

Prime Pacific Financial Services

Q3 2010 News

Dear Shareholders, Customers, and Friends:

As many of you know our local economy continues to struggle, and our state is now identified as one of the most troubled in the country. Although headlines remain bleak, we are starting to see some positive changes here at Prime Pacific Bank, your holding company's largest asset.

Although loan demand remains slow, we have now seen a slight increase in activity pertaining to our non performing assets. As we continue to work through the economic issues we can see improvement in our condition and get the general sense that things are now starting to move in a more positive direction. That said, we understand that we still have much more to do and it remains a matter of time before things completely turn around. As reported previously, we are still looking for valuations to flatten or stabilize in order for us to be completely satisfied that we have reached a new solid foundation to build on.

As shown by reviewing the financial statement on the back page, Prime Pacific Financial Services ended this quarter with assets of \$157.9 million. This is a decrease of 13.6% over the same period ending September '09. Our loans have decreased from \$128.2 to \$114.0 million, a decrease of 11.0%. Deposits were \$142.0 million compared to \$164.6 million, a decrease of 13.8%. Your Shareholder Equity currently stands at \$7.6 million. Our Operating Income was a negative \$3.59 million compared to a negative \$2.64 million a year ago. Net Income (after tax benefit) was a negative \$3.36 million compared to a negative \$1.70 million for the same period ending September '09.

With the management of our balance sheet we have been able to increase our net interest yield from 2.75% (YTD September '09) to 3.95% (YTD '10) a margin increase of 43.6%.

Our local real estate values continue to decline, albeit it at a much reduced rate, and due to the continued devaluation we took another hard look at our portfolio to determine the accuracy of our valuations. This is something we do on at least a quarterly basis. Although we review much of our portfolio, we pay special attention to our OREO (Other Assets Owned) and NPA's (Non Performing Assets). This review allows us to value or revalue our assets and adjust our balance sheet to more accurately reflect the asset(s) values. Although this procedure can be and was costly to our bottom line, the assets on our books continue to be reflected in the most accurate value available to us at the time the valuations are completed.

As previously reported, as our economy begins to improve values should begin to stabilize. With stabilization the liquidation of our OREO and NPA's become a little easier and we begin to realize returns either at or better than our book value which is of course our goal. Should you be, or know someone who is, interested in purchasing our bank owned property we now have those properties listed on our web site PrimePacificBank.com and under the Bank Owned Properties tab on the left.

Additionally we continue to work through the terms and conditions of our Consent Order and feel that we are making progress. Although progress is made we know that until our local economy turns and our earnings return to a more positive direction we will continue to operate under the Order.

You have a great franchise with good locations in a historically strong marketplace. We have experienced and knowledgeable bankers that have been through past economic downturns and we are dedicated to continue to work in a proactive manner to enhance your value in a safe and sound manner.

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.

glennd@PrimePacificBank.com

Prime Pacific Financial Services, Inc.

Consolidated Report of Condition

For The Nine Month Period Ending: September 30, 2010 and 2009

(000 omitted)

un audited

	2010	2009
Assets		
Cash & NIB Due from Banks	\$ 777	\$ 1,885
Interest Bearing Deposits At Other Financial Institutions	22,080	10,822
Loans	114,023	128,166
Allowance for credit losses	2,829	3,158
Net Loans	111,194	125,008
Investments	4,783	25,490
Federal Funds Sold	0	1,000
Premises & Equipment	9,630	9,410
OREO	5,481	4,496
Bank Owned Life Insurance	1,247	1,206
Federal Income Tax Benefit	2,068	1,038
Other Assets	630	2,329
Total Assets	157,890	182,684
Liabilities		
Demand Deposits	6,366	7,483
Time and Savings Deposits	135,605	157,160
Total Deposits	141,971	164,643
Other Borrowings- Debentures Payable	7,617	5,155
Other Liabilities	702	1,157
Total Other Liabilities	8,319	6,312
Total Liabilities	150,290	170,955
Capital		
Common Stock (no par stock) authorized 5,000,000 shares; outstanding shares 2010 - 1,233,697 -- 2009 - 1,233,697	9,463	9,426
Undivided Profits	645	3,802
Unrealized Gain/(Loss) Securities and Derivative Fair Value	(151)	196
Net Profit or (Loss)	(2,357)	(1,695)
Total Shareholder's Equity	7,600	11,729
Total Liabilities & Shareholder's Equity	\$ 157,890	\$ 182,684

Prime Pacific Financial Services, Inc.

Consolidated Report of Income

For The Nine Month Period Ending: September 30, 2010 and 2009

(000 omitted)

un audited

	2010	2009
Interest Income		
Loans	\$ 5,655	\$ 6,600
Securities	303	602
Fed Funds & Dep In Banks	34	112
Total Interest Income	5,992	7,314
Interest Expense		
Deposits	2,049	3,817
Short-Term Borrowings	0	0
Long-Term Borrowings	127	162
Total Interest Expense	2,176	3,979
Gross Interest Income	3,816	3,335
Provision For Credit Losses	2,785	2,486
Net Interest Income	1,031	849
Total Non-Interest Income	429	227
Total Non-Interest Expense	5,053	3,712
Operating Income	(3,593)	(2,636)
Tax Expense (Benefit)	-1,236	-941
Net Income (Loss)	\$ (2,357)	\$ (1,695)
Earning Per Share	\$ (1.91)	\$ (1.37)