



Alas, Poor Yorick!

Brian H. Kelley, President & CEO

While I was attending law school, we were allowed to take one non-law class during our second year. For most students, that elective class was typically in taxation, law enforcement, economics, business management or some other area tied to the study of law. For my elective, I chose to take a graduate course in Shakespearean drama (a decision which undoubtedly contributed to my decision to pursue a career in banking rather than law). It was a great class, taught by a visiting professor from Oxford. While I remember very little from my law classes that year, I still recall in great detail the wonderful plays we studied – particularly the tragedies.

Insofar as banking is concerned, 2009 has certainly shaped up as a tragedy of Shakespearean proportions. So far this year, 106 banks have failed, with another 416 banks classified as “problem” institutions. I certainly feel a little like Hamlet contemplating the skull of his former court jester, Yorick, as I survey the familiar names of so many banks that are no longer with us – Alas poor WaMu, Wachovia, Downey, 1st Federal, CalNat, IndyMac, I knew them well. Even the good banks have seen their share prices decline by 70%, 80% or more, and have had to put up prodigious amounts of loan loss reserves – all but wiping out any prospect for profits in the current year. While many economists think the economy may have bottomed-out, others predict a further decline in the residential and commercial real estate markets. Unemployment is over 10% and climbing, with foreclosures and bankruptcies at record highs.

As a small commercial bank, we have certainly not been immune to the many challenges confronting banks. Earlier this year, we saw a dramatic increase in loan delinquencies and were forced to recognize our first ever loan loss. However, all things being equal (or to quote Shakespeare, *ceteris paribus*), the last Quarter was a very good quarter, with the bank reporting its third consecutive quarterly profit despite setting aside another \$550,000 in loan loss reserves (\$1,180,000 for the year). We also made significant progress in reducing our delinquent loans (by over \$4 million) and curing one of our largest non-performing loans. Despite having funded an unprecedented level of loan loss reserves, the bank remains very well capitalized at September 30th, with a Total Tier-1 capital ratio of 9.5% and a Total Risk-Weighted capital ratio of 13.3%, well in excess of the minimum capital ratios required for a bank to be considered “well-capitalized” (5% and 10%, respectively).

Notwithstanding the tumultuous market in which we have found ourselves, there have been some real bright spots this year. The bank’s deposits have grown over 30% this year and the bank’s overall funding costs have improved considerably. In the past quarter alone, we added another \$10 million in new deposit accounts. We have also been very pleased with the reception to our new Remote Capture Deposit devices, which allow our customers, using a PC, Internet connection and scanning device, to deposit checks at their business location at any time day or night. Our business customers gain quicker access to their funds and the ability to consolidate deposits from multiple locations.

(continued on the next page)

In this quarter’s issue:

- Remote Deposit Capture page 2
- Chairman’s Corner page 3
- Recently Funded Transactions page 3
- 3rd Quarter Financial Data page 4

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(continued from page 1)

As we look to the future, I can't help but think that the old bard William Shakespeare might have some wise counsel appropriate to our present circumstance. He surely would have appreciated the irony and drama that has accompanied 2009. For what it's worth, below are some quotes which seem strangely appropriate in today's world:



**That one may smile, and smile,
and be a villain - Hamlet**

*Bernie Madoff sentenced to 150 years in jail
after bilking investors of \$Billions*



Too much of a good thing

- As You Like It

*Wichita announced that it will use Federal
Stimulus Funds to neuter its population of
stray dogs and cats*



What is done is done

- Macbeth

*The CBO estimates U.S. families have
lost \$1.9 trillion in home value the last 2
years.*



**Asses are made to bear, and so
are you - The Taming of the Shrew**

*2011 may be the first year in which a majority of
adults - 51% - pay no income taxes whatsoever.*



**I have a kind of alacrity in
sinking - The Merry Wives of
Windsor**

*At \$162 Billion, the bailout of AIG was the
largest in U.S. history- a failure of incredible
speed and dimension.*



**A plague a' both your
houses! - Romeo and Juliet**

*"Contention has no place in a time of
national emergency" - Abraham Lincoln*



Let's kill all the lawyers!


- Henry VI

*Last year, 85 cents was paid in litigation
costs for every \$1 in compensation paid,
amounting to \$860 for every man, woman,
and child in the United States.*

**If this were play'd upon a stage now, I could
condemn it as an improbable fiction.**

- Twelfth Night

*Two years ago, who could have envisioned the events of 2009?
Who could have foreseen the demise of Merrill Lynch or Bear
Stearns, or the insolvency of Citibank and General Motors? As
Shakespeare said "The time is out of joint."*

In these times of economic confusion, you can count on our doors remaining open to discuss your personal and commercial financing needs as well as providing a safe place to keep your deposits. 

Very truly yours,

Bruce H. Kelley



Remote Deposit Capture

Take your business higher with a convenient new service that makes bank deposits much easier! Remote Deposit Capture is a desktop deposit solution that is faster, easier and a more cost-effective way to process your business' check deposits.

- Securely deposit checks from your desk
- No more trips to the bank
- No more filling out deposit slips
- Simple to install, Simple to use
- Make deposits anytime
- Get faster access to your money
- No need to purchase, install or maintain software

For more information about Remote Deposit, or for a no-obligation demonstration, speak to a representative at one of our branch offices, or call (213) 617-0082.

Chairman's Corner

Tom Iino, Chairman of the Board



It has been said in the entertainment industry, that if a performer is on the right stage, they must react when the spotlight shines. In most cases, if one does not react successfully, the spotlight may never shine in their direction again. In the Banking World, for those who have survived one of the most significant meltdowns in recent history, it is an opportune time to perform on the right stage under a bright spotlight.

As your CEO has indicated, your bank has not only survived the last eighteen months, but has operated efficiently and profitably. This has been quite an achievement given the level of loss reserves which have booked in order to create a safety net for losses, real or perceived. As we wind down towards the end of the year, we are convinced of our stability and are poised to move our agenda more aggressively in the New Year from the standpoint of growth and profit. I realize that I have expressed our desire to expand in the past, but the timing and opportunities have not always allowed us viable alternatives during this period of market volatility.

Now is the time – as we have a solid management team poised to oversee larger operations, we have a marketplace where the regulators are encouraging healthy banks to grow, we have a sizeable inventory of community banks needing a new direction and a multitude of experienced business development officers seeking new homes. Your bank is currently exploring a number of strategic opportunities with the caveat that we will continue to protect our assets and your investment.

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

Haruo Tsutsumi
EVP, Chief Operating Officer & Chief Credit Officer

Richard Koh
EVP, Chief Financial Officer

Board of Directors

Thomas Iino **Chairman**
Henry Ota **Vice Chairman**

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

Our Market Maker

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

Western Financial Corporation

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San Diego, California 92101
Phone 619-544-0260

Recently Funded Transactions

| | | | |
|---|--|---|---|
| <p>\$400,000 Commercial Line of Credit Construction Company Paramount, CA</p> | <p>\$350,000 SBA 7(a) Loan Medical Practitioner Glendale, CA</p> | <p>\$800,000 Commercial Line of Credit Property Developer Los Angeles, CA</p> | <p>\$100,000 Working Capital Line Vending Machine Wholesaler Alhambra, CA</p> |
| <p>\$400,000 Real Estate Purchase Senior Care Facility Los Angeles, CA</p> | <p>\$500,000 Commercial Line of Credit Public Adjusting Company Pasadena, CA</p> | <p>\$522,000 SBA 504 Loan Restaurant Pasadena, CA</p> | <p>\$1,000,000 Commercial Line of Credit Investment Management Company Pasadena, CA</p> |

Financial Highlights

as of September 30, 2009 (unaudited)

Balance Sheet

(In thousands, except for shares outstanding)

September 30

| | 2009 | 2008 |
|-----------------------------------|------------|------------|
| Total assets | \$ 193,594 | \$ 165,410 |
| Total investments | 30,027 | 16,244 |
| Total loans | 148,874 | 140,307 |
| Deferred loan fees | (246) | (253) |
| Allowance for loan losses | (3,266) | (1,804) |
| Net loans | 145,362 | 138,250 |
| Total deposits | 168,291 | 133,070 |
| Total borrowings | 5,002 | 14,253 |
| Total stockholder's equity | 19,280 | 16,980 |
| Non-performing assets | 7,277 | 25 |
| Non-performing assets/Total loans | 4.89% | 0.02% |
| QTD net interest margin | 3.84% | 3.98% |
| YTD net interest margin | 3.67% | 3.87% |
| Net loans to deposits | 86.4% | 103.9% |
| Tangible equity ratio | 10.0% | 10.3% |
| Total shares outstanding | 2,444,255 | 2,444,255 |

Statement of Operations

(In thousands, except for earnings per share)

For the Three Months Ended September 30, For the Nine Months Ended September 30,

| | 2009 | 2008 | 2009 | 2008 |
|---|---------|---------|---------|---------|
| Total interest income | \$2,267 | \$2,452 | \$6,662 | \$7,210 |
| Total interest expense | 468 | 838 | 1,676 | 2,712 |
| Net interest income | 1,799 | 1,614 | 4,986 | 4,498 |
| Total non-interest income | 321 | 61 | 725 | 243 |
| Total income | 2,120 | 1,675 | 5,711 | 4,741 |
| Total non-interest expense | 1,503 | 1,401 | 4,434 | 4,059 |
| Income before loan loss provision, stock options, and income tax expenses. | 617 | 274 | 1,277 | 682 |
| Provision for loan losses | 550 | 151 | 1,180 | 450 |
| Stock option expense | 33 | 46 | 98 | 116 |
| Income tax expense/(benefits) | 12 | (90) | (195) | (359) |
| Net income | \$22 | \$167 | \$194 | \$475 |
| Earnings per share | \$0.01 | \$0.07 | \$0.08 | \$0.19 |
| Earnings per share before loan loss provision, stock option expense, and income tax expense or benefits | \$0.25 | \$0.11 | \$0.52 | \$0.28 |



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