



YOUR PATHWAY TO SUCCESS

Dear Friends of Pacific Alliance Bank

Board of Directors

Andrew Su, Chair.

Samuel Cheng VChair.

Robert Oehler, CEO

Richard Barkhurst

James Chou

Joseph Gigliotti

Janet Ha, CCO

Peter Kam

Dennis Lin

Nancy Luke

Michael Sun

Yee-Jen Shuai

An To

Joe Teo, CFO
Corp. Sec'y

Last month we introduced our new business development hires and the launching of our SBA business lending unit. This month we marked our first six months of operations as of June 30 with the holding of our first **Annual Shareholders' Meeting on August 8th**. Shareholders voted to approve the Bank's proposed slate of Directors contained in the Bank's Proxy Statement through our next Annual Shareholders' Meeting to be scheduled in 2008. For those of you who were unable to attend, following is a highlight:

From its opening on December 27, 2006 with a capital account of \$16.4 million, the Bank's assets grew from \$18.2 million as of December 31, 2006 to \$50.2 million as of June 30, 2007, with loans totaling: \$14.6 million. Total liabilities as of June 30, 2007 were \$35.4 million, including total deposits of \$35.0 million). Net Operating Loss, expected for a start-up bank, was \$1.3 million, including stock option expenses.

Chairman Andrew Su and President and CEO Robert Oehler commented about the Bank's growth and summarized the Bank's operating results, products, priorities and, especially, its people. About the Bank's Board and Employees, President Oehler said: "This dedicated team not only has been able to put all the necessary building blocks for a new bank in place, but also has been able to handle a high rate of growth in both loans and deposits, while implementing a safe operating approach".

Interest Rates: Last month we said we would comment on interest rates. We ourselves watch key market rates and conclude that longer term key wholesale market interest rates will not remain less than the shortest key Fed Funds rate, currently 5.25% (called: "negative yield curve"). Historically, normal functioning key market rates reflect a "positive yield curve", meaning that longer term rates are typically higher than the shortest key Fed Funds rate. There are only two ways to return to this market condition –either the Fed Funds rate and, by inference, less than one year rates will go down somewhat or the longer term rates will increase. Also, the question, obviously is when? Our belief has and continues to be that the negative yield curve will remain for the balance of 2007.

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Stock Symbol: PFBN

FDIC Insured and Equal Housing Opportunity Lender

This letter includes forward-looking information, which is subject to the "safe harbor" created by Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act and the Private Securities Litigation Reform Act of 1995. When the Bank uses or incorporates by reference in this letter the words "anticipate," "estimate," "expect," "project," "intend," "commit," "believe" and similar expressions, the Bank intends to identify forward-looking statements. Our actual results may differ materially from those projected in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control."

Currently there is turmoil in the global financial markets. This tends to reinforce our belief that it is in the interest of many business owners to maintain a primary banking relationship with a smaller community-type commercial bank, as both individuals and businesses have the need to maintain their own liquidity function over time in all kinds of markets and business cycles.

We believe that we are well positioned to achieve this mission of delivering business value in our market --serving small to mid-size businesses, owners, and key employees who seek a personal bank ready to meet their needs with customized services.

Client Profile: Last month, we also said we would profile one of our valued relationships and have received permission and are pleased to highlight LJS, Inc. LSJ is a real estate investment company which was established in November, 1994 by Ms. Angie Liu and her daughter Lisa and sons Steve and Jack. They have been known to Janet Ha, our EVP and Chief Credit Officer since this time. Currently, Steve and Jack are President and Secretary of LSJ, respectively. Lisa is a real estate agent in Coldwell Banker / George Realty, another client. We are providing this company with a specialized working capital line of credit for opportunistic investment purposes, while also financing specific properties. This facility enables LSJ to act quickly when an opportunity arises. See our picture below.



PAB Annual Shareholder Meeting
August 8, 2008



Ms Angie Liu, LJS
Investmentments and
Janet Ha, EVP CCO

ext month: More on
our people and products.

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Yours truly

Robert B. Oehler "Rob"
President and CEO

Commentary:

The recent turmoil in global markets, in our readings, arises more from how the global financial system operates than from changing underlying economic fundamentals, even with the focus on increasing delinquencies and defaults in the sub-prime mortgage markets. In the old days, most loans (including mortgage loans) stayed on the books of originating banks, even the global banks. In more recent years, loan pools have been sold (mostly by global banks) into a non-bank (including hedge fund) financial investor market place, spreading structured levels of loan pool risk all around.

Global markets liquidity in the functioning of this type of system actually increases, as non-bank financial institutions and funds (who by definition do not participate in the interbank market) become suppliers of funds also. Global banks can and have loaned into these loan pools too.

However, smooth functioning of this system requires confidence between these institutions (by both banks and non-bank financial institutions) that all the risk holders have modest pieces of diversified risk pools). This is a fundamental basic of a smoothly functioning interbank market, which remains the principal driver of short term market liquidity.

Today, there is as much international liquidity as before. However, market dysfunction keeps this liquidity system from operating effectively and has created what many are calling a "credit crunch". Unfortunately, the experts are finding that global banks, non-bank institutions, government regulators, and Central Banks do not know how much such risk unevenly impacts the many players in this global market place, when the overall confidence level in what is called "counterparty risk" substantially declines.

When this happens, global banks become more hesitant to lend excess funds into the traditional interbank market, while the need for other banks to borrow continues or actually may increase. This imbalance leads to the scenario that the most short term interbank rate (similar to the Fed Funds rate) substantially increases. This may be why the Central Banks, including the Federal Reserve Bank) have been making up for the shortage of supply by injecting funds into this interbank market, in order to keep this interbank rate within their target range (near the 5.25% level, in the case of the U.S).

This risk distribution market turmoil will settle down, perhaps with some significant changes. Any impact on short term Fed Fund rate policy is hard to predict, but may not be that significant, so long as underlying economic fundamentals remain sound. These risk pools are complex, however, involving derivative contracts as well. So, a return to normalcy may take a while, and we might see ongoing volatility in the short term at least. This is a time for patience. "This [press release/letter] includes forward-looking information, which is subject to the "safe harbor" created by Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act and the Private Securities Litigation Reform Act of 1995. When the Bank uses or incorporates by reference in this letter the words "anticipate," "estimate," "expect," "project," "intend," "commit," "believe" and similar expressions, the Bank intends to identify forward-looking statements. Our actual results may differ materially from those projected in any forward-looking statements, as they will depend on many factors about which we are unsure, including many factors which are beyond our control."