

# PRIMED *to grow*



PRIME PACIFIC FINANCIAL SERVICES, INC.

4TH QUARTER, 2008

## Sharing in our success

# Bank looks toward a Sunny New Year.



Dear Shareholders,

Welcome to an historic New Year, one that promises new beginnings and continued growth as 2008 is officially in the books.

I hope that you were able to enjoy the holiday season with friends and loved ones. I am happy to report that despite unprecedented wintery weather in the Northwest during December, we made it through in good condition. This was due in no small part to the dedication and hard work of our staff.

On that note, I'd like to highlight some of the results for the 4th Quarter 2008. As you can see by reviewing the financial statement on page 3, Prime Pacific Financial Services grew slightly; we ended the 4th quarter with assets of \$185.8 million. This is an increase of 14.4% over the same period ending December '07. Our loans increased from \$135.1 to \$141.8 million, an increase of 4.9%. Deposits were \$164.6 million compared to \$143.8 million, an increase of 14.5%. Your Shareholder Equity grew from \$12.5 million to \$13.3 million an increase of 6.9%. Our Operating Income was \$1.3 million down from \$2.3 million, a decrease of 41.4% while Net Income (after tax) was \$906 thousand compared to \$1.5 million reported in December '07, a decrease of 40.9%. Earnings Per Share are reported at \$.71 down from \$1.21, a decrease of 41.3%.

Although our growth this quarter was modest, the continued economic challenges continue to play a big part in our profitability. Some of our customers continue to feel the stress of our economy as they try and "weather the storm". That said, we remain diligent with continued provisions to our allowance for possible loan losses and note the continued uncertainties. Capital preservation and liquidity are of the highest concerns for your management team, and we are committed to maintaining these levels to provide for a safe and sound bank.

As you know by many media reports that a bank is Well Capitalized if its total risk based capital is 10%; we at Prime Pacific Bank currently support a risk based capital level of 13.24%. Although a high capital level can impact earnings, as we don't leverage to our full ability, management feels that by maintaining a higher level during these uncertain economic times better protects the safety and soundness of your investment.

Even though we are in some uncharted water, we at Prime Pacific Financial Services remain very optimistic about not only our company but for the economy in general. Yes these are very trying times but as economist Bill Conerly told us as he addressed us at our shareholder meeting last year "the American economy is resilient" and we agree...let's all pull together and we will get through these challenging times. The signs on our doors say OPEN.

Our success could not be accomplished without our team of professionals, and in this issue we feature Mark Milan, Vice President and loan officer. Please see page 4.

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## *Mark your Calendar*



## *Board of Directors*

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*continued on page 4*



FDIC Consumer News (reprinted from [www.fdic.gov](http://www.fdic.gov))

Fall 2008 – Special Edition: Your New, Higher FDIC Insurance Coverage

# Basic FDIC Insurance Coverage Temporarily Increased to At Least \$250,000 Per Depositor

Other changes expand the protection of certain trust and checking accounts

With banks and the economy in the news so much lately, many people are thinking more about the safety of their money. The FDIC has some good news – your FDIC deposit insurance coverage has significantly increased.

“Clearly, the good news for consumers, small businesses and other depositors is the increased likelihood that they can have more of their deposits – or possibly all of their deposits – fully insured at their bank,” said Kathleen Nagle, FDIC Associate Director for Consumer Protection.

Here is an overview of what you need to know about your new FDIC insurance coverage.

The basic limit on federal deposit insurance coverage has been temporarily increased from at least \$100,000 to at least \$250,000 per depositor. That’s the result of a new law passed by Congress in October 2008. It means that if you (or your family) have \$250,000 or less in all of your deposit accounts at the same insured bank, you don’t need to worry about your insurance coverage – your deposits are fully insured.

As always, you may qualify for more than the basic insurance coverage at one insured bank. That’s because the FDIC provides separate insurance coverage for deposits held in different “ownership categories.” For example, under current rules, your deposits in:

- Single accounts (in one name only) are insured up to \$250,000;
- Joint accounts (for two or more people) are protected up to \$250,000 per owner;

- Certain retirement accounts including IRAs, are covered up to \$250,000; and
- Revocable trust accounts (deposits intended to pass along to named beneficiaries when the account owner dies) can be protected up to \$250,000 for each named beneficiary subject to specific limitations and requirements.

The FDIC has eased the rule governing the insurance coverage of revocable trust accounts.

Through year-end 2009, certain checking accounts at participating institutions will be fully insured by the FDIC, no matter how much money is in them. This special coverage applies only to no-interest checking accounts and certain other low-interest transaction accounts.

While the rule is primarily for businesses with large balances in their checking accounts, consumers also can benefit.

For example, let’s say you and your spouse sell your home in early 2009 and you’ll be using the proceeds – \$800,000 – to buy another house a week later. If you deposit \$800,000 jointly into an eligible checking account at a participating bank – and the bank fails – all the money would be fully protected by FDIC insurance.

Otherwise, if the money is not in an eligible checking account at a participating institution, it would only be covered to \$500,000 (assuming you have no other joint accounts at the same bank), leaving \$300,000 at risk of loss if the bank fails and the funds are still in the account.

For more information about the rule changes, visit [www.fdic.gov/deposit/deposits/changes.html](http://www.fdic.gov/deposit/deposits/changes.html). And if you have questions or concerns about your deposit insurance coverage in general, you can always go to our Web site or call the FDIC; learn how to contact us on For More Help from the FDIC About Deposit Insurance and Other Topics.



The basic FDIC insurance limit is scheduled to return to \$100,000 on January 1, 2010. Let’s suppose you purchase two CDs (certificates of deposit) that will mature in 2010 or later, and they total \$105,000. Under current law, those CDs would be fully insured through year-end 2009. But starting on January 1, 2010 – when insurance coverage is scheduled to return to \$100,000 – \$5,000 plus accrued interest would be uninsured.

However, not all deposit accounts would revert back to \$100,000 of insurance coverage in 2010. Certain retirement accounts will continue to be protected up to \$250,000 because that is the permanent level previously set by Congress.



Sharing in our success

# financial statement

## Financial Statement: Prime Pacific Financial Services, Inc.

### Consolidated Report of Condition

For The Year Ending: December 31, 2008 and 2007  
(000 omitted)

un audited

Assets	12/31/08	12/31/07
Cash & NIB Due from Banks	\$ 2,039	\$ 1,825
Interest Bearing Deposits At Other Financial Institutions	5,482	5,155
<b>Loans</b>	<b>141,750</b>	<b>135,146</b>
Allowance for credit losses	2,322	1,930
<b>Net Loans</b>	<b>139,428</b>	<b>133,216</b>
Investments	13,685	6,050
Federal Funds Sold	12,215	9,455
Premises & Equipment	9,466	4,189
Bank Owned Life Insurance	1,175	1,130
Other Assets	2,327	1,399
<b>Total Assets</b>	<b>185,817</b>	<b>162,419</b>
<b>Liabilities</b>		
Demand Deposits	8,050	8,470
Time and Savings Deposits	156,579	135,344
<b>Total Deposits</b>	<b>164,629</b>	<b>143,814</b>
Other Borrowings & Debentures Payable	6,655	5,155
Other Liabilities	1,210	987
Total Other Liabilities	7,865	6,142
<b>Total Liabilities</b>	<b>172,494</b>	<b>149,956</b>
<b>Capital</b>		
Common Stock (no par stock) authorized 5,000,000 shares; outstanding shares 2008 - 1,267,900 --2007 1,266,361 shares	9,581	9,545
Undivided Profits	2,896	1,364
Unrealized Gain/(Loss) Securities and Derivative Fair Value	(60)	22
Net Profit or (Loss)	906	1,532
<b>Total Shareholder's Equity</b>	<b>13,323</b>	<b>12,463</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>\$ 185,817</b>	<b>\$162,419</b>

### Consolidated Report of Income

For The Year Ending: December 31, 2008 and 2007  
(000 omitted)

un audited

Interest Income	12/31/08	12/31/07
Loans	\$ 11,662	\$ 11,828
Securities	457	280
Fed Funds & Dep in Banks	394	589
<b>Total Interest Income</b>	<b>12,513</b>	<b>12,697</b>
<b>Interest Expense</b>		
Deposits	5,607	5,807
Short-Term Borrowing	0	2
Long-Term Borrowing	295	187
<b>Total Interest Expense</b>	<b>5,902</b>	<b>5,996</b>
Gross Interest Income	6,611	6,701
<b>Provision For Credit Losses</b>	<b>1,086</b>	<b>705</b>
<b>Net Interest Income</b>	<b>5,525</b>	<b>5,996</b>
<b>Total Non-Interest Income</b>	<b>233</b>	<b>235</b>
<b>Total Non-Interest Expense</b>	<b>4,432</b>	<b>3,970</b>
<b>Operating Income</b>	<b>1,326</b>	<b>2,261</b>
<b>Tax Expense</b>	<b>420</b>	<b>729</b>
<b>Net Income (Loss)</b>	<b>\$ 906</b>	<b>\$ 1,532</b>
Earning Per Share- Basic	\$ 0.71	\$ 1.21

## 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



# People You Can Bank On



**Mark Milan:**  
New loan officer  
a flying-fishing  
fanatic

**M**ark Milan began working at our Mill Creek branch last August. As a Vice president-loan officer, with more than 26 years of experience in all areas of real estate, commercial and consumer lending, Mark is able to understand most situations a customer may face in the area of borrowing.

"I enjoy spending the necessary time to listen to our customers and to discern the best ways to handle their situation," Mark says.

Mark decided to work for Prime Pacific Bank because he wanted to work for a local community bank where decisions are made quickly and locally and where getting to know customers is important, he says.

"Community banks are genuinely concerned with customers in their community not just bank profits. Decisions are kept local and are handled quickly," he says.

Prime Pacific Bank excels in these areas Mark says.

"Prime Pacific Bank knows who we are and who we are not. Our loan decisions reflect that vision. We work alongside our customers in a mutual effort. And the professionals at Prime Pacific Bank are fun to work with too."

Mark received an associate of arts degree from Alan Hancock College in Santa Maria, Calif. in 1975 and a Bachelor of Arts degree in business administration from the University of California, Santa Barbara in 1978. He serves on the board of Smokey Point Community Church and has been a board chair for the Everett Family YMCA and a board member of the Lake Stevens Chamber of Commerce.

Mark says he is a fun loving family man who is "pretty good with a fly rod or a golf club." When he is not working or serving his community, Mark enjoys fly-fishing (he says he is a fanatic), golfing, camping and spending time with his family.

Disneyland is his favorite place for vacation because it's the happiest place on earth, he says. He and his family also enjoy beach combing, kite flying, fishing and relaxing with friends and family at their second home near Westport.

What might surprise people is that Mark is also a national champion. He won the Punt Pass and Kick championship in 1962. He also has had lunch with a U.S. President and he and his two brothers all played a sport professionally.

Mark and his wife, Sharon, reside in Marysville. They recently celebrated their "silver" wedding anniversary. The couple has two sons Jason, 11, and Travis, 21, and a daughter, Kristen, 26. Mark was born in Glendale, Calif, and raised in Solvang, Calif. He moved to Marysville in 1979 after finishing college.

Checking account fraud is one of the fastest growing crimes in the nation, according to law enforcement officials. Your bank has initiated training programs and other safeguards to help prevent and detect check fraud. For more information, stop in at any of our branches or go to [www.ckfraud.org](http://www.ckfraud.org) or [www.occ.treas.gov](http://www.occ.treas.gov).

*Reprinted from America's Community Bankers  
"Checking Account Fraud"*

*Shareholders - continued from page 1*

As you know, our Annual Shareholders Meeting is right around the corner. Please mark your calendar for May 12th. As we look toward another year we thank you for remembering your bank when talking with friends, neighbors, clients and vendors. Your continued support is appreciated as we continue to grow, and we thank you for SHARING IN OUR SUCCESS.

Sincerely,

*Glenn Deutsch*

Glenn Deutsch  
President/CEO  
Prime Pacific Financial Services  
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*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](mailto: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:** \_\_\_\_\_