

Prime Pacific Financial Services

Q4 2011 News

Dear Shareholders, Customers, and Friends:

Another year has passed and I wanted to wish everyone a happy and prosperous New Year. I am happy to report continued signs of progress in the health of our local economy. Our local retail trade is reporting some fairly good holiday numbers and as reported last quarter (Boeing) our largest employer continues to hire. Additionally we continue to see new company's entering our region both retail and support facilities for Boeing.

Here at Prime Pacific Bank, your holding company's largest asset, we continue to see additional demand for loans which is a further indication of progress locally. Better yet, a positive indication of our progress over the last quarter is the decreasing level of our NPA's (non performing assets) and NPL's (non performing loans). This is a trend that we expect to see continue into the New Year (see below for additional information). Although we have had this positive movement we still have some more hard work ahead of us to work our way through this unacceptable level. More time is needed as our local economy continues to heal. Another sign of stability is that our real estate values have seemed to become more stable and the values are not decreasing in a manner that they were just three quarters ago. This positive progress is a direct result of our talented and experienced staff who continue to work through these NPA's to exit them off our books in the most expeditious and cost effective manner.

It now appears that our county has begun the slow return to recovery and it is very nice indeed to see that our unemployment rate is now moving down which is a further indication of the healing in our region. We are looking for continued improvement throughout 2012 and remain cautiously optimistic. We continue to see pressure from outside sources such as uncertainty in other parts of the world as well as continued regulatory and political uncertainty. Of course this is not tied directly to Prime Pacific but as you have undoubtedly read the geo-political issues are far reaching. That said our best course of action is to keep our "nose to the grindstone" and continue to work through our issues.

As I have mentioned in previous newsletters our capital levels continue to be strained. As we return to profitability this will of course help our capital levels however, we will continue to look for other opportunities to enhance shareholder value.

As shown by reviewing the financial statement on page 4, Prime Pacific Financial Services ended this quarter with assets of \$132.7 million. This is a decrease of 11.7% from the same period ending December 31, 2010. Our loans have decreased from \$107.8 to \$95.9 million over the year, a decrease of 11.0%. Deposits were \$122.1 million compared to \$140.4 million for the period ending December 31, 2010, a decrease of 13.1%. Your Shareholder Equity currently stands at \$4.7 million. For the 12 month period ending December 31, 2011 we had an operating loss of \$634 thousand compared to a loss of \$9.0 million for the year ending December 31, 2010. The net loss (after tax) for the 12 month period ending December 31, 2011 was \$406 thousand compared to \$5.9 million loss for the same period ending December 31, 2010.

Page two reflects some selected ratios and financial information for Prime Pacific Bank.

As you can see we are reporting a net loss of \$88 thousand for the quarter ending December 31, 2011. Asset quality (our largest continuing issue) has begun to show some positive improvement.

Prime Pacific Bank Selected Financial Ratios

	12/10 Q	03/11 Q	06/11 Q	09/11 Q	12/11 Q
(Dollars in Thousands)					
Balance Sheet Highlights					
Total Assets	150,901	145,093	139,072	136,531	133,216
Total Loans & Leases	108,929	104,753	101,717	100,702	97,036
Total Deposits	140,819	134,232	128,126	125,806	122,402
Loans/ Deposits (%)	77.35	78.04	79.39	80.05	79.28
Performance Measures					
Bank Net Income	(505)	45	(56)	(192)	(88)
ROAA (%)	(1.29)	0.12	(0.16)	(0.56)	(0.26)
ROAE (%)	(20.19)	1.77	(2.11)	(7.27)	(3.37)
Interest Income/ Avg Assets (%)	4.99	4.62	4.67	4.80	4.32
Interest Expense/ Avg Assets (%)	1.23	1.13	1.07	0.98	0.89
Net Interest Margin (%)	4.41	4.13	4.31	4.57	4.16
Capitalization					
Bank Equity Capital	9,745	10,596	10,650	10,478	10,437
Tangible Equity	9,745	10,596	10,650	10,478	10,437
Risk Based Capital Ratio (%)	7.15	8.30	8.16	8.06	8.16
Tier 1 Risk-based Ratio (%)	5.86	7.01	6.88	6.78	6.88
Leverage Ratio (%)	4.14	4.96	5.15	5.11	5.11
Loan Composition (%)					
Construction & Land Development					
Loans/Loans	5.18	4.92	4.40	4.31	3.74
Tot 1-4 Fam Loans/ Loans	28.75	28.14	27.95	27.31	27.03
Multifamily Loans/ Loans	4.35	4.25	4.37	4.38	3.61
Farm Loans/ Loans	0.35	0.27	0.27	0.28	0.29
CommRE(Nfarm/NRes)/ Loans	44.68	45.26	45.81	47.01	49.88
Real Estate Loans/ Loans	83.31	82.84	82.79	83.29	84.55
Total C&I Loans/ Loans	15.55	16.11	16.04	15.57	14.29
Total Cons Lns/ Loans	0.94	1.05	1.00	0.98	0.99
CON:Other Loans/ Loans	0.20	0.00	0.00	0.00	0.00
Deposit Composition (%)					
Nonint-bear Dep/ Deposits	11.10	12.72	11.99	13.06	13.77
MMDAs+Savings/ Deposits	17.25	17.17	18.16	18.34	17.55
Retail Time Dep/ Deposits	59.66	60.56	59.85	59.30	61.11
Asset Quality (%)					
*Total Noncurrent Lns/ Loans	14.25	11.60	12.50	13.73	9.81
*NPLs/ Loans	20.25	14.01	18.48	19.76	16.04
*NPAs/ Assets	18.35	14.09	18.11	17.79	15.44
*NPAs/ (Loans+OREO)	24.17	18.50	23.30	23.11	20.15
*NPAs+90s/ (Loans+OREO)	24.17	18.50	23.30	23.11	20.15
*NPAs + 90 Days PD/ Assets	18.35	14.09	18.11	17.79	15.44
*Loan Loss Reserves/ Gross Loans	5.16	4.58	3.78	3.41	3.52
Liquidity (%)					

Liquidity Ratio	17.31	15.55	13.24	14.00	14.04
Brokered Deposits/ Deposits	3.20	3.35	3.51	3.58	2.04
Jumbo Time Deposits/ Domestic Deposits	11.98	9.55	10.01	9.29	7.57

*NPL's and NPA's include restructured loans that are performing.

I would like to point out that Total Noncurrent Loans/Loans, dropped 31.2% while NPL's/Loans, dropped 20.8% as of December 31, 2011 compared to December 31, 2010. These two measurements are based on the size of our loan portfolio which has dropped 10.9% over the same reported period. Our NPA's (which include Other Real Estate Owned "OREO") is measured by asset size which has dropped 15.9% (year over year) while our total assets have dropped 11.7%. Again as you can see the biggest movement in the reduction of these troubled assets has been over the last quarter and we project this continued trend over the next few quarters.

As can be seen above, our largest concentration is Commercial Real Estate at 49.9% of the loan portfolio. The majority or 57.1% of the Commercial Real Estate is made up of owner occupied projects where the bank has experienced virtually no loss. The progress has been slow but you can now see results from our team as they continue to work through these problem assets.

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, 2011 and 2010

(000 omitted)

un audited

	2011	2010
Assets		
Cash & Due from Banks	\$ 721	\$ 624
Interest Bearing Deposits At Other Financial Institutions	7,747	12,560
Loans	95,946	107,807
Allowance for credit losses	3,411	5,616
Net Loans	92,535	102,191
Investments	10,231	11,985
Federal Funds Sold	90	0
Premises & Equipment	10,411	11,043
OREO	5,001	5,633
Bank Owned Life Insurance	1,299	1,257
Deferred FIT Benefits- Disallowed	3,584	3,416
Other Assets	1,088	1,579
Total Assets	132,707	150,288
Liabilities		
Demand Deposits	7,427	6,132
Time and Savings Deposits	114,675	134,302
Total Deposits	122,102	140,434
Other Borrowings & Debentures Payable	5,155	5,155
Other Liabilities	782	673
Total Other Liabilities	5,937	5,828
Total Liabilities	128,039	146,262
Capital		
Common Stock (no par stock) authorized 5,000,000 shares; outstanding shares 2011 - 2,346,053 --2010 1,233,697 shares	10,269	9,470
Undivided Profits	(5,246)	644
Unrealized Gain/(Loss) Securities and Derivative Fair Value	51	(151)
Net Profit or (Loss)	(406)	(5,937)
Total Shareholder's Equity	4,668	4,026
Total Liabilities & Shareholder's Equity	\$ 132,707	\$ 150,288

Prime Pacific Financial Services, Inc.

Consolidated Report of Income

For The Year Ending: December 31, 2011 and 2010

(000 omitted)

un audited

	2011	2010
Interest Income		
Loans	\$ 6,147	\$ 7,521
Securities	214	358
Fed Funds & Dep in Banks	38	48
Total Interest Income	6,399	7,927
Interest Expense		
Deposits	1,435	2,528
Short-Term Borrowing	0	0
Long-Term Borrowing	174	170
Total Interest Expense	1,609	2,698
Gross Interest Income	4,790	5,229
Provision For Credit Losses	100	7,400
Net Interest Income	4,690	(2,171)
Total Non-Interest Income	877	473
Total Non-Interest Expense	6,201	7,319
Operating Income	(634)	(9,017)
Tax Expense (Benefit)	(228)	(3,080)
Net Income (Loss)	\$ (406)	\$ (5,937)
Earnings (loss) Per Share- Basic	\$ (0.17)	\$ (4.81)