

1st Pacific Bancorp Ca FPBN (NAS)

Last Close	Industry	Sector
0.93 USD	Regional - Pacific Banks	Financial Services

Profile

Pricing data through 18 Feb 2010

In addition to this comprehensive company profile, Morningstar offers in-depth analyst research and ratings on selected companies.

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Contents

Company Profile	1
Company Data	2
Management & Ownership	3
Industry Focus	4

1st Pacific Bancorp is a holding company for 1st Pacific Bank of California, which offers commercial banking services in California. The company is organized as a single operating segment. The main operational focus of the company is to meet the financial service needs of its target market - small and medium-sized businesses and professionals - within its service area. It offers a line of loan and deposit products and certain related financial services designed to cater to this target market. The company's primary market is the greater San Diego County region, where all of its branch offices are located.

The bank's lending activities focus on commercial and residential real estate loans for construction and term financing; construction loans for single-family homes and small residential tract development; and commercial business loans and loans made or guaranteed through the Small Business Administration loan program responsive to the target market's needs. Its commercial loans include secured and unsecured short-term working capital loans; secured and unsecured revolving credit accounts; single purpose loans such as term loans for facilities, plants and equipment; and stand-by letters of credit.

The company offers a range of accounts and services, designed around the preferences of its customers. It offers personal and business checking, money market, savings and certificates of deposit accounts which can all be tied into a one-statement package. It also offers a service called Remote Deposit Capture which allows the customer to create and submit a deposit from their place of business.

In addition, the company has cash managing services and related products, including online banking, automated clearing house origination, wire transfers, daily sweep products, lockbox processing, and account transfers/management. Courier service is available in order to obtain deposits from San Diego-area customers.

1st Pacific Bancorp Ca FPBN

Sales USD Mil 17 **Mkt Cap USD Mil** 5 **Industry** Regional - Pacific Banks **Sector** Financial Services

1st Pacific Bancorp owns the 1st Pacific Bank of California, which offers banking services to individuals and small to mid-size businesses in the greater San Diego area. Its offerings include checking and savings accounts, certificates of deposit, residential real estate mortgages, and commercial business loans.

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Growth Rates	Compound Annual				
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	0.7	11.4	24.3	—	
Operating Income %	—	—	—	—	
Earnings/Share %	—	—	—	—	
Dividends %	—	—	—	—	
Book Value/Share %	-50.4	-7.8	-0.1	—	
Stock Total Return %	-48.3	-61.3	-39.0	—	
+/- Industry	-98.3	-37.5	-28.2	—	
+/- Market	-88.7	-52.6	-37.4	—	

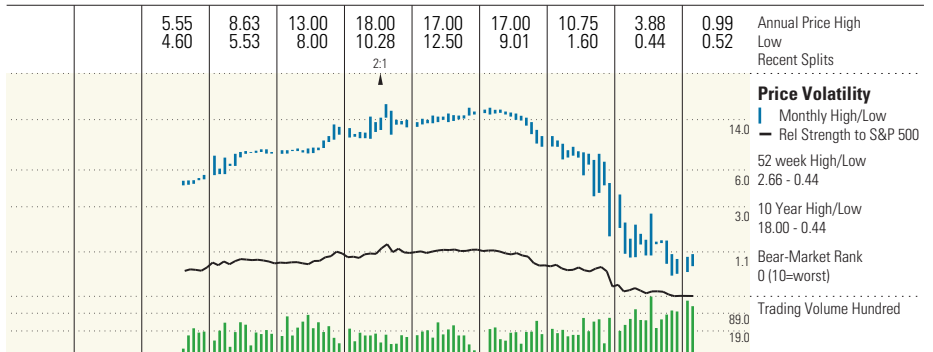
Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	-74.3	-5.2	-3.1
Return on Assets %	-5.7	-0.4	-0.3	6.3
Revenue/Employee USD K	157.5	180.4	—	797.2
Compensation Exp/Rev	0.5	0.4	—	—
Operating Margin %	—	—	—	13.1
Net Margin %	—	-11.0	-6.3	7.1
Free Cash Flow/Rev %	—	—	—	0.0

Financial Position	12-08 USD Mil	09-09 USD Mil
	Loans (Gross)	352
Less: Allowances	5	6
Net Loans	347	344
Securities	25	18
Trading Assets	—	—
Intangibles	1	1
Other	48	30
Total Assets	421	393
Deposits	334	318
Short-Term Debt	—	—
Long-Term Debt	60	50
Other	4	5
Total Liabilities	398	373
Preferred Stock	—	—
Total Equity	23	20

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	—	—	—
Forward P/E	—	—	—	13.7
Price/Free Cash Flow	—	—	—	10.2
Dividend Yield %	—	—	1.3	1.9
Price/Book	0.2	1.3	1.0	2.2
Price/Sales	0.3	2.4	1.7	0.9
PEG Ratio	—	—	—	1.6

Morningstar Rating — **Last Price** 0.93 **Fair Value** — **Uncertainty** — **Economic Moat™** — **Stewardship Grade** —

per share prices in USD



2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD	Stock Performance
—	—	—	47.1	50.8	4.5	25.0	-37.5	-80.0	-65.3	33.8	Total Return %
—	—	—	20.7	41.8	1.5	11.4	-41.0	-41.5	-88.7	34.6	+/- Market
—	—	—	4.5	29.4	1.0	14.2	-7.7	-50.1	-53.5	32.0	+/- Industry
—	—	—	—	—	—	—	—	—	—	0.0	Dividend Yield %
—	—	17	26	47	49	62	49	10	3	5	Market Cap USD Mil

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Financials
—	—	—	3	6	8	13	15	17	17	15	Net Interest Inc USD Mil
—	—	—	0	0	0	0	1	1	1	1	Fee Income
—	—	—	—	—	—	—	—	—	—	—	Oper Income USD Mil
—	—	—	0	2	1	2	3	2	-22	-24	Net Income USD Mil
—	—	—	-0.04	0.51	0.32	0.56	0.76	0.52	-4.41	-4.76	Earnings Per Share USD
—	—	—	—	—	—	—	—	—	—	—	Dividends USD
—	—	—	2	3	3	4	4	4	4	4	Shares Mil
—	—	3.99	4.56	5.16	5.78	6.71	9.15	4.53	4.11	4.11	Book Value Per Share USD
—	—	—	103	144	210	266	318	415	421	393	Assets USD Mil
—	—	—	12	14	20	22	26	45	23	20	Total Equity USD Mil
—	—	—	—	0	-4	0	-1	-17	1	-1	Free Cash Flow

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Profitability
—	—	—	-0.1	1.4	0.7	1.0	1.1	0.7	-5.2	-5.7	Return on Assets %
—	—	—	-0.7	12.8	7.2	11.2	13.3	7.0	-64.7	-74.3	Return on Equity %
—	—	—	-2.7	28.1	13.8	18.0	20.3	13.8	—	—	Net Margin %
—	—	—	0.03	0.05	0.05	0.05	0.05	0.05	0.04	0.04	Asset Turnover
—	—	—	8.3	10.1	10.7	11.9	12.3	9.2	18.6	19.2	Financial Leverage

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	09-09	Financial Health
—	—	—	81	120	186	228	272	345	347	344	Net Loans USD Mil
—	—	—	—	—	—	5	29	20	60	50	Long-Term Debt USD Mil
—	—	—	90	129	180	237	262	345	334	318	Deposits USD Mil

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM	Valuation
—	—	—	16.1	38.9	22.8	21.1	19.2	—	—	—	Price/Earnings
—	—	—	0.8	2.0	1.3	1.3	1.2	—	—	—	P/E vs. Market
—	—	4.0	4.5	5.3	4.2	4.2	2.6	0.6	0.2	0.3	Price/Sales
—	—	1.4	1.8	2.4	2.2	2.4	1.1	0.4	0.2	0.2	Price/Book

Quarterly Results		Revenue USD Mil			
		Dec 08	Mar 09	Jun 09	Sep 09
Most Recent Period		3.9	4.4	4.4	4.4
Prior Year Period		4.9	3.9	3.9	3.9
Rev Growth %		Dec 08	Mar 09	Jun 09	Sep 09
Most Recent Period		-19.8	12.0	12.0	12.0
Prior Year Period		24.1	-19.8	-19.8	-19.8
Earnings Per Share USD		Dec 08	Mar 09	Jun 09	Sep 09
Most Recent Period		-4.16	-0.09	-0.17	-0.37
Prior Year Period		0.08	0.09	-0.34	0.00

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
1st Pacific Bancorp	5	17	—	-74.3
City National Corpor	2478	815	76.3	0.7
Zions Bancorporation	2449	2581	—	-33.9

Major Fund Holders		% of shares
DFA US Micro Cap I		0.08

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
DFA US Micro Cap I	QQ	0.08	0.00	0	30 Jun 2009

Concentrated Holders

NA	NA	NA	NA	NA
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Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
NA	NA	NA	NA	NA	NA

Top 5 Sellers

NA	NA	NA	NA	NA
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Industry Focus: US Regional Banks

Our Outlook for Regional Banks

01 June 2009

Jim Sinegal
Senior Stock Analyst

A new normal or
back to the future?

Following the conclusion of the Supervisory Capital Assessment Program stress tests and the resulting infusions of new capital into many banks, investors' focus has shifted from the banks' ability to survive the current downturn to their potential earnings power on the other side. Some sources of profits, such as securitization, already appear to be relics of the distant past. Similarly, excessive leverage is unlikely to return for at least a decade, and the need for major changes in the regulatory system is painfully obvious. Although the specific changes to come are difficult to predict, we think some helpful generalizations can be made after a simple examination of banking industry dynamics.

Competition Is Here to Stay

In our opinion, regional banking is very much a commodity industry. Competition is generally intense, and there are few barriers to entry, aside from the approval of regulators. While financial innovations like CDOs, credit derivatives, and other products temporarily boosted profitability, nothing prevented industry participants from competing away excess profits resulting from these new products--in fact, a strong case can be made that competitive forces led to the demise of several financial companies and virtually the entire "shadow banking" system. This comes as no surprise--any student in a freshman microeconomics course knows that excess profits unprotected by an economic moat will eventually be competed away. Similarly, when industry profits decrease below cost of capital, firms will exit through failure, acquisition, or other means. We therefore believe profits across the banking industry should once again approximate costs of capital once the crisis is resolved.

As in all commodity industries, companies that excel at controlling costs--operating, credit, and funding--should be able to continue earning excess profits. Wells Fargo's WFC extremely low cost of deposits is a perfect example

of this, as is the company's history of superior underwriting. In other cases, banks benefit from high-return businesses other than banking. PNC Financial PNC has a profitable fund servicing business, US Bancorp USB owns a payment processing operation, and both have profitable wealth management arms. The low capital requirements of these service businesses tend to boost overall returns as well, and their relative stability helps to keep these banks from venturing too far afield in search of higher returns. It's therefore not surprising that these narrow-moat banks have fared better than most in recent months. We don't believe the advantages developed by these companies over many years are likely to disappear anytime soon, and we expect that these banks are likely to continue producing returns well in excess of their cost of capital.

Regulation Will Not Affect All Participants Equally

Much has been made of the prospects for increased regulation of the banking industry, and for good reason. Lax regulation of subprime mortgages, derivatives, and other areas of the financial system no doubt contributed to the mess plaguing the financial system.

Some industry observers have put forth the possibility that banking could begin to resemble a utility in the future, rather than the profitable growth industry it has been over the past few decades. In our opinion, this comparison is tenuous at best. As Josh Peters, equities strategist and editor of Morningstar DividendInvestor points out in "The Ultimate Dividend Playbook", utilities are naturally endowed with a substantial economic moat. In most cases, a particular utility is the sole supplier to a geographic area. Additionally, utilities are capital intensive, creating a sizable barrier to entry. It should be obvious that the banking business has neither of these features. Utility regulation is meant to limit profitability and protect customers--the banking industry suffered from the opposite problem. It is now obvious that the banking sector's problem was not excess returns, but in fact the inability to generate acceptable returns without taking on unacceptable risk.

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Industry Focus: US Regional Banks

Furthermore, any attempts by regulators to control pricing in the banking industry are likely to end in disaster. On the other hand, regulation meant to reduce leverage and excessive risk-taking is almost a certainty. In assessing the effects of this change on a particular bank, it is important to identify the source of past returns. In the case of banks like Flagstar Bancorp FBC, excessive leverage and overreliance on new financial products undoubtedly were the factors responsible for the 20%-plus returns on equity it achieved earlier in the decade. However, Wells Fargo was earning 20% returns on equity in the 1980s, long before irrational exuberance took hold across the lending industry, and the superior economic characteristics of the business outlined above are still in place. In our opinion, banks like Wells are therefore less likely to suffer from a regulatory crackdown.

Furthermore, as leverage is reduced across the industry, the irresistible forces of competition will eventually drive industry returns back to an appropriate level, as firms react to the new operating environment. In fact, lending spreads are already the highest they have been in years, as rational competition has returned to the market. New regulatory policies could also benefit banks--higher capital and loan loss reserve requirements should help smooth the boom/bust cycle that periodically plagues the banking industry. Making the banking system safer will not necessarily reduce profitability--the pharmaceutical industry is heavily regulated for safety, yet quite profitable. Finally, regulators must also consider the second-order effects of overly harsh new requirements. If profitability is artificially limited, investors will be reluctant to provide the capital necessary to keep the financial system--and the economy--functioning. From a macroeconomic perspective, growth is likely to be muted as the economy deleverages, but how will the system recover if future growth and profitability are hampered by regulation?

It's Not Time to Swing for the Fences

The implications of the coming changes are most serious for the weakest banks. Those that struggled to achieve their

cost of capital during the boom years will face enormous pressures as the recession continues, and many will likely exit or be acquired at distressed prices, as assets are transferred to more productive uses. The mismanaged assets of Washington Mutual and National City are no doubt better off in the hands of J.P. Morgan Chase JPM and PNC, and we expect this trend to continue for some time. Banks that could not achieve satisfactory returns in the boom years will surely fare even worse without the tail winds provided by excessive leverage, perfect credit, and structured products. While a few of these weaker banks are likely to survive and perhaps experience a spectacular increase in stock price from current levels, we place these types of bets firmly in the category of speculation. Some of these players will surely not make it.

Stick to the High Ground, and Focus on Moats

On the other hand, the strongest regional and superregional banks--those with established economic moats--could benefit from the changes to come. The ability to cheaply acquire assets and market share from weakened or failed competitors could result in a nice boost to short-term growth, and the reputational benefits from passing through the crisis relatively unscathed could last for a long time, further strengthening competitive advantages where they already exist. Though Warren Buffett popularized the concept of economic moats, our own research also suggests that moats are a key factor in achieving investment success. In a highly competitive industry like banking, where truly durable competitive advantages are rare, moats are often even more important. For this reason, we recommend that investors focus their attentions on banks with narrow or wide moats and strong management teams, leaving the low-priced lottery tickets in the industry for others.