

Prime Pacific Financial Services

Q4 2010 News

Dear Shareholders, Customers, and Friends:

This quarter's newsletter is a very difficult one for me. During this past quarter we have seen and felt the wrath of a continued contracting economy (continuing to be led by the local real estate market) as well as a harsh regulatory environment, which many of you have heard about. For Prime Pacific Bank, your holding company's largest asset, the strain of decreasing real estate values continues to tug at our profitability.

We continue our commitment to work hard to eliminate problem assets from our books, and that will remain our top priority. Although our level of problems remains high, the population has changed. In other words the numbers remain at a non acceptable level but the borrowers who make up the population currently may not have been in the population a year ago. As previously reported we still have much to do and it will take time before things completely turn around.

As shown by reviewing the financial statement on page 4, Prime Pacific Financial Services ended this quarter with assets of \$150.3 million. This is a decrease of 11.2% over the same period ending December '09. Our loans have decreased from \$124.6 to \$107.8 million, a decrease of 13.5%. Deposits were \$140.4 million compared to \$152.6 million, a decrease of 8%. Your Shareholder Equity currently stands at \$4 million. We had an operating loss of \$9.01 million compared to a loss of \$4.85 million a year ago. Net loss (after tax benefit) was \$5.94 million compared to a \$3.15 million loss for the same period ending December '09.

This quarter I wanted to do something with a little more emphasis on Prime Pacific Bank so the following table (next page) of information was created and represents Bank numbers and percentages.

As you can see for the past five quarters we have been operating at a loss. Our third quarter was restated and we increased our allowance to loan loss reserves substantially which currently stands at 5.16% of loans or \$5.6 million. We feel that by taking these measures we may be able to return to profitability more quickly. Although we continue to have manageable capital at the bank, the capital at Prime Pacific Financial Services is strained.

You will also notice that we have aggressively restructured our loan composition and have reduced our Construction and Land Development loans (this category saw the largest decline in real estate values) considerably. Additionally, we still maintain a strong Liquidity Ratio and have very little in Brokered deposits.

Although we review the values supporting our loan portfolio often, we pay special attention to our OREO (Other Real Estate 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.

Prime Pacific Bank Selected Financial Ratios

(Dollars in Thousands) un-audited	12/09 Q	03/10 Q	06/10 Q	09/10 Q	12/10 Q
Balance Sheet Highlights					
Total Assets	169,650	163,033	160,151	155,484	150,901
Total Loans & Leases	125,731	123,929	121,765	114,968	108,929
Total Deposits	153,224	147,204	144,966	142,382	140,819
Loans/ Deposits (%)	82.06	84.19	84.00	80.75	77.35
Performance Measures					
Bank Net Income	(579)	(400)	(492)	(4,417)	(505)
ROAA (%)	(1.28)	(0.97)	(1.22)	(11.15)	(1.29)
ROAE (%)	(14.51)	(10.34)	(13.06)	(140.57)	(20.19)
Interest Income/ Avg Assets (%)	4.91	4.88	5.24	4.85	4.99
Interest Expense/ Avg Assets (%)	2.24	1.89	1.74	1.43	1.23
Net Interest Margin (%)	2.98	3.38	4.00	3.93	4.41
Capitalization					
Bank Equity Capital	15,684	15,254	14,875	10,264	9,745
Risk Based Capital Ratio (%)	13.23	13.38	13.72	7.82	7.15
Tier 1 Risk-based Ratio (%)	11.96	12.12	12.45	6.50	5.86
Leverage Ratio (%)	8.61	9.21	9.06	4.57	4.14
Loan Composition (%)					
Const & Land Dev Loans/ Loans	12.69	9.33	7.72	7.86	5.18
Tot 1-4 Fam Loans/ Loans	27.27	29.25	30.26	28.39	28.75
Multifamily Loans/ Loans	4.42	3.81	3.88	4.12	4.35
Farm Loans/ Loans	0.31	0.31	0.31	0.33	0.35
CommRE(Nfarm/NRes)/ Loans	40.53	43.20	44.77	44.04	44.68
Real Estate Loans/ Loans	85.22	85.90	86.95	84.74	83.31
Total C&I Loans/ Loans	13.14	12.30	11.30	13.37	15.55
Total Cons Lns/ Loans	0.73	0.78	0.79	0.87	0.94
Other Loans/ Loans	0.91	1.02	0.97	1.02	0.20
Deposit Composition (%)					
Nonint-Bear Dep/ Deposits	4.69	12.32	11.05	11.62	11.10
MMDAs+Savings/ Deposits	14.99	15.46	16.46	17.88	17.25
Retail Time Dep/ Deposits	30.89	28.52	23.92	22.47	22.25
Asset Quality (%)					
Total Noncurrent Lns/ Loans	11.91	11.01	10.43	10.81	14.25
NPLs/ Loans	13.76	16.91	15.28	17.07	20.25
NPAs/ Assets	13.10	16.00	14.57	16.14	18.35
NPAs/ (Loans+OREO)	17.01	20.22	18.45	20.84	24.17
NPAs+90s/ (Loans+OREO)	17.01	20.22	19.51	20.84	24.17
NPAs + 90 Days PD/ Assets	13.10	16.00	15.41	16.14	18.35
Loan Loss Reserves/ Gross Loans	2.83	2.27	2.39	6.31	5.16
Liquidity (%)					
Liquidity Ratio	18.25	15.70	15.86	18.52	17.31
Brokered Deposits/ Deposits	5.99	7.09	4.45	3.16	3.20

With the decrease in rates our cost of funds has significantly decreased and our proportion of non interest bearing deposits is greater as well. This has contributed to a strong increase in the Bank's net interest margin which ended the quarter at 4.41%.

We continue to work hard to reduce the extremely high level of Non Performing Assets (NPA's) and Other Real Estate Owned (OREO) and continue to look for a little help from our fragile economy. We continue to aggressively price our OREO assets to sell.

We remain optimistic for a turnaround in our economy and more importantly in our bank. Our budget goals for 2011 are to return the bank to profitability, we will strive to meet these goals. We still have a reliance on the real estate market and need a little bit of healing to help us continue to liquidate our OREO's as well as NPA's.

We still continue to work through the terms and conditions of our Consent Order and although some progress has been made, the reduction of our problem assets and increasing capital is at the top of our list and may go a long way toward the removal of the Order.

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.

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Prime Pacific Financial Services, Inc.

Consolidated Report of Condition

For The Year Ending: December 31, 2010 and 2009

(000 omitted)

un audited

Assets	2010	2009
Cash & Due from Banks	\$ 624	\$ 412
Interest Bearing Deposits At Other Financial Institutions	12,560	10,168
Loans	107,807	124,586
Allowance for credit losses	5,616	3,554
Net Loans	102,191	121,032
Investments	11,985	17,901
Federal Funds Sold	0	1,000
Premises & Equipment	11,043	9,874
OREO	5,633	4,921
Bank Owned Life Insurance	1,257	1,217
Deferred FIT Benefits- Disallowed	3,416	0
Other Assets	1,579	2,659
Total Assets	150,288	169,184
Liabilities		
Demand Deposits	6,132	6,612
Time and Savings Deposits	134,302	146,036
Total Deposits	140,434	152,648
Other Borrowings & Debentures Payable	5,155	5,155
Other Liabilities	673	1,284
Total Other Liabilities	5,828	6,439
Total Liabilities	146,262	159,087
Capital		
Common Stock (no par stock) authorized 5,000,000 shares; outstanding shares 2010 - 1,233,697 --2009 1,233,697 shares	9,470	9,439
Undivided Profits	644	3,801
Unrealized Gain/(Loss) Securities and Derivative Fair Value	(151)	11
Net Profit or (Loss)	-5,937	-3,154
Total Shareholder's Equity	4,026	10,097
Total Liabilities & Shareholder's Equity	\$ 150,288	\$ 169,184

Prime Pacific Financial Services, Inc.

Consolidated Report of Income

For The Year Ending: December 31, 2010 and 2009

(000 omitted)

un audited

Interest Income	2010	2009
Loans	\$ 7,521	\$ 8,625
Securities	358	757
Fed Funds & Dep in Banks	48	126
Total Interest Income	7,927	9,508
Interest Expense		
Deposits	2,528	4,830
Short-Term Borrowing	0	0
Long-Term Borrowing	170	205
Total Interest Expense	2,698	5,035
Gross Interest Income	5,229	4,473
Provision For Credit Losses	7,400	3,886
Net Interest Income	-2,171	587
Total Non-Interest Income	473	545
Total Non-Interest Expense	7,319	5,980
Operating Income	-9,017	-4,848
Tax Expense (Benefit)	-3,080	-1,694
Net Income (Loss)	\$ (5,937)	\$ (3,154)
Earning Per Share- Basic	\$ (4.81)	\$ (2.56)