

# Prime Interest

October 2008

*Message from the CEO*

## *What's Happening to Banking?*



*William R. Trezza, CEO*

The past year has been like a roller coaster ride. The third and fourth quarters of 2007 saw enormous losses reported by money center and large regional banks. While most of the losses were centered primarily in sub prime mortgage loans and related investments, there were also losses involving large residential development loans. Midway through 2008 the national economic picture continued to deteriorate. The

housing market and the economy continued to struggle and the losses kept mounting, with major failures such as Countrywide and Bear Stearns.

The third quarter brought a tidal wave of negative events involving Fannie Mae and Freddie Mac, Lehman Bros, and what appears like the entire money center banking infrastructure. The banking industry is under severe pressure from the burden of troubled loans, and earnings have taken a direct hit. I thought you might want to hear what's happening on Main Street.

We do not routinely provide details about financial performance, however the current economic scene and banking landscape is far from routine. BAC's profitability peaked at \$5.6 million in fiscal 2006, and net income for 2007 fell to \$4.8 million primarily because of compressed net interest margins. Our profit expectations for 2008 were not aggressive because of the impact a poor housing sector would have on our local markets, so equaling 2007 performance presented a major challenge. I'm extremely pleased to inform you that for the first nine months we have exceeded 2007 earnings by \$121,000, and expect year end income to meet or exceed our 2007 results. The fact that on average our national and California peer banks have seen their overall performance regress significantly makes this more meaningful.

	BAC	CUSTOM PEER*	NAT'L PEER	CA >\$100MM
Return on Assets	1.18	0.55	0.83	0.32
Return on Equity	12.16	5.54	9.53	N/A
Past Due Loans Non Performing/ Gross Loans	0.11	2.34	1.48	1.83
Loans Losses (%of Loans) Net Charge Offs/ Avg Loan & Leases	0.05	0.87	0.26	0.53
Capital to Assets Tier 1 Capital	9.49	10.4	8.94	10.73

\*Custom Peer: Banks in Northern California with assets between 100 million and 1 billion

These results are not the product of recent efforts; we have been practicing the game of banking for many years. We try to be selective with whom we engage in business, and we underwrite credit based on old fashioned ideas (capacity, collateral cash flow, and character). We've also learned to respect our own limitations regardless of the possible rewards. The formula is very simple, but proper execution requires intense discipline and dedication to the program.

We have reassured our customers and the public that BAC is a safe haven for their deposits, and this information supports such a statement. You may not be aware, but Bankrate.com (which rates the safety of bank depositories) gave BAC a #1 Superior, 5 Star rating, its highest level. I'm proud to reiterate that we are the only commercial bank in San Joaquin, Stanislaus and Contra Costa counties with this rating.

I'd like to congratulate our entire organization, directors, officers and staff on a job well done. And, on behalf of all of us at BAC, thank our customers for your patience and loyalty. Rest assured we are committed to maintaining our culture of aggressively managing risks while balancing the needs of our customers.

**DIRECTORS**

Ronald A. Berberian  
*Chairman of the Board & President  
President, Berberian Brothers Inc.*  
Darrow G. Marcus  
*Insurance Consultant*  
Ronald McNabb  
*Retired*  
Dr. Mark S. Plovnick  
*Director of Economic Development, UOP*  
Dea Spanos Berberian  
*Executive Vice President, A.G. Spanos Companies*  
William R. Trezza  
*Chief Executive Officer*

**EXECUTIVE OFFICERS**

William R. Trezza  
*Chief Executive Officer*  
Dana Bockstahler  
*Executive Vice President*  
*Chief Operating Officer*  
Ned A. Smull  
*Executive Vice President*  
*Chief Lending Officer*  
Steve Stevenson  
*Executive Vice President*  
*Sales and Service Manager*  
Janet Jenkins  
*Executive Vice President*  
*Chief Credit Officer*  
Jackie Verkuyll  
*Senior Vice President*  
*Chief Financial Officer*

**COMMERCIAL BANKING OFFICERS**

Claudia Cozad  
*Vice President, Stockton*  
Phil Felde  
*Vice President, Lodi*  
Alan Moore  
*Vice President, East Contra Costa County*  
Eddie Lira  
*Assistant Vice President, Stockton*  
Gina Machado  
*Assistant Vice President, Modesto*

**EXECUTIVE, ADMINISTRATION OFFICES & LOAN DEPARTMENT**

BAC PLAZA  
2021 W. March Lane  
Stockton, CA 95207  
(209) 473-6800

**CUSTOMER SERVICE**  
517 E. Weber Avenue  
Stockton, CA 95202  
(877) 226-5820  
customer.service@bankbac.com

**BRANCHES**

**BAC**  
**Downtown Stockton**  
340 E. Main St.  
Stockton, CA 95202  
(209) 944-1807  
**Stockton**  
2001 W. March Ln.  
Stockton, CA 95207  
(209) 473-6832  
**Lodi**  
1610 W. Kettleman Ln.  
Lodi, CA 95242  
(209) 367-9400  
**Modesto**  
2605 Coffee Rd.  
Modesto, CA 95355  
(209) 544-2227

**ECC BANK**  
**Antioch**  
1411 A St.  
Antioch, CA 94509  
(925) 776-2200  
**Brentwood**  
740 First St.  
Brentwood, CA 94513  
(925) 634-2111  
**Brentwood Country Club**  
2251 Balfour Rd.  
Brentwood, CA 94513  
(925) 308-7011  
**Concord**  
901 Sunvalley Blvd. #100  
Concord, CA 94520  
(925) 609-1970  
**Discovery Bay**  
14804-A Hwy. 4  
Discovery Bay, CA 94514  
(925) 634-0112  
**Oakley**  
3775 Main St., Ste A  
Oakley, CA 94561  
(925) 625-4990

# Bank of Agriculture & Commerce Earns Highest Ratings in the Central Valley

Bank of Agriculture & Commerce (BAC) stands strong in the current economic environment, receiving the prestigious “#1, Superior, 5-Star” rating by Bankrate.com, the “5-Star Superior Rating” by Bauer Financial and “Super Premier Community Bank” rating by the Findley Reports. BAC is the only bank in the Central Valley to receive #1- 5-Star rating from Bankrate.com, the industry’s number one source for ratings.

Bankrate.com’s Safe & Sound® service measures and rates the strengths of financial institutions. Safe & Sound® is an analytical product that assesses the financial conditions of 17,000 banks, thrifts and credit unions. Bankrate.com evaluates the health of institutions and assigns a 1-to-5 rating, with five stars representing the highest standard.

Under Bauer Financial’s rating system, five stars denote the highest level of banking performance. The 5-star rating is based on overall financial picture of the bank and indicates that BAC is one of the strongest banks in the nation.

The Findley Reports provides the banking industry with performance benchmarking through its annual designations of “Super Premier Performing,” “Premier Performing,” and “Commendable Performing” classifications. These designations have become highly regarded and as a recipient, BAC is recognized throughout the Western United States as a financial institution achieving exceptional performance.



Bank of Agriculture & Commerce and ECC Bank are well positioned to withstand the problems facing the banking industry. We are proud to report that our financial performance ranks us above peer banks in many important benchmarks.

There are several reasons for this:

- We are selective to whom we lend money.
- We do not engage in subprime lending.
- We do not make speculative development loans a major lending function.
- We are proactive working out issues with our customers.
- We support our communities through significant donations of time and money.
- We are owned by the Berberian Family, who is committed to providing the best in financial and banking services. This dedication to BAC and ECC Bank’s clients is reflected throughout the daily operation of the Bank.
- We are unlike publicly traded entities whose focus is largely on maximizing returns for their investors.
- Members of Executive Management are available to discuss current events and industry concerns.

Visit [www.bankbac.com](http://www.bankbac.com) or [www.banecc.com](http://www.banecc.com) for links to FDIC Insurance information.

# Panella Trucking Counts on Personalized Service

The B. Panella Drayage Company was founded 96 years ago in San Jose, California by Bernard Panella. At that time, “drayage” referred to an open cart pulled by horses used to transport goods. The original 1913 receipt for the company’s first truck is a prized possession of the current owners. Today, B. Panella Drayage is owned and managed by two brothers (Bernard’s great-grandchildren) William and Matthew Panella. William, Chief Executive Officer, and Matthew, President, took the company over from their father, Bernard, eight years ago, but he still is involved in the business on a regular basis.

Today, the thriving trucking company operates 20 trucks and five sub-haulers out of Ceres. They currently specialize in hauling building insulation, pipe, and milk crates.

William and Matthew began banking with BAC because of a good friend, who served as one of our relationship managers here at the bank. Although they were very happy with the products and services at BAC, they decided to leave when their good friend accepted a position at another bank. After months of headaches and hassles at their new bank, Matthew and William decided to switch back to BAC where they knew they could count on quality personalized service. According to William “the transition back to BAC has been great”, and “Gina (Machado) has been a great help. We couldn’t be happier with the service we have received. Bill’s (Trezza) humor, honesty and straightforwardness are rare qualities that we appreciate.” B. Panella Drayage utilizes the Remote Deposit service offered by the Bank and



*Matthew Panella, BAC’s Gina Machado and William Panella*

they “love it.” William is especially impressed with how easy and convenient Remote Deposit is to use. He “no longer worries about forgetting to send deposits with the courier and enjoys the flexibility Remote Deposit offers for handling multiple accounts and the convenience of scanning and making deposits whenever he wants.”

## FINANCIAL PERFORMANCE

### STATEMENT OF CONDITION as of SEPTEMBER 30, 2008

**ASSETS:**

Cash & Due From Banks	\$	16,155,000
Securities		47,956,000
Gross Loans		341,822,000
Less Allowance for Loan Loss		(2,851,000)
Less Deferred Loan Fees		(414,000)
Net Loans		<u>338,557,000</u>

Premises & Equipment		11,887,000
Real Estate Owned		184,000
Other Assets		<u>10,846,000</u>

**TOTAL ASSETS** 425,585,000

**LIABILITIES:**

Demand Deposits	\$	109,178,000
Interest Bearing Deposits		231,372,000
Total Deposits		340,550,000

Borrowings 43,086,000

Other Liabilities 2,384,000

**TOTAL LIABILITIES** **386,020,000**

**SHAREHOLDERS' EQUITY:**

Common Stock		6,300,000
Retained Earnings		33,265,000
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u><b>39,565,000</b></u>

**TOTAL LIABILITIES & SHAREHOLDERS' EQUITY** 425,585,000

### STATEMENT OF INCOME For the Nine Months Ended SEPTEMBER 30, 2008

Interest Income	\$	17,844,000
Interest Expense		<u>3,688,000</u>
Net Interest Income		14,156,000

Fees & Services Charges		2,247,000
Other Income		<u>400,000</u>
Total Other Income		2,647,000

Overhead Expense	\$	10,899,000
Provision for Loan Loss		154,000
Other Expense		<u>218,000</u>

Gain / (Loss) on Sale of Assets 97,000

**INCOME BEFORE TAXES** **5,629,000**

Income Taxes 1,940,000

**NET INCOME** 3,689,000

# Strategies To Help Keep You on Track



Linda Specht  
Investment Advisory  
Representative

On any given day, you'll see retail store ads with headlines such as: **"Sale! Discount on select items in every department."**

In any other context, discounts are welcomed. But, when it involves the stock market, people panic. Today, the ups and downs of the market might have you putting off investing. Is that really the best course of action for your financial future?

Investing is as personal as you are, including your tolerance for risk. Undoubtedly, volatile markets can cause you to second guess how you want to prepare for your financial future. Before you make a decision or adjustment in your portfolio, it may benefit you to review your risk tolerance and see how it aligns with your current investment philosophy.

If you would like to meet with me to discuss your portfolio, or if I can answer any questions you may have, contact me at (209) 444-3354 to arrange a meeting at a convenient time for you.

Call (209) 444-3354 today to schedule an appointment with Linda Specht, Investment Advisory Representative, Financial Network Investment Corporation. Conveniently located at 2001 W. March Lane, Stockton, CA 95207

Investments are not deposits; not FDIC insured; not insured by any federal government agency; and not guaranteed by the bank. May go down in value. Securities offered through Financial Investment Corporation, Member SIPC. Financial Network and Bank of Agriculture & Commerce are not affiliated.

## BLR Commercial Real Estate Utilizes Cash Management Features

Brandon L. Scott, owner of BLR Commercial Real Estate, is committed to maximizing commercial real estate investments. BLR explores various avenues to maximize return including everything from lease structures to precautionary maintenance. Two of Brandon's primary responsibilities remain development and marketing. His mantra, "If you don't grow, you shrink." And growth is definitely the goal.

BLR's roots go back 13 years. BLR manages commercial, retail, multi-family and industrial properties. They have been a customer of BAC for over two and a half years. BLR's move to BAC from a large commercial bank was spurred by their need for an ACH product that the large bank at first wouldn't offer to his company and then would only offer after charging substantial fees.

For Brandon, the best thing about Cash Management is the time it saves. With numerous bank accounts, more than 3,000 bills need to be paid by BLR each month. Processing this quantity

manually resulted in labor and postage costs that have been eliminated through the use of Cash Management. Now what used to take at least two days can be completed in less than two hours. According to Brandon, "It's as simple as choosing a bill to pay, clicking on it, typing in an amount and clicking pay. It's automatic." The most important benefit Brandon and BLR realize, "it frees more time for business endeavors." An additional benefit of Cash Management that makes life easier for Brandon is, "the money goes out of the account immediately. This allows us to give accurate and up to date status reports of their accounts to the property owners we work with."

BLR's initial transition to BAC went incredibly smooth. Their BAC relationship manager, Claudia Cozad, walked through every transaction for the first 60 days to ensure everything was working properly. According to Brandon, "BAC did all the legwork." Since then, the relationship has grown and BAC is BLR's trusted banking partner. Brandon appreciates that, "when

things have to happen, an account can be opened the same day and Claudia and Maria Ornelas, the Downtown Stockton Branch Manager, are always available to answer questions and return phone calls. This human contact is very impressive."



(back) BAC's Claudia Cozad, BLR's Brandon L. Scott, Carolyn Ward and Kim Kukarik; (front) BLR's Katie Stratton and Rebecca Lo

# Meet Our New and Recently Promoted Managers

## Robin Zeigler, Operations Manager for ECC Bank Oakley Office



ECC Bank recently hired Robin Zeigler as the Operations Manager for the Oakley Office. This position includes responsibility

for branch operations, customer service and sales, and customer relationship management. Robin comes to ECC Bank with thirty-four years of banking industry experience including teller training, auditing and operations management. Robin and her husband Greg are Antioch residents. Robin and Greg have three sons, one daughter-in-law, one grandson and one grandchild due soon. Robin has worked in conjunction with Antioch Unified School District and Junior Achievement administering presentations to various age groups. Robin's hobbies include spending time with her sons and, her three dogs.

## Discovery Bay Office Welcomes Jean French as Operations Manager

ECC Bank recently promoted Jean French to Operations Manager of its Discovery Bay Office. This position



includes responsibility for branch operations, customer service and sales, and customer relationship management. Jean has 13 years

of experience in the banking industry. Jean and her husband George live in Brentwood with their daughter.

## Maria Ornelas Promoted to Downtown Stockton Office Operations Manager

The Bank of Agriculture & Commerce (BAC) recently promoted Maria Ornelas to Operations Manager for its Downtown Stockton office. This position includes responsibility for branch operations, customer service and sales, and customer relationship management. Maria has eight years experience in the banking industry. Most recently, Maria served as Assistant Operations Manager of the branch.



Before coming to BAC, Maria worked at Guaranty Bank as a teller, Customer Service Manager and Assistant Branch Manager. Maria and her husband Ernie live in Lodi with their two children.

## Linda Denos New Brentwood Country Club Office Operations Manager



ECC Bank is proud to announce that Linda Denos is the Operations Manager for its new Country Club Office in Brentwood.

This position includes responsibility for branch operations, customer service and sales, and customer relationship management. Linda has 28 years experience in the banking industry, including five years at ECC Bank. Linda was recently named "Best Banker" by the Oakley Press for 2007-2008. Linda and her husband Guy live in Oakley with their four children.

## Diane White Promoted to March Lane Operations Manager



BAC recently promoted Diane White to Operations Manager for its March Lane Office in Stockton. This position

includes responsibility for branch operations, customer service and sales, and customer relationship management. Diane has twenty-three years experience in the banking industry. Most recently, Diane was Accounting Supervisor in the Bank's finance department. Diane and her husband Jay live in Stockton with their two sons.

## Lodi Office Welcomes Rae Jean Morris as New Operations Manager

The Bank of Agriculture & Commerce (BAC) is proud to announce that Rae Jean Morris is the Lodi Office's New Operations Manager. This position includes responsibility for branch operations, customer service and sales,



and customer relationship management. Rae Jean has thirty-four years experience in the banking industry. Most recently,

Rae Jean served as the Operations Manager for the Main Street Office in Stockton. She has extensive experience with customer service and branch operations management. Rae Jean and her husband of 30 years, Dave, live in Lodi and have one son.

*Simply @*  
**Electronic Banking Services**  
**CASH MANAGEMENT**

Sophisticated cash management and organizational banking services all wrapped up into one neat package is available for your business! With the Bank's *Simply @* Cash Management, you're just a keystroke away from online management of your company's cash resources. Instant transaction originations, automatic balance alerts and fraud control are just a few of the features that will give you an unprecedented level of control, freedom and flexibility. *Simply @* Cash Management combines the latest technology with exceptional service to create one of the most powerful

cash management tools on the Internet today. With our newest generation of service, you'll experience broad functionality, unmatched convenience, and sophisticated security features that ensure the confidentiality of your online transactions and keep you in control of your accounts. Our new cash management and banking services include:

- Balance Reporting
- Transfers
- Stop Payments
- Automated Clearing House (ACH)
- Controlled Disbursement, and
- Cash Concentration, to name just a few functions.

*Simply @* Cash Management is completely secure, using advanced 128-bit SSL to ensure online confidentiality.



**Meet Our Superstars**

Kerri Barcroft and Elaine Higgins were awarded Super Star Awards for exceptional service to the Bank and to our customers. Kerri and Elaine determined counterfeit checks had been presented at various branches.

Due to their dedication and willingness to investigate further, branches were notified, the suspect was thwarted, losses were prevented and the Stockton Police Department was provided evidence. Great job Kerri and Elaine!



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**We Are on the Move!**

The Information Systems Department moved to the Weber Avenue building! Preparations are underway to remodel the first floor making room for the move of the Downtown Stockton Branch to 517 E. Weber Ave. Shown are Stan Smith, Dianne Williams and Debi Melendres

