2009 Annual Report

Put your money where your life is.

SANTA CRUZ
COUNTY BANK

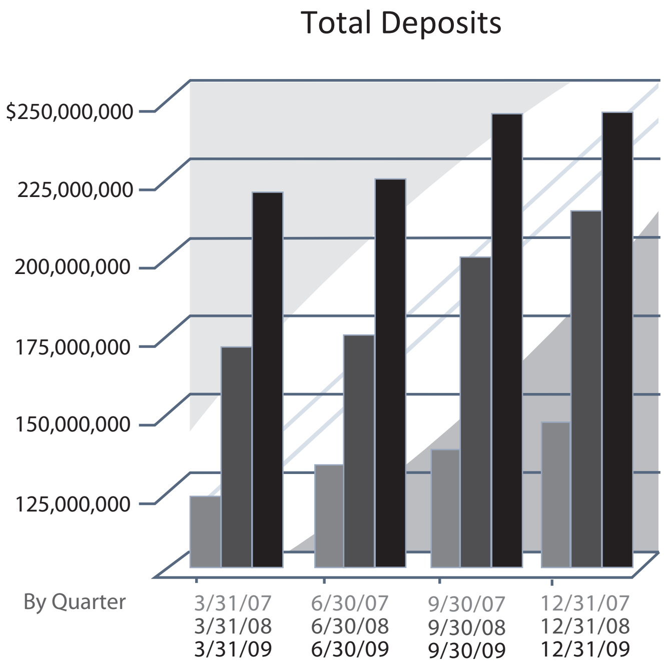
Put your money where your life is.

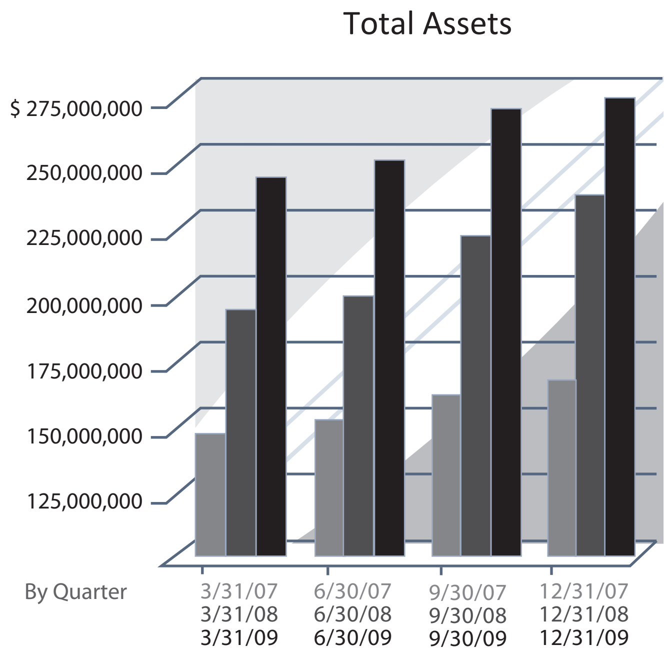
Founded by a group of local business people who share a common commitment to the Santa Cruz area, Santa Cruz County Bank first opened its doors on February 3, 2004. Santa Cruz County Bank is a locally owned and operated commercial bank, serving the needs of the residents and businesses of Santa Cruz County. We believe strongly in the importance of local decision making and responsive customer service. We offer a complete line of short and intermediate term loan products, including commercial term loans and lines of credit, U.S. Government guaranteed term loans, construction loans, commercial real estate loans and home equity lines of credit. Our deposit products are augmented by state-of-the-art services, including online banking, bill payment, cash management, merchant services, and remote deposit capture.

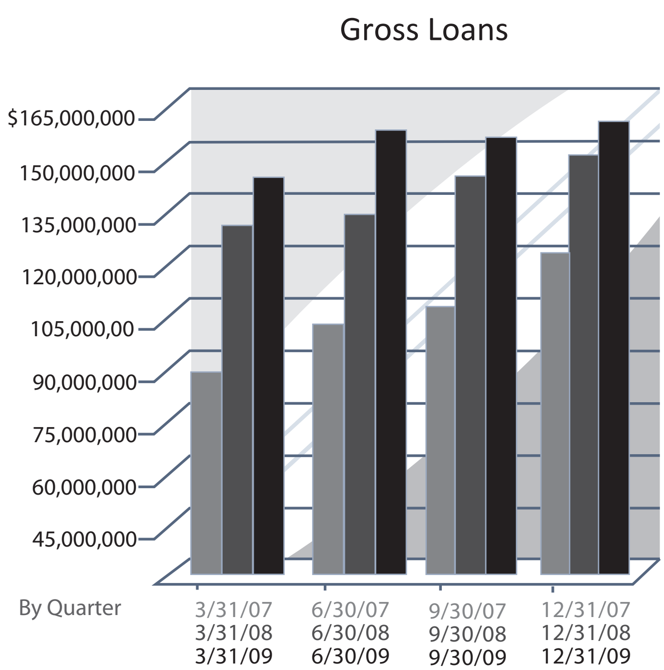
Santa Cruz County Bank operates five full service banking offices located in Aptos, Capitola, Santa Cruz, Scotts Valley, and Watsonville, and two free standing ATM and Night Depositories in Santa Cruz and Aptos. Every Santa Cruz County Bank location is Green Business Certified.

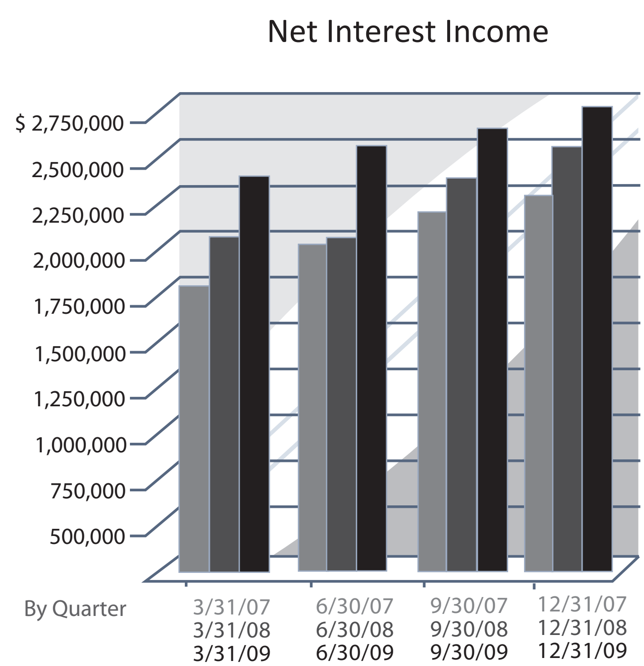
Put your money where your life is.

QUARTERLY GROWTH 2007, 2008, 2009









To Our Shareholders,

We are pleased to present our 2009 Annual Report and highlights for 2009.

Santa Cruz County Bank performed comparatively well taking into consideration the economic challenges of 2009. Your bank was one of only 18 banks in California that was profitable out of the 83 banks that started since 2004, and one of only 4 banks in that group that has cumulative undivided profits since inception. With safety and soundness as our guiding principles we have concentrated on building a strong balance sheet. This strong foundation will serve us well as the recession subsides and positions us favorably as we concentrate on our mission of adding shareholder value.

Cutting Costs and Increasing Efficiency

We have grown steadily in assets, staff and infrastructure since our inception 6 years ago. Out of the 11 banks in California that started in 2004, we were the third largest in assets as of December 31, 2009. We have paused and given top priority to cutting or reducing expenses wherever possible, increasing non-interest income, and creating better efficiencies. As an example, we have relocated our SBA Lending office into our downtown Santa Cruz Office which eliminates the expense of one facility and increases our efficiency.

Building Community

We maintained our commitment of reinvesting back into the community by helping local businesses grow and expand into new locations. We were the lead bank, partnering with 2 other local banks, in providing expansion financing for a locally owned grocery store. In another transaction we participated in structuring the financing that will guarantee the completion of the community's local philanthropic foundation's new home. Santa Cruz County Bank also made it possible for a non-profit organization that supports underprivileged youth in our community to purchase a home that will become their main office and provide a safe harbor for children. These loans are a few examples of our mission to lend money in our community to individuals, businesses and non-profit associations. Additionally, our Small Business Administration (SBA) continues to be the leading SBA lender in our County for 7(a) loans and ranked 11th in the Silicon Valley for the 2009 fiscal year.

Community Banks Benefit from Consumer Consciousness

As if playing right into our tag line, "Put your money where your life is", the popular "Move Your Money" campaign launched in late December 2009 appealing to the public to place deposits and take out loans with their community bank, has swept like wildfire throughout the nation and we have benefited significantly. The Wells Fargo take over of Wachovia bank in 2009 and Chase's acquisition of Washington Mutual added additional fuel to the fire pushing more individuals and businesses to community banks. We expect this migration from major banks to community banks to continue in 2010.

Looking Ahead

2010 is expected to be another year of economic uncertainty. However, we believe the strategic measures we have initiated to manage expenses together with our established reputation in the community for safety and soundness will facilitate enhancing shareholder value. We appreciate your continued support and referrals of new business in the year ahead.

2009 HIGHLIGHTS

- In February we celebrated the Bank's 5th anniversary of service to Santa Cruz County.

- Also in February, we opened our fifth full service banking office, located in Aptos.

- Santa Cruz County Bank was ranked as the #1 lender in dollar volume of SBA 7(a) loans in Santa Cruz County for the U.S. Small Business Administration's (SBA) 2009 fiscal year.

- We achieved "Excellent" 4-Star ratings from Bauer Financial for four consecutive quarters in 2009.

- As of June 30, 2009, the Bank's market share of deposits held by FDIC insured institutions in the County of Santa Cruz increased to 5.18% from 4.15% the prior year.

- In 2009, we achieved the completion of an effort to become Green Business Certified in every location we operate.

- In conjunction with our environmentally prudent practices, we launched e-Statements in 2009 to give clients the option to receive their banking statements electronically.

- In the third quarter of 2009, we surpassed $260 million in total assets.

- The Bank continued its participation in the Transaction Account Guarantee Program (TAGP) which extends the unlimited FDIC coverage on non-interest bearing transaction accounts through June 30, 2010.

- In November, 2009, Santa Cruz County Bank received Honorable Mention from Western Banking Magazine for the Green Leaf Award. The Green Leaf Award recognizes a community bank that demo-strates tangible achievements in helping the environment.

- Our 2009 Holiday Food Drive collection efforts resulted in a Silver level award for collection of nearly 10,000 pounds of food for our local Food Bank.

We value your support and relationship with Santa Cruz County Bank.

George Gallucci
Chairman of the Board

David Heald
President & CEO

PERRY-SMITH
THE POWER OF CONFIDENCE

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Santa Cruz County Bank

We have audited the accompanying statement of condition of Santa Cruz County Bank as of December 31, 2009, and the related statements of operations, changes in shareholders' equity and other comprehensive income, and cash flows for the year then ended. 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 audit. The financial statements of Santa Cruz County Bank as of December 31, 2008, were audited by other auditors whose report dated April 6, 2009, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of Santa Cruz County Bank as of December 31, 2009, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Perry-Smith LLP

April 1, 2010

SANTA CRUZ COUNTY BANK

STATEMENTS OF CONDITION

December 31, 2009 and 2008

	December 31, 2009	December 31, 2008
ASSETS		
Cash and due from banks	$ 7,618,009	$ 6,001,390
Federal funds sold	88,567	7,990,213
Interest bearing deposits in other financial institutions	48,214	2,935
Total cash and cash equivalents	7,754,790	13,994,538
Certificates of deposit in other financial institutions	58,248,000	30,877,500
Securities held to maturity	640,692	846,963
Securities available for sale, at fair value	32,387,000	30,745,000
Total investment securities	33,027,692	31,591,963
Loans Receivable (net of allowance for loan losses of $2,898,478 at December 31, 2009 and $2,885,298 at December 31, 2008)	153,501,464	143,199,375
Bankers' Bank stock, at cost	935,400	774,400
Premises and equipment, net	2,052,134	2,025,918
Accrued interest receivable	815,087	764,060
Bank owned life insurance	3,730,691	3,596,558
Deferred income tax	1,236,000	1,478,000
Other real estate owned	1,294,789	-
Other assets	2,509,146	797,773
TOTAL ASSETS	$ 265,105,193	$ 229,100,085
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Non-interest bearing demand deposits	$ 75,895,196	$ 63,386,131
Interest bearing demand deposits	19,164,987	12,927,077
Savings and money market deposits	67,102,899	68,630,762
Time deposits	77,140,555	62,252,416
Total deposits	239,303,637	207,196,386
Accrued interest payable	303,027	362,929
Other borrowings	3,000,000	-
Other liabilities	2,905,551	2,552,796
Total liabilities	245,512,215	210,112,111
Commitments and contingencies (Note 13)		
SHAREHOLDERS' EQUITY		
Preferred stock, no par value, 10,000,000 shares authorized; no shares issued or outstanding		
Common stock, no par value, 30,000,000 shares authorized; issued and outstanding; 1,667,340 shares at December 31, 2009 and 1,662,340 December 31, 2008	18,624,863	18,574,863
Additional paid-in-capital	581,516	446,074
Retained earnings	314,520	111,649
Accumulated other comprehensive income (loss), net of taxes	72,079	(144,612)
Total Shareholders' equity	19,592,978	18,987,974
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 265,105,193	$ 229,100,085

See notes to Financial Statements

SANTA CRUZ COUNTY BANK

STATEMENTS OF OPERATIONS

For the years ended December 31, 2009 and 2008

	Year Ended December 31, 2009	Year Ended December 31, 2008
INTEREST INCOME:		
Federal funds sold	$ 19,369	$ 277,374
Interest bearing deposits in other financial institutions	1,250,636	383,989
Investment securities	1,261,917	1,472,111
Loans, including fees	9,080,541	9,320,223
Total interest income	11,612,463	11,453,697
INTEREST EXPENSE:		
Deposits	1,591,035	2,775,571
Borrowings	380	272
Total interest expense	1,591,415	2,775,843
Net interest income before provision for loan losses	10,021,048	8,677,854
Provision for loan losses	1,250,196	1,676,176
Net interest income after provision for loan losses	8,770,852	7,001,678
NON-INTEREST INCOME:		
Service charges on deposit accounts	632,958	406,482
Gain on sale of loans	511,820	398,479
Gain on sale of securities	110,697	-
Other non-interest income	723,636	650,933
Total non-interest income	1,979,111	1,455,894
NON-INTEREST EXPENSE:		
Compensation and employee benefits	5,958,437	4,970,994
Occupancy	1,061,162	735,282
Furniture and equipment	504,404	434,321
Marketing and business development	344,906	302,180
Data and item processing	389,259	319,148
Professional services	288,846	221,424
Regulatory assessments	532,756	155,110
Provision for off balance sheet commitments	18,381	40,000
Other operating expenses	1,290,154	1,254,994
Total non-interest expense	10,388,305	8,433,453
Income before income taxes	361,658	24,119
Provision for income taxes	158,787	6,943
Net income	$ 202,871	$ 17,176
BASIC EARNINGS PER SHARE	$ 0.12	$ 0.01
DILUTED EARNINGS PER SHARE	$ 0.12	$ 0.01
Basic weighted average shares outstanding	1,666,778	1,662,340
Diluted weighted average shares outstanding	1,666,778	1,689,927

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

For the years ended December 31, 2009 and 2008

	Common Stock		Additional Paid In	Retained	Accumulated Other Comprehensive	Total Shareholders'	Total Comprehensive
	Shares	Amount	Capital	Earnings	(Loss) Income	Equity	Income (Loss)
Balance at December 31, 2007	1,662,340	$ 18,574,863	$ 372,454	$ 94,473	$ 38,961	$ 19,080,751	
Share-based compensation			73,620			73,620	
Net income				17,176		17,176	17,176
Amortization of pension cost FAS158					14,869	14,869	14,869
Split dollar liability adjustment					(341,199)	(341,199)	(341,199)
Change in unrealized gain on securities available for sale, net of tax of $62,406					142,757	142,757	142,757
Total comprehensive loss							
Balance at December 31, 2008	1,662,340	$ 18,574,863	$ 446,074	$ 111,649	$ (144,612)	$ 18,987,974	$ (166,397)
Exercise of stock options	5,000	50,000	-			50,000	
Share-based compensation			135,442			135,442	
Net income				202,871		202,871	202,871
Amortization of pension cost FAS158					(12,161)	(12,161)	(12,161)
Change in unrealized gain on securities available for sale, net of tax of $197,907					228,852	228,852	228,852
Total comprehensive income							
Balance at December 31, 2009	1,667,340	$ 18,624,863	$ 581,516	$ 314,520	$ 72,079	$ 19,592,978	$ 419,562

See notes to Financial Statements

STATEMENTS OF CASH FLOWS
For the years ended December 31, 2009 and 2008

	Year Ended December 31, 2009	Year Ended December 31, 2008
OPERATING ACTIVITIES:		
Net income	$ 202,871	$ 17,176
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for deferred income tax (benefit)	158,787	6,943
Depreciation and amortization of premises and equipment	543,942	445,826
Accretion of discounts, net of amortization for investments	199,400	(21,907)
Net loan amortization and accretion	(61,853)	6,300
Provision for loan losses	1,250,196	1,676,176
Provision for unfunded loan commitments	18,381	40,000
Federal Home Loan Bank stock dividends	-	(26,800)
Increase in cash value of bank owned life insurance	(134,133)	(135,905)
(Gain) on sale of available-for-sale securities	(110,697)	-
(Gain) on sale of SBA loans	(511,820)	(398,479)
Loss on sale/disposal of assets	461	98,965
Share-based compensation	135,442	73,620
Deferred benefit expense	234,156	307,660
Increase (decrease) in accrued interest receivable	(51,027)	(91,842)
Increase (decrease) in deferred loan fees, net of costs	103,633	(247,006)
Increase (decrease) in other assets	(1,826,411)	372,338
Increase (decrease) in accrued interest payable	(59,902)	(149,582)
Increase (decrease) in other liabilities	88,058	(428,500)
Net cash provided by operating activities	179,484	1,544,983
INVESTING ACTIVITIES:		
Principal repayments on securities held to maturity	204,832	199,094
Proceeds from the sale of securities available for sale	2,685,051	-
Proceeds from matured and called securities available for sale	7,460,714	20,714,286
Principal repayments on securities available for sale	6,990,558	2,642,865
Purchases of securities available for sale	(18,438,485)	(33,972,568)
Increase in certificates of deposit in other financial institutions	(27,370,500)	(29,877,500)
Purchases of Federal Home Loan Bank stock	(161,000)	(128,000)
Net proceeds from sales of loans	8,650,058	6,918,591
Net increase in loans	(21,027,092)	(33,943,247)
Purchases of premises and equipment	(571,619)	(1,016,938)
Proceeds from sale of assets	1,000	16,700
Net cash used by investing activities	(41,576,483)	(68,446,717)
FINANCING ACTIVITIES:		
Net proceeds from exercise of stock options	50,000	-
Proceeds from borrowings	3,000,000	
Net Increase in deposits	32,107,251	68,187,518
Net cash provided by financing activities	35,157,251	68,187,518
Net increase (decrease) in cash and cash equivalents	(6,239,748)	1,285,784
Cash and cash equivalents at beginning of period	13,994,538	12,708,754
Cash and cash equivalents at end of period	$ 7,754,790	$ 13,994,538
Cash paid during the year:		
Interest paid	$ 1,651,761	$ 3,032,917
Income taxes paid	43,000	529,000
Supplemental disclosures of non-cash investing activities:		
Transfer of loans to other real estate owned	1,294,789	542,977
Net change in unrealized gain on securities available for sale	426,759	205,163

NOTES TO FINANCIAL STATEMENTS

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 five full service offices located in Aptos, Capitola, Santa Cruz, Scotts Valley and Watsonville. 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 regulatory approval. The Bank is subject to regulations and undergoes periodic examinations by the California Department of Financial Institutions ("DFI") and the Federal Deposit Insurance Corporation ("FDIC"). The Bank's deposits are insured by the FDIC up to applicable limits. The Bank participates in the FDIC Transaction Account Guarantee Program. All non-interest bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account through June 30, 2010. Coverage under the Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. The Bank is subject to competition from other financial institutions.

The majority of the Bank's business is conducted with customers located in Santa Cruz and adjacent counties. Generally, the Bank maintains loan-to-value ratios no greater than 75 percent on commercial, multi-family and single-family residential real estate loans, with the exception of government guaranteed real estate loans which may be maintained at larger loan-to-value ratios. At December 31, 2009, the Bank had loans outstanding of approximately $115,382,000 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 accounting principles generally accepted in the United States of America ("GAAP") and prevailing practices within the banking industry.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts 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, interest bearing deposits in other financial institutions and federal funds sold. Federal funds are sold for a one day period and are highly liquid investments.

Investment Securities: Marketable investment securities consist of U.S. Government Agency bonds and mortgage-backed securities, municipal bonds and corporate trust preferred. 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 of premiums or accretion of 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 entitled "accumulated other comprehensive income" until realized. During the years ended December 31, 2009 and December 31, 2008, 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 interest method, except for securities with early call provisions, in which case premiums are recognized in interest income using the interest method over the period to the first call date and discounts are recognized in interest income using the interest method over the period to the contractual maturity date. 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.

Investment securities are evaluated for impairment on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline and the intent and ability of the Bank to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, and management does not intend to sell the security or it is more likely than not that the Bank will not be required to sell the security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income. If management intends to sell the security or it is more likely than not that the Bank will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings.

Federal Home Loan Bank and Federal Reserve Bank Stocks: The Bank, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in the capital stock equal of the FHLB of San Francisco. The recorded investment of $765,400 and $604,400 as of December 31, 2009 and 2008, respectively, in FHLB stock is carried at cost. The FHLB stock is redeemable at its par value of $100 per share. No ready market exists for FHLB stock, and it has no quoted market value. The FHLB can suspend dividends and redemptions upon notification to its members.

Loans: Loans are stated at the amount of unpaid principal balances outstanding, net deferred loan origination fees, and reduced by the allowance for loan losses. Interest is accrued daily and credited to income as it is earned based on outstanding loan balance. Accrual of interest is generally 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 reversed from 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. When a loan pays off or is sold, any unamortized balance of any related premiums, discounts, loan origination fees, and direct loan origination costs is recognized in income.

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.

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, 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, or classified in part or in whole as either doubtful or loss. If the measurement of the impaired loans is less than the recorded investment in the loan, impairment is recognized by creating a specific loss allocation to the allowance for loan losses to adjust the loan to fair value.

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 accounts for loans held for sale in accordance with FASB ACS Topic 860, *Transfers and Servicing*. The statement provides accounting and reporting standards for transfers 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.

Real Estate Acquired through Foreclosure: Real estate properties acquired through foreclosure are to be sold and are initially recorded at the lower of the recorded investment in the property or fair value less estimated selling expenses. Any write-down to fair value at the time of transfer to foreclosed real estate is charged to the allowance for loan losses. Properties are evaluated regularly to ensure that the recorded amounts are supported by their current fair values. Any subsequent reductions in carrying values and revenue and expenses from the operations of properties are charged to operations. Operating expenses incurred in conjunction with the maintenance of real estate acquired through foreclosure are charged to operations as incurred. The Bank had $1,294,789 in foreclosed real estate at December 31, 2009 and none in 2008.

Allowance for Loan Losses: The allowance for loan losses is established through periodic provisions for possible loan losses. The provision for loan losses is charged to expense. Loans are charged against the allowance for loan losses when management believes that the principal is unlikely to be recovered. The allowance is a reserve to provide for possible losses on existing loans that may become uncollectible, based on evaluations of the loan portfolio and prior loan loss experience. The evaluations include consideration of changes in the nature and volume of the loan portfolio, overall portfolio quality, the review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. The allowance is decreased by the amount of charge-offs, net of recoveries.

The general loan loss allowance is established by applying a loss percentage factor to the different loan types. The allowance percentages are provided based on management's continuing evaluation of the pertinent factors underlying the quality of the loan portfolio, including current economic conditions, geographic concentrations, and specific industry conditions.

Specific allowances are established in cases where management has identified significant conditions or circumstances related to a loan that management believes indicate the probability that a loss has been incurred. A loan is considered impaired when, based on current information and events, it is probable that all amounts due (including both principal and interest) will not be collected in accordance with the contractual terms of the loan agreement. An impaired loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical matter, at the loan's observable market price or the fair value of collateral if the loan is collateral dependent.

The Bank maintains a separate allowance for losses related to undisbursed loan commitments. Management estimates the amount of probable losses by applying a loss factor to the available portion of undisbursed lines of credit. This allowance was $18,381 and $40,000 as of December 31, 2009 and 2008, respectively, and is included in other liabilities on the Balance Sheet.

Management believes that the allowance for loan 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. The Bank’s Directors’ Loan Committee reviews the adequacy of the allowance for loan losses at least quarterly. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the 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.

Servicing Rights: Servicing rights are recognized separately when they are acquired through sale of loans. Servicing rights are initially recorded at fair value with the income statement effect recorded in gain on sale of loans. Fair value is based on a valuation model that calculates the present value of estimated future cash flows from the servicing assets. The valuation model uses assumptions that market participants would use in estimating cash flows from servicing assets, such as the cost to service, discount rates and prepayment speeds. The Bank compares the valuation model input and results to published industry data in order to validate the model results and assumptions. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to the carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. For purposes of measuring impairment, the Bank has identified each servicing asset with the underlying loan being serviced. A valuation allowance is recorded where the fair value is below the carrying amount of the asset. If the Bank later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and changes in the discount rates.

Servicing fee income which is reported on the income statement as servicing income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and recorded as income when earned. The amortization of servicing rights and changes in the valuation allowance are netted against loan servicing income.

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 non-interest expense. Leasehold improvements are amortized over the estimated useful life or the initial term of the respective leases. Certain operating leases contain incentives in the form of tenant improvement allowances or credits. Lease incentives are capitalized at the inception of the lease and amortized on a straight-line basis over the lease term. Amounts accrued in excess of amounts paid related to the unamortized deferred credits are included in other liabilities on the balance sheet.

When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. The Bank evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

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. Deferred tax assets and liabilities are calculated by applying current effective tax rates against future deductible or taxable amounts. Realization of tax benefits of deductible temporary differences and operating loss carry forwards depends on having sufficient taxable income of an appropriate character within the carry forward periods.

The Bank has accounted for uncertainty in income taxes as required by the *Accounting for Uncertainty in Income Taxes* topic of the FASB Accounting Standards Codification. The Bank uses a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

Interest expense associated with unrecognized tax benefits is classified as income tax expense in the statement of income. Penalties associated with unrecognized tax benefits are classified as income tax expense in the statement of income. The Bank does not have any uncertain income tax positions and has not accrued for any interest or penalties as of December 31, 2009 and 2008.

Stock-Based Compensation: The Bank has one share-based compensation plan, the 2003 Stock Option Plan (the "Plan"), which has been approved by its shareholders and permits the grant of stock options for up to 500,202 shares of the Bank's common stock. The Plan is designed to attract and retain employees and directors. The amount, frequency, and terms of share-based awards may vary based on competitive practices, the Bank's operating results and government regulations. New shares are issued upon option exercise. The Plan requires that the exercise price may not be less than the fair market value of the stock at the date the option is granted, and that the exercise price must be paid in full at the time the option is exercised.

The Bank estimates the fair value of each option award as of the date of grant using a Black-Scholes-Merton option pricing formula and the following assumptions. Expected volatility is based on historical volatility of similar entities over a preceding period commensurate with the expected term of the option because the Bank's common stock has been publicly traded for a shorter period than the expected term for the options. The "simplified" method described in the Securities and Exchange Commission's Staff Accounting Bulletin No. 110 is used to determine the expected term of the options due to the lack of sufficient historical data. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant with substantially the same term as the expected term of the option. Expected dividend yield was not considered in the option pricing formula since dividends have not been paid and there are no current plans to do so in the foreseeable future.

No stock-based compensation costs were capitalized as part of the cost of an asset as of December 31, 2009. As of December 31, 2009, $279,000 of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted-average period of 4 years.

Earnings Per Share: Accounting Standards Codification Topic 260, 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. 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. There is no adjustment to the number of outstanding shares for potential dilutive instruments, such as stock options, when a loss occurs because the conversion of potential common stock is anti-dilutive. The following table summarizes the weighted average shares outstanding used to compute earnings per share:

	Year ended December 31,	
	2009	2008
Net Income, as reported	$ 202,871	$ 17,176
Earnings per share, basic	$ 0.12	$ 0.01
Earnings per share, diluted	$ 0.12	$ 0.01
Weighted average shares outstanding, basic	1,666,778	1,662,340
Weighted average shares outstanding, diluted	1,666,778	1,689,927

Comprehensive Income (loss): Comprehensive income (loss) is reported in addition to net income for all periods presented. Comprehensive income (loss) is a more inclusive financial reporting methodology that includes disclosure of other comprehensive income (loss) that historically has not been recognized in the calculation of net income. Unrealized gains and losses on the Bank's available-for-sale investment securities are included in other comprehensive income (loss), adjusted for realized gains or losses included in net income (loss). Total comprehensive income (loss) and the components of accumulated other comprehensive income (loss) are presented in the statement of changes in shareholders' equity and comprehensive income (loss).

Disclosure About 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.

Recently Adopted Accounting Standards

FASB Accounting Standards Codification™ (ASC or Codification)

In June 2009, the Financial Accounting Standards Board (FASB) issued new accounting standards ASC 105-10 (previously SFAS No. 168), *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles.* With the issuance of ASC 105-10, the FASB Accounting Standards Codification ("the Codification" or "ASC") becomes the single source of authoritative U.S. accounting and reporting standards applicable for all nongovernmental entities. This change is effective for financial statements issued for interim or annual periods ended after September 15, 2009. Accordingly, all specific references to generally accepted accounting principles (GAAP) refer to the Codification and not to the pre-Codification literature.

FASB Clarifies Other-Than-Temporary Impairment

In April 2009, the FASB issued ASC No. 320-10-35 (previously FSP 115-2 and 124-2 and EITF 99-20-2), *Recognition and Presentation of Other-Than-Temporary-Impairment.* This standard (i) changes previously existing guidance for determining whether an impairment to debt securities is other than temporary and (ii) replaces the previously existing requirement that the entity's management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Under this standard, declines in fair value below cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses for both held-to-maturity and available-for-sale securities. The amount of impairment related to other factors is recognized in other comprehensive income. These changes were effective for interim and annual periods ended after June 15, 2009. The Bank adopted the provisions of this standard on April 1, 2009. The adoption of this standard had no material impact on the Bank's consolidated financial statements.

FASB Clarifies Application of Fair Value Accounting

In April 2009, the FASB issued ASC 820-10 (previously FSP FAS 157-4), *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.* This standard affirms the objective of fair value when a market is not active, clarifies and includes additional factors for determining whether there has been a significant decrease in market activity, eliminates the presumption that all transactions are distressed unless proven otherwise, and requires an entity to disclose a change in valuation technique. This standard was effective for interim and annual periods ended after June 15, 2009. The Bank adopted the provisions of this standard on April 1, 2009. The adoption of this standard had no material impact on the Bank's results of operations or financial position.

Measuring Liabilities at Fair Value

In August 2009, the FASB issued ASU No. 2009-05, *Fair Value Measurements and Disclosures (ASC Topic 820) — Measuring Liabilities at Fair Value*. This update provides amendments for the fair value measurement of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. It also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The Bank adopted the provisions of this update on October 1, 2009. The adoption of this standard had no material impact on the Bank's results of operations or financial position.

Business Combinations

In December 2007, the FASB issued ASC Topic 805 (previously SFAS 141(R)), *Business Combinations.* This standard broadens the guidance for business combinations and extends its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations. The acquirer is no longer permitted to recognize a separate valuation allowance as of the acquisition date for loans and other assets acquired in a business combination. It also requires acquisition-related costs and restructuring costs that the acquirer expected but was not obligated to incur to be expensed separately from the business combination. It also expands on required disclosures to improve the ability of the users of the financial statements to evaluate the nature and financial effects of business combinations. The Bank adopted the provisions of this standard on January 1, 2009. The adoption of this standard had no material impact on the Bank's results of operations or financial position.

Subsequent Events
In May 2009, the FASB issued ASC 855-10 (previously SFAS No. 165), *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of this standard on July 1, 2009 required the Bank to disclose the date through which subsequent events were evaluated.

New Accounting Standards

Accounting for Transfers of Financial Assets
In June 2009, the FASB issued ASC Topic 860 (previously SFAS No. 166), *Accounting for Transfers of Financial Assets, an amendment of SFAS No. 140.* This standard amends the derecognition accounting and disclosure guidance included in previously issued standards. This standard eliminates the exemption from consolidation for qualifying special-purpose entities (SPEs) and also requires a transferor to evaluate all existing qualifying SPEs to determine whether they must be consolidated in accordance with ASC Topic 810. This standard also provides more stringent requirements for derecognition of a portion of a financial asset and establishes new conditions for reporting the transfer of a portion of a financial asset as a sale. This standard is effective as of the beginning of the first annual reporting period that begins after November 15, 2009. Management does not expect the adoption of this standard will have a material impact on the Bank's results of operations or financial position.

Transfers and Servicing
In December 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-16, *Transfers and Servicing (ASC Topic 860): Accounting for Transfers of Financial Assets,* which updates the derecognition guidance in ASC Topic 860 for previously issued SFAS No. 166. This update reflects the Board's response to issues entities have encountered when applying ASC 860, including: (1) requires that all arrangements made in connection with a transfer of financial assets be considered in the derecognition analysis, (2) clarifies when a transferred asset is considered legally isolated from the transferor, (3) modifies the requirements related to a transferee's ability to freely pledge or exchange transferred financial assets, and (4) provides guidance on when a portion of a financial asset can be derecognized. This update is effective for financial asset transfers occurring after the beginning of an entity's first fiscal year that begins after November 15, 2009. Early adoption is prohibited. Management does not expect the adoption of this standard will have a material impact on the Bank's results of operations or financial position.

Improvements to Financial Reporting of Interests in Variable Interest Entities
In June 2009, the FASB issued ASC Topic 810 (previously SFAS No. 167), *Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities.* This standard amends the consolidation guidance applicable to variable interest entities. The amendments to the consolidation guidance affect all entities currently within the scope of ASC Topic 810, as well as qualifying special-purpose entities that are currently excluded from the scope of ASC Topic 810. This standard is effective as of the beginning of the first annual reporting period that begins after November 15, 2009. Management does not expect the adoption of this standard will have a material impact on the Bank's results of operations or financial position.

Subsequent Events
The Company has reviewed all events occurring from December 31, 2009 through April 1, 2010, the date the consolidated financial statements were issued and no subsequent events occurred requiring accrual or disclosure.

Reclassifications
Certain reclassifications have been made to prior period financial statements to conform to the current year presentation. These reclassifications had no impact on the Bank's previously reported financial statements.

NOTE 2. INVESTMENT SECURITIES

The following table summarizes the carrying amount and the approximate fair values of Santa Cruz County Bank's securities held-to-maturity and available-for-sale at December 31, 2009, and December 31, 2008. "U.S. Agency" refers to the Government National Mortgage Association ("GNMA"), Federal National Mortgage Association ("FNMA"), the Federal Home Loan Mortgage Corporation ("FHLMC"), Federal Home Loan Bank ("FHLB") and Federal Farm Credit Bank ("FFCB"). Mortgage-backed securities and collateralized mortgage-backed are labeled as "MBS."

December 31, 2009	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale:				
U.S. Agency Securities	$ 2,000,697	$ 17,883	$ -	$ 2,019,000
U.S. Agency MBS's	23,691,929	752,772	(21,223)	24,423,000
Municipal	5,108,311	192,991	(41,055)	5,260,000
Corporate	831,469	-	(146,949)	685,000
Total securities available for sale	$ 31,632,406	$ 963,646	$ (209,227)	$ 32,387,000
Securities held to maturity:				
U.S. Agency MBS's	640,692	26,763	-	667,000
Total securities held to maturity	$ 640,692	$ 26,763	$ -	$ 667,000

December 31, 2008	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale:				
U.S. Agency Securities	$ 7,453,215	$ 78,757	$ -	$ 7,532,000
U.S. Agency MBS's	20,632,417	475,647	-	21,108,000
Municipal	1,506,098	-	(109,695)	1,396,000
Corporate	825,778	-	(117,048)	709,000
Total securities available for sale	$ 30,417,508	$ 554,404	$ (226,743)	$ 30,745,000
Securities held to maturity:				
U.S. Agency MBS's	846,963	10,298	-	857,000
Total securities held to maturity	$ 846,963	$ 10,298	$ -	$ 857,000

Net unrealized gains on available-for-sale investment securities totaling $445,000 were recorded, net of $309,000 in deferred tax liabilities as accumulated other comprehensive income within shareholders' equity at December 31, 2009. Net unrealized gains on available-for-sale investment securities totaling $216,000 were recorded, net of $111,000 in deferred tax liabilities as accumulated other comprehensive income at December 31, 2008.

There were no transfers of available-for-sale investment securities during the year ended December 31, 2009 or December 31, 2008.

Proceeds from the sale of available-for-sale investment securities totaled $2,685,051 during 2009. There were no sales of available-for-sale investment securities for the year ended December 31, 2008.

The amortized cost and estimated fair value of investment securities at December 31, 2009 and December 31, 2008, by contractual maturity, are shown in the following table, except for mortgage-backed securities and other securities which are presented in total. Expected maturities may differ from contractual maturities because borrowers may have the option to prepay principal and rights of issuers to call obligations prior to maturity with or without prepayment penalties.

	Securities available for sale		Securities held to maturity	
December 31, 2009	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due after one year through five years	$ 4,587,169	$ 4,747,000	$ -	$ -
Due after five years through ten years	2,016,542	2,068,000	-	-
Due after ten years	1,336,767	1,149,000	-	-
Mortgage-backed securities	23,691,929	24,422,999	640,692	667,000
Total	$ 31,632,406	$ 32,387,000	$ 640,692	$ 667,000

	Securities available for sale		Securities held to maturity	
December 31, 2008	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due after one year through five years	$ 1,999,140	$ 2,011,000	$ -	$ -
Due after five years through ten years	6,171,470	6,208,000	-	-
Due after ten years	1,614,481	1,418,000	-	-
Mortgage-backed securities	20,632,417	21,108,000	846,963	857,000
Total	$ 30,417,508	$ 30,745,000	$ 846,963	$ 857,000

Investment securities in a temporary unrealized loss position as of December 31, 2009 are shown in the following table, based on the time they have been continuously in an unrealized loss position:

December 31, 2009:	Less than 12 months		12 months or more		Total unrealized losses	
Securities available for sale:	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Agency MBS's	$ 3,980,000	$ (21,223)	$ -	$ -	$ 3,980,000	$ (21,223)
Municipal	-	-	464,000	(41,055)	464,000	(41,055)
Corporate	-	-	685,000	(146,949)	685,000	(146,949)
	$ 3,980,000	$ (21,223)	$ 1,149,000	$ (188,004)	$ 5,129,000	$ (209,227)

December 31, 2008:	Less than 12 months		12 months or more		Total unrealized losses	
Securities available for sale:	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Municipal	$ 1,396,403	$ (109,697)	$ -	$ -	$ 1,396,403	$ (109,697)
Corporate	708,730	(117,048)	-	-	708,730	(117,048)
	$ 2,105,133	$ (226,745)	$ -	$ -	$ 2,105,133	$ (226,745)

At December 31, 2009 the Bank held 53 investment securities of which 3 were in a loss position for less than twelve months, and 2 securities were in a loss position for twelve months or more.

The unrealized losses on the Bank's investments in U.S. Agency MBS, Municipals and Corporate were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investments. The Bank has the intent and ability to hold these investments securities to a forecast recovery or maturity. Therefore, the Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2009 and 2008.

There was a gross realized gain of $110,697 from the sale of securities during the year ended December 31, 2009. There was no gross realized gain from the sale of securities during the year ended December 31, 2008. Investment securities pledged to secure public deposits and FHLB borrowing arrangements at December 31, 2009 and December 31, 2008, were $32,141,231 and $30,979,544, respectively.

NOTE 3. LOANS RECEIVABLE

Loan maturity and rate sensitivity data of the loan portfolio, in thousands, at December 31, 2009 and 2008 are as follows:

	December 31,	
	2009	2008
Real estate and construction	$ 93,219	$ 65,821
Consumer, other	14,874	18,709
Commercial and revolving lines	48,432	61,576
Gross loans receivable	156,525	146,106
Deferred loan fees	(126)	(22)
Allowance for loan losses	(2,898)	(2,885)
Loans receivable, net	$ 153,501	$ 143,199

Changes in the allowance for loan losses are as follows:

	December 31,	
	2009	2008
Balance at beginning of year	$ 2,885,298	$ 1,788,000
Provision for loan losses	1,250,196	1,676,176
Loan charge-offs	1,250,174	603,218
Recoveries of loan charge-offs	13,158	24,340
Balance at year end	$ 2,898,478	$ 2,885,298

In general, the Bank would not recognize any interest income on loans that are classified as impaired. The following is a summary of the investments in impaired loans, including the related allowance for loan losses and cash-basis income recognized and loans on non-accrual and those that are past due and still accruing interest as of December 31:

	December 31, 2009	December 31, 2008
Impaired Loans:		
Recorded investment in impaired loans	$ -	$ -
Related allowance for loan losses	$ -	$ -
Average recorded investment in impaired loans	$2,453,000	$1,530,147
Interest income recognized for cash payments while impaired	$ -	$ -
Total loans on non-accrual	$ -	$ -
Total loans past due 90 days or more and still accruing interest	$ 602,006	$ 328,207

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, 2009 and December 31, 2008:

	December 31, 2009	December 31, 2008
Leasehold improvements	$ 1,843,918	$ 1,559,282
Furniture, fixtures and equipment	1,569,365	1,373,491
Software and capitalized data & item processing	196,693	153,306
Computer equipment	433,930	357,949
Construction-in-progress	-	29,851
Total premises and equipment	4,043,905	3,473,879
Less accumulated depreciation and amortization	(1,991,771)	(1,447,961)
Premises and equipment, net	$ 2,052,134	$ 2,025,918

Depreciation and amortization expense aggregated $544,000 for the year ended December 31, 2009 and $446,000 for the year ended December 31, 2008.

NOTE 5. TIME DEPOSITS

The aggregate amount of time deposit accounts equal to or greater than $100,000 was approximately $55,210,000 and $46,880,000 at December 31, 2009 and December 31, 2008, respectively. At December 31, 2009 the scheduled maturities for all time deposits were as follows:

	December 31, 2009	December 31, 2008
One year or less	$ 76,011,713	$ 61,423,204
Over one year through two years	994,110	657,210
Over two years through three years	49,725	162,002
Over three years through four years	16,628	-
Over four years through five years	63,729	10,000
Over five years	4,650	
	$ 77,140,555	$ 62,252,416

As of December 31, 2009 and 2008, the Bank had brokered deposits totaling $1,138,000. Interest expense on time deposits of $100,000 or more was $644,098 and $867,602 in 2009 and 2008, respectively.

NOTE 6. 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 tax effects of temporary differences that gave rise to deferred tax assets and deferred tax liabilities at December 31, 2009 and 2008 are as follows:

	2009	2008
Deferred pre-opening costs plus NOL's	$ -	$ 5,000
Fixed assets	(169,000)	(188,000)
Allowance for loan losses	979,000	1,272,000
Deferred compensation	567,000	312,000
Accruals	91,000	78,000
Current state income tax	13,000	-
Other	42,000	97,000
Unrealized gain/loss and pension	(287,000)	(98,000)
Net deferred tax asset	$ 1,236,000	$ 1,478,000

The provision for income taxes is as follows for the years ended December 31:

	2009	2008
Current:		
Federal	$ 67,781	$ 213,695
State	38,006	106,862
Total current	105,787	320,557
Deferred:		
Federal	$ (5,000)	$ (182,004)
State	58,000	(131,610)
Total deferred	53,000	(313,614)
Total provision	$ 158,787	$ 6,943

The effective tax rate differs from the federal statutory rate as follows for the years ended December 31, 2009 and 2008:

	Year ended December 31,	
	2009	2008
Federal statutory rate	34.00%	34.00%
State income tax, net of federal effect	6.88%	7.10%
Stock based compensation	12.73%	126.90%
Bank owned life insurance	(12.61%)	(233.20%)
Split dollar expense	0.86%	96.00%
Other	2.05%	(2.00%)
Net	43.91%	28.80%

The Bank files income tax returns in the United States and California jurisdictions. There are currently no pending federal, state, or local income tax examinations by tax authorities. Unrecognized tax benefits are not expected to significantly increase or decrease within the next twelve months. The Bank’s federal and state tax returns for the years 2006 to 2008 and 2005 to 2008, respectively, are currently open for examination.

NOTE 7. BORROWED FUNDS

At December 31, 2009 and December 31, 2008, the Bank had federal funds borrowing guidance lines with its correspondent banks in an aggregate amount of $9.0 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. As of December 31, 2009, the Bank had $18,125,000 in borrowing capacity available through the FHLB under which overnight and term advances were available. These advances are secured by assets including the Bank's ownership interest in the capital stock of the FHLB, securities and loans. The Bank recognized less than one thousand dollars of borrowing expense in 2009 and 2008. The Bank had an available line of credit with the Federal Home Loan Bank of San Francisco ("FHLB") secured by the assets of the Bank. Under this line, the Bank may borrow up to $36,305,000 subject to providing adequate collateral and continued compliance with the Advances and Security Agreement and other eligibility requirements established by the FHLB. The Bank had borrowed funds outstanding of $3.0 million at December 31, 2009 and no borrowings outstanding at December 31, 2008 under these arrangements.

NOTE 8. 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. To date, the Bank does not match employee contributions.

The Bank accounts for split-dollar life insurance in accordance with ACS No. 715-60, Compensation - Nonretirement Postemployment Benefits, which requires that endorsement split-dollar life insurance arrangements which provide a postretirement benefit to an employee be recorded based on the substance of the agreement with the employee. If the employer has effectively agreed to provide the employee with a death benefit, the employer should accrue, over the service period, a liability for the actuarial present value of the future death benefit as of the employee's expected retirement date. These provisions increased other liabilities by $341,199 with the offset reflected as a cumulative-effect adjustment to accumulated other comprehensive income. Total expense recognized during the year ending December 31, 2009 was $9,117.

NOTE 9. STOCK OPTIONS

The Bank has adopted a qualified stock option plan (the Plan) for employees, non-employee directors and Bank founders, under which a maximum of 500,202 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. 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 following is a summary of the status relating to the Bank's stock option plan as of December 31, 2009 and changes during the year ended as presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Options outstanding at beginning of year	291,297	$12.38		
Granted	26,000	$13.01		
Exercised	(5,000)	$10.00		
Forfeited or expired	(2,407)	$20.03		
Options outstanding at end of year	309,890	$12.41	5.24 years	$0
Options exercisable	263,419	$11.73	4.64 years	$0

The number and weighted average grant date fair value of options granted is as follows for the years ended December 31, 2009 and 2008:

	Number	Weighted Average Grant Date Fair Value
2009	26,000	$4.04
2008	29,500	$6.37

The aggregate intrinsic value of options exercised is as follows for the years ended December 31, 2009 and 2008:

2009	$ 5,000
2008	$ 0

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for 2009 and 2008 as follows:

	2009	2008
Expected life (yrs.)	6.25	6.25
Volatility	27.22%	29.70%
Risk free rate of return	.85% - 3.07%	3.89%
Dividend yield	0.00%	0.00%

NOTE 10. BANK OWNED LIFE INSURANCE

The Bank has purchased insurance on the lives of certain key executive officers. 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 11. 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 collectability. At December 31, 2009 and 2008, no related party loans were on non-accrual or classified for regulatory reporting purposes.

Total extensions of credit made to or guaranteed by the Bank's directors and officers and their related companies totaled $1,261,178 and $684,000 at December 31, 2009 and December 31, 2008, respectively. Loan related activity to directors, officers and principal shareholders and their associates for the years ended December 31, 2009 and 2008 is as follows:

	2009	2008
Balance at beginning of year	$ 262,677	$ 306,105
New loans or disbursements	572,635	778,161
Principal repayments	667,691	821,589
Balance at end of year	$ 167,621	$ 262,677

NOTE 12. PENSION BENEFIT PLANS

Effective October 1, 2004, the Bank established the Supplemental Executive Retirement Plan (SERP), an unfunded noncontributory defined benefit pension plan. The SERP provides retirement benefits to a select group of key executives and senior officers based on years of service and final average salary. The Bank uses December 31 as the measurement date for this Plan. The following table reflects the accumulated benefit obligation and funded status of the SERP for the years ended December 31, 2009 and 2008.

	Year ended December 31,	
	2009	2008
Change in benefit obligation		
Benefit obligation at the beginning of the year	$ 1,186,588	$ 960,144
Service cost	138,386	177,204
Interest cost	78,173	65,966
Actuarial (gains)/losses	29,874	(16,726)
Projected benefit obligation at the end of the year	1,433,021	1,186,588
Funded status	(1,433,021)	(1,186,588)
Unrecognized net actuarial (gain) loss	(490)	(30,364)
Unrecognized prior service cost	55,370	63,850
(Accrued)/ prepaid benefit cost	(1,378,141)	(1,153,102)
Accrued Benefit Liability	(1,433,021)	(1,186,588)
Accumulated Other Comprehensive Expense (Income)	54,880	33,486
Net Amount Recognized	$ (1,378,141)	$ (1,153,102)
Weighted average assumptions to determine benefit obligation as of December 31:		
Discount rate	5.90%	5.90%
Rate of compensation increase	N/A	N/A

The components of net periodic benefit cost recognized for the years ended December 31, 2009 and 2008 and the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost during the year ended December 31, 2010 are as follows:

	Year ended December 31,		
	2010	2009	2008
Components of net periodic benefit cost			
Service cost	$ 116,240	$ 138,386	$ 177,204
Interest cost	90,583	78,173	65,966
Amortization of prior service cost	8,480	8,480	8,480
Net periodic benefit cost	$ 215,303	$ 225,039	$ 251,650

NOTE 13. RESTRICTIONS, COMMITMENTS, CONTINGENCIES AND OTHER DISCLOSURES

Retrictions 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. Effective December 16, 2008, Santa Cruz County Bank implemented the deposit reclassification program that simply changes the way the Bank reports deposit accounts to the Federal Reserve Bank. This change will decrease the amount of funds that the Bank is required to keep on deposit at the Federal Reserve Bank, providing more funds for lending and investment purposes. The Bank had no reserve requirement at December 31, 2009 and $3,171,000 and $1,400,000 at December 31, 2008 and December 31, 2007, respectively.

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 Bank's main office is located at 720 Front Street in Santa Cruz. The Bank entered into a lease for the property located at 720 Front Street effective December 4, 2006 which commenced sixty days after the Landlord's Delivery of Possession on July 14, 2008. The lease expires July 14, 2018 with an option to extend for two additional five year periods. Base rent for the initial term of the lease is fixed at $16,791 monthly plus an allocation of 12.22% for triple net expenses and adjusts annually on the lease anniversary date equal to the annual percentage increase that occurs in the Consumer Price Index, but no less than 3% and not more than 6%.

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 five year periods. The monthly lease payment for the Scotts Valley Office increased to $3,000 commencing June 1, 2008 due to additional office space acquired. Monthly rent will continue at this amount through the sixtieth month, after which it is subject to annual increases based on the Consumer Price Index. The first fifteen months of the Scotts Valley Office lease were rent free. The straight-line rent expense for the sixty month period is approximately $2,100 per month. Triple net expenses of 24% will be incurred in addition to these lease payments.

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 five year period. Base rent for the initial term of the Watsonville lease is fixed at $4,013 monthly plus an allocation of 12% for triple net expenses, which is adjusted annually for actual expenses incurred by landlord.

The lease for the Bank's Business Lending Office at 1500 41st Avenue, Suite 100 commenced on November 1, 2006, and expires October 31, 2011, with an option to extend for three additional five year periods. Base rent for the initial term is fixed at $3,074 monthly plus triple net expenses and adjusts on each anniversary date equal to the annual percentage increase that occurs in the Consumer Price Index, but no less than 3% and not more than 5%. The Bank received a rent credit of $32,296, which is applied toward the base rent each month for approximately the first ten months of the lease. The straight-line rent expense for the first year is approximately $2,500 per month.

The lease for the Bank's Capitola Office at 819 Bay Avenue, Suite D commenced on February 7, 2007, and expires February 6, 2017, with an option to extend for an additional five year period. Base rent for the initial term is fixed at $5,076 monthly plus triple net expenses. The monthly base rent shall increase to $5,686 monthly beginning with the first day of March, 2012 for the remaining lease term.

The lease for the Bank's Aptos Office at 7775 Soquel Drive commenced December 15, 2008. The lease expires November 30, 2013 with an option to extend for three additional five year periods. Base rent for the initial term of the lease is fixed at $6,262 monthly. Operating expenses will not exceed $0.55 per square foot for the first year and will be increased no more than 3% on an annual basis.

The lease for the Bank's Administrative Office at 740 Front Street commenced August 1, 2008. The lease expires July 31, 2013 with an option to extend for an additional five year period. Base rent through December 31, 2008 is fixed at $1,984 monthly plus an allocation of 8.93% for triple net expenses. Monthly rent will increase over the five year lease period to full market value of $8,672 per month by January 1, 2013.

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 was originally $500 and is subject to annual Consumer Price Index increases during the initial term. Base rent at December 31, 2009 was $555. 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 lease payments for future years under the six building leases and two kiosk leases are as follows:

Year ending December 31,	
2010	569,786
2011	549,653
2012	511,198
2013	461,270
Thereafter	1,365,388
	$ 3,457,295

Building and kiosk rent expense for the year ended December 31, 2009 and December 31, 2008, was approximately $529,000 and $373,000 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 for commitments to extend credit, standby letters of credit, and financial guarantees 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, 2009 and December 31, 2008 are as follows:

	December 31, 2009	December 31, 2008
Commitments to extend credit	$ 55,345,562	$ 44,728,804
Standby letters of credit	2,163,391	2,357,034
	$ 57,508,953	$ 47,085,838

Legal Matters: The Bank is subject to certain legal proceedings arising in the normal course of business. At December 31, 2009, the Bank was not subject to any claims and/or lawsuits.

NOTE 14. OTHER NON-INTEREST INCOME AND EXPENSE

The following is a breakdown of other non-interest income and non-interest expense in the Statement of Operations as of December 31:

	December 31, 2009	December 31, 2008
Other non-interest income:		
BOLI non-interest income	$ 134,133	$ 135,905
Merchant Processing Fees	191,744	181,009
Other non-interest income	397,759	334,019
Total other non-interest income	$ 723,636	$ 650,933
Other non-interest expense:		
Stationery, supplies and printing	$ 129,635	$ 84,210
Armored car and messenger	101,890	95,613
Telephone, postage and electronic communications	137,044	86,296
Correspondent bank charges	142,736	139,852
Insurance and security	69,937	52,349
Loan and collection expense	168,231	137,083
ATM related expenses	124,379	105,403
Shareholder related expense	91,963	127,103
Other non-interest expenses	324,339	427,085
Total other non-interest expenses	$ 1,290,154	$ 1,254,994

NOTE 15. REGULATORY CAPITAL REQUIREMENTS AND OTHER REGULATORY MATTERS

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, 2009 and 2008, the Bank met all capital adequacy requirements to which it was 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.

(Dollars in thousands)	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized Under the FDICIA Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2009						
Total capital (to risk weighted assets)	$ 21,892	11.57%	$ 15,135	8.00%	$ 18,919	10.00%
Tier 1 capital (to risk weighted assets)	$ 19,521	10.32%	$ 7,568	4.00%	$ 11,351	6.00%
Tier 1 capital (to average assets) leverage ratio	$ 19,521	7.37%	$ 10,597	4.00%	$ 13,246	5.00%
As of December 31, 2008						
Total capital (to risk weighted assets)	$ 20,252	11.65%	$ 13,913	8.00%	$ 17,391	10.00%
Tier 1 capital (to risk weighted assets)	$ 18,070	10.39%	$ 6,956	4.00%	$ 10,434	6.00%
Tier 1 capital (to average assets) leverage ratio	$ 18,070	8.15%	$ 8,874	4.00%	$ 11,092	5.00%
As of December 31, 2007						
Total capital (to risk weighted assets)	$ 20,367	13.94%	$ 11,692	8.00%	$ 14,615	10.00%
Tier 1 capital (to risk weighted assets)	$ 18,579	12.71%	$ 5,846	4.00%	$ 8,769	6.00%
Tier 1 capital (to average assets) leverage ratio	$ 18,579	12.09%	$ 6,148	4.00%	$ 7,685	5.00%

The leverage ratio consists of Tier One 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.

NOTE 16. 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, 2009 and December 31, 2008. 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, 2009 Carrying Amount	2009 Fair Value	2008 Carrying Amount	2008 Fair Value
Financial Assets:				
Cash and cash equivalents	$ 7,754,790	$ 7,754,790	$ 13,994,538	$ 13,994,538
Certificates of deposit	58,248,000	58,248,000	30,877,500	30,877,500
Securities available-for-sale	32,386,826	32,386,826	30,745,169	30,745,169
Securities held-to-maturity	640,692	667,455	846,963	857,281
Loans, net	153,501,464	161,524,499	143,199,375	141,742,162
Bankers' Bank stock, at cost	935,400	935,400	774,400	774,400
Accrued interest receivable	815,087	815,087	764,060	764,060
Bank owned life insurance	3,730,691	3,730,691	3,596,558	3,596,558
Financial Liabilities:				
Noninterest-bearing demand deposits	$ 75,895,196	$ 75,895,196	$ 63,386,131	$ 63,386,131
Interest-bearing demand deposits	19,164,987	19,164,987	12,927,077	12,927,077
Savings and money market deposits	67,102,899	67,102,899	68,630,762	68,630,762
Time certificates of deposit	77,140,555	77,055,540	62,252,416	62,011,016
Accrued interest payable	303,027	303,027	362,929	362,929
Other borrowings	3,000,000	3,000,000	-	-

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 the 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 re-price 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, 2008 and December 31, 2007 approximate their current book values.

Bankers' Bank Stock: Bankers' Bank Stock includes Federal Home Loan Bank Stock and Pacific Coast Bankers Bank Stock. Carrying amount is a reasonable estimate of fair value. The Federal Home Loan Bank investment is carried at cost and is redeemable at par with certain restrictions.

Accrued Interest Receivable: Carrying amount is a reasonable estimate of fair value.

Bank Owned Life Insurance: Carrying amount is a reasonable estimate of fair value.

Deposits: The fair values of demand deposits, savings deposits, and money market deposits without defined maturities were the amounts payable on demand. For variable rate deposits where the Bank has the contractual right to change rates, carrying value was assumed to approximate fair value.

Certificates of Deposit: For 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. The discount rates used were based on rates for comparable deposits.

Accrued Interest Payable: Carrying amount is a reasonable estimate of fair value.

Fair Value Hierarchy

The Bank groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury, other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 – Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Bank's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

Assets Recorded at Fair Value

The following tables present information about the Bank's assets and liabilities measured at fair value on a recurring and nonrecurring basis as of December 31, 2009.

Recurring Basis

The Bank is required or permitted to record the following assets at fair value on a recurring basis under other accounting pronouncements:

Description	Fair Value	Level 1	Level 2	Level 3
Available-for-sale investment securities	$ 32,386,826	$ -	$ 32,386,826	$ -

Fair values for available-for-sale investment securities, which include debt securities of U.S. Governmental agencies, are based on quoted market prices for similar securities.

Non-recurring Basis
The Bank may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or market value that were recognized at fair value which was below cost at the reporting date:

Description	Fair Value	Level 1	Level 2	Level 3	Total Gains (Losses)
Real estate owned	1,294,789	-	-	1,294,789	-

Real estate owned of $1,294,789 was adjusted to fair value at the time it was transferred from loans held to maturity to other real estate owned. As of December 31, 2009 there was no loss recorded in Other Expenses in the Statement of Operations. Management periodically obtains updated valuations of properties after foreclosure. Real estate owned fair values are categorized as Level 3 due to ongoing real estate market conditions which require the use of unobservable inputs and assumptions in fair value measurements.

The only assets measured at fair on a recurring basis are the Available for Sale Securities which total $30,745,169 at December 31, 2008, and are determined under the Level 2 assumptions.

OUR BOARD OF DIRECTORS

As pictured left to right, William J. Hansen (Vice-Chairman), Kenneth R. Chappell, Gary A. Reece, Thomas N. Griffin, Tila Guerrero, Steven G. John, George R. Gallucci (Chairman), & David V. Heald

SANTA CRUZ COUNTY BANK FOUNDERS AND DIRECTORS:

A group of local business people joined to create a local, community bank focused on serving the residents and businesses of Santa Cruz County when it became apparent that the last of the local independent banks was soon to be taken over by a large out-of-area bank holding company. This group that we recognize as Founders all contributed time, money, and talent, not only to the bank's organizing effort, but continue to be involved and support our bank by being customers, referring family, friends and business contacts to us, and serving as ambassadors of the bank in our community.

Richard Alderson
Joseph Anzalone
Victor Bogard
Anthony & Rebecca Campos
Charles Canfield
* Kenneth Chappell
Kate & Fred Chen
* 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
Frank Saveria
Robert & Bjorg Yonts

*denotes Bank Directors

SANTA CRUZ COUNTY BANK MANAGEMENT

David V. Heald, President & Chief Executive Officer
Frederick L. Caiocca, Executive Vice President & Chief Credit Officer
Vic Davis, Senior Vice President & Chief Financial Officer
Mary Anne Carson, Senior Vice President, Director of Marketing & Community Relations
Susan Chandler, Senior Vice President, SBA Department Manager
Angelo DeBernardo, Jr., Senior Vice President, Senior Lending Officer
Jaime Manriquez, Vice President, Chief Technology Officer and Information Security Officer
Heather LaFontaine, Vice President, Risk Management Officer and Human Resources Manager
Janice Zappa, Vice President, Corporate Secretary

SHAREHOLDER INFORMATION

Santa Cruz County Bank's common stock is listed on the Over the Counter Bulletin Board as **SCZC**.

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 St., Ste. 800, Golden, CO 80401
800.962.4284
www.computershare.com

BANKING LOCATIONS

APTOS
7775 Soquel Dr.
Aptos, CA 95003
662.6000

CAPITOLA
819 Bay Ave, Ste D
Capitola, CA 95010
464.5300

SANTA CRUZ
720 Front St.
Santa Cruz, CA 95060
457.5000

SCOTTS VALLEY
4604 Scotts Valley Dr.
Scotts Valley, CA 95066
461.5000

WATSONVILLE
595 Auto Center Dr.
Watsonville, CA 95076
761.7600

ATM & NIGHT DEPOSITORY LOCATIONS

SANTA CRUZ
1555 Soquel Dr.
(At Dominican Hospital)

APTOS
783-25 Rio Del Mar Blvd.
(At Deluxe Foods)

Put your money where your life is.