

Prime Pacific Financial Services

Q2 2010 News

Dear Shareholders, Customers, and Friends:

First and foremost, I want to thank you for your continued support, your business and generous referrals as we all continue to work and persevere through these difficult economic times.

We are navigating a strategic yet conservative course, selectively managing our balance sheet, noting the decreased loan demand in our marketplace as well as the conservative nature with which we view loan requests.

As shown by reviewing the financial statement on the back page, Prime Pacific Financial Services ended this quarter with assets of \$160.5 million. This is a decrease of 11.5% over the same period ending June '09. Our loans have decreased from \$134.4 to \$120.8 million, a decrease of 10.1%. Deposits were \$144.6 million compared to \$163.3 million, a decrease of 11.5%. Your Shareholder Equity currently stands at \$9.8 million. Our Operating Income was a negative \$1.46 million compared to a negative \$1.97 million a year ago. Net Income (after tax benefit) was a negative \$951 thousand compared to a negative \$1.27 million for the same period ending June '09, which represents a 25.1% improvement over the previous period.

We continue to slowly move in the right direction.

Although our income was negative for this past quarter, I want to point out two extraordinary items, due to our current regulatory environment, that had a major effect on our bottom line. We are (for the time being) paying higher than normal regulatory fees as well as general insurance costs. Our regulatory fees (including Deposit Insurance) for the six months ended June '10 were \$300 thousand compared to \$128 thousand for the first six months of '09. Our general insurance expense grew from \$35 thousand in June of '09 to \$130 thousand for the six months ending June '10. We intend a reduction in these fees, going forward, and improving income as regulatory conditions ease.

Our quarter over quarter, non performing loans to total loans was reduced to \$14.7 million for a decrease of 30.9%. Our total non performing assets currently stand at \$19.6 million and represent a reduction of 25.9% over the previous quarter. Additionally, our OREO (Other Real Estate Owned) decreased from \$5.1 million to \$4.7 million. These amounts and percentages, although still quite high, reflect continued progress. We continue to evaluate our collateral and to adjust either our reserve requirements and/or in some cases "write down" some of the balance of the loan or OREO to the current market value. That said, we are beginning to see a marked slow down in the decrease in values of real estate in our market. Although this suggests that our market is beginning to stabilize we feel that we are not quite there yet as loan portfolio performance generally lags the economic cycle.

Loan demand remains soft, however, we are beginning to see some signs of life in our loan demand as some of our customers climb to more stable financial ground. We anticipate that modest demand will continue through this year and maybe into the first part of 2011.

As many of you are aware, there has been a huge financial reform bill signed which will have several positive impacts for community banks. One of the largest of these is that deposit insurance of \$250,000 was made permanent. Much of the new financial regulatory reform will take several years to sort out and for us to see how it affects us.

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 Six Month Period Ending: June 30, 2010 and 2009
(000 omitted)

un audited

Assets	6/30/10	6/30/09
Cash & NIB Due from Banks	\$ 10,832	\$ 8,960
Interest Bearing Deposits At Other Financial Institutions	44	2,967
Loans	120,772	134,359
Allowance for credit losses	3,048	3,159
Net Loans	117,724	131,200
Investments	12,908	23,426
Federal Funds Sold	0	1,000
Premises & Equipment	10,426	9,382
Oreo	4,871	1,628
Bank Owned Life Insurance	1,237	1,196
Other Assets	2,453	1,674
Total Assets	\$ 160,495	\$ 181,433
Liabilities		
Demand Deposits	6,832	6,871
Time and Savings Deposits	137,804	156,462
Total Deposits	144,636	163,333
Other Borrowings- Debentures Payable	5,155	5,905
Other Liabilities	934	283
Total Other Liabilities	6,089	6,188
Total Liabilities	150,725	169,521
Capital		
Common Stock (no par stock) authorized 5,000,000 shares; outstanding shares 2010 - 1,233,697 - 2009 - 1,233,697	9,455	9,420
Undivided Profits	1,208	3,801
Unrealized Gain/(Loss) Securities and Derivative Fair Value	58	(40)
Net Profit or (Loss)	(951)	(1,269)
Total Shareholder's Equity	9,770	11,912
Total Liabilities & Shareholder's Equity	\$ 160,495	\$ 181,433

Prime Pacific Financial Services, Inc.
Consolidated Report of Income

For The Six Month Period Ending: June 30, 2010 and 2009
(000 omitted)

un audited

Interest Income	6/30/10	6/30/09
Loans	\$ 3,842	\$ 4,403
Securities	227	383
Fed Funds & Dep In Banks	22	87
Total Interest Income	4,091	4,873
Interest Expense		
Deposits	1,482	2,667
Short-Term Borrowings	0	14
Long-Term Borrowings	82	94
Total Interest Expense	1,564	2,775
Gross Interest Income	2,527	2,098
Provision For Credit Losses	900	1,768
Net Interest Income	1,627	330
Total Non-Interest Income	171	133
Total Non-Interest Expense	3,257	2,428
Operating Income	(1,459)	(1,965)
Tax Expense (Benefit)	(508)	(696)
Net Income (Loss)	\$ (951)	\$ (1,269)
Earning Per Share	\$ (0.77)	\$ (1.03)