLDERS, EMPLOYEES, CLIENTS AND FRIENDS,

By far the most significant key to business success is to hire outstanding employees. Santa Cruz County Bank has built an exceptional team of talented individuals who are experienced bankers, well known in the community, and who are dedicated to providing hands-on, personalized service - the kind that most of us may fondly recall as "what banking used to be like in the *good old days*". Our employees are committed to providing relationship-driven service which seems to be missing from the larger regional and national banking institutions.

The essence of Santa Cruz County Bank, and the essence of the quality of life in Santa Cruz County, is built on this notion: *Put Your Money Where Your Life Is.* In a community such as this, where locals and small business owners depend on the strength of our community and our local economy for their livelihood, this concept of neighbors supporting neighbors or "buy local" resonates loudly. Without these locals and small businesses, the Bank would not exist. Together we build the community in which we live and seek to prosper. Our commitment to the community is to provide local decision making and responsive customer service. By doing so, we believe we will continue to set ourselves apart from our competition and further enhance our ability to bring in more new business through referrals from satisfied customers and the development of a reputation of excellent service.

We enter 2006 with optimism. We have built a strong foundation as the only locally owned commercial bank in a community that both fosters and supports locally based businesses. We have the talent, expertise, and ability to react quickly and creatively in response to market opportunities and challenges. In the year ahead, we endeavor to establish steadily increasing profitability while growing the Bank responsibly to provide our clients greater accessibility and state of the art products and services.

Put your money where your life is.

George Gallucci
Chairman of the Board

David V. Heald
President and CEO

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants & Consultants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Santa Cruz County Bank

We have audited the balance sheets of Santa Cruz County Bank as of December 31, 2005, and 2004 and the related statements of operations, changes in stockholders' equity and other comprehensive income, and cash flows for the period from February 3, 2004 (inception) through December 31, 2004, and for the year ended December 31, 2005. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Santa Cruz County Bank as of December 31, 2005 and 2004 and the results of its operations and its cash flows for the period from February 3, 2004 (inception) through December 31, 2004, and for the year ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

Vavrinek Trine Day + Co. LLP

Palo Alto, California
January 31, 2006

STATEMENTS OF CONDITION

	December 31, 2005	December 31, 2004
Assets		
Cash and due from banks (notes 1, 11 and 13)	$ 3,435,744	$ 870,521
Federal funds sold	8,371,450	1,769,696
Total cash and cash equivalents	11,807,194	2,640,217
Investment securities (notes 1, 2 and 13):		
Securities held-to-maturity	1,516,583	1,813,111
Securities available-for-sale, at fair value	14,945,100	3,704,428
Total investment securities	16,461,683	5,517,539
Federal Home Loan Bank stock, at cost	159,300	127,200
Loans (notes 1, 3, 11 and 13):		
Gross loans	64,671,489	32,542,668
less deferred loan fees, net of costs	266,888	184,547
less reserve for loan losses	840,000	407,000
Net loans	63,564,601	31,951,121
Premises and equipment, net (notes 1, 4 and 11)	1,594,947	1,146,322
Accrued interest receivable	396,767	126,848
Bank owned life insurance	3,208,894	3,090,378
Other assets	334,957	293,616
Total Assets	$ 97,528,343	$ 44,893,241
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits (note 13):		
Noninterest-bearing demand deposits	$ 22,361,481	$ 8,474,162
Interest-bearing demand deposits	6,285,261	4,100,305
Savings and money market deposits	39,678,678	14,962,132
Time deposits (note 6)	13,359,431	6,258,856
Total deposits	81,684,851	33,795,455
Other liabilities		
Accrued interest payable	157,458	39,390
Other liabilities	338,140	137,320
Total Liabilities	82,180,449	33,972,165
Shareholders' Equity:		
Common stock, no par value, 30,000,000 shares authorized:		
issued and outstanding; 1,614,642 shares at December 31, 2005 and 1,320,000 shares at December 31, 2004 (note 8)	18,091,652	13,123,400
Accumulated deficit	(2,595,149)	(2,180,075)
Net unrealized loss on securities available-for-sale (note 2)	(148,609)	(22,249)
Total Shareholders' Equity	15,347,894	10,921,076
Total liabilities and shareholders' equity	$ 97,528,343	$ 44,893,241

See accompanying notes to the Financial Statements

STATEMENTS OF OPERATIONS

	Year Ended December 31, 2005	Period from February 3, 2004 (inception) to December 31, 2004
Interest income:		
Interest and fees on loans	$ 3,869,243	$ 1,043,173
Investment securities	328,370	174,407
Federal funds sold and other interest income	327,625	76,801
Total interest income	4,525,238	1,294,381
Interest expense:		
Deposits (note 6) and other borrowed funds (note 7)	744,576	137,190
Net interest income before provision for loan losses	3,780,662	1,157,191
Provision for loan losses (notes 1 and 3)	433,000	407,000
Net interest income after provision for loan losses	3,347,662	750,191
Non-interest income:		
Service charges on deposit accounts	116,377	30,206
Other non-interest income (note 14)	291,243	144,765
Total non-interest income	407,620	174,971
Non-interest expense:		
Salaries and employee benefits	2,616,119	1,636,533
Occupancy	384,864	212,682
Furniture and equipment	276,083	150,884
Marketing and business development	152,095	92,793
Item and data processing	146,617	76,980
Professional services	103,428	76,435
Other operating expenses (note 14)	490,350	264,550
Total non-interest expense	4,169,556	2,510,857
Loss before income taxes	(414,274)	(1,585,695)
Income taxes (note 5)	800	800
Net loss	$ (415,074)	$ (1,586,495)
Loss per share, basic and diluted (note 1):	$ (0.29)	$ (1.20)

See accompanying notes to the Financial Statements

STATEMENT OF SHAREHOLDERS' EQUITY
Period from February 3, 2004 (inception) to December 31, 2005

	Common Shares	Amount	Accumulated Deficit	Other Compre-hensive Income	Total Shareholders' Equity
Balance at February 3, 2004 (inception)	-	$ -	$ -	$ -	$ -
Pre-opening costs			(593,580)		(593,580)
Proceeds from stock offering, net of					
offering expenses of $76,600	1,320,000	13,123,400			13,123,400
Net loss			(1,586,495)		(1,586,495)
Change in unrealized losses on securities					
available-for-sale, net of tax effect of $0				(22,249)	(22,249)
Balances at December 31, 2004	1,320,000	13,123,400	(2,180,075)	(22,249)	10,921,076
Proceeds from stock offering, net of					
offering expenses of $37,647	294,117	4,962,342			4,962,342
Common stock issued for exercise of stock options	525	5,910			5,910
Net loss			(415,074)		(415,074)
Change in unrealized losses on securities					
available-for-sale, net of tax effect of $0				(126,360)	(126,360)
Balances at December 31, 2005	1,614,642	$ 18,091,652	$ (2,595,149)	$ (148,609)	$ 15,347,894

See accompanying notes to the Financial Statements

STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2005	Period from February 3, 2004 (inception) to December 31, 2004
Operating Activities:		
Net loss	$ (415,074)	$ (1,586,495)
Adjustments to reconcile net loss to net cash provided by		
operating activities:		
Depreciation and amortization of furniture, fixtures and equipment	318,089	161,454
Increase in cash value of bank owned life insurance	(118,516)	(90,378)
Provision for loan losses	433,000	407,000
Net amortization/accretion of investment discounts and premiums	(497)	15,739
Net other amortization and accretion	79,243	20,416
(Gain) on sale of available-for-sale securities	-	(19,503)
(Gain) on sale of SBA loans	(81,712)	(19,677)
Net (increase)/decrease in:		
Interest receivable	(269,919)	(126,848)
Other assets	(41,341)	(293,616)
Net increase/(decrease) in:		
Accrued interest payable	118,068	39,390
Other liabilities	200,820	137,320
Increase in deferred loan fees	82,341	184,547
Total adjustments	719,576	415,844
Net cash provided/(used) by operating activities	304,502	(1,170,651)
Investing Activities:		
Held-to-maturity securities:		
Principal repayments	289,206	207,535
Purchases	-	(2,027,969)
Available-for-sale securities:		
Sales	-	948,394
Maturities	1,000,000	-
Principal repayments	553,179	328,949
Purchases	(12,912,392)	(5,012,436)
Increase in Federal Home Loan Bank stock	(32,100)	(127,200)
Net proceeds from sales of loans	988,593	264,111
Purchase of bank owned life insurance	-	(3,000,000)
Net increase in loans	(33,114,945)	(32,788,015)
Purchase of premises and equipment	(766,714)	(1,307,776)
Net cash used by investing activities	(43,995,173)	(42,514,407)
Financing Activities:		
Net proceeds from sale of common stock	4,968,252	13,123,400
Pre-opening costs	-	(593,580)
Increase in:		
Demand deposits	16,072,275	12,574,467
Savings and money market deposits	24,716,546	14,962,132
Time deposits	7,100,575	6,258,856
Net cash provided by financing activities	52,857,648	46,325,275
Net increase in cash and cash equivalents	9,166,977	2,640,217
Cash and cash equivalents at beginning of period	2,640,217	-
Cash and cash equivalents at end of period	$ 11,807,194	$ 2,640,217
Total interest paid	$ 626,508	$ 97,800
Total income taxes paid	800	800

Note 1. Summary of Significant Accounting Policies

Description of the Business. Santa Cruz County Bank (the Bank) is a California state chartered bank which offers a full range of commercial and personal banking services to residents and businesses in Santa Cruz County, California, through its original main office in Santa Cruz, California, a branch office in Scotts Valley, California, and a new branch office in Watsonville, California. The Bank was incorporated on September 10, 2003 as Santa Cruz County Bank (In Organization) and commenced banking operations on February 3, 2004 (inception), upon receipt of final approval from the California Department of Financial Institutions and the issuance of deposit insurance by the Federal Deposit Insurance Corporation. The Bank is subject to competition from other financial institutions. Additionally, the Bank is subject to regulations by the above referenced regulatory agencies and undergoes periodic examinations by those agencies.

The majority of the Bank's business is done with customers located in Northern California, specifically in Santa Cruz and adjacent counties. The Bank has 148 credit arrangements that are collateralized by real estate. Generally, the Bank maintains loan-to-value ratios no greater than 70 percent on commercial and multi-family real estate loans and no greater than 75 percent on single-family residential real estate loans. At December 31, 2005, the Bank had loans outstanding of approximately $46,804,000 that were collateralized by real estate. There were no other significant loan concentrations.

Summary of Significant Accounting Policies. The accounting and reporting policies of the Bank conform to generally accepted accounting principles in the United States of America and prevailing practices within the banking industry. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported accounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The following is a summary of significant policies used in the preparation of the accompanying consolidated financial statements.

Cash and Cash Equivalents. For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Federal funds sold for a one day period are highly liquid investments.

Investment Securities. Marketable investment securities consist of U.S. Government Agency and mortgage-backed securities. At the time of purchase, the Bank designates securities as either “held-to-maturity” or “available-for-sale” based on its investment objectives, operational needs and intent. The Bank does not engage in securities trading activities.

Held-to-maturity securities are recorded at amortized cost, adjusted for amortization or accretion of premiums or discounts. Available-for-sale securities are recorded at fair value with unrealized holding gains and losses, net of the related tax effect, reported as a separate component of shareholders' equity until realized. During the year ended December 31, 2005, there were no transfers between classifications. Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized on an accrual basis. Realized gains and losses for securities classified as available-for-sale and held-to-maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

A decline in the market value of any available-for-sale security below cost that is deemed other than temporary, results in a charge to earnings and the establishment of a new cost basis for the security. No such declines have occurred.

Loans. Loans are stated at the amount of unpaid principal, net of deferred fees, and reduced by an allowance for loan losses. Accrual of interest is discontinued on loans which are more than 90 days delinquent or when Management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful unless the loans are well-secured and in the process of collection. When a loan is placed on non-accrual status, all interest previously accrued but not collected is charged against current period income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable.

Generally, a non-accrual loan will be restored to an accrual status when none of its principal and interest is past due, when prospects for future contractual payments are no longer in doubt and when the loan becomes well-secured and in the process of collection. The Bank had one non-accrual loan totaling $440,000 at December 31, 2005. There were no loans on non-accrual status at December 31, 2004.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement, including scheduled interest payments. Generally, the Bank identifies loans to be reported as impaired when such loans are in non-accrual status or are considered troubled debt restructurings due to the granting of a below-market rate of interest or a partial forgiveness of indebtedness on an existing loan. If the measurement of the impaired loans is less than the recorded investment in the loan, impairment is recognized by creating or adjusting an existing allocation of the allowance for loan losses.

Non-refundable fees and estimated loan origination costs are deferred net and are amortized to income over the expected life of the loan using a method that approximates the level yield method.

Loans Held for Sale. The Bank has adopted SFAS No. 140, *"Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."* The statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. Under this Statement, after a transfer of financial assets, an entity recognizes the financial and servicing assets it controls and liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished.

To calculate the gain (loss) on the sale of loans, the Bank's investment in the loan is allocated among the retained portion of the loan, the servicing retained, the interest-only strip and the sold portion of the loan, based on the relative fair market value of each portion. The gain (loss) on the sold portion of the loan is recognized at the time of sale based on the difference between the sale proceeds and the allocated investment. As a result of the relative fair value allocation, the carrying value of the retained portion is discounted, with the discount accreted to interest income over the life of the loan. That portion of the excess servicing fees that represent contractually specified servicing fees (contractual servicing) are reflected as a servicing asset which is amortized over an estimated life using a method approximating the level yield method; in the event future prepayments exceed Management's estimates and future expected cash flows are inadequate to cover the unamortized servicing asset, additional amortization would be recognized. The portion of excess servicing fees in excess of the contractual servicing fees is reflected as interest-only (I/O) strips receivable, which are classified as interest-only strips receivable available for sale and are carried at fair value.

Allowance for Loan Losses. The allowance for loan losses is established through periodic provisions for possible loan losses. Loans are charged against the allowance for loan losses when Management believes that the collectibility of the principal is unlikely. The allowance is a reserve to provide for possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience. The evaluations include consideration of changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay.

Management believes that the allowance for loans losses is adequate. While Management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgment of information available to them at the time of their examination.

Premises & Equipment. Premises and equipment are stated at cost less accumulated depreciation and amortization and include additions that materially extend the useful lives of existing premises and equipment. All other maintenance and repair expenditures are expensed as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, three to seven years, and are expensed to noninterest expense. Leasehold improvements are amortized over their estimated useful lives, seven years, or the initial term of the respective leases, whichever is longer.

Income Taxes. Deferred income taxes are computed using the asset and liability method, which recognizes a liability or asset representing the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized in the financial statements. A valuation allowance is established to reduce the deferred tax asset to the level at which it is "more likely than not" that the tax asset or benefits will be realized. Realization of tax benefits of deductible temporary differences and operating loss carryforwards depends on having sufficient taxable income of an appropriate character within the carryforward periods.

Accounting Policy for Stock Options / Stock-Based Compensation. SFAS No. 123, *"Accounting for Stock-Based Compensation,"* encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Bank accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, *"Accounting for Stock Issued to Employees,"* and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Bank's stock at the date of the grant over the amount an employee must pay to acquire the stock. All of the Bank's stock option grants included exercise prices not less than the Bank's current market price per share; accordingly, no compensation expense was reported using the intrinsic value method of APB Opinion No. 25. See Note 8 for additional information on the Bank's stock option plan.

Had compensation cost for the Bank's stock option plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, the Bank's net loss and loss per share would have been increased to the pro forma amounts indicated below:

	2005	2004
Net loss:		
As reported	$ (415,074)	$ (1,586,495)
Stock-based compensation using intrinsic value method:	-	-
Stock-based compensation that would have been reported		
using the fair value method of SFAS 123	(127,896)	(120,790)
Pro forma	$ (542,970)	$ (1,707,285)
Loss per share:		
As reported	$ (0.29)	$ (1.20)
Pro forma	$ (0.38)	$ (1.29)

Pro forma compensation cost calculations were made using the Black Scholes option pricing model with the following assumptions:

	2005	2004
Expected life (yrs.)	5	5
Volatility	0.00%	0.00%
Risk free rate of return	4.41%	3.50%
Dividend yield	0.00%	0.00%

Earnings Per Share. SFAS No. 128, *Measurement of Earnings per Share*, establishes standards for computing and reporting basic earnings per share and diluted earnings per share. Basic earnings per share are calculated by dividing net earnings for the period by the weighted-average common shares outstanding for that period. There is no adjustment to the number of outstanding shares for potential dilutive instruments, such as stock options. Diluted earnings per share takes into account the potential dilutive impact of such instruments and uses the average share price for the period in determining the number of incremental shares to add to the weighted-average number of shares outstanding. The following table summarizes the weighted average shares outstanding used to compute earnings per share:

	December 31,	
	2005	2004
Net loss, as reported	$ (415,074)	$ (1,586,495)
(Loss) per share, basic and diluted	$ (0.29)	$ (1.20)
weighted average shares outstanding	1,428,330	1,320,000

Comprehensive Income. The Bank has adopted SFAS No. 130, "*Reporting Comprehensive Income*," which requires the disclosure of comprehensive income and its components. Changes in unrealized gains (losses) on available-for-sale securities are the only component of accumulated other comprehensive income for the Bank.

Current Accounting Pronouncements. In December 2004, FASB revised SFAS 123 and issued it under its new name, *"Share-Based Payment".* This Statement eliminates the alternative to use Opinion 25's intrinsic value method of accounting discussed in Note 1., *Accounting Policy for Stock Options / Stock-Based Compensation*. Instead, this Statement generally requires entities to recognize the cost of employee services received in exchange for awards of stock options, or other equity instruments, based on the grant-date fair value of those awards. This cost will be recognized over the period during which an employee is required to provide service in exchange for the award, generally the vesting period.

The Bank must adopt this Statement in 2006 for all new stock option awards as well as any existing awards that are modified, repurchased or cancelled. In addition, the unvested portion of previously awarded options will also be recognized as expense. The Company estimates that the adoption of this Statement will result in a reduction in net income of approximately $128,000 in 2006, based on unvested options outstanding as of December 31, 2005. The decision to grant stock options is made annually on a case-by-case basis and, accordingly, the Company cannot estimate the amount or financial statement impact of any stock options that might be granted in 2006.

Disclosure About Fair Value of Financial Instruments. SFAS No. 107 specifies the disclosure of the estimated fair value of financial instruments. The Bank's estimated fair value amounts have been determined by the Bank using available market information and appropriate valuation methodologies.

However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Bank could have realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Although Management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since the balance sheet date and, therefore, current estimates of fair value may differ significantly from the amounts presented in the accompanying notes.

Note 2. Investment Securities

The following table summarizes Santa Cruz County Bank's securities held-to-maturity and available-for-sale at December 31, 2005, and December 31, 2004:

2005	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities available-for-sale:				
Government agency securities	$ 11,957,857	$ -	$ (61,087)	$ 11,896,770
Mortgage-backed securities	3,135,852	-	(87,522)	3,048,330
Total securities available-for-sale	$ 15,093,709	$ -	$ (148,609)	$ 14,945,100
Securities held-to-maturity:				
Mortgage-backed securities	$ 1,516,583	$ -	$ (62,349)	$ 1,454,234
Total securities held-to-maturity	$ 1,516,583	$ -	$ (62,349)	$ 1,454,234
2004				
Securities available-for-sale:				
Government agency securities	$ 1,000,681	$ -	$ (9,741)	$ 990,940
Mortgage-backed securities	2,725,996	4,464	(16,972)	2,713,488
Total securities available-for-sale	$ 3,726,677	$ 4,464	$ (26,713)	$ 3,704,428
Securities held-to-maturity:				
Mortgage-backed securities	$ 1,813,111	$ -	$ (20,857)	$ 1,792,254
Total securities held-to-maturity	$ 1,813,111	$ -	$ (20,857)	$ 1,792,254

The amortized cost and estimated fair value of investment securities at December 31, 2005 and December 31, 2004, by contractual maturity, are shown below, except for mortgage-backed securities and other securities which are presented in total. Expected maturities on mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities available-for-sale		Securities held-to-maturity	
	Amortized		Amortized	
2005	Cost	Fair Value	Cost	Fair Value
Due in one year or less	$ 3,995,670	$ 3,978,320	$ -	$ -
Due after one year through five years	7,962,187	7,918,450	-	-
Mortgage-backed securities	3,135,852	3,048,330	1,516,583	1,454,234
Total	$ 15,093,709	$ 14,945,100	$ 1,516,583	$ 1,454,234
2004				
Due in one year or less	$ -	$ -	$ -	$ -
Due after one year through five years	1,000,681	990,940	-	-
Mortgage-backed securities	2,725,996	2,713,488	1,813,111	1,792,254
Total	$ 3,726,677	$ 3,704,428	$ 1,813,111	$ 1,792,254

Investment securities in a temporary unrealized loss position as of December 31, 2005 are shown in the following table, based on the time they have been continuously in an unrealized loss position:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2005:						
Available-for-sale securities:						
U.S. Government agency securities	$ 10,901,140	$ 56,717	$ 995,630	$ 4,370	$ 11,896,770	$ 61,087
Mortgage-backed securities	948,372	4,628	2,099,958	82,894	3,048,330	87,522
	$ 11,849,512	$ 61,345	$ 3,095,588	$ 87,264	$ 14,945,100	$ 148,609

In 2004, one mortgage-backed security was sold, generating a gross realized gain of $19,503. No investment securities were sold in 2005.

$2,429,452 and $0 investment securities were pledged to secure public deposits or for other purposes, required or permitted by law, at December 31, 2005 and December 31, 2004, respectively.

Note 3. Loans

Loan maturity and rate sensitivity data of the loan portfolio, in thousands, at December 31, 2005 and 2004 are as follows:

	December 31, 2005			
	Within One Year	One to Five Years	After Five Years	Total
Real estate and construction	$ 22,860	$ 5,315	$ 11,220	$ 39,395
Consumer, other	1,437	13	1,936	3,386
Commercial and revolving lines	11,981	5,743	4,166	21,890
	$ 36,278	$ 11,071	$ 17,322	$ 64,671
Loans at fixed interest rates	$ 1,281	$ 3,337	$ 7,532	$ 12,150
Loans at variable interest rates	34,997	7,734	9,790	52,521
	$ 36,278	$ 11,071	$ 17,322	$ 64,671

	December 31, 2004			
	Within One Year	One to Five Years	After Five Years	Total
Real Estate and construction	$ 14,361	$ 2,234	$ 1,608	$ 18,203
Consumer, other	1,343	597	526	2,466
Commercial and revolving lines	11,697	177	-	11,874
	$ 27,401	$ 3,008	$ 2,134	$ 32,543
Loans at fixed interest rates	$ 255	$ 1,816	$ 2,134	$ 4,205
Loans at variable interest rates	27,146	1,192	-	28,338
	$ 27,401	$ 3,008	$ 2,134	$ 32,543

Changes in the allowance for loan losses were as follows:

Balance February 3, 2004 (inception)	$ -
Provision for loan losses	407,000
Loan charge-offs	-
Recoveries of loan charge-offs	-
Balance December 31, 2004	$ 407,000
Provision for loan losses	433,000
Loan charge-offs	-
Recoveries of loan charge-offs	-
Balance December 31, 2005	$ 840,000

	2005	2004
Net loan (recoveries) charge-offs as a percentage of average total loans	N/A	N/A

In general, the Bank would not recognize any interest income on loans that are classified as impaired. There were no impaired loans as of December 31, 2004.

The following is a summary of the investment in impaired loans as of December 31, 2005, including the related allowance for loan losses and cash-basis income recognized. Also shown are loans on non-accrual and those that are past due and still accruing interest:

	2005
Impaired Loans:	
Recorded Investment in Impaired Loans	$ 440,000
Related Allowance for Loan Losses	44,000
Average Recorded Investment in Impaired Loans	30,000
Interest Income Recognized for Cash Payments While Impaired	-
Total Loans on Non-Accrual	440,000
Total Loans Past Due 90 Days or More and Still Accruing	-

Note 4. Premises and Equipment

The following presents the cost of premises and equipment including leasehold improvements and the related accumulated depreciation and amortization at December 31, 2005 and December 31, 2004:

	December 31, 2005	December 31, 2004
Premises and leasehold improvements	$ 890,737	$ 387,857
Furniture, fixtures and equipment	1,011,435	643,920
Software and capitalized data & item processing	98,309	88,251
Construction-in-progress	74,009	187,748
Total premises and equipment	2,074,490	1,307,776
Less accumulated depreciation and amortization	(479,543)	(161,454)
Premises and equipment, net	$ 1,594,947	$ 1,146,322

Depreciation expense aggregated $318,089 for the year ended December 31, 2005 and $161,454 for the period from inception to December 31, 2004.

Note 5. Income Taxes

Deferred income taxes are the result of differences between income tax accounting and accounting principles generally accepted in the United States of America, with respect to income and expense recognition. The following is a summary of the components of the net deferred tax asset accounts as of December 31, 2005 and December 31, 2004:

	2005	2004
Operating loss carryforwards	$ 821,000	$ 760,700
Loan loss reserve	351,000	166,200
	1,172,000	926,900
Valuation allowance	(1,172,000)	(926,900)
Net deferred tax asset	$ -	$ -

The valuation allowance is necessary as the Bank has not generated earnings sufficient to support the recognition of the deferred tax asset. The Bank has approximately $1.96 million in federal and state net operating loss carryforwards. The federal operating loss carryforwards will expire through 2025. The California operating loss carryforwards will expire through 2015. Income tax expense consists of the following for the period:

		2005		2004
Current:				
Federal	$	-	$	-
State		800		800
Deferred		-		-
Total	$	800	$	800

Note 6. Time Deposits

The aggregate amount of time deposit accounts equal to or greater than $100,000 was approximately $13,359,000 and $4,431,000 at December 31, 2005 and December 31, 2004, respectively. At December 31, 2005 the scheduled maturities for time deposits were as follows:

(Rounded to the nearest thousand)		
Due in 2006	$	12,015
Due in 2007		1,055
Due in 2008		28
Due in 2009		155
Due in 2010		106
Thereafter		-
	$	13,359

Interest expense on time deposits of $100,000 or more was $159,406 and $44,699 in 2005 and 2004, respectively.

Note 7. Borrowed Funds

The Bank has obtained federal funds borrowing guidance lines with its correspondent banks in an aggregate amount of $7 million on an unsecured basis. In addition, the Bank has established a secured borrowing arrangement, secured by its investment portfolio, with the Federal Home Loan Bank, in an amount equal to approximately 69% of the fair market value of the Bank's investment securities portfolio. There was no borrowing expense in 2005 and the only borrowing interest expense in 2004 incurred as a result of testing these lines. The Bank had no borrowed funds at December 31, 2005 and at December 31, 2004.

Note 8. Stock Options

Bank has adopted a qualified stock option plan (the Plan) for employees, non-employee directors and Bank founders, under which a maximum of 396,000 shares of Bank's common stock may be issued. The Plan calls for the exercise prices of the options to be equal to or greater than the fair market value of the stock at the time of grant. A total of 4,200 and 309,690 options for shares of common stock were granted in 2005 and 2004, respectively, with a respective weighted average exercise price of $16.95 and $10.11 per share. Options granted to Bank founders who are not also Bank directors or Bank officers were fully vested upon the date of grant. All other options shares granted have daily vesting over the first four years of the option contract. All option contracts for founders who are not also Bank directors or Bank officers have expiration dates of ten years from the date of grant. All director and employee option contracts have expiration dates on the earlier of termination of service or 10 years from the date of grant. The number of shares of common stock options exercisable at December 31, 2005 were 154,936 and at December 31, 2004 were 81,719.

The following is a summary of transactions which occurred for the period January 1, 2005 to December 31, 2005 and from February 3, 2004 (inception) to December 31, 2004:

	Options Outstanding	Weighted Average Exercise Price
February 3, 2004 (inception)		
Granted 2004 ($1.58 fair value)	309,690	$10.11
Exercised 2004	-	-
Cancelled 2004	-	-
Balance at December 31, 2004	309,690	$10.11
Granted 2005 ($3.50 fair value)	4,700	$18.02
Exercised 2005	525	$11.26
Cancelled 2005	2,200	$13.97
Balance at December 31, 2005	311,665	$10.20

Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price - Options Outstanding	Options Exercisable	Weighted Average Exercise Price - Options Exercisable
December 31, 2005:				
311,665	8.13 years	$ 10.20	154,936	$ 10.08
December 31, 2004:				
309,690	9.11 years	$ 10.11	81,719	$ 10.03

Note 9. 401(k) Employee Benefit Plan

All employees of the Bank, after completing 90 days of service, are eligible to participate in the Bank's 401(k) Plan which is a tax-deferred savings plan designed to assist employees in preparing for their retirement years. Employees may contribute to the Plan up to certain limits prescribed by the Internal Revenue Service. The Bank does not match employee contributions.

Note 10. Related Party Transactions

In the ordinary course of business, the Bank makes loans to directors, officers, shareholders and their associates on substantially the same terms, including interest rates, origination and commitment fees, and collateral, as comparable transactions with unaffiliated persons, and such loans do not involve more than the normal risk of collectibility. At December 31, 2005, and December 31, 2004, no related party loans were on non-accrual or classified for regulatory reporting purposes.

Total loans and extensions of credit made to or guaranteed by the Bank's directors and officers and their related companies totaled $686,500 and $87,000 at December 31, 2005 and December 31, 2004, respectively. Activity related to loans to directors, officers and principal shareholders and their associates for the years ended December 31, 2005, and December 31, 2004 is as follows:

February 3, 2004 (inception)	$ -
New loans or disbursements	80,899
Principal repayments	79,946
Balance at December 31, 2004	953
New loans or disbursements 2005	117,799
Principal repayments 2005	83,763
Balance at December 31, 2005	$ 34,989

Note 11. Restrictions, Commitments, Contingencies and Other Disclosures

Restrictions on Cash and Due from Banks. Santa Cruz County Bank is subject to Federal Reserve Act Regulation D which requires banks to maintain average reserve balances with the Federal Reserve Bank. Reserve requirements are offset by usable cash reserves. As of December 31, 2005, Santa Cruz County Bank's reserve requirement was $595,000 and December 31, 2004, the Bank's reservable deposits required that it maintain no reserves at the Federal Reserve Bank.

As compensation for check clearing and other services, compensating balances of approximately $10,000 were maintained with correspondent banks at December 31, 2005 and 2004. At times, the Bank maintains deposit amounts at corresponding banks that exceed federally insured limits. The Bank has not experienced any losses on amounts exceeding the insured limits.

Building Lease Commitments. The current operating lease for the Santa Cruz Office at 325 Soquel Avenue expires September 18, 2008, with an option to extend for three additional 5 year periods. The monthly lease payment for the Santa Cruz Office is presently $8,624 plus triple net expenses for taxes, insurance and maintenance and is subject to increases of approximately 4% annually during the initial term. The lease for the Bank's Scotts Valley Office at 4604 Scotts Valley Drive commenced on October 1, 2004, and expires on June 30, 2011, with an option to extend for two additional 5 year periods. The monthly lease payment for the Scotts Valley Office is presently $2,600 and will continue at this amount through the sixtieth month, after which it is subject to annual CPI increases. The first fifteen months of the Scotts Valley Office lease were rent free.

The straight-line rent expense for the sixty month period is $1,950 per month. Triple net expenses will be incurred in addition to these lease payments. Finally, the lease for the Watsonville Office at 595 Auto Center Drive commenced on December 1, 2004, and expires January 24, 2015, with an option to extend for an additional 5 years. Base rent for the initial term of the Watsonville lease is fixed at $4,013 monthly plus triple net expenses.

In addition to the office building leases, the Bank has two leases for ATM & night depository kiosks. The operating lease for the kiosk at 1555 Soquel Drive, Santa Cruz, California, expires in November, 2010, with an option to extend for one additional period of three years. The monthly lease payment for the Santa Cruz kiosk is $500. The operating lease for the kiosk at 783-25 Rio Del Mar Boulevard, Aptos, California, expires in November, 2010, with an option to extend for six additional periods of three years each. The quarterly lease payment for the Aptos kiosk is $216.

Minimum rental payments for future years under the three building leases and two kiosk leases are as follows at December 31, 2005:

	cash
2006	$ 190,740
2007	194,879
2008	174,700
2009	86,220
2010	85,720
Thereafter	212,237
	$ 944,496

Building and kiosk rent expense for the year ended December 31, 2005 and for the period from February 3, 2004 (inception) to December 31, 2004, was $172,731 and $106,738, respectively.

Loan Commitments. The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit and financial guarantees written is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on Management's credit evaluation. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment, residential real estate and income-producing commercial properties.

Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Financial instruments whose contract amounts represent credit risk at December 31, 2005 and December 31, 2004 are as follows:

	December 31,	
	2005	2004
Commitments to extend credit	$ 35,472,782	$ 15,864,470
Standby letters of credit	544,571	-
	$ 36,017,353	$ 15,864,470

Legal Matters. At December 31, 2005, the Bank was not subject to any claims and/or lawsuits.

Note 12. *Bank Owned Life Insurance*.

The Bank has purchased insurance on the lives of certain senior key employees. The policies accumulate asset values to meet future liabilities including the payment of employee benefits such as deferred compensation. Increases in the cash surrender value are recorded as other non-interest income in the Statement of Operations. The cash surrender value of bank owned life insurance is reflected as a separate line item in the Statement of Condition.

Note 13. Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Bank's financial instruments at December 31, 2005 and December 31, 2004. The fair value of financial instruments does not represent actual amounts that may be realized upon any sale or liquidation of the related assets or liabilities. In addition, these values do not give effect to discounts to fair value which may occur when financial instruments are sold in larger quantities. The fair values presented represent the Bank's best estimate of fair value using the methodologies discussed below.

The respective carrying values of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include, Federal Home Loan Bank stock, accrued interest receivable and accrued interest payable. Carrying values were assumed to approximate fair values for these financial instruments as they are short term in nature and their recorded amounts approximate fair values or are receivable or payable on demand. The Bank does not use derivative financial instruments.

	December 31,			
	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 11,807,194	$ 11,807,194	$ 2,640,217	$ 2,640,217
Securities available-for-sale	14,945,100	14,945,100	3,704,428	3,704,428
Securities held-to-maturity	1,516,583	1,454,234	1,813,111	1,792,254
Loans, net	63,564,601	63,045,672	31,951,121	31,734,369
Bank owned life insurance	3,208,894	3,208,894	3,090,378	3,090,378
Financial Liabilities:				
Non-interest-bearing demand deposits	$ 22,361,481	$ 22,361,481	8,474,162	8,474,162
Interest-bearing demand deposits	6,285,261	6,285,261	4,100,305	4,100,305
Money market accounts	34,367,104	34,367,104	10,276,705	10,276,705
Time certificates of deposit	13,359,431	13,359,408	6,258,856	6,296,106
Savings accounts	5,311,574	5,311,574	4,685,427	4,685,427

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents: Carrying amount is a reasonable estimate of fair value.

Securities: The fair values of securities classified as available-for-sale and held-to-maturity are based on quoted market prices at the reporting date for those or similar investments.

Loans: The fair value of fixed rate loans is determined as the present value of expected future cash flows discounted at the interest rate currently offered by Bank, which approximates rates currently offered by local lending institutions for loans of similar terms to companies with comparable credit risk. Variable rate loans which reprice frequently with changes in approximate market rates were valued using the outstanding principal balance. The estimated fair value of loan commitments and contingent liabilities at December 31, 2005 and December 31, 2004 approximate current book values.

Deposits: The fair values of demand deposits, savings deposits, and money market deposits without defined maturities were the amounts payable on demand. For substantially all deposits with defined maturities, the fair values were calculated using discounted cash flow models based on market interest rates for different product types and maturity dates. For variable rate deposits where the Bank has the contractual right to change rates, carrying value was assumed to approximate fair value. The discount rates used were based on rates for comparable deposits.

Note 14. Other Operating Income and Expense

The following is a breakdown of other non-interest income and non-interest expense in the Statement of Operations:

	2005	2004
Other non-interest income:		
BOLI non-interest income	$ 118,516	$ 90,378
Gain on sale of loans	81,712	19,677
Gain on sale of securities	-	19,503
Other non-interest income	91,015	15,207
Total other non-interest income	$ 291,243	$ 144,765
Other non-interest expense:		
Stationery, supplies and printing	$ 69,948	$ 43,998
Armored car and messenger	52,623	9,438
Telephone, postage and electronic communications	49,162	32,801
Correspondent bank charges	47,291	21,193
Insurance and security	45,704	31,816
Loan and collection expense	37,497	22,834
ATM related expenses	30,441	15,566
Shareholder related expense	28,612	15,054
Regulatory assessments	23,584	8,997
Other non-interest expenses	105,488	62,853
Total other operating expenses	$ 490,350	$ 264,550

Note 15. Capital Adequacy

The Bank is subject to various regulatory capital adequacy requirements administered by the banking regulatory agencies. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) required that the federal regulatory agencies adopt regulations defining five capital tiers for depository institutions: well-capitalized, adequately capitalized, under capitalized, significantly undercapitalized, and critically undercapitalized. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, would have a direct material effect on the Bank's financial statements.

Quantitative measures, established by the regulators to ensure capital adequacy, require that the Bank maintain minimum ratios (set forth in the following table) of capital to risk-weighted assets and average assets.

Management believes that, as of December 31, 2005, the Bank met all capital adequacy requirements to which they were subject.

The most recent notification from the FDIC categorized the Bank as well capitalized under the FDICIA regulatory framework for prompt corrective action. To be categorized as well capitalized, the institution must maintain a total risk-based capital ratio as set forth in the following table and not be subject to a capital directive order (such as a Formal Agreement). There are no conditions or events since that notification that Management believes has changed the Bank's risk-based capital category.

(Amount in thousands)	Actual		For Capital Adequacy Purposes:		For Regulatory Adequacy Purposes (first three years)		To Be Well Capitalized Under the FDICIA Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2005:								
Total capital (to risk weighted assets)	$ 16,337	19.75%	$ 6,616	8.00%	$ 8,270	10.00%	$ 8,270	10.00%
Tier 1 capital (to risk weighted assets)	$ 15,497	18.74%	$ 3,308	4.00%	$ 4,962	6.00%	$ 4,962	6.00%
Tier 1 capital (to average assets) leverage ratio	$ 15,497	16.40%	$ 3,780	4.00%	$ 7,561	8.00%	$ 4,726	5.00%
As of December 31, 2004:								
Total capital (to risk weighted assets)	$ 11,350	27.56%	$ 3,295	8.00%	$ 4,119	10.00%	$ 4,119	10.00%
Tier 1 capital (to risk weighted assets)	$ 10,943	26.57%	$ 1,648	4.00%	$ 2,471	6.00%	$ 2,471	6.00%
Tier 1 capital (to average assets) leverage ratio	$ 10,943	25.08%	$ 1,745	4.00%	$ 3,490	8.00%	$ 2,181	5.00%

The leverage ratio consists of Tier 1 capital divided by quarterly average assets, excluding intangible assets and certain other items. The minimum leverage ratio guideline is 4% for banking organizations that do not anticipate significant growth and that have well-diversified risk, excellent asset quality, high liquidity, good earnings and, in general, are considered top-rated, strong banking organizations. Throughout its first three years of operation, the Bank is required to maintain a Tier 1 Leverage Ratio of not less than 8%.

Note 16. Regulatory Matters

Under the terms of approval of deposit insurance by the Federal Deposit Insurance Corporation, the Bank's Tier 1 capital-to-assets leverage ratio (as defined in the appropriate capital regulation and guidance from the Bank's primary federal regulator) shall be maintained at not less than 8% throughout the first three years of operation. Additionally, the FDIC's approval requires that the Bank operate within the parameters of the business plan submitted as part of the Bank's application for deposit insurance during the first three years of operation and that any major deviation or material changes from the plan be submitted 60 days before consummating the change.

BOARD OF DIRECTORS

Kenneth R. Chappell, *CPA, Partner-in-Charge, Hutchinson & Bloodgood LLP*
George R. Gallucci *(Chairman), Director of Client Relations for Scharf Investments*
Thomas N. Griffin, *Managing Attorney, Grunsky, Ebey, Farrar & Howell*
Tila Guerrero, *President and CEO, MasMac, Inc. McDonald's Restaurants*
William J. Hansen *(Vice-Chairman), President and CEO, Hansen Insurance*
David V. Heald, *President and Chief Executive Officer, Santa Cruz County Bank*
Steven G. John, *President, Ocean Chevrolet*
Gary A. Reece, *Principal Managing Member, The Development Group*

BANK ORGANIZERS

Richard Alderson, Joseph Anzalone, Victor Bogard, Anthony & Rebecca Campos, Charles Canfield, Kenneth Chappell, Kate & Fred Chen, Marshall Delk, George Gallucci, Thomas Griffin, Tila Guerrero, William J. Hansen, David Heald, Mark Holcomb, Steve John, Mateo Lettunich, Robert Lockwood, William Moncovich, Stuart Mumm, George Ow, Jr., Louis Rittenhouse, John Rossell, Frank Saveria, and Robert & Bjorg Yonts.

SANTA CRUZ COUNTY BANK OFFICERS

David V. Heald, *President and Chief Executive Officer*
Frederick L. Caiocca, *Senior Vice President & Chief Credit Officer*
Mary Anne Carson, *Senior Vice President, Director of Marketing & Community Relations*
Jim Earnhardt, *Senior Vice President, IT, Operations & Facilities*
Donald H. Soman, *Senior Vice President & Chief Financial Officer*
Barbara Aspesi, *Vice President, Service Manager*
Angelo DeBernardo, Jr., *Vice President, Senior Lending Officer*
Christine Maffia, *Vice President, Relationship Manger*
Chuck Maffia, *Vice President/Manager, Scotts Valley*
Jaime Manriquez, *Vice President, Senior Network Administrator*
Karen Marcum, *Vice President, Relationship Manger*
Creedence Shaw, *Vice President, Loan Administration*
Pam Zamani, *Vice President, Watsonville*
Janice Zappa, *Vice President, Corporate Secretary*
Doug Fischer, *Assistant Vice President, Relationship Manager*
Shirley Hennessey, *Assistant Vice President, Relationship Services*
Angelica Torres, *Assistant Vice President, Service Officer*
Valarie Walker, *Assistant Vice President, Operations Officer*

STOCK LISTING

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

SHAREHOLDER RELATIONS AND INFORMATION

Shareholders with questions regarding their stockholder account, stock transfer, lost certificates or changes of address should contact their broker, or in the event that certificates are held directly, contact the transfer agent at the address and phone number provided below:

U.S. Stock Transfer Corporation
1745 Gardena Avenue, Glendale, California 91204-2991
Telephone: 818.502.1404 or 800.835.8778
Internet: www.usstock.com

For financial information beyond that shown in this report, shareholders should contact:

Donald H. Soman, Chief Financial Officer
Santa Cruz County Bank
325 Soquel Avenue
Santa Cruz, CA 95062
831.457.5000

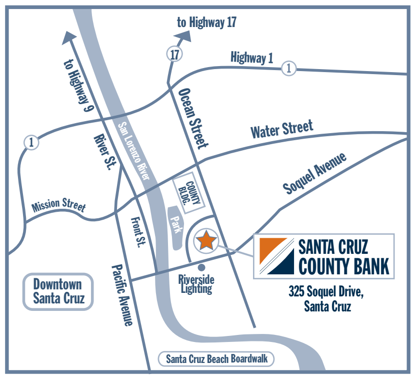
SANTA CRUZ COUNTY BANK
Put your money where your life is.

SANTA CRUZ COUNTY BANK

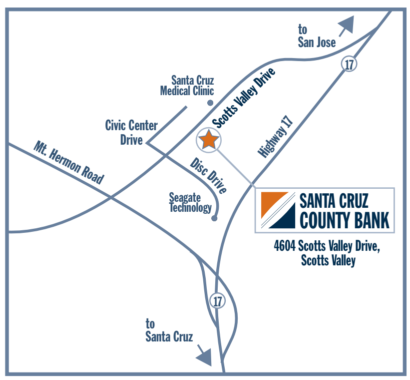
Put your money where your life is.

BANKING OFFICES & DIRECTORY

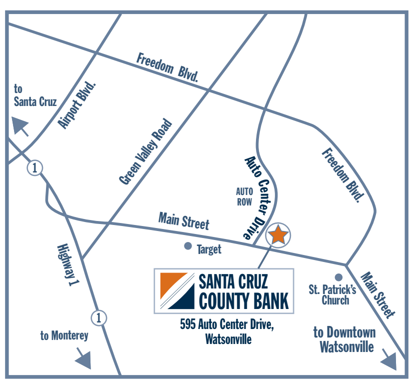
SANTA CRUZ
325 Soquel Avenue
Santa Cruz, CA 95062
831.457.5000



SCOTTS VALLEY
4604 Scotts Valley Drive
Scotts Valley, CA 95066
831.461.5000



WATSONVILLE
595 Auto Center Drive
Watsonville, CA 95076
831.761.7600



www.sccountybank.com

831.457.5000

EQUAL HOUSING LENDER PREFERRED SBA LENDER MEMBER FDIC

ATM & NIGHT DEPOSITORY LOCATIONS:

SANTA CRUZ
1555 Soquel Drive
Santa Cruz CA 95065
(At Dominican Hospital Campus)

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

And at all banking offices.