



Pacific
Commerce
Bank

June 30, 2010

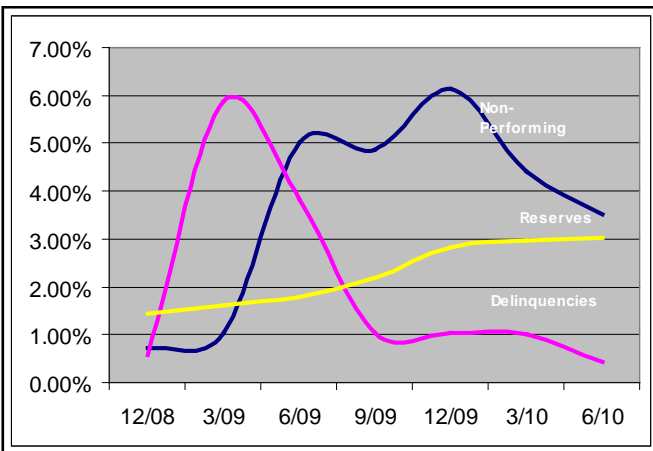
Second Quarter

Farming, Zombies, & The Mob

Brian H. Kelley, President & CEO




2009 was certainly one of the most challenging years I can remember in my more than 30 years in banking. Nearly 80% of all California banks reported an operating loss, many reporting such large losses as to seriously deplete their capital levels. A number of banks Bought the Farm, being placed into receivership by the FDIC and sold to the highest bidder. Many other banks became Zombies or part of the “Walking Dead” – too sick to raise more capital, but not sick enough to be seized. The underlying cause, of course, was an unprecedented collapse in the housing and commercial real estate markets which began in August of 2008 and picked-up steam throughout 2009. That, coupled with a melt-down on Wall Street and a doubling of the unemployment rate, put the economy into the worst tail-spin it had seen since the Great Depression. Unfortunately, at precisely the moment that banks needed the most help, they became Public Enemy #1, with Washington piling on new regulations, doubling FDIC insurance fees, adopting a “no prisoners” regulatory attitude and requiring dramatically increased capital levels (unfortunately at a time community banks had little ability to access the capital markets). It was ugly.



Pacific Commerce Bank was certainly not immune to the challenges facing banks in 2009. Early in the year we saw a steep rise in loan delinquencies, followed several months later by a dramatic increase in non-performing loans, as delinquent loans rapidly deteriorated. For us, the peak came in September of 2009, as we reported nearly \$12 million in non-performing loans (representing approximately 6.5% of Total Assets). Last December we allocated an additional \$800,000 in loan loss reserves, triggering a loss of approximately \$700,000 for the year. In retrospect, many of our peers were reporting losses in multiples of millions, so by comparison \$700,000 didn't look so bad – However, a loss is still a loss and we were not happy about it.

We are pleased to report that for the First Half of 2010, Pacific Commerce is back on a profitable footing, reporting nearly \$500,000 in net profit despite our having set aside another \$500,000 in additional

loan loss reserves. As the accompanying chart shows, we have also made steady progress in curing loan delinquencies and reducing the level of non-performing assets, now below 0.5% and 3.6% of Total Assets, respectively. Year-to-date retained earnings accompanied by some shrinkage of our Balance Sheet has allowed our Tangible Capital ratio to rise to 9.8% (as of June 30, 2010).

As we look to the future, we anticipate putting Farming, Zombies and The Mob well behind us. While still early into the recovery, prospects seem to be improving and we believe Pacific Commerce is well positioned to seize future opportunities and continue to meet the needs of its valued customers. 

Very truly yours,

Brian H. Kelley

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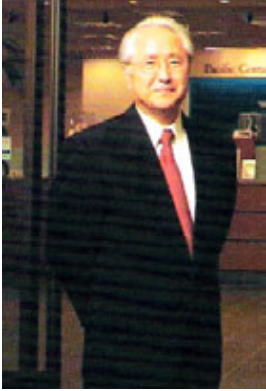
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Bidding Farewell to a Friend



Mr. Haruo Tsutsumi, the Bank's Chief Credit and Operating Officer, and a key member of our Senior Management Team, recently announced his departure. He has accepted a position as Chief Credit Officer of Fremont Bank. His new position not only locates him much closer to his Northern California home (about 6 hours closer!) but is also a real step-up in responsibility, as he assumes the credit reins for a much larger \$2 Billion bank. It also puts him much closer to his beautiful new baby granddaughter.

We will certainly miss Haruo and wish him the very best in his new endeavor. As one of our founding officers, he left his indelible stamp on Pacific Commerce Bank and was a key factor in our past success and growth. He will be long remembered for his contributions and will certainly hold a special place of honor in recognition of his commitment to and love for the bank.



A Recent Appointment

Georgiana Yoshioka was recently appointed Chief Administrative Officer of the Bank. Georgiana, who has served for the past two years as the bank's Chief Compliance Officer, will join the Senior Management Team, overseeing Strategic Planning, Systems Development and Integration, and Risk Management. We wish her the best in her new responsibilities and look forward to utilizing her many talents in this important area.



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A Story of Service

During these difficult economic times, it's now important more than ever to have good service from one's financial institution. Horror stories abound of customers being lost in a maze of telephone directories, long hold times, and even talking to computers just to get simple answers. It seems like it's harder than ever to just speak to an actual person!

Recently, the excellent service provided by our Bank's SBA division to one of our Bank's customers is a reminder of how such direct service and attention has been missing in many people's banking relationships. Through a series of back and forth correspondence, this Bank customer requested over a year of loan transaction history. Our SBA division promptly and diligently responded with all requested information within five minutes of the request. Our satisfied customer referred to the Bank's service as "beyond words" and that it means so much "we can 100% rely on our Bank almost like a family." The customer is "hooked" and "would not want to be with any other Bank for [their] business." Our customer's satisfaction is in no small part due to the hard work of our SBA division.

As a community bank, we are proud of such stories and value each and every one of our relationships with our customers. We strive to treat all of customers as family and believe we can provide the best service possible so that our customers can rely on us with all of their banking needs. We hope to continue to hear more similar stories in the future.



Our SBA Team
(from left to right)

Marchette Wesley
SBA Loan Processor
Brandon Day
President, SBA Division
Jennifer Gin
SBA Credit Officer

Chairman's Corner

Tom Iino, Chairman of the Board



Ardent baseball fans know of Casey Stengel's legendary success as manager of the Yankees. In his waning years, he managed the lowly Mets who lost 120 games his first year. During spring training with the Mets in 1962, he took his ragtag team for a stroll around the diamond. He pointed down and said "them are the bases". Eight years later under the guidance of Gil Hodges the Mets won the World Series and became the "Miracle Mets".

You know, Stengel had it right. You must start with the fundamentals – you must know where the bases are.

From the beginning, your Bank, has practiced its fundamentals and have always known where the bases are. That is why we have weathered the storm of regulators gone wild and have resumed a path of consistent profits this year. Your Board and Management are keenly aware that given the thinly traded marketplace our stock trades in, our current market price remains disappointing. We are also aware that in the current financial institutional environment, banks with assets of less than \$500mm have little opportunity to exceed expectations with regard to market value. The bank could be consistently profitable and stable, but at smaller sizes this success does not translate to market value.

For these reasons, we are exploring opportunities to raise more capital and expand our asset base, both by acquisition and organic growth. As our strategic vision becomes reality we will definitely keep you informed. Our responsibility continues to be the assurance that your investment remains sound and appreciating.

AS ALWAYS, WE WILL KEEP THE LIGHTS ON AND THANKS FOR YOUR SUPPORT. 

Sincerely, *Tom Iino*

Chairman of the Board



Pacific Commerce Bank

Management

Brian Kelley
President & CEO

Ken Kasamatsu
President, Branch Banking Division

Michael Kang
President, Commercial Lending Division

Brandon Day
President, SBA Lending Division

Richard Koh
EVP, Chief Financial Officer

Georgiana Yoshioka
SVP, Chief Administrative Officer

Board of Directors

Thomas Iino **Chairman**

Henry Ota **Vice Chairman**

Mark Buchman	Brian Kelley
Frances Hashimoto	George Kikuta
Norman Higo	Richard Levenson
Ken Kasamatsu	Dale Okuno

Our Market Maker

For information regarding our stock, which trades under the symbol of "PFCI.OB," please contact Rick Levenson at

Western Financial Corporation

600 "B" Street, Suite 2204

San Diego, California 92101

Phone 619-544-0260

Recently Funded Transactions

<p>\$1,490,000 SBA 7(a) Loan Construction Company Pacoima, CA</p>	<p>\$770,000 SBA 7(a) Loan Tax Consulting Firm Temple City, CA</p>	<p>\$100,000 Commercial Term Loan Special Effects Studio Santa Monica, CA</p>	<p>\$1,200,000 Commercial Term Loan Property Developer Arcadia, CA</p>
<p>\$500,000 Commercial Term Loan Real Estate Developer Pasadena, CA</p>	<p>\$550,000 Commercial Term Loan Food Products Wholesaler Whittier, CA</p>	<p>\$200,000 Commercial Line of Credit Insurance Company Pasadena, CA</p>	<p>\$275,000 SBA 7(a) Loan Fire Prevention Services Burbank, CA</p>

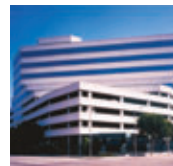
Statement of Condition as of June 30, 2010 (unaudited)

	June 30	
	2010	2009
Assets		
Cash Equivalents	\$ 10,548,000	\$ 4,812,000
Securities & Investments	39,003,000	25,481,000
Loans	134,175,000	150,493,000
Loss Reserves	(3,916,000)	(2,715,000)
Deferred Loan Fees	(164,000)	(274,000)
Bank Premises and Equipment	215,000	405,000
Accrued Interest Receivable and Other Assets	<u>9,744,000</u>	<u>8,775,000</u>
Total Assets	\$ <u>189,605,000</u>	\$ <u>186,977,000</u>

	June 30	
	2010	2009
Liabilities		
Total Deposits	\$ 169,487,000	\$ 159,458,000
Other Borrowings	0	8,006,000
Accrued Expenses and Other Liabilities	<u>1,183,000</u>	<u>1,310,000</u>
Total Liabilities	<u>170,670,000</u>	<u>167,774,000</u>
Shareholders Equity	<u>18,935,000</u>	<u>19,203,000</u>
Total Liability and Shareholders Equity	\$ <u>189,605,000</u>	\$ <u>186,977,000</u>

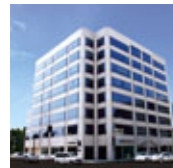
Year-to-date Earnings

	June 30	
	2010	2009
Total Interest Income	\$ 4,237,000	\$ 4,395,000
Total Interest Expense	<u>656,000</u>	<u>1,208,000</u>
Net Interest Income	3,581,000	3,187,000
Other Income	648,000	404,000
Non-Interest Expense	<u>3,144,000</u>	<u>2,931,000</u>
Income (Loss) Before Adjustments	1,085,000	660,000
Loan Loss Reserve	482,000	630,000
Option Expense	48,000	65,000
Income Taxes (Benefit)	<u>67,000</u>	<u>(206,000)</u>
NET INCOME (LOSS)	\$ <u>488,000</u>	\$ <u>171,000</u>



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