

Prime Pacific Financial Services

Q4 2009 News

Dear Shareholders, Customers, and Friends

In this last issue for 2009, as you can see, we have changed the format to provide a more efficient way to deliver the latest news to you.

As shown by reviewing the financial statement on the back page, Prime Pacific Financial Services ended this quarter with assets of \$169.2 million. This is a decrease of 9.0% over the same period ending December '08. Our loans have decreased from \$141.8 to \$124.6 million, a decrease of 12.1% as we continue to selectively manage our balance sheet. Deposits were \$152.6 million compared to \$164.6 million, a decrease of 7.3%. Your Shareholder Equity currently stands at \$10.1 million. Our Operating Income was a negative \$4.8 million, while Net Income (after tax benefit) was a negative \$3.2 million.

As I reported last quarter, and continuing this quarter, operations continue to be negatively impacted by a number of economically driven expenses as compared to the same quarterly period last year, the write down of several loans and another sizable increase to our loan loss reserve for Prime Pacific Bank, your holding company's largest asset. The aggressive loan loss provision and the write downs made during the quarter were a result of our best efforts to re-evaluate our collateral values prior to year end and present a conservative balance sheet.

The aggressive management of our balance sheet resulted in our non accrual loans growing from \$10.7 million to \$15.0 million; however \$1.8 million or 12.4% are current. Again I want to remind you that, while some borrowers are struggling, just because a loan is on non accrual does not mean we will take a loss. Our Other Real Estate Owned (OREO) has increased slightly from \$4.5 million to \$4.9 million, over the previous quarter, and was only nine relationships. We continue to aggressively market the properties to produce the best return for the bank. Of the \$4.9 million of OREO \$2.0 million is completed residential real estate and \$2.9 million is non improved land. As stated above our OREO has also been written down to current realistic values and we are attempting to sell these with no additional loss. Although driven mostly by our economy, we are optimistic in our continuing efforts to reduce these problem loans and replace them with good earning assets.

That said we still anticipate 2010 to continue to be a challenge and have prepared our budget to reflect some continued strain on our economy. We will continue to run our organization with an eye on efficiency and expense control while continuing to look for opportunities to improve your franchise. Finding good loans will continue to be a challenge but we feel that there are good prospects out there.

We continue to work through the items contained in our Enforcement Action and feel that we are making progress addressing the issues. As you can imagine the largest issue for us is reducing the level of problem assets and that is priority one.

Previously we reported that we feel our capital position is adequate, and we still do. We do believe however that elevating our capital is a prudent action. That said your Board of Directors and Management will be working hard over the next few months to prepare for a capital campaign. The economy will turn around and our goal will be to continue to prepare Prime Pacific Bank to be the bank of choice in our market.

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

Sincerely,

Glenn Deutsch

President and CEO

Prime Pacific Financial Services, Inc.

Prime Pacific Financial Services, Inc.

Consolidated Report of Condition

For The Year Ending: December 31, 2009 and 2008

(000 omitted)

un audited

	2009	2008
Assets		
Cash & Due from Banks	\$ 10,575	\$ 2,039
Interest Bearing Deposits At Other Financial Institutions	5	5,482
Loans	124,586	141,750
Allowance for credit losses	3,554	2,322
Net Loans	121,032	139,428
Investments	17,901	13,685
Federal Funds Sold	1,000	12,215
Premises & Equipment	9,874	9,466
OREO	4,921	914
Bank Owned Life Insurance	1,217	1,175
Other Assets	2,659	1,413
Total Assets	169,184	185,817
Liabilities		
Demand Deposits	6,612	8,050
Time and Savings Deposits	146,036	156,579
Total Deposits	152,648	164,629
Other Borrowings & Debentures Payable	5,155	6,655
Other Liabilities	1,284	1,210
Total Other Liabilities	6,439	7,865
Total Liabilities	159,087	172,494
Capital		
Common Stock (no par stock) authorized 5,000,000 shares; outstanding shares 2009 - 1,233,697 --2008 1,267,900 shares	9,439	9,581
Undivided Profits	3,801	2,896
Unrealized Gain/(Loss) Securities and Derivative Fair Value	11	(60)
Net Profit or (Loss)	-3,154	906
Total Shareholder's Equity	10,097	13,323
Total Liabilities & Shareholder's Equity	\$ 169,184	\$ 185,817

Prime Pacific Financial Services, Inc.

Consolidated Report of Income

For The Year Ending: December 31, 2009 and 2008

(000 omitted)

un audited

	2009	2008
Interest Income		
Loans	\$ 8,625	\$ 11,662
Securities	757	457
Fed Funds & Dep in Banks	126	394
Total Interest Income	9,508	12,513
Interest Expense		
Deposits	4,830	5,607
Short-Term Borrowing	0	0
Long-Term Borrowing	205	295
Total Interest Expense	5,035	5,902
Gross Interest Income	4,473	6,611
Provision For Credit Losses	3,886	1,086
Net Interest Income	587	5,525
Total Non-Interest Income	545	233
Total Non-Interest Expense	5,980	4,432
Operating Income	-4,848	1,326
Tax Expense	-1,694	420
Net Income (Loss)	\$ (3,154)	\$ 906
Earning Per Share- Basic	\$ (2.56)	\$ 0.71