FIRST COMMUNITY BANCORP /CA/
Form 10-K
February 27, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File No. 00-30747

FIRST COMMUNITY BANCORP

(Exact Name of Registrant as Specified in Its Charter)

California (State or Other Jurisdiction of Incorporation or Organization)	**33-0885320** (I.R.S. Employer Identification Number)
401 West A Street **San Diego, California** (Address of Principal Executive Offices)	**92101-7917** (Zip Code)

Registrant s telephone number, including area code: **(619) 233-5588**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common stock, no par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of Accelerated Filer and Large Accelerated Filer in Rule 12b-2 of the Exchange Act. (check one): Large Accelerated Filer x Accelerated Filer o Non-accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act.) Yes o No x

As of June 30, 2006, the aggregate market value of the voting common stock held by non-affiliates of the registrant, computed by reference to the average high and low sales prices on the Nasdaq National Market as of the close of business on June 30, 2006, was approximately $1.3 billion. Registrant does not have any nonvoting common equities.

As of February 23, 2007, there were 28,825,229 shares of registrant s common stock outstanding, excluding 899,147 shares of unvested restricted stock and unvested performance stock.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K will be found in the Company s definitive proxy statement for its 2007 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, and such information is incorporated herein by this reference.

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PART I

ITEM 1. BUSINESS

General

We are a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as a holding company for our banking subsidiary. As of December 31, 2006, our sole banking subsidiary is Pacific Western Bank, which we refer to as Pacific Western, or the Bank. As of December 31, 2005, our banking subsidiaries were Pacific Western National Bank which we also refer to as Pacific Western, and First National Bank, which we refer to as First National. As part of the previously announced plan of consolidation and conversion, Pacific Western National Bank filed an application with the California Department of Financial Institutions, or DFI, to convert from a national banking charter to a state-chartered bank under the name of Pacific Western Bank. This application was approved and the conversion of Pacific Western to a state-chartered bank occurred on September 13, 2006. Pacific Western also filed a notice with the Federal Reserve Bank of San Francisco to withdraw from membership in the Federal Reserve System and become a nonmember bank at the time of its conversion. Additionally, on October 26, 2006, following the completion of the acquisition of Community Bancorp Inc. and the subsequent merger of its wholly-owned subsidiary, Community National Bank, with and into First National, we completed our plan of consolidation by merging First National with and into Pacific Western, with Pacific Western as the surviving entity in an as if pooling transaction. All references to Pacific Western, or the Bank, prior to September 13, 2006 refer to Pacific Western National Bank, and references on or after September 13, 2006 refer to Pacific Western Bank.

On January 4, 2006, we acquired Cedars Bank, or Cedars, which was merged with and into Pacific Western. On May 9, 2006, we acquired Foothill Independent Bancorp, or Foothill. At the time of acquisition Foothill was merged with and into the First Community Bancorp and Foothill s wholly-owned subsidiary, Foothill Independent Bank, was merged with and into Pacific Western. We refer to Pacific Western herein as the Bank and when we say we , our or the Company , we mean the Company on a consolidated basis with Pacific Western. When we refer to F Community or to the holding company, we are referring to the parent company on a stand-alone basis. Discussions about the Company and the Bank as of and for the year ended December 31, 2006 include Cedars, Foothill and Community Bancorp from and after their respective dates of acquisition.

Pacific Western is a full-service community bank offering a broad range of banking products and services. We accept time and demand deposits, fund loans including real estate, construction, SBA and commercial loans, and offer other business oriented banking products. Our operations are primarily located in Southern California and the Bank focuses on conducting business with small to medium size businesses and the owners and employees of those businesses in our marketplace. We also operate in Arizona and Texas through our asset-based lending division and SBA loan production offices. At December 31, 2006, the Bank s gross loans, excluding loans held for sale, totaled $4.2 billion, of which approximately 20% were commercial loans, 79% were commercial real estate loans, including construction loans, and 1% were consumer and other loans. These percentages include some foreign loans, primarily to individuals or entities with business in Mexico, representing 2% of total loans.

We derive our income primarily from the interest received on the various loan products, fees from providing deposit services, foreign exchange services and extending credit, and interest on investment securities. Our major operating expenses are the interest paid by the Bank on deposits and borrowings, employee compensation and general operating expenses. The Bank relies on a foundation of locally generated deposits. Our Bank has a relatively low cost of funds due to a high percentage of noninterest-bearing and low cost deposits. Our operations, like those of other financial institutions operating in Southern California, are significantly influenced by economic conditions in Southern California, including the strength of the real estate market, and the fiscal and regulatory policies of the federal and state government and the regulatory authorities that govern financial institutions. See Supervision and

Regulation. With our SBA loan production offices and asset-based lending division with operations in Arizona and Texas, we are also subject to the economic conditions affecting those markets.

We are committed to maintaining premier, relationship-based community banking in Southern California which serves the needs of small to medium-sized businesses and the owners and employees of those businesses, as well as serving the needs of growing businesses that may not yet meet the credit standards of the Bank through tightly controlled asset-based lending and factoring of accounts receivable. The strategy for serving our target markets is the delivery of a finely-focused set of value-added products and services that satisfy the primary needs of our customers, emphasizing superior service and relationships as opposed to transaction volume or low pricing.

As of December 31, 2006, our assets totaled $5.6 billion. As of February 23, 2007, we have one wholly-owned banking subsidiary, Pacific Western, with 63 branches located in Los Angeles, Orange, Riverside, San Bernardino and San Diego Counties, California. Pacific Western s business includes its asset-based lending and accounts receivable factoring division, doing business as First Community Financial, with a loan production office in Phoenix, Arizona and marketing offices in Austin, Texas and Los Angeles and Orange Counties, California.

Strategic Evolution and Acquisition Strategy

The Company was organized on October 22, 1999 as a California corporation for the purpose of becoming a bank holding company and to acquire all the outstanding capital stock of Rancho Santa Fe National Bank, First National s predecessor.

We have grown rapidly through a series of acquisitions. The following chart summarizes the completed acquisitions since our inception, which are described in more detail below and in Note 2 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data.

Date	Institution/Company Acquired
May 2000	Rancho Santa Fe National Bank
May 2000	First Community Bank of the Desert
January 2001	Professional Bancorp, Inc.
October 2001	First Charter Bank
January 2002	Pacific Western National Bank
March 2002	W.H.E.C., Inc.
August 2002	Upland Bank
August 2002	Marathon Bancorp
September 2002	First National Bank
January 2003	Bank of Coronado
August 2003	Verdugo Banking Company
March 2004	First Community Financial Corporation
April 2004	Harbor National Bank
August 2005	First American Bank
October 2005	Pacific Liberty Bank
January 2006	Cedars Bank
May 2006	Foothill Independent Bancorp
October 2006	Community Bancorp Inc.

We have financed our acquisitions, in part, with cash raised from the sale of our common stock or from the issuance of subordinated debentures. In August and September 2005, we raised $49.0 million via the sale of 1.0 million shares of our common stock in a registered public offering, which we refer to as the 2005 offering. The proceeds of the 2005 offering were used to help fund the acquisition of First American Bank. In January 2006, we raised $109.5 million via the sale of 1.9 million shares of our common stock in a registered public offering. The proceeds of the January 2006 offering were used to provide regulatory

capital to support the acquisition of Cedars Bank. We have outstanding a total of $149.2 million in subordinated debentures as follows: $8.2 million issued in 2000, $10.3 million in 2002, $20.6 million issued in 2003, $61.9 million issued in 2004, and $48.2 million acquired in our acquisitions of Foothill and Community Bancorp. In December 2006, we retired $20.6 million of subordinated debentures issued in 2001. See Note 8 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data. As described in more detail below, we have also financed the acquisitions with the exchange of our common stock for the stock of the target company. Below is a summary of the acquisitions which have occurred since the beginning of 2004.

First Community Financial Corporation

On March 1, 2004, we acquired First Community Financial Corporation, or FC Financial, a privately-held commercial finance company based in Phoenix, Arizona. We paid $40.0 million in cash for all of the outstanding common stock and options of FC Financial. At the time of the acquisition, FC Financial became a wholly-owned subsidiary of First National. On October 26, 2006, as part of the merger of First National with Pacific Western, FC Financial became an operating division of Pacific Western.

Harbor National Bank Acquisition

On April 16, 2004, we acquired Harbor National. We paid approximately $35.7 million in cash for all of the outstanding shares of common stock and options of Harbor National. We made this acquisition to expand our presence in Orange County, California. At the time of the acquisition, Harbor National was merged into Pacific Western.

First American Bank Acquisition

On August 12, 2005, we acquired First American Bank, or First American, based in Rosemead, California. We paid approximately $59.7 million in cash to First American shareholders, and caused First American to pay $2.6 million in cash for all outstanding options to purchase First American common stock. The aggregate deal value was approximately $62.3 million. We made this acquisition to expand our presence in Los Angeles County, California. At the time of the acquisition, First American was merged into Pacific Western.

Pacific Liberty

On October 7, 2005, we acquired Pacific Liberty Bank, or Pacific Liberty, based in Huntington Beach, California. We issued approximately 784,000 shares of our common stock to the Pacific Liberty shareholders and caused Pacific Liberty to pay $5.0 million in cash for all outstanding options to purchase Pacific Liberty common stock. The aggregate deal value was approximately $41.6 million. We made this acquisition to expand our presence in Orange County, California. At the time of the acquisition, Pacific Liberty was merged into Pacific Western.

Cedars Bank

On January 4, 2006, we acquired Cedars Bank, or Cedars, based in Los Angeles, California. We paid approximately $120.0 million in cash for all of the outstanding shares of common stock and options of Cedars. We made this acquisition to expand our presence in Los Angeles, California. At the time of the acquisition, Cedars was merged into Pacific Western. In January 2006, we issued 1,891,086 shares of common stock for net proceeds of $109.5 million. We used these proceeds to augment our regulatory capital in support of the Cedars acquisition.

Foothill Independent Bancorp

On May 9, 2006, we acquired Foothill Independent Bancorp, or Foothill, based in Glendora, California. We issued approximately 3,947,000 shares of our common stock to the Foothill shareholders and caused Foothill to pay $10.2 million in cash for all outstanding options to purchase Foothill common stock. The aggregate deal value was approximately $242.5 million. At the time of the acquisition, Foothill was merged with and into the Company and Foothill Independent Bank, a wholly-owned subsidiary of Foothill, was merged with and into Pacific Western. We made this acquisition to expand our presence in Los Angeles, Riverside and San Bernardino Counties of California.

Community Bancorp Inc.

On October 26, 2006, we acquired Community Bancorp Inc., or Community Bancorp, based in Escondido, California. We issued approximately 4,678,000 shares of our common stock to the Community Bancorp shareholders and caused Community Bancorp to pay $6.1 million in cash for all outstanding options to purchase Community Bancorp common stock. The aggregate deal value for financial reporting purposes was approximately $268.7 million. At the time of the acquisition, Community Bancorp was merged with and into the Company and Community National Bank, a wholly-owned subsidiary of Community Bancorp, was merged with and into First National. We made this acquisition to expand our presence in the San Diego and Riverside Counties of California.

Banking Business

The Bank is a full-service community bank that offers a broad range of banking products and services, including many types of business and personal savings and checking accounts and other commercial and consumer banking services, including foreign exchange services. We derive our income primarily from the interest received on the various loan products, fees from providing deposit services, foreign exchange services and extending credit, and interest on investment securities. The Bank originates several types of loans, including secured and unsecured commercial and consumer loans, commercial real estate mortgage loans, SBA loans and construction loans. We extend credit to customers located primarily in the counties we serve and through certain programs, we also extend credit and make commercial and real estate loans to businesses located in Mexico. Special services, including international banking services, multi-state deposit services and investment services, or requests beyond the lending limits of the Bank can be arranged through correspondent banks. The Bank issues ATM and debit cards, has a network of ATMs and offers access to ATM networks through other major service providers. Through the Bank, we provide these banking and financial services throughout Southern California to small and medium-sized businesses and the owners and employees of those businesses. We also provide asset-based lending and factoring of accounts receivable to small businesses located throughout the southwestern United States through our loan production office in Phoenix, Arizona and marketing offices in Austin, Texas and Los Angeles and Orange Counties, California.

Through the Bank, the Company concentrates its lending activities in four principal areas:

(1) *Real Estate Loans.* Real estate loans are comprised of construction loans, miniperm loans collateralized by first or junior deeds of trust on specific commercial properties and equity lines of credit. The properties collateralizing real estate loans are principally located in our primary market areas of Los Angeles, Orange, San Bernardino, Riverside and San Diego counties in California and the contiguous communities. Construction loans are comprised of loans on commercial, residential and income producing properties that generally have terms of less than two years and typically bear an interest rate that floats with the Bank s base rate, prime rate or another established index. Miniperm loans finance the purchase and/or ownership of commercial properties, including owner-occupied and income producing properties. Miniperm loans are generally made with an amortization schedule ranging from 15 to 25 years with a lump sum balloon payment due in one to ten years. Equity lines of

credit are revolving lines of credit collateralized by junior deeds of trust on residential real properties. They generally bear a rate of interest that floats with the Bank s base rate or the prime rate and have maturities of five years. From time to time, we purchase participation interests in loans originated by other financial institutions. These loans are subject generally to the same underwriting criteria and approval process as loans originated directly by us.

The Bank s real estate portfolio is subject to certain risks, including, but not limited to (i) a possible downturn in the Southern California economy, (ii) interest rate increases, (iii) reduction in real estate values in Southern California, (iv) increased competition in pricing and loan structure, and (v) environmental risks, including natural disasters. We strive to reduce the exposure to such risks by (a) reviewing each loan request and renewal individually, (b) using a dual signature approval system for the approval of each loan request for loans over a certain dollar amount, (c) adhering to written loan policies, including, among other factors, minimum collateral requirements, maximum loan-to-value ratio requirements, cash flow requirements and personal guarantees, (d) obtaining secondary appraisals, (e) obtaining external independent credit reviews, (f) evaluating concentrations as a percentage of capital and loans, and (g) conducting environmental reviews, where appropriate. We review each loan request on the basis of our ability to recover both principal and interest in view of the inherent risks.

(2) *Commercial Loans.* Commercial loans are made to finance operations, to provide working capital, or for specific purposes, such as to finance the purchase of assets, equipment or inventory. Since a borrower s cash flow from operations is generally the primary source of repayment, our policies provide specific guidelines regarding required debt coverage and other important financial ratios. Commercial loans include lines of credit and commercial term loans. Lines of credit are extended to businesses or individuals based on the financial strength and integrity of the borrower and generally (with some exceptions) are collateralized by short-term assets such as accounts receivable, inventory, equipment or real estate and have a maturity of one year or less. Such lines of credit bear an interest rate that floats with the Bank s base rate, the prime rate, LIBOR or another established index. Commercial term loans are typically made to finance the acquisition of fixed assets, refinance short-term debt originally used to purchase fixed assets or, in rare cases, to finance the purchase of businesses. Commercial term loans generally have terms from one to five years. They may be collateralized by the asset being acquired or other available assets and bear interest rates which either float with the Bank s base rate, the prime rate, LIBOR or another established index or is fixed for the term of the loan.

The Bank s portfolio of commercial loans is subject to certain risks, including, but not limited to (i) a possible downturn in the Southern California economy, (ii) interest rate increases, (iii) deterioration of the value of the underlying collateral, and (iv) the deterioration of a borrower s or guarantor s financial capabilities. We strive to reduce the exposure to such risks through (a) reviewing each loan request and renewal individually, (b) using a dual signature approval system, (c) adhering to written loan policies, (d) obtaining independent credit reviews, and (e) in the case of certain commercial loans to Mexican or foreign entities, third party insurance which limits our exposure to anywhere from 20 to 30 percent of the underlying loan. In addition, loans based on short-term asset values and factoring arrangements are monitored on a daily, weekly, monthly or quarterly basis and may include lockbox or control account arrangements. In general, the Bank receives and reviews financial statements and other documents of borrowing customers on an ongoing basis during the term of the relationship and responds to any deterioration noted.

(3) *SBA Loans.* The Bank makes SBA loans through programs designed by the federal government to assist the small business community in obtaining financing from financial institutions that are given government guarantees as an incentive to make the loans. Our SBA loans fall into two categories, loans originated under the SBA s 7a Program (7a Loans) and loans originated under the SBA s 504 Program (504 Loans). SBA 7a Loans are commercial business loans generally made for

the purpose of purchasing real estate to be occupied by the business owner, providing working capital, and/or purchasing equipment, accounts receivable or inventory. SBA 504 Loans are collateralized by commercial real estate and are generally made to business owners for the purpose of purchasing or improving real estate for their use and for equipment used in their business.

SBA lending is subject to federal legislation that can affect the availability and funding of the program. From time to time, this dependence on legislative funding causes limitations and uncertainties with regard to the continued funding of such programs, which could potentially have an adverse financial impact on our business.

The Bank s portfolio of SBA loans is subject to certain risks, including, but not limited to (i) a possible downturn in the Southern California economy, (ii) interest rate increases, (iii) deterioration of the value of the underlying collateral, and (iv) the deterioration of a borrower s or guarantor s financial capabilities. We strive to reduce the exposure of such risks through (a) reviewing each loan request and renewal individually, (b) using a dual signature approval system, (c) adhering to written loan policies, (d) adhering to SBA written policies and regulations, and (e) obtaining independent credit reviews. In addition, SBA loans normally require monthly installment payments of principal and interest and therefore are continually monitored for past due conditions. In general, the Bank receives and reviews financial statements and other documents of borrowing customers on an ongoing basis during the term of the relationship and responds to any deterioration noted.

(4) *Consumer Loans.* Consumer loans include personal loans, auto loans, boat loans, home improvement loans, equipment loans, revolving lines of credit and other loans typically made by banks to individual borrowers. The Bank s consumer loan portfolio is subject to certain risks, including (i) amount of credit offered to consumers in the market, (ii) interest rate increases, and (iii) consumer bankruptcy laws which allow consumers to discharge certain debts. We strive to reduce the exposure to such risks through the direct approval of all consumer loans by (a) reviewing each loan request and renewal individually, (b) using a dual signature approval system, (c) adhering to written credit policies, and (d) obtaining external independent credit reviews.

As part of our efforts to achieve long-term stable profitability and respond to a changing economic environment in Southern California and in other areas where we operate, we constantly evaluate a variety of options to augment our traditional focus by broadening the services and products we provide. Possible avenues of growth include more branch locations, expanded days and hours of operation and new types of loan and deposit products. To date, we have not expanded into areas of brokerage, annuity, insurance or similar investment products and services and have concentrated primarily on the core businesses of accepting deposits, making loans and extending credit.

Business Concentrations

No individual or single group of related accounts is considered material in relation to our total assets or to the assets or deposits of the Bank, or in relation to the overall business of the Company. However, approximately 79% of our loan portfolio held for investment at December 31, 2006 consisted of real estate-related loans, including construction loans, miniperm loans, commercial real estate mortgage loans and commercial loans secured by commercial real estate. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Loans. Moreover, our business activities are currently focused primarily in Southern California, with the majority of our business concentrated in Los Angeles, Riverside, Orange, San Bernardino and San Diego Counties. Consequently, our results of operations and financial condition are dependent upon the general trends in the Southern California economies and, in particular, the residential and commercial real estate markets. In addition, the concentration of our operations in Southern California exposes us to greater risk than other banking companies with a wider geographic base in the event of catastrophes, such as earthquakes, fires and floods in this region. We conduct foreign lending activities including commercial and real estate lending, consisting predominantly of loans to individuals or entities located in Mexico. All of our foreign loans are

denominated in U.S. dollars and most are collateralized by assets located in the United States or guaranteed or insured by businesses located in the United States. We recently decided to allow our foreign loan portfolio to repay in the ordinary course of business without making any new privately-insured foreign loans other than those under existing commitments. We also conduct asset-based lending and factoring of accounts receivable primarily in the states of Arizona, California and Texas.

Competition

The banking business in California, specifically in the Bank s primary service areas, is highly competitive with respect to originating both loans and deposits as well as other banking and mortgage banking services. The market is dominated by a relatively small number of major banks with a large number of offices and full-service operations over a wide geographic area. Among the advantages such major banks have in comparison to the Bank is their ability to finance and engage in wide-ranging advertising campaigns and to allocate their investment assets to regions of higher yield and demand. These competitors offer certain services which we do not offer directly. In addition, by virtue of their greater total capitalization, such banks have substantially higher lending limits than we offer. Other entities, in both the public and private sectors, seeking to raise capital through the issuance and sale of debt or equity securities also compete with us for the acquisition of deposits. In recent years, increased competition has also developed from specialized finance and non-finance companies that offer wholesale finance, credit card and other consumer finance services (including on-line banking services and personal financial software). Competition for deposit and loan products remains strong from both banking and non-banking institutions and this competition directly affects the rates of those products and the terms on which they are offered to consumers and businesses.

Technological innovation continues to contribute to greater competition in domestic and international financial services markets. Technological innovation has, for example, made it possible for non-depository institutions to offer customers automated transfer payment services previously limited to traditional banking products. In addition, customers now expect a choice of several delivery systems and channels, including telephone, mail, home computer, ATMs, self-service branches and in-store branches.

Mergers between financial institutions have placed additional pressure on banks within the industry to consolidate their operations, reduce expenses and increase revenues to remain competitive. In addition, competition has intensified due to federal and state interstate banking laws, which permit banking organizations to expand geographically with fewer restrictions than in the past. These laws allow banks to merge with other banks across state lines, thereby enabling banks to establish or expand banking operations in our most significant markets. The competitive environment is also significantly affected by federal and state legislation which make it easier for non-bank financial institutions to compete with us.

Economic factors, along with legislative and technological changes, will have an ongoing impact on the competitive environment within the financial services industry. We strive to anticipate and adapt to dynamic competitive conditions, but we can make no assurance as to the effectiveness of these efforts on our future business or results of operations or as to our continued ability to anticipate and adapt to changing conditions. In order to compete with other financial services providers in our primary service areas, we attempt to use, to the fullest extent possible, the flexibility which our independent status permits, including an emphasis on specialized services, local promotional activity and personal contacts. Our Bank strives to offer highly personalized banking services. In addition, we intend to continue improving our services and banking products. We believe that through the cross-marketing of products, and our focus on tailoring our services to the needs of our customers, our Bank can distinguish itself from other community banks with which we compete based on the range of services provided and products offered. However, we can provide no assurance that we will be able to sufficiently improve our services and/or banking products or successfully compete in our primary service areas.

Employees

As of February 16, 2007, Pacific Western had 988 full time equivalent employees and First Community had 22 full time equivalent employees.

Financial and Statistical Disclosure

Certain of our statistical information is presented within Item 6. Selected Financial Data, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 7A. Qualitative and Quantitative Disclosure About Market Risk. This information should be read in conjunction with the consolidated financial statements contained in Item 8. Financial Statements and Supplementary Data.

Supervision and Regulation

General

The banking and financial services business in which we engage is highly regulated. Such regulation is intended, among other things, to protect depositors insured by the Federal Deposit Insurance Corporation, or FDIC, and the entire banking system. The commercial banking business is also influenced by the monetary and fiscal policies of the federal government and the policies of the Federal Reserve Bank, or FRB. The FRB implements national monetary policies (with objectives such as curbing inflation and combating recession) by its open-market operations in United States Government securities, by adjusting the required level of reserves for financial intermediaries subject to its reserve requirements and by varying the discount rates applicable to borrowings by depository institutions. The actions of the FRB in these areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. Indirectly, such actions may also impact the ability of non-bank financial institutions to compete with the Bank. The nature and impact of any future changes in monetary policies cannot be predicted.

The laws, regulations and policies affecting financial services businesses are continuously under review by Congress, state legislatures and federal and state regulatory agencies. From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial intermediaries. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial intermediaries are frequently made in Congress, in the California legislature and by various bank regulatory agencies and other professional agencies. Changes in the laws, regulations or policies that impact us cannot necessarily be predicted, but they may have a material effect on our business and earnings.

Bank Holding Company Regulation

As a bank holding company, First Community is registered with and subject to regulation by the FRB under the Bank Holding Company Act of 1956, as amended, or the BHCA. In accordance with FRB policy, First Community is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where it might not otherwise do so. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act, the FDIC can hold any FDIC-insured depository institution liable for any loss suffered or anticipated by the FDIC in connection with (i) the default of a commonly controlled FDIC-insured depository institution or (ii) any assistance provided by the FDIC to such a commonly controlled institution. Under the BHCA, we are subject to periodic examination by the FRB. We are also required to file with the FRB periodic reports of our operations and such additional information regarding the Company and its subsidiaries as the FRB may require. Pursuant to the BHCA, we are required to obtain the prior approval of the FRB before we acquire all or substantially all of the assets of any bank or ownership or control of voting shares of any bank if, after

giving effect to such acquisition, we would own or control, directly or indirectly, more than 5 percent of such bank.

Under the BHCA, we may not engage in any business other than managing or controlling banks or furnishing services to our subsidiaries that the FRB deems to be so closely related to banking as to be a proper incident thereto. We are also prohibited, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5 percent of the voting shares of any company unless the company is engaged in banking activities or the FRB determines that the activity is so closely related to banking to be a proper incident to banking. The FRB s approval must be obtained before the shares of any such company can be acquired and, in certain cases, before any approved company can open new offices.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbanking activities, including securities and insurance activities and any other activity that the FRB, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature, incidental to any such financial activity or complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of depository institutions or the financial system generally. As of the date of this filing, we do not operate as a financial holding company.

The BHCA and regulations of the FRB also impose certain constraints on the redemption or purchase by a bank holding company of its own shares of stock.

Our earnings and activities are affected by legislation, by regulations and by local legislative and administrative bodies and decisions of courts in the jurisdictions in which we and the Bank conduct business. For example, these include limitations on the ability of the Bank to pay dividends to us and our ability to pay dividends to our shareholders. It is the policy of the FRB that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization s expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company s ability to serve as a source of strength to its banking subsidiaries. Various federal and state statutory provisions limit the amount of dividends that subsidiary banks and savings associations can pay to their holding companies without regulatory approval. In addition to these explicit limitations, the federal regulatory agencies have general authority to prohibit a banking subsidiary or bank holding company from engaging in an unsafe or unsound banking practice. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice. In addition, as discussed below under Regulation of the Bank , a bank holding company such as the Company is required to maintain minimum ratios of Tier 1 capital and total capital to total risk-weighted assets, as well as a minimum ratio of Tier 1 capital to total adjusted quarterly average assets as defined in such regulations.

In addition, banking subsidiaries of bank holding companies are subject to certain restrictions imposed by federal law in dealings with their holding companies and other affiliates. Subject to certain exceptions set forth in the Federal Reserve Act, a bank can make a loan or extend credit to an affiliate, purchase or invest in the securities of an affiliate, purchase assets from an affiliate, accept securities of an affiliate as collateral for a loan or extension of credit to any person or company, issue a guarantee or accept letters of credit on behalf of an affiliate only if the aggregate amount of the above transactions of such subsidiary does not exceed 10 percent of such subsidiary s capital stock and surplus on an individual basis or 20 percent of such subsidiary s capital stock and surplus on an aggregate basis. Such transactions must be on terms and conditions that are consistent with safe and sound banking practices. A bank holding company and its subsidiaries generally may not purchase a low-quality asset, as that term is defined in the Federal Reserve Act, from an affiliate. Such restrictions also prevent a holding company and its other affiliates from borrowing from a banking subsidiary of the holding company unless the loans are secured by collateral.

The FRB has cease and desist powers over parent bank holding companies and non-banking subsidiaries where the action of a parent bank holding company or its non-financial institutions represent an unsafe or unsound practice or violation of law. The FRB has the authority to regulate debt obligations, other than commercial paper, issued by bank holding companies by imposing interest ceilings and reserve requirements on such debt obligations.

Regulation of the Bank

The Bank is extensively regulated under both federal and state law.

Pacific Western is insured by the FDIC, which currently insures non-IRA deposits of each insured bank to a maximum of $100,000 per depositor. For this protection, Pacific Western, as is the case with all insured banks, pays a quarterly statutory assessment and is subject to the rules and regulations of the FDIC. Additionally, Pacific Western is a state-chartered bank and is regulated by the DFI.

Various requirements and restrictions under federal and state law affect the operations of the Bank. Federal and state statutes and regulations relate to many aspects of the Bank s operations, including standards for safety and soundness, reserves against deposits, interest rates payable on deposits and loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices, fair lending requirements, Community Reinvestment Act activities and loans to affiliates.

Further, each of the Company and the Bank is required to maintain certain levels of capital. The FRB and the FDIC have substantially similar risk-based capital ratio and leverage ratio guidelines for banking organizations. The guidelines are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments. Under the guidelines, banking organizations are required to maintain minimum ratios for Tier 1 capital and total capital to risk-weighted assets (including certain off-balance sheet items, such as letters of credit). For purposes of calculating the ratios, a banking organization s assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories. A depository institution s or holding company s capital, in turn, is classified in one of three tiers, depending on type:

- *Core Capital (Tier 1).* Tier 1 capital includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, and qualifying trust preferred securities less goodwill, most intangible assets and certain other assets.

- *Supplementary Capital (Tier 2).* Tier 2 capital includes, among other things, perpetual preferred stock and trust preferred securities not meeting the Tier 1 definition, qualifying mandatory convertible debt securities, qualifying subordinated debt, and allowances for possible loan and lease losses, subject to limitations.

- *Market Risk Capital (Tier 3).* Tier 3 capital includes qualifying unsecured subordinated debt.

The following are the regulatory capital guidelines and the actual capitalization levels for Pacific Western and the Company as of December 31, 2006:

	Adequately Capitalized	**Well Capitalized**	**Pacific Western**	**Company Consolidated**
	(greater than or equal to)			
Total risk-based capital ratio	8.00 %	10.00 %	12.17 %	12.18 %
Tier 1 risk-based capital ratio	4.00 %	6.00 %	10.93 %	10.94 %
Tier 1 leverage capital ratio	4.00 %	5.00 %	12.40 %	12.19 %

The Company issued subordinated debentures to trusts that were established by us or entities we have acquired, which, in turn, issued trust preferred securities, which totaled $141.0 million at December 31, 2006. This includes $43.0 million of trust preferred securities acquired in the Foothill and Community

Bancorp acquisitions. During the fourth quarter of 2006, we also retired $20.0 million of our trust preferred securities. Our trust preferred securities are currently included in our Tier I capital for purposes of determining the Company s Tier I and total risk-based capital ratios. The FRB, which is the holding company s banking regulator, has promulgated a modification of the capital regulations affecting trust preferred securities. Under this modification, effective March 31, 2009, the Company will be required to use a more restrictive formula to determine the amount of trust preferred securities that can be included in regulatory Tier I capital. At that time, the Company will be allowed to include in Tier I capital an amount of trust preferred securities equal to no more than 25% of the sum of all core capital elements, which is generally defined as shareholders equity, less goodwill net of any related deferred income tax liability. The regulations currently in effect through December 31, 2008 limit the amount of trust preferred securities that can be included in Tier I capital to 25% of the sum of core capital elements without a deduction for goodwill. We have determined that our Tier I capital ratios would remain above the well-capitalized level had the modification of the capital regulations been in effect at December 31, 2006. We expect that our Tier I capital ratios will be at or above the existing well capitalized levels on March 31, 2009, the first date on which the modified capital regulations must be applied.

The FDIC and FRB risk-based capital guidelines are based upon the 1988 capital accord of the Basel Committee on Banking Supervision, or BIS. The BIS is a committee of central banks and bank supervisors/regulators from the major industrialized countries that develops broad policy guidelines that each country s supervisors can use to determine the supervisory policies they apply. The BIS has been working for a number of years on revisions to the 1988 capital accord and in June 2004 released the final version of its proposed new capital framework, with an update in November 2005, or BIS II. BIS II proposes two approaches for setting capital standards for credit risk an internal ratings-based approach tailored to individual institutions circumstances (which for many asset classes is itself broken into a foundation approach and an advanced or A-IRB approach, the availability of which is subject to additional restrictions) and a standardized approach that bases risk weightings on external credit assessments to a much greater extent than permitted in existing risk-based capital guidelines. BIS II also would set capital requirements for operational risk and refine the existing capital requirements for market risk exposures.

The U.S. banking and thrift agencies are developing proposed revisions to their existing capital adequacy regulations and standards based on BIS II. In September 2006, the agencies issued a notice of proposed rulemaking setting forth a definitive proposal for implementing BIS II in the United States that would apply only to internationally active banking organizations defined as those with consolidated total assets of $250 billion or more or consolidated on-balance sheet foreign exposures of $10 billion or more but that other U.S. banking organizations could elect but would not be required to apply. In December 2006, the agencies issued a notice of proposed rulemaking describing proposed amendments to their existing risk-based capital guidelines to make them more risk-sensitive, generally following aspects of the standardized approach of BIS II. These latter proposed amendments, often referred to as BIS I-A , would apply to banking organizations that are not internationally active banking organizations subject to the A-IRB approach for internationally active banking organizations and do not opt in to that approach. The comment periods for both of the agencies notices of proposed rulemakings expire on March 26, 2007. The agencies have indicated their intent to have the A-IRB provisions for internationally active U.S. banking organizations first become effective in March 2009 and that those provisions and the BIS I-A provisions for others will be implemented on similar timeframes.

The Company is not an internationally active banking organization, as defined in BIS II, and has not made a determination as to whether it would opt to apply the A-IRB provisions applicable to internationally active U.S. banking organizations once they become effective.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act, or FDICIA, requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios. Pursuant to FDICIA, the FDIC promulgated regulations defining the following five categories in which an insured depository institution will be placed, based on the level of its capital ratios: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Under the prompt corrective action provisions of FDICIA, an insured depository institution generally will be classified as undercapitalized if its total risk-based capital is less than 8% or its Tier 1 risk-based capital or leverage ratio is less than 4%. An institution that, based upon its capital levels, is classified as well capitalized , adequately capitalized or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment. At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits. Furthermore, if a bank is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the federal bank regulator, and the holding company must guarantee the performance of that plan.

In addition to measures taken under the prompt corrective action provisions, commercial banking organizations may be subject to potential enforcement actions by the federal or state banking agencies for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, the issuance of a cease-and-desist order that can be judicially enforced, the termination of insurance of deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the issuance of removal and prohibition orders against institution-affiliated parties. The enforcement of such actions through injunctions or restraining orders may be based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

Hazardous Waste Clean-Up

Since we are not involved in any business that manufactures, uses or transports chemicals, waste, pollutants or toxins that might have a material adverse effect on the environment, our primary exposure to environmental laws is through our lending activities and through properties or businesses we may own, lease or acquire. Based on a general survey of the Bank s loan portfolio, conversations with local appraisers and the type of lending currently and historically done by the Bank, we are not aware of any potential liability for hazardous waste contamination that would be reasonably likely to have a material adverse effect on the Company as of February 16, 2007.

Sarbanes-Oxley Act

On July 30, 2002, the President signed into law the Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act aims to restore the credibility lost as a result of high profile corporate scandals by addressing, among other issues, corporate governance, auditing and accounting, executive compensation and enhanced and timely disclosure of corporate information. The Nasdaq Stock Market has adopted corporate governance rules intended to allow shareholders to more easily and effectively monitor the performance of companies and directors. The principal provisions of the Sarbanes-Oxley Act, many of which have been interpreted through regulations released in 2003, provide for and include, among other things: (i) the creation of the Public Company Accounting Oversight Board; (ii) auditor independence provisions that restrict non-audit services that accountants may provide to their audit clients; (iii) additional corporate governance and

responsibility measures, including the requirement that the chief executive officer and chief financial officer of a public company certify financial statements; (iv) the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer s securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement; (v) an increase in the oversight of, and enhancement of certain requirements relating to, audit committees of public companies and how they interact with that company s independent auditors; (vi) requirements that audit committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the issuer; (vii) requirements that companies disclose whether at least one member of the audit committee is a financial expert (as such term is defined by the SEC) and if not disclosed, why the audit committee does not have a financial expert; (viii) expanded disclosure requirements for corporate insiders, including accelerated reporting of stock transactions by insiders and a prohibition on insider trading during pension blackout periods; (ix) a prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions on nonpreferential terms and in compliance with other bank regulatory requirements; (x) disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code; (xi) a range of enhanced penalties for fraud and other violations; and (xii) expanded disclosure and certification relating to an issuer s disclosure controls and procedures and internal controls over financial reporting.

As a result of the Sarbanes-Oxley Act, and its implementing regulations, we have incurred substantial costs to interpret and ensure compliance with the law and its regulations. Future changes in the laws, regulation, or policies that impact us cannot necessarily be predicted and may have a material effect on our business and earnings.

USA Patriot Act

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the Patriot Act), designed to deny terrorists and others the ability to obtain access to the United States financial system, has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The Patriot Act, as implemented by various federal regulatory agencies, requires financial institutions, including the Company, to implement new policies and procedures or amend existing policies and procedures with respect to, among other matters, anti-money laundering, compliance, suspicious activity and currency transaction reporting and due diligence on customers. The Patriot Act and its underlying regulations also permit information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and require the FRB, the FDIC and other federal banking agencies to evaluate the effectiveness of an applicant in combating money laundering activities when considering applications filed under Section 3 of the BHCA or the Bank Merger Act. The Company has augmented its systems and procedures to accomplish this. We believe that the ongoing cost of compliance with the Patriot Act is not likely to be material to the Company.

Federal Deposit Insurance

Because of favorable loss experience and a healthy reserve ratio in the Bank Insurance Fund, or the BIF, of the FDIC, well-capitalized and well-managed banks, including the Bank, have in recent years paid minimal premiums for FDIC insurance. The FDIC notified banks that beginning in 2007, it will increase the premiums for deposit insurance. Concurrently, a deposit premium refund, in the form of credit offsets, was granted to banks that were in existence on December 31, 1996 and paid deposit insurance premiums prior to that date. Pacific Western and many of our acquired institutions meet the qualifications and are eligible for the credit. The credit is to be used to offset future premiums. Because of these credits, we have no expectation of paying any deposit insurance premiums in 2007. The amount of any future premiums will depend on the BIF loss experience, legislation or regulatory initiatives and other factors, none of which we are in position to predict at this time.

Community Reinvestment Act

The Community Reinvestment Act (CRA) generally requires insured depository institutions to identify the communities they serve and to make loans and investments and provide services that meet the credit needs of these communities. Furthermore, the CRA requires the FDIC to evaluate the performance of banks in helping to meet the credit needs of its communities. During these examinations, the FDIC rates such institutions compliance with CRA as Outstanding, Satisfactory, Needs to Improve or Substantial Noncompliance. Failure of an institution to receive at least a Satisfactory rating could inhibit such institution or its holding company from undertaking certain activities. The FDIC must take into account the record of performance of banks in meeting the credit needs of the entire community served, including low-and moderate-income neighborhoods. As a part of the CRA program, the Bank is subject to periodic examinations by the FDIC, and must maintain comprehensive records of its CRA activities for this purpose. The Bank received a CRA rating of Satisfactory as of its most recent examination.

Customer Information Security

The FRB and other bank regulatory agencies have adopted final guidelines for safeguarding confidential, personal customer information. These guidelines require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazard to the security or integrity of such information and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. We have adopted a customer information security program to comply with such requirements.

Privacy

The Gramm-Leach-Bliley Act of 1999 and the California Financial Information Privacy Act require financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to non-affiliated third parties. In general, the statutes require explanations to consumers on policies and procedures regarding the disclosure of such nonpublic personal information, and, except as otherwise required by law, prohibits disclosing such information except as provided in the Bank s policies and procedures. Pacific Western has implemented privacy policies addressing these restrictions which are distributed regularly to all existing and new customers of the Bank.

Available Information

We maintain an Internet website at www.firstcommunitybancorp.com, and a website for Pacific Western at www.pacificwesternbank.com. At www.firstcommunitybancorp.com and via the Investor Relations link at the Bank s website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available, free of charge, as soon as reasonably practicable after such forms are electronically filed with, or furnished to, the SEC. The public may read and copy any materials we file with the SEC at the SEC s Public Reference Room, located at 450 Fifth Street, NW, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. You may obtain copies of the Company s filings on the SEC site. These documents may also be obtained in print upon request by our shareholders to our Investor Relations Department.

We have adopted a written code of ethics that applies to all directors, officers and employees of the Company, including our principal executive officer and senior financial officers, in accordance with

Section 406 of the Sarbanes-Oxley Act of 2002 and the rules of the Securities and Exchange Commission promulgated there under. The code of ethics, which we call our Code of Business Conduct and Ethics, is available on our corporate web site, www.firstcommunitybancorp.com in the section entitled Corporate Governance. In the event that we make changes in, or provide waivers from, the provisions of this code of ethics that the SEC requires us to disclose, we intend to disclose these events on our corporate web site in such section. In the Corporate Governance section of our corporate web site, we have also posted the charters for our Audit Committee and our Compensation, Nominating and Governance Committee, as well as our Corporate Governance Guidelines. In addition, information concerning purchases and sales of our equity securities by our executive officers and directors is posted on our web site.

Our Investor Relations Department can be contacted at First Community Bancorp, 275 N. Brea Blvd., Brea, CA 92821, Attention: Investor Relations, telephone 714-671-6800, or via e-mail to investor-relations@firstcommunitybancorp.com.

(All website addresses given in this document are for information only and are not intended to be an active link or to incorporate any website information into this document.)

Forward-Looking Information

This Annual Report on Form 10-K contains certain forward-looking information about the Company, which statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are forward-looking statements. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond the control of the Company. We caution readers that a number of important factors could cause actual results to differ materially from those expressed in, implied or projected by, such forward-looking statements. Risks and uncertainties include, but are not limited to:

- planned acquisitions and relative cost savings from completed acquisitions cannot be realized or realized within the expected time frame;
- revenues are lower than expected;
- credit quality deterioration which could cause an increase in the provision for credit losses;
- competitive pressure among depository institutions increases significantly;
- the integration of acquired businesses costs more, takes longer or is less successful than expected;
- the possibility that personnel changes will not proceed as planned;
- the cost of additional capital is more than expected;
- a change in the interest rate environment reduces interest margins;
- asset/liability repricing risks and liquidity risks;
- general economic conditions, either nationally or in the market areas in which the Company does or anticipates doing business, are less favorable than expected;
- the economic and regulatory effects of the continuing war on terrorism and other events of war, including the war in Iraq and related disturbances in the Middle East;
- legislative or regulatory requirements or changes adversely affect First Community Bancorp s business;
- changes in the securities markets; and

- regulatory approvals for announced or future acquisitions cannot be obtained on the terms expected or on the anticipated schedule.

If any of these risks or uncertainties materializes or if any of the assumptions underlying such forward-looking statements proves to be incorrect, First Community Bancorp s results could differ materially from those expressed in, implied or projected by, such forward-looking statements. First Community Bancorp assumes no obligation to update such forward-looking statements. For additional information concerning risk and uncertainties related to us and our operations, please refer to Items 1 through 7A of this Annual Report.

ITEM 1A. RISK FACTORS

Ownership of our common stock involves risk. You should carefully consider, in addition to the other information set forth herein, the following risk factors.

Our business is subject to interest rate risk and variations in interest rates may negatively affect our financial performance.

Changes in the interest rate environment may reduce our profits. It is expected that we will continue to realize income from the differential or spread between the interest earned on loans, securities and other interest earning assets, and interest paid on deposits, borrowings and other interest bearing liabilities. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest earning assets and interest bearing liabilities. In addition, loan volume and yields are affected by market interest rates on loans, and rising interest rates generally are associated with a lower volume of loan originations. We cannot assure you that we can minimize our interest rate risk. In addition, while an increase in the general level of interest rates may increase our net interest margin and loan yield, it may adversely affect the ability of certain borrowers with variable rate loans to pay the interest on and principal of their obligations. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest spread, asset quality, loan origination volume and overall profitability.

We face strong competition from financial services companies and other companies that offer banking services which could negatively affect our business.

We conduct our banking operations primarily in Southern California. Increased competition in our market may result in reduced loans and deposits. Ultimately, we may not be able to compete successfully against current and future competitors. Many competitors offer the same banking services that we offer in our service area. These competitors include national banks, regional banks and other community banks. We also face competition from many other types of financial institutions, including without limitation, savings and loan institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, our competitors include several major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and ATMs and conduct extensive promotional and advertising campaigns.

Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are thereby able to serve the credit needs of larger customers. Areas of competition include interest rates for loans and deposits, efforts to obtain deposits, and range and quality of products and services provided, including new technology driven products and services. Technological innovation continues to contribute to greater competition in domestic and international financial services markets as technological advances enable more companies to provide financial services. We also face competition from out-of-state financial intermediaries that have opened low-end production offices or that solicit deposits in our market areas. If we are unable to attract and retain banking customers, we may be unable to continue our loan growth and level of deposits and our results of operations and financial condition may otherwise be adversely affected.

Changes in economic conditions, in particular an economic slowdown in Southern California, could materially and negatively affect our business.

Our business is directly impacted by factors such as economic, political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in government monetary and fiscal policies and inflation, all of which are beyond our control. A deterioration in economic conditions, whether caused by national or local concerns, in particular an economic slowdown in Southern California, could result in the following consequences, any of which could hurt our business materially: loan delinquencies may increase; problem assets and foreclosures may increase; demand for our products and services may decrease; low cost or noninterest bearing deposits may decrease; and collateral for loans made by us, especially real estate, may decline in value, in turn reducing customers borrowing power, and reducing the value of assets and collateral associated with our existing loans. These circumstances may lead to an increase in nonaccrual and classified loans, which generally results in a provision for credit losses and in turn reduces the Company s net earnings. The State of California continues to face fiscal challenges, the long-term effects of which on the State s economy cannot be predicted.

A downturn in the real estate market could negatively affect our business.

A downturn in the real estate market could negatively affect our business because a significant portion (approximately 79% as of December 31, 2006) of our loans is secured by real estate. Our ability to recover on defaulted loans by selling the real estate collateral would then be diminished and we would be more likely to suffer losses on defaulted loans. Substantially all of our real property collateral is located in Southern California. If there is a significant decline in real estate values, especially in Southern California, the collateral for our loans would provide less security. Real estate values could be affected by, among other things, an economic slowdown, an increase in interest rates, earthquakes and other natural disasters particular to California.

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects.

We currently depend heavily on the services of our chairman, John Eggemeyer, our chief executive officer, Matthew Wagner, and a number of other key management personnel. The loss of Mr. Eggemeyer s or Mr. Wagner s services or that of other key personnel could materially and adversely affect our results of operations and financial condition. Our success also depends, in part, on our ability to attract and retain additional qualified management personnel. Competition for such personnel is strong in the banking industry and we may not be successful in attracting or retaining the personnel we require.

We are subject to extensive regulation which could adversely affect our business.

Our operations are subject to extensive regulation by federal and state governmental authorities, and we are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Because our business is highly regulated, the laws, rules and regulations applicable to us are subject to regular modification and change. There are currently proposed laws, rules and regulations that, if adopted, would impact our operations. There can be no assurance that these proposed laws, rules and regulations, or any other laws, rules or regulations, will not be adopted in the future, which could (i) make compliance much more difficult or expensive, (ii) restrict our ability to originate, broker or sell loans or accept certain deposits, (iii) further limit or restrict the amount of commissions, interest or other charges earned on loans originated or sold by us, or (iv) otherwise adversely affect our business or prospects for business. Additionally, in order to conduct certain activities, including acquisitions, we are required to obtain regulatory approval. There can be no assurance that any required approvals can be obtained, or obtained without conditions or on a timeframe acceptable to us. For more information, please see the section entitled Item 1. Business Supervision and Regulation above.

We are exposed to transactional, currency and legal risk related to our foreign loans that is in addition to risks we face on loans to U.S. based borrowers.

A portion of our loan portfolio is represented by credit we extend and loans we make to businesses located outside the United States, predominantly in Mexico. These loans, which include commercial loans, real estate loans and credit extensions for the financing of international trade, are subject to risks in addition to risks we face with our loans to businesses located in the United States including, but not limited to, currency risk, transaction risk, country risk and legal risk. While these loans are denominated in U.S. dollars, the ability of the borrower to repay may be affected by fluctuations in the borrower s home country currency relative to the U.S. dollar. Additionally, while most of our foreign loans are insured by U.S.-based institutions, guaranteed by a U.S.-based entity, or collateralized with U.S.-based assets or real property, our ability to collect in the event of default is subject to a number of conditions, as well as deductibles and co-payments with respect to insurance, and we may not be successful in obtaining partial or full repayment or reimbursement from the insurers. Furthermore, foreign laws may restrict our ability to foreclose on, take a security interest in, or seize collateral located in the foreign country.

We are exposed to risk of environmental liabilities with respect to properties to which we take title.

In the course of our business, we may own or foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition, liquidity and results of operations could be materially and adversely affected.

Our ability to pay dividends is restricted by law and contractual arrangements and depends on capital distributions from the Bank which are subject to regulatory limits.

Our ability to pay dividends to our shareholders is subject to the restrictions set forth in California law. In addition, our ability to pay dividends to our shareholders is restricted in specified circumstances under indentures governing the trust preferred securities we have issued and under the revolving credit agreement to which we are a party. See Item 5. Market for Registrant s Common Equity and Related Stockholder Matters Dividends in Part II of this Annual Report for more information on these restrictions. We cannot assure you that we will meet the criteria specified under California law or under these agreements in the future, in which case we may reduce or stop paying dividends on our common stock.

The primary source of our income from which we pay dividends is the receipt of dividends from the Bank.

The availability of dividends from the Bank is limited by various statutes and regulations. It is possible, depending upon the financial condition of the Bank and other factors, that the Board of Governors of the Federal Reserve System, the FDIC and/or the DFI could assert that payment of dividends or other payments is an unsafe or unsound practice. In the event the Bank is unable to pay dividends to us, it is likely that we, in turn, would have to reduce or stop paying dividends on our common stock. Our failure to pay dividends on our common stock could have a material adverse effect on the market price of our common stock. See Item 1. Business Supervision and Regulation above for additional information on the regulatory restrictions to which we and the Bank are subject.

Only a limited trading market exists for our common stock which could lead to price volatility.

Our common stock was designated for quotation on the Nasdaq National Market in June 2000 and trading volumes since that time have been modest. The limited trading market for our common stock may cause fluctuations in the market value of our common stock to be exaggerated, leading to price volatility in excess of that which would occur in a more active trading market of our common stock. In addition, even if a more active market in our common stock develops, we cannot assure you that such a market will continue or that shareholders will be able to sell their shares.

Our allowance for credit losses may not be adequate to cover actual losses.

In accordance with accounting principles generally accepted in the United States, we maintain an allowance for loan losses to provide for loan defaults and non-performance and a reserve for unfunded loan commitments, which when combined, we refer to as the allowance for credit losses. Our allowance for credit losses may not be adequate to cover actual credit losses, and future provisions for credit losses could materially and adversely affect our operating results. Our allowance for credit losses is based on prior experience, as well as an evaluation of the risks in the current portfolio. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond our control, and these losses may exceed current estimates. Our federal and state regulators, as an integral part of their examination process, review our loans and allowance for credit losses. While we believe that our allowance for credit losses is adequate to cover current losses, we cannot assure you that we will not further increase the allowance for credit losses or that regulators will not require us to increase this allowance. Either of these occurrences could materially and negatively affect our earnings. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in Part II of this Annual Report for more information.

Our acquisitions may subject us to unknown risks.

We have completed 18 acquisitions since May 2000, including the acquisition of two bank subsidiaries around which the Company was initially formed. Certain events may arise after the date of an acquisition, or we may learn of certain facts, events or circumstances after the closing of an acquisition, that may affect our financial condition or performance or subject us to risk of loss. These events include, but are not limited to: litigation resulting from circumstances occurring at the acquired entity prior to the date of acquisition; loan downgrades and credit loss provisions resulting from underwriting of certain acquired loans determined not to meet our credit standards; personnel changes that cause instability within a department; delays in implementing new policies or procedures, or the failure to apply new policies or procedures; and, other events relating to the performance of our business. Acquisitions involve inherent uncertainty and we cannot determine all potential events, facts and circumstances that could result in loss, or give assurances that our investigation or mitigation efforts will be sufficient to protect against any such loss.

Concentrated ownership of our common stock creates a risk of sudden changes in our share price.

As of February 23, 2007, directors and members of our executive management team owned or controlled approximately 10.7% of our common stock, excluding shares that may be issued to executive officers upon vesting of restricted and performance stock awards and exercise of stock options. Investors who purchase our common stock may be subject to certain risks due to the concentrated ownership of our common stock. The sale by any of our large shareholders of a significant portion of that shareholder s holdings could have a material adverse effect on the market price of our common stock. In addition, the registration of any significant amount of additional shares of our common stock will have the immediate effect of increasing the public float of our common stock and any such increase may cause the market price of our common stock to decline or fluctuate significantly.

Our largest shareholder is a registered bank holding company and the activities and regulation of such shareholder may affect the permissible activities of the Company.

Castle Creek Capital, LLC, which we refer to as Castle Creek, is controlled by our chairman, John M. Eggemeyer, and beneficially owned approximately 6.4% of the Company as of February 23, 2007. Castle Creek is a registered bank holding company under the BHCA and is regulated by the FRB. Under FRB guidelines, holding companies must be a source of strength for their subsidiaries. See Item 1. Business Supervision and Regulation Bank Holding Company Regulation above for more information. Regulation of Castle Creek by the FRB may adversely affect the activities and strategic plans of the Company should the FRB determine that Castle Creek or any other company in which Castle Creek has invested has engaged in any unsafe or unsound banking practices or activities. While we have no reason to believe that the FRB is proposing to take any action with respect to Castle Creek that would adversely affect the Company, we remain subject to such risk.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of February 23, 2007, we had a total of 94 properties consisting of 63 branch offices, one annex office, 4 operations centers, 10 loan offices, and 16 other properties of which 11 are subleased. We own 8 locations and the remaining properties are leased. All properties are located in Southern California except for the annex office used by Pacific Western s asset-based lending division, which is located in Phoenix, Arizona. Pacific Western operates through 63 branches and its principal office is located at 401West A Street, San Diego, CA 92101-7917.

For additional information regarding properties of the Company and Pacific Western, see Item 8. Financial Statements and Supplementary Data.

ITEM 3. LEGAL PROCEEDINGS

On June 8, 2004, the Company was served with an amended complaint naming First Community and Pacific Western as defendants in a class action lawsuit filed in Los Angeles Superior Court pending as Gilbert et. al v. Cohn et al, Case No. BC310846 (the Gilbert Litigation). A former officer of First Charter Bank, N.A. (First Charter), which the Company acquired in October 2001, was also named as a defendant. That former officer left First Charter in May of 1997 and later became a principal of Four Star Financial Services, LLC (Four Star), an affiliate of 900 Capital Services, Inc. (900 Capital).

On April 18, 2005, the plaintiffs filed the second amended class action complaint. The second amended complaint alleged that the former officer of First Charter improperly induced several First Charter customers to invest in 900 Capital or affiliates of 900 Capital and further alleges that Four Star, 900 Capital and some of their affiliated entities perpetuated their fraud upon investors through various accounts at First Charter, First Community and Pacific Western with those banks purported knowing participation in and/or willful ignorance of the scheme. The key allegations in the second amended complaint dated back to the mid-1990s and the second amended complaint alleged several counts for relief including aiding and abetting, conspiracy, fraud, breach of fiduciary duty, relief pursuant to the California Business and Professions Code, negligence and relief under the California Securities Act stemming from an alleged fraudulent scheme and sale of securities issued by 900 Capital and Four Star. In disclosures provided to the parties, plaintiffs have asserted that the named plaintiffs have suffered losses well in excess of $3.85 million, and plaintiffs have asserted that losses to the class total many tens of millions of dollars. On June 15, 2005, we filed a demurrer to the second amended complaint, and on August 22, 2005, the

Court sustained our demurrer as to each of the counts therein, granting plaintiffs leave to amend on four of the six counts, and dismissing the other counts outright.

On August 12, 2005, the Company was notified by Progressive Casualty Insurance Company (Progressive), its primary insurance carrier with respect to the Gilbert Litigation that Progressive had determined that, based upon the allegations in the second amended complaint filed in the Gilbert Litigation, there was no coverage with respect to the Gilbert Litigation under the Company s insurance policy with Progressive. Progressive also notified the Company that it was withdrawing its agreement to fund defense costs for the Gilbert Litigation and reserving its right to seek reimbursement from the Company for any defense costs advanced pursuant to the insurance policy. Through December 31, 2005, Progressive had advanced to the Company approximately $690,000 of defense costs with respect to the Gilbert Litigation.

On August 12, 2005, Progressive filed an action in federal district court for declaratory relief, currently pending as Progressive Casualty Insurance Company, etc., v. First Community Bancorp, etc., et al., Case No. 05-5900 SVW (MAWx) (the Progressive Litigation), seeking a declaratory judgment with respect to the parties rights and obligations under Progressive s policy with the Company. On October 11, 2005, the Company filed in federal court a motion to dismiss or stay the Progressive Litigation.

In November 2005, along with certain other defendants, we reached an agreement in principle with respect to the Gilbert Litigation. That agreement is reflected in a written Stipulation of Settlement dated February 9, 2007, which has been executed by all the parties to that settlement. The settlement is subject to approval by the Los Angeles Superior Court and a certain level of participation in the settlement by class members. Assuming all conditions to final consummation of the settlement are met, First Community s contribution to the settlement will be $775,000, which was accrued in 2005.

While we believe that this settlement, if finalized, will end our exposure to the underlying claims by participating class members, we cannot be certain that all conditions to the settlement will be satisfied or that we will not be subject to further claims by parties related to the same claims who did not participate in the settlement.

In connection with the Gilbert Litigation settlement, we also reached a settlement with Progressive Casualty Insurance Co. in the Progressive Litigation. The settlement with Progressive, which includes an additional contribution by Progressive under First Community s policy toward the settlement of the Gilbert Litigation and a dismissal by Progressive of any claims against First Community for reimbursement, is contingent upon the consummation of the Gilbert Litigation settlement.

In the ordinary course of our business, we are party to various other legal actions, which we believe are incidental to the operation of our business. Although the ultimate outcome and amount of liability, if any, with respect to these other legal actions to which we are currently a party cannot presently be ascertained with certainty, in the opinion of management, based upon information currently available to us, any resulting liability is not likely to have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to the shareholders of the Company, through the solicitation of proxies or otherwise, during the fourth quarter of the year ended December 31, 2006.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Marketplace Designation, Sales Price Information and Holders

On June 1, 2000, our common stock was designated for quotation on the Nasdaq National Market® and trades under the symbol FCBP. The following table summarizes the high and low sale prices for each quarterly period ended since January 1, 2005 for our common stock, as quoted and reported by the Nasdaq National Market:

	Sales Prices High	Low
Quarter Ended		
2005:		
First quarter	$ 46.20	$ 39.00
Second quarter	$ 48.95	$ 41.18
Third quarter	$ 51.62	$ 45.50
Fourth quarter	$ 57.30	$ 45.07
2006:		
First quarter	$ 61.65	$ 53.95
Second quarter	$ 61.35	$ 55.02
Third quarter	$ 59.52	$ 51.87
Fourth quarter	$ 58.11	$ 51.30

As of February 16, 2007, the closing price of our common stock on Nasdaq was $54.42 per share. As of that date, we believe, based on the records of our transfer agent, that there were approximately 2,650 record holders of our common stock.

Dividends

Our ability to pay dividends to our shareholders is subject to the restrictions set forth in the California General Corporation Law, or the CGCL. The CGCL provides that a corporation may make a distribution to its shareholders if the corporation s retained earnings equal at least the amount of the proposed distribution. The CGCL further provides that, in the event that sufficient retained earnings are not available for the proposed distribution, a corporation may nevertheless make a distribution to its shareholders if it meets two conditions: (i) the corporation s assets equal at least 1 1⁄4 times its liabilities and (ii) the corporation s current assets equal at least its current liabilities or, alternatively, if the average of the corporation s earnings before taxes on income and interest expense for the two preceding fiscal years was less than the average of the corporation s interest expense for such fiscal years, the corporation s current assets equal at least 1 1⁄4 times its current liabilities. Our ability to pay dividends is also subject to certain other limitations. See Item 1. Business Supervision and Regulation in Part I of this Annual Report on Form 10-K.

Our primary source of income is the receipt of dividends from the Bank. The availability of dividends from the Bank is limited by various statutes and regulations. It is possible, depending upon the financial condition of the bank in question, and other factors, that either the FRB, the FDIC or the DFI could assert that payment of dividends or other payments is an unsafe or unsound practice. In addition, our ability to pay dividends is limited by certain provisions of our credit agreement with U.S. Bank, N.A. This agreement provides that we may not declare or pay any dividend on the Company s common stock in any quarter if an Event of Default (as defined in the agreement) has occurred or will occur as a result of such payment. In addition, the agreement prevents us from paying a dividend in the event we no longer own 100% of Pacific

Western. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Note 18 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data.

Our ability to pay dividends is also limited by certain covenants contained in the indentures governing trust preferred securities issued by us or entities that we have acquired, and the debentures underlying the trust preferred securities. Generally the indentures provide that if an Event of Default (as defined in the indentures) has occurred and is continuing, or if we are in default with respect to any obligations under our guarantee agreement which covers payments of the obligations on the trust preferred securities, or if we give notice of any intention to defer payments of interest on the debentures underlying the trust preferred securities, then we may not, among other restrictions, declare or pay any dividends (other than a dividend payable by the Bank to the holding company) with respect to our common stock. See Note 8 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data.

Holders of our common stock are entitled to receive dividends declared by our Board of Directors out of funds legally available under the laws of the State of California, subject to the rights of holders of any preferred stock of the Company that may be issued in the future. Since January 1, 2005 we have declared the following quarterly dividends:

Record Date	Pay Date	Amount per Share
February 15, 2005	February 28, 2005	$ 0.22
May 16, 2005	May 31, 2005	$ 0.25
August 16, 2005	August 31, 2005	$ 0.25
November 16, 2005	November 30, 2005	$ 0.25
February 16, 2006	February 28, 2006	$ 0.25
May 16, 2006	May 31, 2006	$ 0.32
August 16, 2006	August 30, 2006	$ 0.32
November 16, 2006	November 30, 2006	$ 0.32
February 16, 2007	February 28, 2007	$ 0.32

We believe that the Company will be able to continue paying quarterly dividends, however we can provide no assurance that we will continue to declare dividends on a quarterly basis or otherwise. The declaration of dividends by the Company is subject to the discretion of our Board of Directors. Our Board of Directors will take into account such matters as general business conditions, our financial results, capital requirements, contractual, legal and regulatory restrictions on the payment of dividends by us to our shareholders or by our subsidiary to the holding company, and such other factors as our Board of Directors may deem relevant. See Item 1. Business Regulation and Supervision, in Part I of this Annual Report on Form 10-K for a discussion of potential regulatory limitations on the holding company s receipt of funds from the Bank.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2006, regarding securities issued and to be issued under our equity compensation plans that were in effect during fiscal 2006:

	Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	The First Community Bancorp 2003 Stock Incentive Plan(1)	135,373 (2)	$ 20.78	916,196 (3)
Equity compensation plans not approved by security holders	None			
Total				

(1) The First Community Bancorp 2003 Stock Incentive Plan (the Incentive Plan) was last approved by the shareholders of the Company at our 2004 Annual Meeting of Shareholders and amended at our 2006 Annual Meeting of Shareholders.

(2) Amount represents outstanding options only and does not include the 750,014 shares of unvested restricted and performance stock awarded since 2003 and outstanding as of December 31, 2006 with an exercise price of zero.

(3) The total number of shares of common stock that have been approved for issuance pursuant to awards granted or which may be granted in the future under the Incentive Plan is 3,500,000 shares. In addition to options issued under the Incentive Plan, the number of securities remaining available for future issuance has been reduced by 1,134,122 shares which represents the sum of the number of unvested shares of restricted and performance stock awards outstanding at December 31, 2006 and the number of vested shares of restricted and performance stock as of December 31, 2006. In February 2007, the Company granted 208,300 of performance and restricted stock awards reducing the shares remaining available for issuance under the Incentive Plan to 707,896.

Recent Sales of Unregistered Securities and Use of Proceeds

During the past three years, the Company has issued unregistered debt securities through one offering of trust preferred securities. The details of the offering are set forth below:

Securities Sold	Date Offering Completed (In thousands)	Underwriters or Other Purchasers	Consideration Aggregate OfferingPrice	Underwriting Discounts/ Commissions	Exemption from Registration Claimed	Terms of Conversion or Exercise	Use of Proceeds
Trust Preferred Securities	2/5/2004	Cohen Bros. & Co./ Friedman, Billings, Ramsey & Co., Inc.	61,856	300	(1)	N/A	Acquisition financing

(1) The securities were sold in a private placement. We are informed by the initial purchasers that the securities were resold in transactions exempt from registration pursuant to Rule 144A under the Securities Act of 1933, as amended, to qualified institutional buyers as such term is defined in Rule 144A and in accordance with the procedures set forth in such Rule.

Additional information regarding the offering of our debt securities and the trust preferred securities is set forth in Note 8 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data.

Repurchases of Common Stock

Through the Company s Directors Deferred Compensation Plan, or the DDCP, participants in the plan may reinvest deferred amounts in the Company s common stock. The Company has the discretion whether to track purchases of common stock as if made, or to fully fund the DDCP via purchases of stock with deferred amounts. Purchases of Company common stock by the rabbi trust of the DDCP are considered repurchases of common stock by the Company since the rabbi trust is an asset of the Company. Actual purchases of Company common stock via the DDCP are made through open market purchases pursuant to the terms of the DDCP, which includes a predetermined formula and schedule for the purchase of such stock in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934. Pursuant to the terms of the DDCP, generally purchases are actually made or deemed to be made in the open market on the 15th of the month (or the next trading day) following the day on which deferred amounts are contributed to the DDCP, beginning March 15 of each year. Listed in the table below are the purchases made by the DDCP for the fourth quarter of 2006:

	Total Shares Purchased	**Average Price Paid Per Share**	**Shares Purchased As Part of a Publicly-Announced Program**	**Maximum Shares Still Available for Repurchase**
October 1 - October 31, 2006			N/A	N/A
November 1 - November 30, 2006			N/A	N/A
December 1 - December 31, 2006	6,433	$ 53.20	N/A	N/A
	6,433	$ 53.20		

On May 3, 2006, our Board of Directors authorized the repurchase of up to one million shares of the Company s common stock over the next twelve months, subject to market conditions and corporate and regulatory requirements. Through February 7, 2007, we repurchased 277,600 shares. The stock repurchase program may be limited or terminated at any time without prior notice. Listed in the table below are the purchases made by the Company as of February 7, 2007:

	Total Shares Purchased	**Average Price Paid Per Share**	**Shares Purchased As Part of a Publicly-Announced Program**	**Maximum Shares Still Available for Repurchase**
October 1 - October 31, 2006				1,000,000
November 1 - November 30, 2006	100,000	$ 53.26	100,000	900,000
December 1 - December 31, 2006				900,000
Fourth quarter total	100,000	$ 53.26	100,000	
January 1 - January 31, 2007	89,900	$ 52.87	89,900	810,100
February 1 - February 7, 2007	87,700	$ 54.37	87,700	722,400
	277,600	$ 53.48	277,600	

Five-Year Stock Performance Graph

The following chart compares the yearly percentage change in the cumulative shareholder return on our common stock based on the closing price during the five years ended December 31, 2006, with (1) the Total Return Index for the NASDAQ Stock Market (U.S. Companies) and (2) the Total Return Index for NASDAQ Bank Stocks. This comparison assumes $100 was invested on December 31, 2001, in our common stock and the comparison groups and assumes the reinvestment of all cash dividends prior to any tax effect and retention of all stock dividends. First Community s total cumulative return was 186.8% over the five year period ending December 31, 2006 compared to 24.2% and 66.1% for the NASDAQ Composite and NASDAQ Bank Stocks.

Index	Period Ending 12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
First Community Bancorp	$ 100	$ 166.02	$ 186.01	$ 224.57	$ 291.96	$ 286.78
NASDAQ Composite	100	69.66	99.71	113.79	114.47	124.20
NASDAQ Bank Index	100	59.14	89.11	103.85	130.57	166.05

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth certain of our financial and statistical information for each of the years in the five-year period ended December 31, 2006. This data should be read in conjunction with our audited consolidated financial statements as of December 31, 2006 and 2005, and for each of the years in the three-year period ended December 31, 2006, and related Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data.

	At or for the Years Ended December 31,				
	2006	2005	2004	2003	2002
	(In thousands, except per share amounts and percentages)				
Results of Operations(1):					
Interest income	$ 301,597	$ 183,352	$ 140,147	$ 112,881	$ 83,903
Interest expense	59,640	22,917	14,417	12,647	14,156
NET INTEREST INCOME	241,957	160,435	125,730	100,234	69,747
Provision for credit losses	9,600	1,420	465	300	
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	232,357	159,015	125,265	99,934	69,747
Noninterest income	16,466	13,778	17,221	19,637	12,684
Noninterest expense	121,455	87,302	81,827	65,820	54,302
EARNINGS BEFORE INCOME TAXES AND EFFECT OF ACCOUNTING CHANGE	127,368	85,491	60,659	53,751	28,129
Income taxes	51,512	35,125	24,296	21,696	11,217
NET EARNINGS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	75,856	50,366	36,363	32,055	16,912
Cumulative effect on prior years (to December 31, 2005) of changing the method of accounting for stock-based compensation forfeitures	142				
NET EARNINGS	$ 75,998	$ 50,366	$ 36,363	$ 32,055	$ 16,912
Share Data:					
Earnings per common share (EPS):					
Basic	$ 3.23	$ 3.05	$ 2.34	$ 2.08	$ 1.64
Diluted	3.21	2.98	2.27	2.02	1.58
Dividends declared per share	1.21	0.97	0.85	0.68	0.54
Book value per share(2)	$ 39.42	$ 27.30	$ 22.98	$ 21.24	$ 20.68
Shares outstanding at the end of the year(2)	29,636	18,347	16,268	15,893	15,297
Average shares outstanding for basic EPS	23,476	16,536	15,521	15,382	10,302
Average shares outstanding for diluted EPS	23,680	16,894	15,987	15,868	10,692
Ending Balance Sheet Data:					
Assets	$ 5,553,323	$ 3,226,411	$ 3,049,453	$ 2,429,981	$ 2,120,004
Time deposits in financial institutions	501	90	702	311	1,041
Investments	120,128	239,354	269,507	432,318	325,858
Loans held for sale	173,319				
Loans, net of unearned income	4,189,543	2,467,828	2,118,171	1,595,837	1,424,396
Allowance for credit losses	61,179	32,971	29,507	25,752	24,294
Intangible assets	788,510	323,188	256,955	221,956	188,050
Deposits(3)	3,685,733	2,405,361	2,432,390	1,949,669	1,738,621
Borrowings	499,000	160,300	90,000	53,700	1,223
Subordinated debentures	149,219	121,654	121,654	59,798	39,178
Common shareholders equity	1,168,328	500,778	373,876	337,563	316,292
Selected Financial Ratios:					
Dividend payout ratio	37.69 %	32.55 %	37.33 %	33.42 %	34.18
Shareholders equity to assets at period end	21.04	15.52	12.26	13.89	14.92
Return on average assets	1.72	1.68	1.35	1.41	1.14
Return on average equity	9.13	12.10	10.36	9.84	9.66
Average equity/average assets	18.88	13.90	13.04	14.29	11.78
Net interest margin	6.67	6.37	5.58	5.24	5.41

(1) Operating results of acquired companies are included from the respective acquisition dates. See Note 2 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data.

(2) Includes 750,014 shares, 405,831 shares, 585,416 shares and 460,000 shares of unvested restricted and performance stock outstanding at December 31, 2006, 2005, 2004 and 2003.

(3) 2004 includes a short-term $365 million interest-bearing deposit received on December 31, 2004.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section should be read in conjunction with the disclosure regarding Forward-Looking Statements set forth in Item 1. Business Forward-Looking Statements , as well as the discussion set forth in Item 1. Business Certain Business Risks and Item 8. Financial Statements and Supplementary Data.

Overview

We are a bank holding company registered under the Bank Holding Company Act of 1956, as amended. Our principal business is to serve as a holding company for our banking subsidiary. As of December 31, 2006, our sole banking subsidiary is Pacific Western Bank, which we refer to as Pacific Western, or the Bank. As of December 31, 2005, our banking subsidiaries were Pacific Western National Bank which we also refer to as Pacific Western, and First National Bank, which we refer to as First National. As part of our announced plan of consolidation and conversion, Pacific Western National Bank, filed an application with the California Department of Financial Institutions, or DFI, to convert from a national banking charter to a state-chartered bank under the name of Pacific Western Bank. This application was approved and the conversion of Pacific Western to a state-chartered bank occurred on September 13, 2006. Pacific Western also filed a notice with the Federal Reserve Bank of San Francisco to withdraw from membership in the Federal Reserve System and become a nonmember bank at the time of its conversion. Additionally, on October 26, 2006, following the completion of the acquisition of Community Bancorp Inc. and the subsequent merger of its wholly-owned subsidiary, Community National Bank, with and into First National, we completed our plan of consolidation by merging First National with and into Pacific Western, with Pacific Western as the surviving entity in an as if pooling transaction. All references to Pacific Western, or the Bank, prior to September 13, 2006 refer to Pacific Western National Bank, and references on or after September 13, 2006 refer to Pacific Western Bank.

On January 4, 2006, we acquired Cedars Bank, or Cedars, which was merged with and into Pacific Western. On May 9, 2006, we acquired Foothill Independent Bancorp, or Foothill, which was merged with and into the First Community Bancorp and Foothill s wholly-owned subsidiary, Foothill Independent Bank, was merged with and into Pacific Western. When we say we , our or the Company , we mean the Company on a consolidated basis with Pacific Western. When we refer to First Community or to the holding company, we are referring to the parent company on a standalone basis. Discussions about the Company and the Bank as of and for the year ended December 31, 2006 include Cedars, Foothill and Community Bancorp from and after their respective dates of acquisition.

Pacific Western is a full-service community bank offering a broad range of banking products and services. We accept time and demand deposits, fund loans including real estate, construction, SBA and commercial loans, and offer other business oriented banking products. Our operations are primarily located in Southern California and the Bank focuses on conducting business with small to medium size businesses and the owners and employees of those businesses in our marketplace. Through our asset-based lending division and SBA loan production offices we also operate in Arizona and Texas. At December 31, 2006, the Bank s gross loans, excluding loans held for sale, totaled $4.2 billion of which approximately 20% were commercial loans, 79% were commercial real estate loans, including construction loans, and 1% were consumer and other loans. These percentages include some foreign loans, primarily to individuals or entities with business in Mexico, representing 2% of total loans.

The Bank competes actively for deposits, and we tend to solicit noninterest-bearing deposits. In managing the top line of our business, we focus on loan growth and loan yield, deposit cost, and net interest margin, as net interest income accounts for 94% of our net revenues (net interest income plus noninterest income).

Key Performance Indicators

Among other factors, our operating results depend generally on the following:

The Level of Our Net Interest Income

Net interest income is the excess of interest earned on our interest-earning assets over the interest paid on our interest-bearing liabilities. Our primary interest-earning assets are loans and investment securities. Our primary interest-bearing liabilities are deposits, borrowings, and subordinated debentures. We attempt to increase our net interest income by maintaining a high level of noninterest-bearing deposits. At December 31, 2006, approximately 43% of our deposits were noninterest-bearing. We have borrowing capacity under various credit lines which we use for liquidity needs such as funding loan demand, managing deposit flows and interim acquisition financing. Some of our long-term borrowings are matched to our asset-based loan portfolio and other fixed-rate loans. During the latter half of 2006, we extended the term on $200 million of our borrowings to take advantage of pricing opportunities such extended terms offered. Net proceeds from our other long-term borrowings, consisting of subordinated debentures, were used to fund certain of our acquisitions. Our general policy is to price our deposits in the bottom half or third-quartile of our competitive peer group, resulting in deposit products that bear interest rates at somewhat lower yields. While our deposit balances will fluctuate depending on deposit holders perceptions of alternative yields available in the market, we attempt to minimize these variances by attracting a high percentage of noninterest-bearing deposits, which have no expectation of yield.

Loan Growth

We generally seek new lending opportunities in the $500,000 to $5 million range, try to limit loan maturities for commercial loans to one year, for construction loans up to 18 months, and for commercial real estate loans up to ten years, and to price lending products so as to preserve our interest spread and net interest margin. We sometimes encounter strong competition in pursuing lending opportunities such that potential borrowers obtain loans elsewhere at lower rates than those we offer.

The Magnitude of Credit Losses

We stress credit quality in originating and monitoring the loans we make and measure our success by the level of our nonperforming assets and the corresponding level of our allowance for credit losses. Our allowance for credit losses is the sum of our allowance for loan losses and our reserve for unfunded loan commitments. Provisions for credit losses are charged to operations as and when needed for both on and off balance sheet credit exposure. Loans which are deemed uncollectible are charged off and deducted from the allowance for loan losses. Recoveries on loans previously charged off are added to the allowance for loan losses. During 2006, we made provisions for credit losses totaling $9.6 million in response to an increase in nonaccrual loans, the credit quality of an acquired portfolio, our analysis of current market conditions related to real estate loans, and organic loan growth.

We review our loans periodically to determine whether there has been any deterioration in credit quality stemming from economic conditions or other factors which may affect collectibility of our loans. Changes in economic conditions, such as increases in the general level of interest rates and negative conditions in borrowers businesses, could negatively impact our customers and cause us to adversely classify loans and increase portfolio loss factors. Once an acquisition is completed we further review the acquired loans under our underwriting standards. These reviews could result in downgrades of acquired loans to adversely classified status. Because adversely classified loans require an allowance for credit losses, increases in classified loans generally result in increased provisions for credit losses. Because we have a concentration in real estate loans, any deterioration in the real estate markets may negatively impact our borrowers and could lead to increased provisions for credit losses. Approximately 79% of our

gross loans are real estate related with construction loans and real estate mortgage loans representing 22% and 57%, respectively, of gross loans.

The Level of Our Noninterest Expense

Our noninterest expense includes fixed and controllable overhead, the major components of which are compensation, occupancy, data processing, professional fees and communications. We measure success in controlling such costs through monitoring of the efficiency ratio. We calculate the efficiency ratio by dividing noninterest expense by the sum of net interest income and noninterest income. Accordingly, a lower percentage reflects lower expenses relative to income. The consolidated efficiency ratios have been as follows:

Quarterly Period in 2006	Ratio
First	47.2 %
Second	45.7 %
Third	45.5 %
Fourth	49.5 %

During the fourth quarter of 2006 we completed the Community Bancorp acquisition and systems integration, incurred reorganization costs of $1.4 million, and sold investment securities at a loss of $2.3 million. These items increased the fourth quarter efficiency ratio by 336 basis points.

Additionally, our operating results have been influenced significantly by acquisitions. The seven acquisitions we completed from March 1, 2004 through December 31, 2006 added approximately $3.2 billion in assets. Our assets at December 31, 2006 totaled approximately $5.6 billion. Our noninterest expenses have increased for all periods presented because of our acquisitions. However, our expense control programs and merger integration routines enabled us to improve our efficiency ratio. In addition to driving down our efficiency ratio during 2006, we have steadily improved this ratio over the last 3 years.

Critical Accounting Policies

The following discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, and the notes thereto, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make a number of estimates and assumptions that affect the reported amounts and disclosures in the consolidated financial statements. On an ongoing basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. We believe that our estimates and assumptions are reasonable; however, actual results may differ significantly from these estimates and assumptions which could have a material impact on the carrying value of assets and liabilities at the balance sheet dates and on our results of operations for the reporting periods.

Our significant accounting policies and practices are described in Note 1 to the Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data. The accounting policies that involve significant estimates and assumptions by management, which have a material impact on the carrying value of certain assets and liabilities, are considered critical accounting policies. We have identified our policies for the allowance for credit losses, the fair value of financial instruments, and the carrying values of goodwill, other intangible assets and deferred tax assets as critical accounting policies.

Allowance for Credit Losses

The allowance for loan losses and the reserve for unfunded loan commitments when combined are referred to as the allowance for credit losses. The allowance for loan losses is reported as a reduction of outstanding loan balances and the reserve for unfunded loan commitments is included within other liabilities. On December 31, 2004, we reclassified to other liabilities our reserve for unfunded loan commitments which was previously included with the allowance for loan losses. When we determined the amount of our allowance for loan losses applicable to the real estate loan portion of our portfolio, we included both real estate loan balances and real estate loan commitments because the commitments related to loans which existed and the commitment amounts were expected to be disbursed. We followed this practice through September 30, 2005. At December 31, 2005, we decided to use commitments for all categories of loans in determining our reserve for unfunded loan commitments. Accordingly, we reclassified from the allowance for loan losses to the reserve for unfunded loan commitments the commitment reserve related to real estate loans that was previously included in the allowance for loan losses prior to December 31, 2005. Generally, as loans are funded, the amount of the commitment reserve applicable to such funded loans will be transferred from the reserve for unfunded loan commitments to the allowance for loan losses based on our reserving methodology. The accompanying balance sheets and the allowance for loan losses tables included in Note 5 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data and within Management s Discussion and Analysis of Financial Condition and Results of Operations reflect the reclassification.

We maintain an allowance for loan losses at an amount which we believe is sufficient to provide adequate protection against losses inherent in the loan portfolio at the balance sheet date. Our periodic evaluation of the adequacy of the allowance is based on such factors as our past loan loss experience, known and inherent risks in the portfolio, adverse situations that have occurred but are not yet known that may affect the borrowers ability to repay, the estimated value of underlying collateral, and economic conditions. As we utilize information currently available to evaluate the allowance for loan losses, the allowance for loan losses is subjective and may be adjusted in the future depending on changes in economic conditions or other factors.

The methodology we use to estimate the amount of our allowance for credit losses is based on both objective and subjective criteria. While some criteria are formula driven, other criteria are subjective inputs included to capture environmental and general economic risk elements which may trigger losses in the loan portfolio, and to account for the varying levels of credit quality in the loan portfolios of the entities we have acquired, that have not yet been captured in our objective loss factors.

Specifically, our allowance methodology contains four elements: (a) amounts based on specific evaluations of impaired loans; (b) amounts of estimated losses on several pools of loans categorized by type; (c) amounts of estimated losses for loans adversely classified based on our loan review process; and (d) amounts for environmental and general economic factors that indicate probable losses were incurred but were not captured through the other elements of our allowance process.

Impaired loans are identified at each reporting date based on certain criteria and individually reviewed for impairment. Allowance amounts for these loans are based upon the fair value of the loan s collateral if the loan is collateral dependent or the present value of cash flows, discounted at the loan s effective interest rate, if the loan is not collateralized.

Our non-impaired loan portfolio is broken down into several pools for purposes of determining allowance amounts by pool and within those pools for adversely classified loans. The pools we currently evaluate are: real estate construction, real estate other, commercial collateralized, commercial unsecured, consumer, foreign, asset-based, and factoring. The allowance amounts for loans not adversely classified are determined using historical loss rates developed through a migration analysis. The allowance amounts for

adversely classified loans are also determined through migration analysis adjusted for historical loss rates on similarly classified loans.

Finally, in order to ensure our allowance methodology is incorporating recent trends and economic conditions, we apply environmental and general economic factors to our allowance methodology including: credit concentrations; delinquency trends; economic and business conditions; external factors such as fuel and building materials prices, the effects of adverse weather, and hostilities; the quality of lending management and staff; lending policies and procedures; loss and recovery trends; nature and volume of the portfolio; nonaccrual loan trends; other adjustments for items not covered by other factors; problem loan trends; and quality of loan review.

Based on our methodology and its components, management believes the resulting allowance for credit losses is adequate and appropriate for the risk identified in the Company s loan portfolio.

The Company s determination of the allowance for loan losses is sensitive to the assigned credit risk ratings and inherent loss rates at any given point in time. Therefore, we perform a sensitivity analysis to provide insight regarding the impact of adverse changes in risk ratings may have on our allowance for loan losses. The sensitivity analysis does not imply any expectation of future deterioration in our loans risk ratings and it does not necessarily reflect the nature and extent of future changes in the allowance for loan losses due to the numerous quantitative and qualitative factors considered in determining our allowance for loan losses. At December 31, 2006, in the event that 1 percent of our loans were downgraded from the pass to substandard category within our current allowance methodology, the allowance for loan losses would have increased by approximately $10.6 million. Given current processes employed by the Company, management believes the risk ratings and inherent loss rates currently assigned are appropriate. It is possible that others, given the same information, may at any point in time reach different reasonable conclusions that could be material to the Company s financial statements.

Although we have established an allowance for loan losses that we consider adequate, there can be no assurance that the established allowance for loan losses will be sufficient to offset losses on loans in the future. Management also believes that the reserve for unfunded loan commitments is adequate. In making this determination, we use the same methodology for the reserve for unfunded loan commitments as we do for the allowance for loan losses and consider the same qualitative factors, as well as an estimate of the probability of drawdown of the commitments correlated to their credit risk rating. Please see Financial Condition Allowance for Credit Losses and Notes 1(h) and 5 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data for more information.

Goodwill and Other Intangible Assets

As a result of our acquisition activity, goodwill and core deposit and customer relationship intangible assets have been added to our balance sheet. Goodwill, a long-lived asset, is evaluated for impairment at least annually. We conduct an impairment analysis to evaluate the carrying value of goodwill as of June 30th each year. Core deposit and customer relationship intangibles arising from acquisitions are being amortized over their estimated useful lives of up to 10 years.

The process of evaluating goodwill for impairment requires us to make several assumptions and estimates. We begin the valuation process by identifying the reporting units related to the goodwill. We identified one reporting unit, banking operations, in relation to our goodwill asset. If our impairment analysis indicates that the fair value of our reporting unit is less than its carrying amount, then we will have to writedown the amount of goodwill we carry on our balance sheet through a charge to our earnings.

Our impairment analysis estimated the value of our reporting unit using three methods: an income approach which is a discounted cash flow model, a market comparison approach, and a market transaction approach. Each of these valuation methods include several assumptions, including forecasts of future

earnings of our reporting unit, discount rates, market trends and market multiples of companies engaged in similar lines of business. If any of the assumptions used in the valuation of our goodwill change over time, the estimated value assigned to our goodwill could differ significantly, including a decrease in the value of goodwill which would result in a charge to our earnings. The most significant element in the goodwill evaluation is the level of our earnings. If our earnings were to decline and cause our market capitalization to decline also, the market value of our Company may not support the carrying value of goodwill. The goodwill for our one reporting unit was last evaluated for impairment as of June 30, 2006, and no impairment was identified.

The calculation and subsequent amortization of core deposit and customer relationship intangible assets also requires several assumptions including, among other things, the estimated cost to service deposits acquired, discount rates, estimated attrition rates and useful lives. If the value of the core deposit intangible or the customer relationship intangible is determined to be less than the carrying value in future periods, a writedown would be taken through a charge to our earnings. The most significant element in either intangible evaluation is the attrition rate of the acquired deposits or loans. If such attrition rate were to accelerate from that which we expected, the intangible may have to be reduced by a charge to earnings. The attrition rate related to deposit flows or loan flows is influenced by many factors, the most significant of which are alternative yields available to customers and the level of competition from other financial institutions and financial services companies.

Deferred Income Tax Assets

Our deferred income tax assets arise from mainly two items: (1) differences in the dates that items of income and expense enter into our reported income and taxable income and (2) net operating loss carryforwards. Deferred tax assets are established for these items as they arise based on our judgments that they are realizable. From an accounting standpoint, we determine whether a deferred tax asset is realizable based on the historical level of our taxable income and estimates of our future taxable income. In most cases, the realization of the deferred tax asset is based on our future profitability. If we were to experience either reduced profitability or operating losses in a future period, the realization of our deferred tax assets would be questionable. In such an instance, we could be required to increase the valuation reserve on our deferred tax assets by charging earnings.

Results of Operations

Earnings Performance

We analyze our performance based on net earnings determined in accordance with accounting principles generally accepted in the United States. The comparability of financial information is affected by our acquisitions. Operating results include the operations of acquired entities from the dates of acquisition. FC Financial ($106 million in assets) was acquired in March 2004, Harbor National ($198 million in assets) was acquired in April 2004, First American ($286 million in assets) was acquired in August 2005, Pacific Liberty ($183 million in assets) was acquired in October 2005, Cedars ($489 million in assets) was acquired in January 2006, Foothill ($892 million in assets) was acquired in May 2006, and Community Bancorp ($1 billion in assets) was acquired in October of 2006. The following table presents net earnings and summarizes per share data and key financial ratios:

	For the Years Ended December 31,		
	2006	2005	2004
	(Dollars in thousands, except share data)		
Net earnings	$ 75,998	$ 50,366	$ 36,363
Profitability measures:			
Basic earnings per share	$ 3.23	$ 3.05	$ 2.34
Diluted earnings per share	$ 3.21	$ 2.98	$ 2.27
Return on average assets	1.72 %	1.68 %	1.35 %
Return on average equity	9.13 %	12.10 %	10.36 %
Dividend payout ratio	37.69 %	32.55 %	37.33 %

The 51% increase in net earnings during 2006 as compared to 2005 is due to higher net interest income from acquisitions and organic loan growth, tempered by an increased credit loss provision, loss on sale of securities, increased compensation and general expenses from our acquisitions, and reorganization charges. Our net interest income increased 51% during 2006 when compared to 2005 due largely to a $1.2 billion increase in our average loans over 2005. Noninterest income was $2.6 million higher for 2006 compared to 2005 and is due mostly to increased service charges and fees for deposits, which are attributed to increased deposit volumes from our acquisitions, and increased fee income related to other services such as letters of credit and foreign exchange. Noninterest income for 2006 also included a $2.3 million loss on sale of securities and a $642,000 gain related to the recognition of a discount upon the repayment of an acquired loan; there were no such items in 2005. The increase in noninterest expenses for 2006 when compared to 2005 was a result of a combination of acquisitions, business growth, and recording reorganization charges of $1.8 million in 2006. Our branch network has expanded through our acquisitions and we have 63 offices as of February 2007.

Net Interest Income

Net interest income, which is our principal source of income, represents the difference between interest earned on assets and interest paid on liabilities. Net interest margin is net interest income expressed as a percentage of average interest-earning assets. Net interest income is affected by changes in both interest rates and the volume of average interest-earning assets and interest-bearing liabilities. The following table presents, for the periods indicated, the distribution of average assets, liabilities and shareholders equity, as well as interest income and yields earned on average interest-earning assets and interest expense and rates paid on average interest-bearing liabilities.

Analysis of Average Balances, Yields and Rates

	For the Years Ended December 31, 2006			2005			2004		
	Average Balance	Interest Income/ Expense	Yields and Rates	Average Balance	Interest Income/ Expense	Yields and Rates	Average Balance	Interest Income/ Expense	Yields and Rates
	(Dollars in thousands)								
ASSETS									
Loans, net of unearned income(1)(2)	$ 3,394,123	$ 292,069	8.61 %	$ 2,231,975	$ 174,202	7.80 %	$ 1,897,755	$ 130,175	6.86 %
Investment securities(2)	228,031	9,200	4.03 %	248,471	7,900	3.18 %	324,156	9,584	2.96 %
Federal funds sold	6,491	297	4.58 %	39,117	1,245	3.18 %	29,206	354	1.21 %
Other earning assets	826	31	3.75 %	198	5	2.53 %	1,560	34	2.18 %
Total interest-earning assets	3,629,471	301,597	8.31 %	2,519,761	183,352	7.28 %	2,252,677	140,147	6.22 %
Noninterest-earning assets	778,323			473,024			437,893		
Total assets	$ 4,407,794			$ 2,992,785			$ 2,690,570		
LIABILITIES AND SHAREHOLDERS EQUITY									
Interest checking	$ 246,569	$ 423	0.17 %	$ 190,846	$ 116	0.06 %	$ 185,255	$ 114	0.06 %
Money market	890,400	17,753	1.99 %	719,372	6,494	0.90 %	668,881	3,716	0.56 %
Savings	132,130	222	0.17 %	97,144	179	0.18 %	82,101	102	0.12 %
Time deposits	436,669	14,821	3.39 %	226,538	4,298	1.90 %	257,930	3,192	1.24 %
Total interest-bearing deposits	1,705,768	33,219	1.95 %	1,233,900	11,087	0.90 %	1,194,167	7,124	0.60 %
Borrowings and subordinated debentures	435,640	26,421	6.06 %	227,376	11,830	5.20 %	172,459	7,293	4.23 %
Total interest-bearing liabilities	2,141,408	59,640	2.79 %	1,461,276	22,917	1.57 %	1,366,626	14,417	1.05 %
Non interest-bearing liabilities									
Demand deposits	1,387,919			1,072,071			933,418		
Other liabilities	46,444			43,352			39,608		
Total liabilities	3,575,771			2,576,699			2,339,652		
Shareholders equity	832,023			416,086			350,918		
Total liabilities and shareholders equity	$ 4,407,794			$ 2,992,785			$ 2,690,570		
Net interest income		$ 241,957			$ 160,435			$ 125,730	
Net interest spread			5.52 %			5.71 %			5.17 %
Net interest margin			6.67 %			6.37 %			5.58 %

(1) Includes nonaccrual loans and loan fees.

(2) Yields on loans and securities have not been adjusted to a tax-equivalent basis because the impact is not material.

Our net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities, referred to as a volume change, as well as changes in the yields earned on interest-earning assets and rates paid on deposits and borrowed funds, referred to as a rate change. The change in interest income/expense attributable to volume reflects the change in volume multiplied by the prior year s rate and the change in interest income/expense attributable to rate reflects the change in rates multiplied by the prior year s volume. The changes in interest income and expense which are not attributable specifically to either volume or rate are allocated ratably between the two categories. The following table presents, for the years indicated, changes in interest income and expense and the amount of change attributable to changes in volume and rates.

Analysis of Net Interest Income Changes

	2006 Compared to 2005			2005 Compared to 2004		
	Total Increase (Decrease)	Increase (Decrease) Due to Volume	Rate	Total Increase (Decrease)	Increase (Decrease) Due to Volume	Rate
	(Dollars in thousands)					
Loans, net of unearned income	$ 117,867	$ 98,474	$ 19,393	$ 44,027	$ 24,698	$ 19,329
Investment securities	1,300	(691)	1,991	(1,684)	(2,365)	681
Federal funds sold	(948)	(1,336)	388	891	154	737
Other earning assets	26	23	3	(29)	(34)	5
Total interest income	118,245	96,470	21,775	43,205	22,453	20,752
Interest checking	307	42	265	2	3	(1)
Money market	11,259	1,851	9,408	2,778	299	2,479
Savings	43	60	(17)	77	21	56
Time deposits	10,523	5,686	4,837	1,106	(427)	1,533
Borrowings and subordinated debentures	14,591	9,819	4,772	4,537	1,602	2,935
Total interest expense	36,723	17,458	19,265	8,500	1,498	7,002
Net interest income	$ 81,522	$ 79,012	$ 2,510	$ 34,705	$ 20,955	$ 13,750

2006 compared to 2005

The increase in net interest income in 2006 over 2005 was due primarily to an increase in both loan volume and loan yield. Loan volume increased due to loan growth, both from acquisitions and organic growth. Our net interest income is impacted by the significant amount of noninterest-bearing demand deposits in our balance sheet. We endeavor to acquire and maintain demand deposits which averaged $1.4 billion during 2006, or 45% of total average deposits. Maintaining this high percentage of noninterest-bearing demand deposits to total deposits contributed to our overall cost of deposits being 1.07% for 2006 compared to 0.48% for 2005.

Loans increased $1.2 billion during 2006 including organic growth of $259.3 million. During 2006 average loans represented 94% of the total average interest-earning assets compared to 89% for 2005. Maintaining a high concentration of average loans to average interest-earning assets is a key factor in increasing interest income and maintaining our net interest margin, since loan yields are usually higher than yields on investment securities. The yield on average loans increased 81 basis points during 2006. In response to the market interest rate changes made by the Federal Reserve Bank our base lending rate increased to 8.25% at December 31, 2006 from 7.25% at December 31, 2005. Approximately 45% of our loan portfolio is eligible to reprice immediately as our base lending rate changes.

Interest expense increased in 2006 compared to 2005 due largely to an increase in the cost of our interest-bearing liabilities and, to a lesser extent, from the increase in amounts borrowed to fund loan growth. Interest-bearing deposit costs increased 105 basis points to 1.95% in 2006 compared to 2005, as a result of the higher-cost deposit bases of the banks we acquired and upward adjustments we made in rates offered on money market and certain time deposits in response to competition. The costs for borrowings and subordinated debentures also increased in 2006 as they have repriced in the higher interest rate environment. Our acquisitions, selective deposit repricing and the upward repricings of our borrowings resulted in a 122 basis point increase in the cost of our interest-bearing liabilities for 2006 compared to 2005.

2005 compared to 2004

The growth in net interest income and the 79 basis point increase in out net interest margin for 2005 compared to 2004 was largely a result of higher average loan balances and increased loan yields, offset by higher funding costs.

Net interest income increased $34.7 million mostly as a result of the $334.2 million increase in average loans for 2005 compared to 2004. Interest earned on average loans increased $44.0 million in 2005 when compared to 2004; this increase was due mainly to increased average loans from both organic growth and acquisition activity coupled with increased yields. Organic loan growth totaled $121.1 million for 2005. In addition, average loans represented 89% of the total average earning-assets compared to 84% for 2004. The yield on average loans was 94 basis points higher for 2005 when compared to 2004 and was related to escalating market interest rates.

Interest expense increased in 2005 compared to 2004 due largely to an increase in the cost of our interest-bearing liabilities and, to a lesser extent, from the increase in amounts borrowed to fund loan growth, deposit flows and acquisitions. The increase in market interest rates contributed to both the increase in our deposit costs and the upward repricing of our borrowings. The cost of all our deposits increased 15 basis points to 0.48% for 2005 compared to 2004. The cost of our interest-bearing liabilities increased 52 basis points to 1.57% for 2005 compared to 2004.

Provision for Credit Losses

The amount of the provision for credit losses in each year is a charge against earnings in that year. The provisions for credit losses are based on our reserve methodology and reflect our judgments about the adequacy of the allowance for loan losses and the reserve for unfunded loan commitments. In determining the amount of the provision, we consider certain quantitative and qualitative factors including our historical loan loss experience, the volume and type of lending we conduct, the results of our credit review process, the amounts of classified, criticized and nonperforming assets, regulatory policies, general economic conditions, underlying collateral values, off-balance sheet exposures, and other factors regarding collectibility and impairment. To the extent we experience, for example, increased levels of documentation deficiencies, adverse changes in collateral values, or negative changes in economic and business conditions which adversely affect our borrowers, our classified loans may increase. Increases in our classified loans generally result in provisions for credit losses.

We made provisions for credit losses totaling $9.6 million during 2006, $1.4 million during 2005 and $465,000 during 2004. The 2006 provision for credit losses was composed of an $8.0 million addition to the allowance for loan losses and a $1.6 million addition to the reserve for unfunded loan commitments. The 2005 provision for credit losses was composed of a $1.3 million addition to the allowance for loan losses and $75,000 added to the reserve for unfunded loan commitments. Net loans charged-off in 2006 increased by $230,000 to $1.4 million when compared to 2005.

The second quarter of 2006 provision for credit losses was made in response to an increase in nonaccrual loans, the credit quality of an acquired portfolio, our analysis of current market conditions related to real estate loans, and organic loan growth. Our integration procedures and internal credit review indicated that the underlying credit quality of certain of the Cedars-acquired loans was deficient compared to our standards. As a result, we adversely classified certain Cedars-acquired loans in accordance with our criteria. The actions we took to reduce these classified loans were successful and the number and dollar amount of classified loans has been reduced. The provision for 2005 was in response to loan growth and the level of nonaccrual loans. During 2005, foreign loans totaling $9.5 million were placed on nonaccrual; by the end of 2005, these loans were either repaid, charged off or returned to accrual status. The provision for 2004 was in response to loan growth.

The allowance for credit losses was $61.2 million, or 1.46% of loans, net of unearned income, at December 31, 2006, and $33.0 million, or 1.34% of loans, net of unearned income, at the end of 2005. The allowance for loan losses totaled $52.9 million at December 31, 2006 and $27.3 million at the end of 2005.

Increased provisions for credit losses may be required in the future based on loan and unfunded commitment growth and based on the effect of changes in economic conditions, such as the level of interest rates and real estate values, have on the ability of borrowers to repay their loans. See Critical Accounting Policies, Financial Condition Allowance for Credit Losses, and Note 5 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data.

Noninterest Income

The following table sets forth the details of noninterest income for the years indicated. The columns titled Increase (Decrease) set forth the year-over-year changes between 2006 and 2005 and between 2005 and 2004.

	For the Years Ended December 31,				
	2006	**Increase (Decrease)**	**2005**	**Increase (Decrease)**	**2004**
	(Dollars in thousands)				
Noninterest income:					
Service charges on deposit accounts	$ 8,835	$ 2,468	$ 6,367	$ (1,931)	$ 8,298
Other commissions and fees	6,420	2,240	4,180	183	3,997
Gain on sale of loans		(596)	596	(1,208)	1,804
Gain (loss) on sale of securities	(2,332)	(2,287)	(45)	(39)	(6)
Increase in cash surrender value of life insurance	2,205	577	1,628	(270)	1,898
Other income	1,338	286	1,052	(178)	1,230
Total noninterest income	$ 16,466	$ 2,688	$ 13,778	$ (3,443)	$ 17,221

2006 compared to 2005

Noninterest income increased $2.7 million to $16.5 million for 2006 compared to 2005. The increases in noninterest income categories result largely from increased service charges and fees for deposits, which are attributed to an increase in deposit volumes from our acquisitions, and increased fee income related to other services such as letters of credit and foreign exchange.

During 2006 we sold approximately $103 million in securities yielding 3.52% at a loss of approximately $2.3 million in an effort to reduce our reliance on borrowed funds and to improve net interest income. The proceeds from the sale were used to reduce overnight borrowings that were costing 5.35%. The loss on sale of securities of $45,000 in 2005 related to the write-off of the remaining balance of an interest-only strip initially recorded at the time of a loan sale.

Income from the cash surrender value of life insurance policies increased for 2006 when compared to 2005. This increase is due to additions to our life insurance policy investments due to our acquisition activity and the income from all of our life insurance policies. The income is recognized as an appreciation of the cash surrender value of life insurance policies. It is noncash income and not subject to income tax. The tax-equivalent yield for our life insurance policies was 5.92% during 2006 compared to 5.18% during 2005. Our crediting rate, or yield for our life insurance policies, changes quarterly and is determined by the performance of the underlying investments. In addition, the increase in the overall yield is due in part to the policies acquired in the Foothill acquisition.

Other income includes a $642,000 gain related to the recognition of a discount upon the pay-off of an acquired loan; there was no such item in 2005.

2005 compared to 2004

Noninterest income decreased $3.4 million to $13.8 million for 2005 compared to $17.2 million in 2004. This decrease results largely from lower service charges on deposit accounts which declined due to the effect increased market interest rates had on fee income on business accounts. Fees received for not-sufficient-funds also declined $470,000 as we worked to reduce our overdraft exposure in relation to certain customers.

Gain on sale of loans declined $1.2 million. The 2004 balance includes a gain of $975,000 on the sale of an acquired charged-off loan; there was no such item in 2005. The remaining gain on sale of loans resulted from the sale of $6.8 million of SBA loans in both 2005 and 2004.

Income from cash surrender value of life insurance policies declined for 2005 when compared to 2004 due to a decline in the tax-equivalent yield. The tax-equivalent yield for our life insurance policies was 5.18% during 2005 compared to 6.38% during 2004. The decline in the yield on our life insurance policies results mostly from a decline in the market performance on the securities portfolio underlying the life insurance policies.

Other income includes fees related to loan referral programs for SBA loans and single family mortgages totaling $480,000 for 2005 compared to $792,000 for 2004; these fees decreased mostly as a result of lower volumes in the single family mortgage program.

Noninterest Expense

The following table sets forth the details of noninterest expense for the years indicated. The columns titled Increase (Decrease) set forth the year-over-year changes between 2006 and 2005 and between 2005 and 2004.

	For the Years Ended December 31,				
	2006	Increase (Decrease)	2005	Increase (Decrease)	2004
	(Dollars in thousands)				
Noninterest expense:					
Compensation	$ 65,505	$ 16,882	$ 48,623	$ 3,403	$ 45,220
Occupancy	15,296	4,563	10,733	275	10,458
Furniture and equipment	4,034	1,304	2,730	(193)	2,923
Data processing	6,317	1,448	4,869	86	4,783
Other professional services	5,072	524	4,548	422	4,126
Business development	1,591	403	1,188	(63)	1,251
Communications	3,103	1,110	1,993	(16)	2,009
Insurance and assessments	2,121	406	1,715	68	1,647
Intangible asset amortization	6,688	3,081	3,607	354	3,253
Reorganization charges	1,822	1,822			
Other	9,906	2,610	7,296	1,139	6,157
Total noninterest expense	$ 121,455	$ 34,153	$ 87,302	$ 5,475	$ 81,827
Efficiency ratio	47.0 %		50.1 %		57.2 %
Noninterest expense as a percentage of average assets	2.8 %		2.9 %		3.0 %

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2006 compared to 2005

Noninterest expense for the year ended December 31, 2006, totaled $121.5 million compared to $87.3 million for the same period in 2005. The increase is due to a combination of acquisitions, business growth, and reorganization charges. Occupancy costs increased due to additional office locations added by acquisitions and all other expenses increased due to the acquisitions. The reorganization costs of $1.8 million represent an accrual for severance costs associated with the Community Bancorp acquisition, the consolidation of branch offices, and other costs associated with Pacific Western s charter-conversion and merger with First National. At December 31, 2006, the remaining liability for these accrued reorganization costs totaled $788,000 and related mostly to future rent for vacant facilities and signage replacement. During the first half of 2007, we expect to consolidate several branch locations and recognize a consolidation charge of approximately $1.0 million when we cease to use the duplicate facilities.

Noninterest expense includes noncash amounts for intangible asset amortization and stock-based compensation. Intangible asset amortization expense relates to the periods since each acquisition and, therefore, the annual amortization charge naturally increased due to the volume of acquisitions. We recorded core deposit intangibles totaling $29.8 million for our 2006 acquisitions and these intangible assets each have an estimated life of 10 years. We estimate the amortization expense for core deposit and customer relationship intangibles to be approximately $8.5 million for 2007.

Compensation expense includes $7.6 million for 2006 and $4.0 million for 2005 related to shares of restricted and performance stock awarded to employees beginning in July 2003. Restricted stock vests either in increments over a three to four year period or at the end of such period. Performance stock vests when certain Company earnings targets are achieved. Stock compensation expense related to all outstanding unvested restricted and performance stock, including awards made in February 2007, is estimated to be $8.6 million in 2007. This estimate is subject to change based on additional awards which may be made, forfeitures which may occur, and progress towards meeting performance goals.

2005 compared to 2004

The $5.5 million increase in noninterest expense for 2005 compared to 2004 relates mostly to our acquisition activity as we completed four acquisitions from March 1, 2004 to December 31, 2005. Separate from the impact of our acquisitions on our overhead costs were increases in the compensation, other professional services and other expense categories. Compensation increased due mostly to additional staff added through our acquisitions as well as pay rate increases, and increased incentive accruals and employee benefit costs. Other professional services increased due to legal fees for litigation and continued compliance with Sarbanes-Oxley. During 2005, we defended the Gilbert Litigation which resulted in legal fees of approximately $900,000 after insurance reimbursements of approximately $690,000. As further described in Note 10 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplemental Data we reached a settlement in principle in the Gilbert Litigation. Pursuant to the proposed settlement, we accrued an expense of $775,000 in 2005 which is included in other noninterest expense.

The remaining increases were due to both the impact of our acquisitions and the need to support our customer service and loan growth. Other noninterest expense includes ongoing loan-related costs, customer-related expenses, correspondent bank charges, operating losses, shareholder expenses, director fees and other staff-related costs, as well as the accrued expense for the proposed legal settlement.

Income Taxes

Effective income tax rates were 40.4%, 41.1%, and 40.1% for the years ended December 31, 2006, 2005 and 2004, respectively. The difference in the effective tax rates between the years relates mainly to tax credits and the amount of tax exempt income recorded in each of the years. For further information on income taxes, see Note 13 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data.

Financial Condition

Loans

The following table presents the balance of each major category of loans at December 31:

	2006		2005		2004		2003		2002	
	Amount	% of Loans	Amount	% of Loans	Amounts	% of Loans	Amount	% of Loans	Amount	% of Loans
	(Dollars in thousands)									
Loan Category:										
Domestic:										
Commercial	$ 752,817	18 %	$ 639,393	26 %	$ 604,995	28 %	$ 426,796	26 %	$ 382,584	27 %
Real estate construction	939,463	22	570,080	23	410,167	19	347,321	22	354,296	25
Real estate mortgage	2,374,010	57	1,117,030	45	967,270	46	712,390	45	578,556	40
Consumer	45,984	1	47,221	2	42,723	2	31,383	2	35,393	3
Foreign:										
Commercial	83,359	2	94,930	4	88,428	4	67,821	4	59,995	4
Other	6,778	*	8,320	*	11,731	1	14,895	1	18,504	1
Total gross loans	4,202,411	100 %	2,476,974	100 %	2,125,314	100 %	1,600,606	100 %	1,429,328	100 %
Less unearned income	(12,868)		(9,146)		(7,143)		(4,769)		(4,932)	
Loans, net of unearned income	4,189,543		2,467,828		2,118,171		1,595,837		1,424,396	
Less allowance for loan losses	(52,908)		(27,303)		(24,083)		(22,531)		(21,392)	
Total net loans	$ 4,136,635		$ 2,440,525		$ 2,094,088		$ 1,573,306		$ 1,403,004	
Loans held for sale	$ 173,319		$		$		$		$	

* Amount is less than 1%.

Loans held for sale are composed primarily of SBA 7a and 504 loans. We acquired approximately $128.1 million of loans held for sale with the Community Bancorp acquisition and subsequently we reclassified a portion of our SBA 7a portfolio to loans held for sale. We intend to sell these loans as market conditions permit while originating additional loans for future sales.

2006 compared to 2005

Loans, net of unearned income, increased $1.9 billion, including organic growth of $259.3 million and acquired loans of $1.6 billion. The majority of our loan portfolio is concentrated in commercial and real estate loans. We recently decided to allow our foreign loan portfolio to repay in the ordinary course of business without making any new privately-insured foreign loans other than those under existing commitments. Our foreign loans are primarily to individuals and entities located in Mexico. All of our foreign loans are denominated in U.S. dollars and the majority are collateralized by assets located in the United States or guaranteed or insured by businesses located in the United States. In addition to our outstanding foreign loans, our foreign loan commitments totaled $19.0 million at December 31, 2006.

2005 compared to 2004

In 2005, loans, net of unearned income, grew by $349.6 million, including organic growth of $121.1 million and acquired loans of $228.5 million.

Loan Interest Rate Sensitivity

The following table presents our interest rate sensitivity analysis at the date indicated with respect to certain individual categories of loans and provides separate analyses with respect to fixed rate loans and floating rate loans as of December 31, 2006:

	Repricing or Maturing In			
	1 year or less	**Over 1 to 5 years**	**Over 5 years**	**Total**
	(Dollars in thousands)			
Loan Category:				
Domestic:				
Commercial	$ 454,908	$ 149,169	$ 148,740	$ 752,817
Real estate construction	784,585	114,701	40,177	939,463
Foreign	73,802	8,640	7,695	90,137
Total	$ 1,313,295	$ 272,510	$ 196,612	$ 1,782,417

	Fixed Rate	**Floating Rate**	**Total**
	(Dollars in thousands)		
Domestic:			
Commercial	$ 137,462	$ 615,355	$ 752,817
Real estate construction	101,329	838,134	939,463
Foreign	12,948	77,189	90,137
Total	$ 251,739	$ 1,530,678	$ 1,782,417

Approximately $2.4 billion of commercial real estate mortgage loans are not included in the above tables. Of the $2.4 billion, approximately $993.2 million are fixed rate loans with a weighted average period until the next repricing date of 7 years.

Nonperforming Assets

The following table sets forth certain information with respect to our nonaccrual loans and other nonperforming assets:

	December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
	(Dollars in thousands)				
Nonaccrual loans	$ 22,095	$ 8,422	$ 8,911	$ 7,411	$ 10,216
Loans past due 90 days or more and still accruing					
Nonperforming loans	22,095	8,422	8,911	7,411	10,216
Other real estate owned					3,117
Total nonperforming assets	$ 22,095	$ 8,422	$ 8,911	$ 7,411	$ 13,333
Nonperforming loans to loans, net of deferred fees and costs	0.51 %	0.34 %	0.42 %	0.46 %	0.72 %
Nonperforming assets to loans and other real estate owned	0.51 %	0.34 %	0.42 %	0.46 %	0.93 %

The decline in nonaccrual loans as a percent of total loans since 2002 is attributed to our underwriting criteria and workout of troubled loans from acquisitions. During 2006, however, we experienced an increase in nonaccrual loans largely from acquired portfolios. Changes in nonaccrual loans quarter over quarter during 2006 are as follows: first quarter, increase of $3.1 million; second quarter, increase of $4.1 million; third quarter, increase of $5.3 million; and fourth quarter, increase of $1.2 million. The fourth quarter increase includes the addition of Community Bancorp s nonaccrual loans of $7.8 million and a net decrease of $6.6 million in nonaccrual loans reported at the end of the third quarter. Approximately 78% of our nonaccrual loans at year end are covered by SBA guarantees. During the second quarter of 2006 we adversely classified certain Cedars-acquired loans in accordance with our criteria. The actions we took to reduce these classified loans have been successful and the number and dollar amount of classified loans has been reduced. At December 31, 2006, the ratio of nonaccrual loans to total loans, including loans held for sale, was 0.51%.

Loans are generally placed on nonaccrual status when the borrowers are past due 90 days and/or when payment in full of principal or interest is not expected. At the time a loan is placed on nonaccrual status, any interest income previously accrued but not collected is reversed and charged against current period income. Income on nonaccrual loans is subsequently recognized only to the extent cash is received and the loan s principal balance is deemed collectible. Loans are restored to accrual status only when the loans become both well secured and are in the process of collection.

A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due according to the original contractual terms of the loan agreement. If the measurement of impairment for the loan is less than the recorded investment in the loan, a valuation allowance is established with a corresponding charge to operations to increase the allowance for loan losses.

As of December 31, 2006, 2005 and 2004, there were no loans past due over 90 days and still accruing interest. Additional interest income of $2.0 million, $788,000 and $571,000, would have been recorded for the years ended December 31, 2006, 2005 and 2004 if nonaccrual loans had been performing in accordance with their original terms. Interest income of $944,000, $107,000, and $163,000 was recorded on loans transferred to a nonaccrual status for the years ended December 31, 2006, 2005 and 2004.

Allowance for Credit Losses

The allowance for credit losses is the combination of the allowance for loan losses and the reserve for unfunded loan commitments. The allowance for loan losses is reported as a reduction of outstanding loan balances and the reserve for unfunded loan commitments is included within other liabilities. On December 31, 2004, we reclassified to other liabilities our reserve for unfunded loan commitments which was previously included with the allowance for loan losses. When we determined the amount of our allowance for loan losses applicable to the real estate loan portion of our portfolio, we included both real estate loan balances and real estate loan commitments because the commitments related to loans which existed and the commitment amounts were expected to be disbursed. We followed this practice through September 30, 2005. At December 31, 2005, we decided to use commitments for all categories of loans in determining our reserve for unfunded loan commitments. Accordingly, we reclassified from the allowance for loan losses to the reserve for unfunded loan commitments the commitment reserve related to real estate loans that was previously included in the allowance for loan losses prior to December 31, 2005. Generally, as loans are funded, the amount of the commitment reserve applicable to such funded loans will be transferred from the reserve for unfunded loan commitments to the allowance for loan losses based on our reserving methodology. These reclassifications are reflected in the allowance for credit loss tables included in Note 5 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplemental Data and Management s Discussion and Analysis of Financial Condition and Results of Operations.

An allowance for loan losses is maintained at a level deemed appropriate by management to adequately provide for known and inherent risks in the loan portfolio and other extensions of credit at the balance sheet date. The allowance is based upon a continuing review of the portfolio, past loan loss experience, current economic conditions which may affect the borrowers ability to pay, and the underlying collateral value of the loans. Loans which are deemed to be uncollectible are charged off and deducted from the allowance. The provision for loan losses and recoveries on loans previously charged off are added to the allowance.

The methodology we use to estimate the amount of our allowance for credit losses is based on both objective and subjective criteria. While some criteria are formula driven, other criteria are subjective inputs included to capture environmental and general economic risk elements which may trigger losses in the loan portfolio, and to account for the varying levels of credit quality in the loan portfolios of the entities we have acquired, that have not yet been captured in our objective loss factors.

Specifically, our allowance methodology contains four elements: (a) amounts based on specific evaluations of impaired loans; (b) amounts of estimated losses on several pools of loans categorized by type; (c) amounts of estimated losses for loans adversely classified based on our loan review process; and (d) amounts for environmental and general economic factors that indicate probable losses were incurred but were not captured through the other elements of our allowance process.

Impaired loans are identified at each reporting date based on certain criteria and individually reviewed for impairment. Allowance amounts for these loans are based upon the fair value of the loan s collateral if the loan is collateral dependent or the present value of cash flows, discounted at the loan s effective interest rate, if the loan is not collateralized.

Our non-impaired loan portfolio is broken down into several pools for purposes of determining allowance amounts by pool and within those pools for adversely classified loans. The pools we currently evaluate are: real estate construction, real estate other, commercial collateralized, commercial unsecured, consumer, foreign, asset-based, and factoring. The allowance amounts for loans not adversely classified are determined using historical loss rates developed through a migration analysis. The allowance amounts for adversely classified loans are also determined through migration analysis adjusted for historical loss rates on similarly classified loans.

Finally, in order to ensure our allowance methodology is incorporating recent trends and economic conditions, we apply environmental and general economic factors to our allowance methodology including: credit concentrations; delinquency trends; economic and business conditions; external factors such as fuel and building materials prices, the effects of adverse weather, and hostilities; the quality of lending management and staff; lending policies and procedures; loss and recovery trends; nature and volume of the portfolio; nonaccrual loan trends; other adjustments for items not covered by other factors; problem loan trends; and quality of loan review.

Based on our methodology and its components, management believes the resulting allowance for credit losses is adequate and appropriate for the risk identified in the Company s loan portfolio.

The Company s determination of the allowance for loan losses is sensitive to the assigned credit risk ratings and inherent loss rates at any given point in time. Therefore, we perform a sensitivity analysis to provide insight regarding the impact adverse changes in risk ratings may have on our allowance for loan losses. The sensitivity analysis does not imply any expectation of future deterioration in our loans risk ratings and it does not necessarily reflect the nature and extent of future changes in the allowance for loan losses due to the numerous quantitative and qualitative factors considered in determining our allowance for loan losses. At December 31, 2006, in the event that 1 percent of our loans were downgraded from the pass to substandard category within our current allowance methodology, the allowance for loan losses would have increased by approximately $10.6 million. Given current processes employed by the Company,

management believes the risk ratings and inherent loss rates currently assigned are appropriate. It is possible that others, given the same information, may at any point in time reach different reasonable conclusions that could be material to the Company s financial statements.

Management believes that the allowance for loan losses is adequate. In making its evaluation, management considers certain qualitative factors including the Company s historical loss experience, the volume and type of lending conducted by the Company, the amounts of classified and nonperforming assets, regulatory policies, general economic conditions, underlying collateral values, and other factors regarding collectibility and impairment. To the extent we experience, for example, increased levels of documentation deficiencies, adverse changes in collateral values, or negative changes in economic and business conditions which adversely affect our borrowers, our classified loans may increase. Higher levels of classified loans generally result in higher allowances for loan losses.

Management also believes that the reserve for unfunded loan commitments is adequate. In making this determination, we use the same methodology for the reserve for unfunded loan commitments as we do for the allowance for loan losses and consider the same qualitative factors, as well as an estimate of the probability of advances of the commitments correlated to their credit risk rating.

The following table presents the changes in our allowance for loan losses for the periods indicated:

	For the Years Ended December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
	(Dollars in thousands)				
Balance at beginning of year	$ 27,303	$ 24,083	$ 22,531	$ 21,392	$ 11,209
Loans charged off:					
Domestic:					
Commercial	(1,083)	(1,646)	(2,830)	(3,331)	(2,764)
Real estate construction	(144)				
Real estate mortgage		(100)	(128)		(537)
Consumer	(189)	(180)	(305)	(1,145)	(1,488)
Foreign	(1,691)	(1,592)	(344)		
Total loans charged off	(3,107)	(3,518)	(3,607)	(4,476)	(4,789)
Recoveries on loans charged off:					
Domestic:					
Commercial	1,361	2,106	1,653	2,453	2,036
Real estate mortgage		11	64	84	737
Consumer	171	241	311	468	418
Foreign	187	2	50		6
Total recoveries on loans charged off	1,719	2,360	2,078	3,005	3,197
Net loans charged off	(1,388)	(1,158)	(1,529)	(1,471)	(1,592)
Provision for loan losses	7,977	1,345	(521)	48	(2,902)
Additions due to acquisitions	19,016	3,033	3,602	2,562	14,677
Balance at end of year	$ 52,908	$ 27,303	$ 24,083	$ 22,531	$ 21,392
Ratios:					
Allowance for loan losses as a percentage of total loans, net of unearned income at year end	1.26 %	1.11 %	1.14 %	1.41 %	1.50 %
Net loans charged off as a percentage of average loans	0.07 %	0.05 %	0.08 %	0.10 %	0.16 %

The following table presents the changes in our reserve for unfunded loan commitments for the periods indicated:

	For the Years Ended December 31,				
	2006	2005	2004	2003	2002(1)
	(Dollars in thousands)				
Balance at beginning of year	$ 5,668	$ 5,424	$ 3,221	$ 2,902	$
Provision	1,623	75	986	252	2,902
Additions due to acquisitions	980	169	1,217	67	
Balance at end of year	$ 8,271	$ 5,668	$ 5,424	$ 3,221	$ 2,902

(1) The 2002 beginning balance is included in the allowance for loan losses.

The following table presents the balance of our allowance for credit losses, nonperforming assets and certain credit quality measures for the periods indicated:

	At December 31,				
	2006	2005	2004	2003	2002
ALLOWANCE FOR CREDIT LOSSES:					
Allowance for loan losses	$ 52,908	$ 27,303	$ 24,083	$ 22,531	$ 21,392
Reserve for unfunded loan commitments	8,271	5,668	5,424	3,221	2,902
Allowance for credit losses	$ 61,179	$ 32,971	$ 29,507	$ 25,752	$ 24,294
NONPERFORMING ASSETS:					
Nonaccrual loans	$ 22,095	$ 8,422	$ 8,911	$ 7,411	$ 10,216
Other real estate owned					3,117
Total nonperforming assets	$ 22,095	$ 8,422	$ 8,911	$ 7,411	$ 13,333
Allowance for credit losses to loans, net of unearned income	1.46 %	1.34 %	1.39 %	1.61 %	1.71 %
Allowance for credit losses to nonaccrual loans	276.9 %	391.5 %	331.1 %	347.5 %	237.8 %
Allowance for credit losses to nonperforming assets	276.9 %	391.5 %	331.1 %	347.5 %	182.2 %

The increase in the allowance for loan losses in 2006 compared to 2005 is due to the 2006 acquisitions, organic loan growth, the level of net charge-offs and the nonaccrual loan trend. Based on our experience, we believe that the allowance for loan losses of $52.9 million at December 31, 2006 is adequate to cover known and inherent risks in the loan portfolio. See Critical Accounting Policies and Note 5 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data.

The following table allocates the allowance for loan losses based on our judgment of inherent losses in the respective categories. While we have allocated the allowance to various portfolio segments for purposes of this table, the allowance for loan losses is general and is available for the portfolio in its entirety:

Allocation of Allowance for Loan Losses

	Commercial	Real Estate	Consumer	Foreign	Total
At December 31,					
2006					
Allowance for loan losses	$ 9,719	$ 39,235	$ 553	$ 3,401	$ 52,908
% of loans to total loans	18 %	79 %	1 %	2 %	100 %
2005					
Allowance for loan losses	$ 10,958	$ 14,843	$ 412	$ 1,090	$ 27,303
% of loans to total loans	26 %	68 %	2 %	4 %	100 %
2004					
Allowance for loan losses	$ 11,091	$ 12,392	$ 285	$ 315	$ 24,083
% of loans to total loans	28 %	65 %	2 %	5 %	100 %
2003					
Allowance for loan losses	$ 11,799	$ 10,134	$ 356	$ 242	$ 22,531
% of loans to total loans	27 %	66 %	2 %	5 %	100 %
2002					
Allowance for loan losses	$ 11,603	$ 9,024	$ 405	$ 360	$ 21,392
% of loans to total loans	28 %	65 %	2 %	5 %	100 %

The allocation of the allowance for loan losses related to real estate loans increased in 2006 compared to 2005 as our concentration of real estate loans increased in 2006 to 79% of our loans held in our portfolio from 68% in 2005. Commercial loan concentration decreased in the same period resulting in a lower allocation of the allowance for loan losses.

Investment Portfolio

Our investment activities are designed to assist in maximizing income consistent with quality and liquidity requirements, to supply collateral to secure public funds on deposit and lines of credit, and to provide a means for balancing market and credit risks through changing economic times.

Our portfolio consists primarily of U.S. Treasury and U.S. government agency obligations, obligations of government-sponsored entities, obligations of states and political subdivisions, and Federal Home Loan Bank stock. Our investment portfolio contains no investments in any one issuer in excess of 10% of our total shareholders equity. We excluded securities of the U.S. Treasury, U.S. government agencies and government-sponsored entities from this calculation. We do, however, own Federal National Mortgage Association and Federal Home Loan Mortgage Corporation guaranteed securities that have carrying values of $24.4 million and $16.1 million at December 31, 2006.

The following table presents the composition of our investment portfolio at the dates indicated:

Investment Portfolio

	At December 31, 2006	2005	2004
	(Dollars in thousands)		
U.S. Treasury securities	$ 986	$	$ 87
Government-sponsored entity securities	53,064	46,788	12,312
States and political subdivisions	9,446	9,054	10,406
Mortgage-backed and other securities	27,885	156,759	222,590
Subtotal	91,381	212,601	245,395
Federal Reserve and Federal Home Loan Bank stock	28,747	26,753	24,112
Total investments	$ 120,128	$ 239,354	$ 269,507

In an effort to reduce our reliance on borrowed funds and to improve net interest income we sold approximately $103 million in mortgage-backed securities yielding 3.52% at a loss of approximately $2.3 million in the fourth quarter of 2006. The proceeds from the sale were used to reduce overnight borrowings that were costing 5.35%.

The following table presents a summary of yields and contractual maturities of debt securities at December 31, 2006:

Analysis of Investment Yields and Maturities
December 31, 2006

	One Year or Less		One Year Through Five Years		Five Years Through Ten Years		Over Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)									
U.S. Treasury securities	$ 986	2.78 %	$	0.00 %	$	0.00 %	$	0.00 %	$ 986	2.78 %
Government-sponsored entity securities	40,895	3.65 %	12,169	3.71 %		%		%	53,064	3.66 %
States and political subdivisions	2,896	4.80 %	3,529	4.79 %	2,936	4.88 %	85	3.82 %	9,446	4.82 %
Mortgage-backed and other securities	1,674	4.70 %	123	0.00 %	4,788	4.93 %	21,300	4.87 %	27,885	4.85 %
Total investments(1)	$ 46,451	3.74 %	$ 15,821	3.92 %	$ 7,724	4.91 %	$ 21,385	4.86 %	$ 91,381	4.13 %

(1) Yields on securities have not been adjusted to a fully tax-equivalent basis because the impact is not material.

At December 31, 2006, our investment portfolio included $50.9 million of investment securities that have been in a continuous unrealized loss position for 12 months or longer; such unrealized loss totaled $523,000. All of these securities have been issued by U.S. government agencies and U.S. government-sponsored entities and have a AAA credit rating as determined by various rating agencies. These securities have fluctuated in value since their purchase dates as a result of changes in market interest rates. We concluded that the continuous unrealized loss position for the past 12 months on these securities is a result of the level of market interest rates and not a result of the underlying issuers ability to repay and are, therefore, temporarily impaired. In addition, we have the ability to hold these securities until their fair value recovers to their cost. Accordingly, we have not recognized the temporary impairment in our consolidated statement of earnings.

Deposits

The following table presents a summary of our average deposits as of the dates indicated and average rates paid:

Analysis of Average Deposits

	For the Years Ended December 31,								
	2006			2005			2004		
	Amount	Rate		Amount	Rate		Amount	Rate	
	(Dollars in thousands)								
Non-interest bearing	$ 1,387,919			$ 1,072,071			$ 933,418		
Interest checking	246,569	0.17	%	190,846	0.06	%	185,255	0.06	%
Money market	890,400	1.99	%	719,372	0.90	%	668,881	0.56	%
Savings	132,130	0.17	%	97,144	0.18	%	82,101	0.12	%
Time	436,669	3.39	%	226,538	1.90	%	257,930	1.24	%
Total deposits	$ 3,093,687	1.07	%	$ 2,305,971	0.48	%	$ 2,127,585	0.33	%

The increase in average deposits in 2006 is due primarily to our acquisitions. Deposit growth in 2005 is attributed mainly to the full year impact of the deposits acquired in 2004 and the addition of the deposits acquired in 2005.

Deposits by foreign customers, primarily located in Mexico and Canada, totaled $116.3 million, or approximately 3% of total deposits, as of December 31, 2006 and $101.7 million at December 31, 2005.

For time deposits of $100,000 or more, the following table presents a summary of maturities for the time periods indicated:

Maturity of Time Deposits of $100,000 or More

	3 Months or Less	Over 3 Months Through 6 Months	Over 6 Months Through 12 Months	Over 12 Months	Total
	(Dollars in thousands)				
December 31, 2006	$ 165,352	$ 85,535	$ 73,939	$ 27,538	$ 352,364

Borrowings

The holding company and the Bank have various lines of credit available. These include the ability to borrow funds from time to time on a short term or overnight basis from the Federal Home Loan Bank of San Francisco, which we refer to as the FHLB, or other financial institutions. See Liquidity and Note 8 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data for information on our borrowings.

At December 31, 2006, we had outstanding $499.0 million due to the FHLB, composed of $265.0 million of term advances and $234.0 million in overnight advances, and $149.2 million of subordinated debentures due to various investors. Of the $265.0 million in fixed-rate term advances, $200.0 million have an original stated maturity of two years with an option for the advances to be called by the FHLB on their one year anniversary dates in the fourth quarter of 2007. If market rates are higher at that time, the advances will be called and the Bank will be required to repay the FHLB. The rates on these callable advances are 4.85% and 4.87%. At December 31, 2005, we had outstanding $85.0 million of term advances and $75.3 million in overnight advances due to the FHLB and $121.7 million of subordinated debentures due to various investors. Average borrowings increased to $302.9 million in 2006 compared to $227.4 million in 2005 due mostly to loan growth outpacing our deposit growth. Organic loan growth in excess of

deposit flows caused us to rely more heavily on outside borrowings to fund loan growth, which, after excluding loans from acquisitions, totaled $259.3 million in 2006. The maximum amount that we could borrow under our credit lines with the FHLB at December 31, 2006 is $753.8 million. These lines are secured by a blanket lien on certain qualifying loans in our loan portfolio as well as the majority of our available-for-sale investment securities.

Capital Resources

On May 16, 2005, we filed a registration statement with the SEC regarding the sale of up to 3,400,000 shares of our common stock, no par value per share, which we may offer and sell, from time to time, in amounts, at prices and on terms that we will determine at the time of any particular offering. To date, we have issued 2,935,766 shares of common stock under this registration statement for net proceeds of $158.5 million, including the sale of 1,891,086 shares of our common stock for $109.5 million in January 2006. We used these proceeds to augment our capital in support of our acquisitions. We expect to use the net proceeds from any additional sales of our securities to fund future acquisitions of banks and other financial institutions, as well as for general corporate purposes.

On May 3, 2006, our Board of Directors authorized the repurchase of up to one million shares of the Company s common stock over the next twelve months, subject to market conditions and corporate and regulatory requirements. Through February 7, 2007, we had repurchased 277,600 shares at an aggregate cost of $14.9 million. The stock repurchase program may be limited or terminated at any time without prior notice.

Bank regulatory agencies measure capital adequacy through standardized risk-based capital guidelines which compare different levels of capital (as defined by such guidelines) to risk-weighted assets and off-balance sheet obligations. Banks considered to be adequately capitalized are required to maintain a minimum total risk-based capital ratio of 8% of which at least 4.0% must be Tier 1 capital. Banking organizations considered to be well capitalized must maintain a minimum leverage ratio of 5% and a minimum risk-based capital ratio of 10% of which at least 6.0% must be Tier 1 capital.

The following table presents regulatory capital requirements and our regulatory capital ratios at December 31, 2006:

	Regulatory Requirements		
	Adequately Capitalized	**Well Capitalized**	**Actual The Company**
As of December 31, 2006:			
Total risk-based capital ratio	8.00 %	10.00 %	12.18 %
Tier 1 risk-based capital ratio	4.00 %	6.00 %	10.94 %
Tier 1 leverage capital ratio	4.00 %	5.00 %	12.19 %

As of December 31, 2006, we exceeded each of the capital requirements of the FRB and were deemed to be well capitalized. In addition, as of December 31, 2006 Pacific Western exceeded the capital requirements to be well capitalized. For further information on regulatory capital, see Note 19 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data.

The Company issued subordinated debentures to trusts that were established by either ourselves, Foothill or Community Bancorp which, in turn, issued trust preferred securities. These securities totaled $141.0 million at December 31, 2006 and are currently included in our Tier I capital for purposes of determining the Company s Tier I and total risk-based capital ratios. The FRB, which is the holding company s banking regulator, has promulgated a modification of the capital regulations affecting trust preferred securities. Under this modification, effective March 31, 2009, the Company will be required to

use a more restrictive formula to determine the amount of trust preferred securities that can be included in regulatory Tier I capital. At that time, the Company will be allowed to include in Tier I capital an amount of trust preferred securities equal to no more than 25% of the sum of all core capital elements, which is generally defined as shareholders equity, less goodwill and any related deferred income tax liability. The regulations currently in effect through December 31, 2008, limit the amount of trust preferred securities that can be included in Tier I capital to 25% of the sum of core capital elements without a deduction for goodwill. We have determined that our Tier I capital ratios would remain above the well-capitalized level had the modification of the capital regulations been in effect at December 31, 2006. We expect that our Tier I capital ratios will be at or above the existing well-capitalized levels on March 31, 2009, the first date on which the modified capital regulations must be applied.

Liquidity

The goals of our liquidity management are to ensure the ability of the Company to meet its financial commitments when contractually due and to respond to other demands for funds such as the ability to meet the cash flow requirements of customers who may be either depositors wanting to withdraw funds or borrowers who may need assurance that sufficient funds will be available to meet their credit needs. We have an Executive Asset/Liability Management Committee, or ALM Committee, responsible for managing balance sheet and off-balance sheet commitments to meet the needs of customers while achieving our financial objectives. Our ALM Committee meets regularly to review funding capacities, current and forecasted loan demand, and investment opportunities.

Historically, the overall liquidity source of the Bank is its core deposit base. The Bank has not relied on significant amounts of large denomination time deposits. At December 31, 2006 the Bank s brokered deposits totaled $55.0 million and mature by April of 2007. To meet short-term liquidity needs, the Bank maintains what we believe are adequate balances in Federal funds sold, interest-bearing deposits in other financial institutions and investment securities having maturities of five years or less. On a consolidated basis, liquid assets (cash, Federal funds sold, interest-bearing deposits in financial institutions and investment securities available-for-sale) as a percent of total deposits were 6.6% as of December 31, 2006.

As another source of liquidity, the Company maintains a revolving credit line with U.S. Bank, N.A. for $70.0 million. Additionally, the Bank maintains unsecured lines of credit of $60.0 million with correspondent banks for purchase of overnight funds. These lines are subject to availability of funds. The Bank has also established a secured borrowing relationship with the FHLB pursuant to which the Bank may borrow approximately $753.8 million in the aggregate.

The primary sources of liquidity for the Company, on a stand-alone basis, include the dividends from the Bank, and our ability to raise capital, issue subordinated debt and secure outside borrowings. See Note 8 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data. The ability of the Company to obtain funds for the payment of dividends to our shareholders and for other cash requirements is largely dependent upon the Bank s earnings. Pacific Western is subject to restrictions under certain federal and state laws and regulations which limit its ability to transfer funds to the Company through intercompany loans, advances or cash dividends. Dividends paid by state banks such as Pacific Western are regulated by the DFI under its general supervisory authority as it relates to a bank s capital requirements. A state bank may declare a dividend without the approval of the DFI as long as the total dividends declared in a calendar year do not exceed either the retained earnings or the total of net profits for three previous fiscal years less any dividends paid during such period. See Item 5. Market For Registrant s Common Equity and Related Stockholders Matters Dividends. During 2006, First Community received dividends of $50.0 million from the Bank. The amount of dividends available for payment by the Bank to the holding company at December 31, 2006, was $90.5 million. See Note 18 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data.

Contractual Obligations

The known contractual obligations of the Company at December 31, 2006 are as follows:

	At December 31, 2006				
	Within One Year	One to Three Years	Three to Five Years	After Five Years	Total
	(Dollars in thousands)				
Short-term debt obligations	$ 254,000	$	$	$	$ 254,000
Brokered deposits	55,000				55,000
Long-term debt obligations		245,000		149,219	394,219
Operating lease obligations	12,194	22,529	18,583	29,873	83,179
Other contractual obligations	2,750	8,250	2,062		13,062
Total	$ 323,944	$ 275,779	$ 20,645	$179,092	$ 799,460

Debt obligations and operating lease obligations are discussed in Notes 8 and 12 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data. The other contractual obligations relate to our minimum liability associated with our data and item processing contract with a third-party provider.

We believe that we will be able to meet our contractual obligations as they come due through the maintenance of adequate cash levels. We expect to maintain adequate cash levels through profitability, loan and securities repayment and maturity activity, and continued deposit gathering activities. We have in place various borrowing mechanisms for both short-term and long-term liquidity needs.

Off-Balance Sheet Arrangements

Our obligations also include off-balance sheet arrangements consisting of loan-related commitments, of which only a portion are expected to be funded. At December 31, 2006, our loan-related commitments, including standby letters of credit and financial guarantees, totaled $1.3 billion. The commitments which result in a funded loan increase our profitability through net interest income. Therefore, during the year, we manage our overall liquidity taking into consideration funded and unfunded commitments as a percentage of our liquidity sources. Our liquidity sources, as described in Liquidity, have been and are expected to be sufficient to meet the cash requirements of our lending activities. For further information on loan commitments see Note 10 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data.

Recent Accounting Pronouncements

See Note 1 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data for information on recent accounting pronouncements and their impact, if any, on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risk arises primarily from credit risk and interest rate risk inherent in our lending and financing activities. To manage our credit risk, we rely on adherence to our underwriting standards and loan policies as well as our allowance for credit losses methodology. To manage our exposure to changes in interest rates, we perform asset and liability management activities which are governed by guidelines pre-established by our Executive Asset/Liability Management Committee, which we refer to as our Executive ALM Committee, and approved by our Asset/Liability Management Committee of the Board of Directors, which we refer to as our Board ALCO. Our Executive ALM Committee monitors our compliance with our

asset/liability policies. These policies focus on providing sufficient levels of net interest income while considering acceptable levels of interest rate exposure as well as liquidity and capital constraints.

Market risk sensitive instruments are generally defined as derivatives and other financial instruments, which include investment securities, loans, deposits, and borrowings. At December 31, 2006 and 2005, we had not used any derivatives to alter our interest rate risk profile or for any other reason. However, both the repricing characteristics of our fixed rate loans and floating rate loans, as well as our significant percentage of noninterest-bearing deposits compared to interest-earning assets and callable features in certain borrowings, may influence our interest rate risk profile. Our financial instruments include loans receivable, Federal funds sold, interest-bearing deposits in financial institutions, Federal Home Loan Bank stock, investment securities, deposits, borrowings and subordinated debentures.

We measure our interest rate risk position on a quarterly basis using three methods: (i) net interest income simulation analysis; (ii) market value of equity modeling; and (iii) traditional gap analysis. The results of these analyses are reviewed by the Executive ALM Committee monthly and the Board ALCO quarterly. If hypothetical changes to interest rates cause changes to our simulated net present value of equity and/or net interest income outside our pre-established limits, we may adjust our asset and liability mix in an effort to bring our interest rate risk exposure within our established limits. We evaluated the results of our net interest income simulation and market value of equity models prepared as of December 31, 2006. These models indicate that our interest rate sensitivity is within limits approved by our Board ALCO and that our balance sheet is asset-sensitive. An asset-sensitive balance sheet suggests that in a rising interest rate environment, our net interest margin would increase, and during a falling or sustained low interest rate environment, our net interest margin would decrease.

Net interest income simulation. We used a simulation model to measure the estimated changes in net interest income that would result over the next 12 months from immediate and sustained changes in interest rates as of December 31, 2006. This model is an interest rate risk management tool and the results are not necessarily an indication of our future net interest income. This model has inherent limitations and these results are based on a given set of rate changes and assumptions at one point in time. We have assumed no growth in either our interest-sensitive assets or liabilities over the next 12 months; therefore, the results reflect an interest rate shock to a static balance sheet.

This analysis calculates the difference between net interest income forecasted using both increasing and declining interest rate scenarios and net interest income forecasted using a base market interest rate derived from the current treasury yield curve. In order to arrive at the base case, we extend our balance sheet at December 31, 2006 one year and reprice any assets and liabilities that would contractually reprice or mature during that period using the products pricing as of December 31, 2006. Based on such repricings, we calculated an estimated net interest income and net interest margin. The effects of certain balance sheet attributes, such as fixed-rate loans, floating rate loans that have reached their floors and the volume of noninterest-bearing deposits as a percentage of earning assets, impact our assumptions and consequently the results of our interest rate risk management model. Changes that vary significantly from our assumptions include loan and deposit growth or contraction, changes in the mix of our earning assets or funding sources, and future asset/liability management decisions, all of which may have significant effects on our net interest income.

The net interest income simulation model includes various assumptions regarding the repricing relationship for each of our assets and liabilities. Many of our assets are floating rate loans, which are assumed to reprice to the same extent as the change in market rates according to their contracted index. Some loans and investment vehicles include the opportunity of prepayment (imbedded options) and the simulation model uses national indexes to estimate these prepayments and reinvest these proceeds at current simulated yields. Our deposit products reprice at our discretion and are assumed to reprice more slowly in a rising interest rate environment, usually repricing less than the change in market rates. Also, a

callable option feature on certain borrowings will reprice differently in a rising interest rate environment than in a declining interest rate environment.

The simulation analysis does not account for all factors that impact this analysis, including changes by management to mitigate the impact of interest rate changes or the impact a change in interest rates may have on our credit risk profile, loan prepayment estimates and spread relationships which can change regularly. Interest rate changes cause changes in actual loan prepayment rates which will differ from the market estimates we used in this analysis. In addition, the simulation analysis does not make any assumptions regarding loan fee income, which is a component of our net interest income and tends to increase our net interest margin. Management reviews the model assumptions for reasonableness on a quarterly basis.

The following table presents as of December 31, 2006, forecasted net interest income and net interest margin for the next 12 months using a base market interest rate and the estimated change to the base scenario given an immediate and sustained upward and downward movement in interest rates of 100, 200 and 300 basis points.

Sensitivity of Net Interest Income for the next 12 months
as of December 31, 2006
(Dollars in thousands)

Interest Rate Scenario	Estimated Net Interest Income	Percentage Change from Base	Estimated Net Interest Margin	Estimated Net Interest Margin change from Base
Up 300 basis points	$302,043	8.5 %	6.65 %	0.51 %
Up 200 basis points	$294,302	5.7 %	6.48 %	0.35 %
Up 100 basis points	$286,451	2.9 %	6.31 %	0.18 %
BASE	$278,359		6.14 %	
Down 100 basis points	$271,341	(2.5)%	5.99 %	(0.15)%
Down 200 basis points	$264,299	(5.1)%	5.83 %	(0.30)%
Down 300 basis points	$260,279	(6.5)%	5.75 %	(0.39)%

Our simulation results as of December 31, 2006 indicate our interest rate risk position was asset sensitive as the simulated impact of an immediate upward movement in interest rates would result in increases in net interest income over the subsequent 12 month period while an immediate downward movement in interest rates would result in a decrease in net interest income over the next 12 months. In comparing the December 31, 2006, simulation results to the end of 2005, our year-end 2006 model indicates we are less asset sensitive than the prior year-end period. The decline in our asset sensitivity is mostly a result of: (i) the impact of our acquisition activity, including the addition of Foothill s liability sensitive profile; (ii) deposit realignment due to acquisitions and the impact of the higher interest rate environment on customer deposit requirements; (iii) net deposit outflows being replaced with short-term FHLB advances; and (iv) the competitive forces on loan originations, such as our loan growth centered in mini-perms that have an initial rate adjustment after 5 years.

As of December 31, 2005, our net interest income simulation forecasted the following net interest income and net interest margin using a base market interest rate at that time and the estimated change to the base scenario given the interest rate scenarios presented. These results were not necessarily based on the same set of assumptions used in our year-end 2006 simulation.

Sensitivity of Net Interest Income for the next 12 months as of December 31, 2005 (Dollars in thousands)

Interest Rate Scenario	Estimated Net Interest Income	Percentage Change from Base	Estimated Net Interest Margin	Estimated Net Interest Margin change from Base
Up 300 basis points	$ 209,106	16.9 %	7.47 %	1.07 %
Up 200 basis points	$ 199,204	11.4 %	7.12 %	0.72 %
Up 100 basis points	$ 189,070	5.7 %	6.77 %	0.37 %
BASE	$ 178,802		6.40 %	
Down 100 basis points	$ 167,913	(6.1)%	6.02 %	(0.38)%
Down 200 basis points	$ 159,161	(11.0)%	5.71 %	(0.69)%
Down 300 basis points	$ 153,243	(14.3)%	5.50 %	(0.90)%

Market value of equity. We measure the impact of market interest rate changes on the net present value of estimated cash flows from our assets, liabilities and off-balance sheet items, defined as the market value of equity, using a simulation model. This simulation model assesses the changes in the market value of our interest-sensitive financial instruments that would occur in response to an instantaneous and sustained increase or decrease in market interest rates of 100, 200 and 300 basis points. This analysis assigns significant value to our noninterest-bearing deposit balances. The projections are by their nature forward-looking and therefore inherently uncertain, and include various assumptions regarding cash flows and interest rates. This model is an interest rate risk management tool and the results are not necessarily an indication of our actual future results. Actual results may vary significantly from the results suggested by the market value of equity table. Loan prepayments and deposit attrition, changes in the mix of our earning assets or funding sources, and future asset/liability management decisions, among others, may vary significantly from our assumptions.

The base case is determined by applying various current market discount rates to the estimated cash flows from the different types of assets, liabilities and off-balance sheet items existing at December 31, 2006. The following table shows the projected change in the market value of equity for the set of rate shocks presented as of December 31, 2006.

Estimated Market Value of Equity as of December 31, 2006 (Dollars in thousands)

Interest Rate Scenario	Estimated Market Value	Percentage Change from Base	Percentage of Total Assets	Ratio of Estimated Market Value to Book Value
Up 300 basis points	$1,503,396	0.9 %	27.1 %	128.7 %
Up 200 basis points	$1,499,686	0.6 %	27.0 %	128.4 %
Up 100 basis points	$1,495,656	0.3 %	26.9 %	128.0 %
BASE	$1,490,582		26.8 %	127.6 %
Down 100 basis points	$1,478,633	(0.8)%	26.6 %	126.6 %
Down 200 basis points	$1,456,727	(2.3)%	26.2 %	124.7 %
Down 300 basis points	$1,418,554	(4.8)%	25.5 %	121.4 %

The results of our market value of equity model indicate that an immediate and sustained increase in interest rates would increase the market value of equity from the base case while a decrease in interest rates would decrease the market value of equity. At December 31, 2006, the market value of equity changes from the base case were within the current Board-approved guidelines.

The following table shows the projected change in the market value of equity for the set of rate shocks presented as of December 31, 2005. These results are not necessarily based on the same set of assumptions used in our 2005 simulation.

Estimated Market Value of Equity as of December 31, 2005
(Dollars in thousands)

Interest Rate Scenario	Estimated Market Value	Percentage Change from Base	Percentage of Total Assets	Ratio of Estimated Market Value to Book Value
Up 300 basis points	$ 801,690	9.8 %	24.9 %	160.1 %
Up 200 basis points	$ 780,045	6.9 %	24.2 %	155.8 %
Up 100 basis points	$ 756,274	3.6 %	23.4 %	151.0 %
BASE	$ 729,928		22.6 %	145.8 %
Down 100 basis points	$ 698,603	(4.3)%	21.7 %	139.5 %
Down 200 basis points	$ 655,443	(10.2)%	20.3 %	130.9 %
Down 300 basis points	$ 600,928	(17.7)%	18.6 %	120.0 %

Gap analysis. As part of the interest rate risk management process we use a gap analysis. A gap analysis provides information about the volume and repricing characteristics and relationship between the amounts of interest-sensitive assets and interest-bearing liabilities at a particular point in time. An effective interest rate strategy attempts to match the volume of interest sensitive assets and interest bearing liabilities repricing over different time intervals. The main focus of this interest rate management tool is the gap sensitivity identified as the cumulative one year gap.

Interest Rate Sensitivity
December 31, 2006
Amounts Maturing or Repricing In

	3 Months Or Less (Dollars in thousands)	Over 3 Months to 12 Months	Over 1 Year to 5 Years	Over 5 Years	Not Interest Rate Sensitive	Total
ASSETS						
Cash and due from banks	$ 501	$	$	$	$ 128,910	$ 129,411
Federal funds sold	22,000					22,000
Investment securities	38,001	47,729	19,596	14,802		120,128
Loans	2,109,619	310,174	1,114,184	828,885		4,362,862
Other assets					918,922	918,922
Total assets	$ 2,170,121	$ 357,903	$ 1,133,780	$ 843,687	$ 1,047,832	$ 5,553,323
LIABILITIES AND SHAREHOLDERS EQUITY						
Non-interest bearing demand deposits	$	$	$	$	$ 1,571,361	$ 1,571,361
Interest-bearing demand, money market and savings deposits	1,526,832					1,526,832
Time deposits	277,201	272,919	37,420			587,540
Borrowings	234,000	20,000	245,000			499,000
Subordinated debentures	106,189		20,619	18,558	3,853	149,219
Other liabilities					51,043	51,043
Shareholders equity					1,168,328	1,168,328
Total liabilities and shareholders equity	$ 2,144,222	$ 292,919	$ 303,039	$ 18,558	$ 2,794,585	$ 5,553,323
Period gap	$ 25,899	$ 64,984	$ 830,741	$ 825,129	$ (1,746,753)	
Cumulative interest earning assets	2,170,121	2,528,024	3,661,804	4,505,491		
Cumulative interest bearing liabilities	2,144,222	2,437,141	2,740,180	2,758,738		
Cumulative Gap	25,899	90,883	921,624	1,746,753		
Cumulative interest earning assets to cumulative interest bearing liabilities	101.2 %	103.7 %	133.6 %	163.3 %		
Cumulative gap as a percent of:						
Total assets	0.5					