

PRIMED *to grow*



PRIME PACIFIC FINANCIAL SERVICES, INC.

3RD QUARTER, 2009

3rd Quarter Paves Way for Year-End



Dear Shareholders,

Welcome to Fall and our 3rd quarter issue of Primed to Grow. The cooler, colorful days, mingled with the sounds of football and soccer, are still generally sunny. And on that note, I am happy to report on the news at Prime Pacific.

First, I would like to say “thank you”, congratulations, and bid a fond farewell to our longtime employee and friend, Sally Dickerson, who retired in August to what she calls “the next chapter.” Sally had been with us since our very beginning and she served Prime Pacific Financial Services and Prime Pacific Bank, your holding company’s largest asset, in various positions over the years, where she played a significant role. She will be dearly missed. Many of you worked with Sally as our “shareholder guru.” Page 4 contains several photos of past events in which Sally was instrumental in their presentations.

In this issue, we also report on our third quarter results. As you can see by reviewing the financial statement on page 3, Prime Pacific Financial Services ended this quarter with assets of \$182.7 million. This is an increase of 5.4% over the same period ending Sept '08. Our loans have decreased from \$141.2 to \$128.2 million, a decrease of 9.1% as we selectively manage growth. Deposits were \$164.6 million compared to \$152.7 million, an increase of 7.8%. This increase went into interest earning investments. Your Shareholder Equity currently stands at \$11.7 million. Our Operating Income was (\$2.6 million), while Net Income (after tax benefit) was (\$1.7 million) compared to \$820 thousand reported in Sept '08.

Operations during the quarter ending September 30, 2009 were negatively impacted by a number of economically driven expenses as compared to the same quarterly period last year. General Insurance & Bond expense was up approximately \$42,000, and FDIC insurance premiums including the one time assessment on all banks increased our Bank’s expense by \$96,850 during the quarter. Additionally, our Bank added \$470,000 to the Loan Loss Reserve during the current quarter over and above the provision made during the same period last year. The total Loan Loss Provision made during the quarter ending September 30, 2009 was \$718,000.

I am happy to report that progress is being made in reducing the amount of our problem assets. For the current quarter our Non Performing Assets (NPA) (including our Other Real Estate Owned (OREO)) totaled \$15.2 million down from \$17.0 million in the second

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Farewell to Sally



Board of Directors

Diana L. Clay
Chairman

Norman P. Goodwin, DDS
Vice Chairman

John R. Pfeifer, OD
Secretary

David A. Bolin, Jr.

Glenn A. Deutsch

Timothy J. McMahan

Linda C. Schoener

Harry E. Truitt

Roger D. Werner, CPA



Shareholders - continued from page 1

quarter, a reduction of 8.9%. Additionally our total NPA plus OREO as a percentage to Capital and Reserves dropped from 86.0% to 76.3%. Although things are moving in the right direction we will continue to face challenges as our economy continues to stabilize.

Our officers are doing a good job working the NPA through the legal system, which as reported previously takes some time. As these (OREO) assets come into our control we market them and sell them for the best possible return to the Bank in the shortest time frame.

Unfortunately we are not always able to get "full price" on the sale (due to market conditions) and a short sale occurs. A short sale does impact our earnings and can impact our capital to cover potential losses resulting from these short sales.

While the Bank is well capitalized at this time for our present needs and by historical standards, many banks are currently evaluating their options as regards to raising additional capital and we too are beginning this evaluation. Reasons include further strengthening the bank during these more challenging economic times but also to allow the Bank to take advantage of some potential strategic opportunities that may arise. We will keep you apprised of any opportunities to further invest in Prime Pacific Financial Services as they develop.

As you are now aware, we have been, as many others in our market, placed under a formal enforcement action by the regulators. As I have stated in my previous correspondence we are working diligently to attend to the issues and feel that the majority of these have been addressed. That said, we continue to remain diligent with respect to the collection of our past due loans which is our greatest challenge. We have assigned two experienced officers to the task of moving the problem assets through the system to a satisfactory solution.

We meet our challenges due to our dedicated staff and board members. And in this issue we feature board member John "Joe" Pfeifer, OD. Our success would not be possible without the fine and dedicated people who make up our team.

Again, thank you for your continued support during these unprecedented times. And thank you for remembering your bank when talking with friends, neighbors, clients and vendors.

Sincerely,

Glenn Deutsch

Glenn Deutsch
President/CEO
Prime Pacific Financial Services
glenn@primepacificbank.com

People You Can Bank On



Joe Pfeifer
Eyes the Future

John "Joe" R. Pfeifer, O.D., an eye doctor who describes himself as a "people person" might not have become one of our founding directors had it not been for his wife Cindy Merrill and Roger Werner (another founding board member), his CPA. Joe's wife Cindy brought him to the Seattle area and Roger later invited Joe to join our board.

Both Joe and Cindy are eye doctors. Joe and his partner operate Alderwood Vision Source, an independent optometry clinic they have owned and operated in the same location since 1980.

Joe met Cindy while they both attended the University of Houston Optometry School. When Cindy received a grant to pursue a Masters degree at the University of Washington, Joe followed her on the "love train" to Seattle, he said.

Years later, a phone call from Roger brought him to our board.

"Roger called me one August afternoon and asked me if I would be interested in helping to start a new bank," said Joe. "I said 'Roger, what are you talking about? I don't know the first thing about banks.'" Despite that potential roadblock, Joe agreed to join the board and soon found himself helping the fledgling bank gather other directors along with the capital to get the bank off the ground.

Today, despite the turbulent times, Joe enjoys being a director because it has given him a different perspective of the business world. Through his involve-

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financial statement

Financial Statement: Prime Pacific Financial Services, Inc.

Consolidated Report of Condition

For The Nine Month Period Ending: September 30, 2009 and 2008

(000 omitted)

un audited

Assets	9/30/09	9/30/08
Cash & NIB Due from Banks	\$ 1,885	\$ 1,560
Interest Bearing Deposits At Other Financial Institutions	10,822	5,500
Loans	128,166	141,222
Allowance for credit losses	3,158	2,312
Net Loans	125,008	138,910
Investments	25,490	12,397
Federal Funds Sold	1,000	8,468
Premises & Equipment	9,410	4,297
OREO	4,496	0
Bank Owned Life Insurance	1,206	1,165
Federal Income Tax Benefit	1,038	0
Other Assets	2,329	1,042
Total Assets	182,684	173,339
Liabilities		
Demand Deposits	7,483	8,409
Time and Savings Deposits	157,160	144,286
Total Deposits	164,643	152,695
Other Borrowings- Debentures Payable	5,155	6,655
Other Liabilities	1,157	689
Total Other Liabilities	6,312	7,344
Total Liabilities	170,955	160,039
Capital		
Common Stock (no par stock) authorized 5,000,000 shares; outstanding shares 2009 - 1,233,697 -- 2008 - 1,271,400	9,426	9,595
Undivided Profits	3,802	2,896
Unrealized Gain/(Loss) Securities and Derivative Fair Value	196	(11)
Net Profit or (Loss)	(1,695)	820
Total Shareholder's Equity	11,729	13,300
Total Liabilities & Shareholder's Equity	\$182,684	\$173,339

Consolidated Report of Income

For The Nine Month Period Ending: September 30, 2009 and 2008

(000 omitted)

un audited

Interest Income	9/30/09	9/30/08
Loans	\$ 6,600	\$ 8,931
Securities	602	309
Fed Funds & Dep In Banks	112	310
Total Interest Income	7,314	9,550
Interest Expense		
Deposits	3,817	4,318
Short-Term Borrowings	0	0
Long-Term Borrowings	162	216
Total Interest Expense	3,979	4,534
Gross Interest Income	3,335	5,016
Provision For Credit Losses	2,486	684
Net Interest Income	849	4,332
Total Non-Interest Income	227	181
Total Non-Interest Expense	3,712	3,305
Operating Income	(2,636)	1,208
Tax Expense	(941)	388
Net Income (Loss)	\$(1,695)	\$ 820

Prime Pacific Bank Services

Cash Management System for Internet bill paying

Variety of Business and Personal Checking Accounts

Overdraft protection

VISA check cards

Check Imaging

Competitive rates on Savings & Money Market Accounts

Certificates of Deposit

Business & Personal Loans

Lines of Credit

Merchant Credit Card processing with direct deposit for businesses

Safe Deposit boxes

Courier Service for business customers

SBA Lending

Forward-looking statements

This newsletter may contain forward-looking statements within the meaning of the securities laws. If and when used in the text herein, the words "anticipate," "believe," "estimate," "expect," "intend" and words of similar import identify certain of such forward-looking statements. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by any forward-looking statements made.

Check online for back issues on important topics such as:

New check imaging for easier record keeping

– November, 2002

Three Legged Stool, describes the relationship between a bank's assets, liabilities and capital.

– September, 2001



Thank you Sally Dickerson



Joe Pfeifer - continued from page 2

ment with Prime Pacific Bank, he's been able to learn about a business other than his own, he said.

"I think community banks are great," Joe said. "They reach out to the small business community and offer more personalized care." Joe believes there are similarities between his business and a community bank. Both rely on follow through and both need to be on their "A game" every day, to better serve customers, he said. For him, that meant upgrading his facility, despite the economy, to add new patient exam rooms and equipment.

Joe's business offers the "full meal deal" he said, including eye exams, contact lenses and an optical shop. He and his staff of nine also treat a myriad of eye diseases. "I don't know whether it was sheer genius or stupidity," he said of the timing for the remodel. "You have to put a good product on the table."

Joe is optimistic about the economy and the banking industry. "We have to have faith in our system, in the financial institutions," he said. "I think Prime Pacific Bank is uniquely postured to emerge safely, especially with our four locations, that's pretty exciting."

Joe and Cindy currently live in Burien, a point midway between their jobs. "I come north and Cindy goes south," said Joe.

The couple has three teenagers: Thomas, Nick, and Anne.

Joe and his family enjoy skiing, taking vacations (usually wrapped around some sort of continuing education for he and his wife) making annual trips to the Oregon Shakespeare Festival in Ashland, Oregon and to a family reunion in Kansas.

Joe also jogs and his last "jogging streak" lasted 428 consecutive days. He and his wife also belong to VOSH, Volunteer Optometric Services to Humanity, which has taken them to El Salvador, Chili and Honduras.



stay informed

Send us Your E-Mail Address To keep you abreast of the latest information and developments at Prime Pacific in the timeliest manner, we'd like to send you banking news updates via e-mail. For news delivered "hot off the press" to your desktop, please e-mail your name and e-mail address to info@primepacificbank.com. Or, fill in the form below and bring it to any Prime Pacific Bank branch. *This information will be kept strictly confidential.*

Shareholder Name: _____

E-Mail Address: _____

Shareholder Name: _____

E-Mail Address: _____