

# Prime Pacific Financial Services

Q1 2010 News

Dear Shareholders, Customers, and Friends

In this first issue of the New Year we continue with this format which began last quarter in an effort 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 \$163.2 million. This is a decrease of 11.6% over the same period ending March '09. Our loans have decreased from \$141.5 to \$123.6 million, a decrease of 12.6% as we continue to selectively manage our balance sheet. Deposits were \$146.8 million compared to \$165.4 million, a decrease of 11.2%. Your Shareholder Equity currently stands at \$10.2 million. Our Operating Income was a negative \$661 thousand (after an additional contribution to our allowance for loan loss reserves of \$525 thousand and a write off of \$87.4 thousand for the loss on the sale of Other Real Estate Owned (OREO)). Net Income (after tax benefit) was a negative \$428 thousand compared to a negative \$1.1 million for the same period ending March '09, which represents a 62.6% improvement over the previous period; we are moving in the right direction.

Although our income was negative for this past quarter we continue to see some improvement within our market area as well as our loan portfolio, as our region returns to somewhat of a stabilized economic environment. We have begun to start to see the levels of our new delinquency (new problems) starting to slow at Prime Pacific Bank, your holding company's largest asset, and although still extremely high, we are optimistic for continued improvement.

From last quarter end to this quarter end, our non accrual loans were reduced from \$15.0 million to \$14.5 million and our OREO increased slightly from \$4.9 million to \$5.1 million. I want to remind you that while they are clearly troubled, just because a loan is in non accrual or we are carrying it in OREO does not necessarily mean we will take additional loss on it, or that no payments will be made on the non accrual loans as 35% have made payments in this quarter. As we begin to take legal control of our problem assets we are doing what we can to liquidate the asset, as expeditiously as possible, with little or no additional cost to the bank. In addition our loans that were 30 days past due (net of our non performing assets) totaled \$1.0 million down from \$9.6 million in ending March '10 compared to '09 which may signal some stabilization of our portfolio.

As I reported in the last Newsletter we anticipated 2010 (at least the first half) to continue to present a challenge as our economy struggles to get back on its feet. We continue to watch our costs while looking for opportunities. We have started to see some minor demand for loans and hope this is a positive step in our local healing.

We continue to work through the items contained in our Enforcement Action and feel that most of the items are being adequately addressed with the largest issue, reducing the level of problem assets, remaining priority one.

Our annual Shareholder Meeting will be held at our Administrative offices, 2502 196<sup>th</sup> St. SW in Lynnwood WA, on May 18<sup>th</sup> at 5:00 pm and we look forward to seeing you then.

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.

glennnd@PrimePacificBank.com

## Prime Pacific Financial Services, Inc.

### Consolidated Report of Condition

For The Quarter Ending: March 31, 2010 and 2009

un audited

(000 omitted)

<b>Assets</b>	<b>2010</b>	<b>2009</b>
Cash & Due from Banks	\$ 659	\$ 2,437
Interest Bearing Deposits At Other Financial Institutions	9,582	4,234
<b>Loans</b>	<b>123,640</b>	<b>141,509</b>
Allowance for Credit losses	3,663	3,248
<b>Net Loans</b>	<b>119,977</b>	<b>138,261</b>
Investments	13,693	21,178
Federal Funds Sold	-	5,702
Premises & Equipment	10,639	9,419
OREO	5,133	
Bank Owned Life Insurance	1,227	1,185
Other Assets	2,308	2,119
<b>Total Assets</b>	<b>\$ 163,218</b>	<b>\$ 184,535</b>
<b>Liabilities</b>		
Demand Deposits	\$ 7,321	\$ 7,173
Time and Savings Deposits	139,525	158,216
<b>Total Deposits</b>	<b>146,846</b>	<b>165,389</b>
Other Borrowings- Debentures Payable	5,155	6,655
Other Liabilities	1,033	414
Total Other Liabilities	6,188	7,069
<b>Total Liabilities</b>	<b>153,034</b>	<b>172,458</b>
<b>Capital</b>		
Common Stock (no par stock) authorized 5,000,000 shares; outstanding shares 2010 -1,233,697- 2009- 1,233,697 shares	9,447	9,413
Undivided Profits	1,208	3,802
Unrealized Gain/(Loss) Securities/Derivative Fair Value	(43)	5
Net Profit or (Loss)	(428)	(1,143)
<b>Total Shareholder's Equity</b>	<b>10,184</b>	<b>12,077</b>
<b>Total Liabilities &amp; Shareholder's Equity</b>	<b>\$ 163,218</b>	<b>\$ 184,535</b>

## Prime Pacific Financial Services, Inc.

### Consolidated Report of Income

For The Quarter Ending: March 31, 2010 and 2009

un audited

(000 omitted)

<b>Interest Income</b>	<b>2010</b>	<b>2009</b>
Loans	\$ 1,867	\$ 2,241
Securities	114	175
Fed Funds & Dep in Banks	10	51
<b>Total Interest Income</b>	<b>1,991</b>	<b>2,467</b>
<b>Interest Expense</b>		
Deposits	777	1,416
Short-Term Borrowing	-	8
Long-Term Borrowing-Debenture Int	40	50
<b>Total Interest Expense</b>	<b>817</b>	<b>1,474</b>
Gross Interest Income	1,174	993
Provision For Credit Losses	525	1,648
<b>Net Interest Income</b>	<b>649</b>	<b>(655)</b>
<b>Total Non-Interest Income</b>	<b>122</b>	<b>68</b>
<b>Total Non-Interest Expense</b>	<b>1,432</b>	<b>1,163</b>
<b>Operating Income</b>	<b>(661)</b>	<b>(1,750)</b>
Tax Expense (Benefit)	(233)	(607)
<b>Net Income (Loss)</b>	<b>\$ (428)</b>	<b>\$ (1,143)</b>
Earnings Per Share	(0.35)	(0.93)