

FIRST COMMUNITY BANCORP /CA/
Form 10-K
March 13, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2005

OR

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)
6110 El Tordo
P.O. Box 2388
Rancho Santa Fe, California
(Address of Principal Executive Offices)

33-0885320
(I.R.S. Employer
Identification Number)
92067
(Zip Code)

Registrant's telephone number, including area code: **(858) 756-3023**

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 No

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 No

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 No

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.

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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 Accelerated Filer Non-accelerated Filer

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

As of June 30, 2005, 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, 2005, was approximately \$632.4 million. Registrant does not have any nonvoting common equities.

As of March 3, 2006, there were 20,104,282 shares of registrant's common stock outstanding, excluding 731,164 shares of unvested restricted stock and 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 2006 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 subsidiaries. As of December 31, 2005, those subsidiaries were First National Bank, which we refer to as First National, and Pacific Western National Bank, or Pacific Western. On August 12, 2005, we acquired First American Bank, or First American, which was merged with and into Pacific Western, with Pacific Western surviving the merger. On October 7, 2005, we acquired Pacific Liberty Bank, or Pacific Liberty, and merged Pacific Liberty into Pacific Western, with Pacific Western surviving the merger. We refer to Pacific Western and First National herein as the Banks and when we say we, our or the Company, we mean the Company on a consolidated basis with the Banks. 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 Banks as of and for the year ended December 31, 2005 include First American and Pacific Liberty from and after their respective dates of acquisition.

The Banks are full-service community banks offering a broad range of banking products and services including: accepting time and demand deposits, originating commercial loans, including asset-based lending and factoring of accounts receivable, real estate and construction loans, Small Business Administration guaranteed loans, or SBA loans, consumer loans, mortgage loans, international loans for trade finance and other business-oriented products. At December 31, 2005, the gross loans of the Banks totaled \$2.5 billion of which approximately 30% were commercial loans, 68% were commercial real estate loans, including construction loans, and 2% were consumer and other loans. These percentages include some foreign loans, primarily to individuals or entities with business in Mexico, representing 4% of total loans. In addition, special services and requests beyond the lending limits of the Banks can be arranged through correspondent banks.

We derive our income primarily from interest received on commercial real estate loans, commercial loans and consumer loans and, to a lesser extent, from interest received on investment securities, fees received in connection with deposit services as well as loans and other services offered, including foreign exchange services. Our major operating expenses are the interest paid by the Banks on deposits and borrowings, employee compensation and general operating expenses. The Banks rely on a foundation of locally generated deposits. Our Banks have 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. Through our asset-based lending and factoring operations, we also operate in Arizona and Texas and are subject to the economic conditions affecting those markets.

We are committed to maintaining premier, relationship-based community banks in Southern California which serve 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 Banks 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.

Through our holding company structure, First Community creates operating efficiencies for the Banks by consolidating core administrative, operational and financial functions that serve both of the Banks.

These centralized functions include finance and accounting, legal and compliance, human resources, operations and systems, and credit administration. The most senior level oversight of these functions is performed at the holding company level for the benefit of the Banks, though each function may have a limited number of Bank employees performing such functions. By consolidating these activities at the holding company and negotiating with vendors for services on behalf of the Company as a whole, we believe the Company is better able to integrate systems and manage consistently across the organization as well as provide such services for lower cost than if the Banks were to obtain or perform such services directly. The Banks reimburse the holding company for the cost of the services performed on their behalf, pursuant to an expense allocation agreement.

As of December 31, 2005, our assets totaled approximately \$3.2 billion. As of March 3, 2006, we have two wholly-owned banking subsidiaries, First National with 13 branches located in San Diego County and Pacific Western with 35 branches located in Los Angeles, Orange, Riverside, and San Bernardino Counties and in San Francisco, California. First National's business includes the asset-based lending and accounts receivable factoring operations of its wholly-owned subsidiary FC Financial, based in Phoenix, Arizona, with lending production offices in Dallas, Texas and Los Angeles and Orange, 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 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 |

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 January 2002, we raised \$23.0 million in a private placement from the sale, via a rights offering, of 1.2 million shares of our common stock. The proceeds of the rights offering were used to help fund the acquisition of Pacific Western National Bank. In July 2002, we raised \$89.3 million via the sale of 3.9 million shares of our common stock in a registered public offering, which we refer to as the 2002 offering. The proceeds of the 2002 offering were used to help fund

the acquisitions of Upland Bank, Marathon Bancorp, First National Bank and Bank of Coronado. 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 issued and have outstanding a total of \$121.7 million in subordinated debentures as follows: \$8.2 million issued in 2000, \$20.6 million issued in 2001, \$10.3 million in 2002, \$20.6 million issued in 2003, and \$61.9 million issued in the first quarter of 2004. The proceeds from the last issuance were used to help fund the FC Financial and Harbor National acquisitions. 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 2003.

Bank of Coronado Acquisition

On January 9, 2003, we acquired Bank of Coronado. We paid approximately \$11.6 million in cash for all of the shares of common stock and options of Bank of Coronado. Upon completion of the acquisition, Bank of Coronado was merged into First National.

Verdugo Banking Company Acquisition

On August 22, 2003, we acquired Verdugo Banking Company. We paid approximately \$34.3 million in cash for all of the outstanding shares of common stock and options of Verdugo Banking Company. At the time of the acquisition, Verdugo Banking Company was merged into Pacific Western.

First Community Financial Corporation

On March 1, 2004, we acquired 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.

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. 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. At the time of the merger, Cedars was merged into Pacific Western. 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 December 15, 2005, First Community announced that it had entered into a definitive agreement to acquire all of the outstanding common stock and options of Foothill Independent Bancorp in exchange for \$238.0 million in consideration consisting of First Community Bancorp common stock for the outstanding common stock of Foothill and cash for the Foothill stock options. Foothill Independent Bancorp had \$799 million in assets and twelve branch offices at December 31, 2005. The acquisition of Foothill Independent Bancorp is subject to regulatory approval and the approval of Foothill shareholders, and is currently expected to close in the second quarter of 2006. Upon completion of the acquisition, Foothill Independent Bancorp will be merged into Pacific Western.

Banking Business

The Banks are full-service community banks that offer 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, interest on investment securities and to a lesser extent from fees, providing deposit services, foreign exchange services and extending credit. The Banks originate 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 at First National, 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 Banks can be arranged through correspondent banks. The Banks issue ATM and debit cards as well as have a network of ATMs and offer access to ATM networks through other major service providers. Through the Banks, 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 FC Financial's office in Phoenix, Arizona, and its employees located in Dallas, Texas and Los Angeles and Orange, California.

Through the Banks, the Company concentrates its lending activities in three 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 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 Banks receive and

review financial statements and other documents of borrowing customers on an ongoing basis during the term of the relationship and respond to any deterioration noted.

(3) *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 Banks' 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 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 either of the Banks, or in relation to the overall business of the Company. However, approximately 68% of our loan portfolio held for investment at December 31, 2005 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 through First National, 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. Through its operating subsidiary FC Financial, First National also conducts 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 Banks' 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 Banks are 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. To obtain deposits, we compete with money market funds and other money market instruments which are not subject to interest rate ceilings. 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 their 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. Each of our Banks strives to offer highly personalized banking services. In addition, we intend to continue improving our services and banking products and to cross-market services and banking products provided by one of our Banks but not the other. We believe that through the cross-marketing of products, our Banks can distinguish themselves 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.

Regulatory Matters

On June 14, 2005, the Office of the Comptroller of the Currency, which we refer to as the OCC, informed the Company's subsidiary First National Bank that, as of June 13, 2005, the OCC had terminated the Memorandum of Understanding (the MOU) between the OCC and First National, dated April 8, 2004, relating to Bank Secrecy Act/Anti-Money Laundering (BSA/AML) matters. The memorandum required us to evaluate and strengthen our BSA/AML program and processes. The memorandum was limited in scope to BSA/AML issues and management believes that it did not have any material impact on our operating results or financial condition. The OCC stated that it had determined that First National had complied with its obligations under the terms of the MOU.

Employees

As of March 3, 2006, First National had 199 full time equivalent employees, Pacific Western had 382 full time equivalent employees, and First Community had 100 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 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 affects 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 Banks. 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 Banks and to commit resources to support the Banks in circumstances where it might not otherwise do so. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act (FDIA), 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. Because Castle Creek is a holding company for us as well as for a bank in Texas, in the event of a default at, or assistance to, the Texas bank, our Banks could have liability even though we have no control over the Texas bank. 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 its 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. The BHCA generally does not place territorial restrictions on the domestic activities of non-bank subsidiaries of bank holding companies. 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 Banks conduct business. For example, these include limitations on the ability of the Banks 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, 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 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 Banks

The Banks are extensively regulated under federal law, and to a lesser extent, state law.

The Banks are insured by the FDIC, which currently insures deposits of each member bank to a maximum of \$100,000 per depositor. For this protection, the Banks, as is the case with all insured banks, pay a quarterly statutory assessment and are subject to the rules and regulations of the FDIC. First Community is a member of the Federal Reserve System and is subject to primary regulation by the FRB. First National and Pacific Western are national banks and therefore regulated primarily by the OCC.

Various requirements and restrictions under federal law affect the operations of the Banks. Federal statutes and regulations relate to many aspects of the Banks' 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, the Banks are required to maintain certain levels of capital. The following are the regulatory capital guidelines and the actual capitalization levels for First National, Pacific Western and the Company as of December 31, 2005:

| | Adequately Capitalized (greater than or equal to) | Well Capitalized | First National | Pacific Western | Company Consolidated |
|---------------------------------|--|-----------------------------|---------------------------|----------------------------|---------------------------------|
| Total risk-based capital ratio | 8.00 % | 10.00 % | 13.64 % | 10.63 % | 11.79 % |
| Tier 1 risk-based capital ratio | 4.00 % | 6.00 % | 12.39 % | 9.67 % | 10.66 % |
| Tier 1 leverage capital ratio | 4.00 % | 5.00 % | 11.92 % | 9.69 % | 10.55 % |

The Company issued subordinated debentures to trusts that were established by us which, in turn, issued \$118 million of trust preferred securities. These 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, 2005. 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.

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 OCC 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 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 loan portfolios of the Banks, conversations with local appraisers and the type of lending currently and historically done by the Banks, 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 March 3, 2006.

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 recent 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 National 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 an independent 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 the 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 discussed, 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 cost 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 OCC 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 cost of compliance with the Patriot Act is not likely to be material to the Company.

On June 14, 2005, the OCC informed the Company's subsidiary First National Bank that, as of June 13, 2005, the OCC had terminated the MOU between the OCC and First National, dated April 8, 2004, relating to Bank Secrecy Act/Anti-Money Laundering matters. The memorandum required us to evaluate and strengthen our BSA/AML program and processes. The memorandum was limited in scope to BSA/AML issues and management believes that it did not have any material impact on our operating results or financial condition. The OCC stated that it had determined that First National had complied with its obligations under the terms of the MOU.

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 Banks, have in recent years paid minimal premiums for FDIC insurance. While we have no expectation of increased premiums, 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 OCC to evaluate the performance of each of the Banks in helping to meet the credit needs of their communities. As a part of the CRA program, the Banks are subject to periodic examinations by the OCC, and must maintain comprehensive records of their CRA activities for this purpose. During these examinations, the OCC 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 OCC 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. Both of the Banks have a CRA rating of Satisfactory as of their most recent examinations.

Customer Information Security

The FRB, the OCC 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 (the GLBA) requires financial institutions to implement policies and procedures regarding the disclosure of nonpublic personal information about consumers to non-affiliated third parties. In general, the statute requires 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 Banks policies and procedures. Certain state statutes that affect the Company impose parallel or more extensive privacy restrictions. The Banks have implemented privacy policies addressing these restrictions which are distributed regularly to all existing and new customers of the Banks.

Available Information

We maintain an Internet website at www.firstcommunitybancorp.com, and a website for each of our Banks at www.banksandiego.com and www.pacificwesternbank.com. At www.firstcommunitybancorp.com and via the Investor Relations link at each of the Banks websites, 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 thereunder. 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 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 loan 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;
- 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 margins 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. The State of California continues to face fiscal challenges upon which the long-term impact 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 68% as of December 31, 2005) of our loans are 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 governmental authorities, and to a lesser extent state and local 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. See [Supervision and Regulation](#) below.

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 and we may not be successful in obtaining partial or full repayment. 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 Banks 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 agreements to which we are a party. See [Item 5. Market for Registrant's Common Equity and Related Stockholder Matters - Dividends](#) 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 our Banks.

The availability of dividends from the Banks is limited by various statutes and regulations. It is possible, depending upon the financial condition of the bank in question and other factors, that the Board of Governors of the Federal Reserve System, and/or the Office of the Comptroller of the Currency could assert that payment of dividends or other payments is an unsafe or unsound practice. In the event our subsidiaries were unable to pay dividends to us, we in turn would likely 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 [Supervision and Regulation](#) for additional information on the regulatory restrictions to which we and our Banks 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. Federal regulatory agencies, 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.

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

As of March 3, 2006, directors and members of our executive management team owned or controlled approximately 13.1% of our common stock, excluding shares that may be issued to executive officers upon payment 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 9.1% of the Company as of March 3, 2006. Castle Creek is a registered bank holding company under the Bank Holding Company Act of 1956, as amended, and is regulated by the Board of Governors of the Federal Reserve System, or FRB. Under FRB guidelines, holding companies must be a source of strength for their subsidiaries. See Supervision and Regulation *Bank Holding Company Regulation*. 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 March 3, 2006, we had a total of 67 properties consisting of 47 branch offices, 3 annex office, 2 operations centers and 15 other properties of which 15 are subleased. We own 4 locations and the remaining properties are leased. All properties are located in Southern California except for the annex office used by FC Financial, which is located in Phoenix, Arizona and a Pacific Western branch office located in San Francisco. Pacific Western operates through 35 branches and its principal office is located at 120 Wilshire Blvd., Santa Monica, California 90401. First National operates through 13 branches and its principal office is located at 401 West A Street, San Diego, California 92101.

For additional information regarding properties of the Company and of the Banks, 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. While we understand that the plaintiffs intend to seek to certify a class for purposes of pursuing a class action, a class has not yet been certified and no motion for class certification has been filed. 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 is 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. The proposed settlement, toward which First Community would contribute \$775,000, is subject to the final settlement terms and documentation being agreed upon by First Community, the plaintiffs and other parties who are also contributing to this settlement. Additionally, the settlement is subject to approval by the Los Angeles Superior Court. 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 a final settlement will be reached 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 in principle 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, 2005.

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 bid prices for each quarterly period ended since January 1, 2004 for our common stock, as quoted and reported by the Nasdaq National Market:

| Quarter Ended | Sales Prices | |
|----------------|--------------|----------|
| | High | Low |
| 2004: | | |
| First quarter | \$ 40.68 | \$ 36.00 |
| Second quarter | \$ 39.97 | \$ 32.02 |
| Third quarter | \$ 43.65 | \$ 37.38 |
| Fourth quarter | \$ 43.99 | \$ 39.56 |
| 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 |

As of March 3, 2006, the closing price of our common stock on Nasdaq was \$60.07 per share. As of that date, we believe, based on the records of our transfer agent, that there were approximately 1,375 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 1¼ 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 1¼ times its current liabilities. Our ability to pay dividends is also subject to certain other limitations. See Item 1. Business Supervision and Regulation.

Our primary source of income is the receipt of dividends from the Banks. The availability of dividends from the Banks is limited by various statutes and regulations. It is possible, depending upon the financial condition of the bank in question, and other factors, that the FRB and/or the OCC 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 agreements with U.S. Bank, N.A. and The Northern Trust Company. Both agreements provide that we may not declare or pay any dividend on the Company's common stock in any quarter if such dividend, when added together with any purchases or redemptions of the Company's capital stock and the previous three quarterly cash dividends declared and paid, would exceed fifty percent (50%) of the Company's consolidated net income for the immediately preceding four

quarterly periods. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Note 17 of 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 that we have issued, and the debentures underlying the trust preferred securities. 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 Banks 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, 2004 we have declared the following quarterly dividends:

| Record Date | Pay Date | Amount per Share |
|-------------------|-------------------|------------------|
| February 13, 2004 | February 27, 2004 | \$ 0.1875 |
| May 14, 2004 | May 28, 2004 | \$0.22 |
| August 16, 2004 | August 31, 2004 | \$0.22 |
| November 15, 2004 | November 30, 2004 | \$0.22 |
| 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 |

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 subsidiaries to the holding company, and such other factors as our Board of Directors may deem relevant. See Business Regulation and Supervision in Part I, Item 1 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 Banks.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2005, regarding securities issued and to be issued under our equity compensation plans that were in effect during fiscal 2005:

| | 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) | 543,793 (2) | \$ 21.05 | 419,909 (3)(4) |
| 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.

(2) Amount represents outstanding options only and does not include the 405,831 shares of unvested restricted and performance stock awarded since 2003 and outstanding as of December 31, 2005 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 2,500,000 shares. The number of securities remaining available for future issuance has been reduced by 405,831 shares which represents the sum of the number of unvested shares of restricted and performance stock awards outstanding at December 31, 2005 and the number of shares of restricted and performance stock awarded and vested by December 31, 2005.

(4) All of the 419,909 shares remaining available for issuance under the Incentive Plan may be issued not only for future grants of options, warrants and rights, but also for future grants of restricted and performance stock awards. In July 2003, the Company replaced the practice of granting stock options with awards of restricted stock and performance stock. While the Company has not issued any stock options since such time, it may do so in the future. In January and February 2006, the Company granted 327,000 of performance and restricted stock awards reducing the shares remaining available for issuance under the Incentive Plan to 92,909.

Recent Sales of Unregistered Securities and Use of Proceeds

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

| Securities Sold | Date Offering Completed (In thousands) | Underwriters or Other Purchasers | Consideration Aggregate Offering Price | Underwriting Discounts/Commissions | Exemption from Registration Claimed | Terms of Conversion or Exercise | Use of Proceeds |
|----------------------------|---|---|---|------------------------------------|-------------------------------------|---------------------------------|-----------------------|
| Trust Preferred Securities | 8/15/2003 | First Tennessee Capital Markets/Keefe, Bruyette and Woods, Inc. | 10,310 | 150 | (1) | N/A | Acquisition financing |
| Trust Preferred Securities | 9/3/2003 | Trapeza CDO IV, LLC | 10,310 | | (1) | N/A | Acquisition financing |
| 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 2005:

| | 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, 2005 | | | N/A | N/A |
| November 1 - November 30, 2005 | | | N/A | N/A |
| December 1 - December 31, 2005 | 2,632 | \$ 53.22 | N/A | N/A |
| | 2,632 | \$ 53.22 | | |

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, 2005. This data should be read in conjunction with our audited consolidated financial statements as of December 31, 2005 and 2004, and for each of the years in the three-year period ended December 31, 2005, and related Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data.

| | At or for the Years Ended December 31, | | | | | |
|--|--|------------------|------------------|------------------|-----------------|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 | |
| | (In thousands, except per share data and percentages) | | | | | |
| Results of Operations(1): | | | | | | |
| Interest income | \$ 183,352 | \$ 140,147 | \$ 112,881 | \$ 83,903 | \$ 43,114 | |
| Interest expense | 22,917 | 14,417 | 12,647 | 14,156 | 11,279 | |
| NET INTEREST INCOME | 160,435 | 125,730 | 100,234 | 69,747 | 31,835 | |
| Provision for credit losses | 1,420 | 465 | 300 | | 639 | |
| NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES | 159,015 | 125,265 | 99,934 | 69,747 | 31,196 | |
| Noninterest income | 13,890 | 17,221 | 19,637 | 12,684 | 5,205 | |
| Noninterest expense | 87,414 | 81,827 | 65,820 | 54,302 | 25,915 | |
| EARNINGS BEFORE INCOME TAXES | 85,491 | 60,659 | 53,751 | 28,129 | 10,486 | |
| Income taxes | 35,125 | 24,296 | 21,696 | 11,217 | 4,376 | |
| NET EARNINGS | \$ 50,366 | \$ 36,363 | \$ 32,055 | \$ 16,912 | \$ 6,110 | |
| Share Data: | | | | | | |
| Earnings per common share: | | | | | | |
| Basic | \$ 3.05 | \$ 2.34 | \$ 2.08 | \$ 1.64 | \$ 1.30 | |
| Diluted | 2.98 | 2.27 | 2.02 | 1.58 | 1.23 | |
| Dividends declared per share | 0.97 | 0.85 | 0.68 | 0.54 | 0.36 | |
| Book value per share(2) | \$ 27.30 | \$ 22.98 | \$ 21.24 | \$ 20.68 | \$ 10.48 | |
| Shares outstanding at the end of the year(2) | 18,347 | 16,268 | 15,893 | 15,297 | 5,277 | |
| Average shares outstanding for basic EPS | 16,536 | 15,521 | 15,382 | 10,302 | 4,696 | |
| Average shares outstanding for diluted EPS | 16,894 | 15,987 | 15,868 | 10,692 | 4,958 | |
| Ending Balance Sheet Data: | | | | | | |
| Assets | \$ 3,226,411 | \$ 3,049,453 | \$ 2,429,981 | \$ 2,120,004 | \$ 770,506 | |
| Time deposits in financial institutions | 90 | 702 | 311 | 1,041 | 190 | |
| Investments | 239,354 | 269,507 | 432,318 | 325,858 | 128,593 | |
| Loans, net of deferred fees | 2,467,828 | 2,118,171 | 1,595,837 | 1,424,396 | 501,740 | |
| Allowance for loan losses(3) | 27,303 | 24,083 | 22,531 | 21,392 | 11,209 | |
| Intangible assets | 323,188 | 256,955 | 221,956 | 188,050 | 9,793 | |
| Deposits(4) | 2,405,361 | 2,432,390 | 1,949,669 | 1,738,621 | 677,167 | |
| Borrowings | 160,300 | 90,000 | 53,700 | 1,223 | 1,102 | |
| Subordinated debentures | 121,654 | 121,654 | 59,798 | 39,178 | 28,868 | |
| Common shareholders equity | 500,778 | 373,876 | 337,563 | 316,292 | 55,297 | |
| Selected Financial Ratios: | | | | | | |
| Dividend payout ratio | 32.55 | % 37.33 | % 33.42 | % 34.18 | % 29.27 | % |
| Shareholders equity to assets at period end | 15.52 | 12.26 | 13.89 | 14.92 | 7.18 | |
| Return on average assets | 1.68 | 1.35 | 1.41 | 1.14 | 0.92 | |
| Return on average equity | 12.10 | 10.36 | 9.84 | 9.66 | 16.33 | |
| Average equity/average assets | 13.90 | 13.04 | 14.29 | 11.78 | 5.61 | |
| Net interest margin | 6.37 | 5.58 | 5.24 | 5.41 | 5.32 | |

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

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

(3) The 2001 balance includes the reserve for unfunded loan commitments.

(4) 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 the holding company for our subsidiary banks, First National Bank and Pacific Western National Bank, which we refer to as the Banks. Through the holding company structure, First Community creates operating efficiencies for the Banks by consolidating core administrative, operational and financial functions that serve both of the Banks. The Banks reimburse the holding company for the cost of the services performed on their behalf, pursuant to an expense allocation agreement. See Item 1. Business General above.

The Banks are full-service community banks offering a broad range of banking products and services including: accepting time and demand deposits, originating commercial loans, including asset-based lending and factoring, real estate and construction loans, Small Business Administration guaranteed loans, or SBA loans, consumer loans, mortgage loans, international loans for trade finance, and other business-oriented products. At December 31, 2005, our gross loans totaled \$2.5 billion of which approximately 30% consisted of commercial loans, 68% consisted of commercial real estate loans, including construction loans, and 2% consisted of consumer and other loans. Accordingly, the portfolio's value and credit quality is affected in large part by real estate trends in Southern California. These percentages include some foreign loans, primarily to individuals or entities with business in Mexico, representing 4% of total loans.

The Banks compete 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 92% of our net revenues (net interest income plus noninterest income).

On August 12, 2005, we acquired First American Bank, or First American, and merged First American into Pacific Western. On October 7, 2005, we acquired Pacific Liberty Bank, or Pacific Liberty, and merged Pacific Liberty into Pacific Western. Discussions about the Company and the Banks as of and for the year ended December 31, 2005 includes First American and Pacific Liberty from and after their respective dates of acquisition.

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, 2005, approximately 49% of our deposits were noninterest-bearing. Although we have borrowing capacity under various credit lines, we have traditionally borrowed funds only for short term liquidity needs such as managing deposit flows and interim acquisition financing. Some of our long-term borrowings are matched to the asset-based loan portfolio acquired in the FC Financial acquisition. 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. Cedars Bank, which we acquired on January 4, 2006, had a higher percentage of interest-bearing deposits than the Company has historically maintained. At the acquisition date, Cedars had 26% of its deposits in demand accounts compared to our 49%, and 44% in time deposits compared to our 11%. We expect that the addition of Cedars will reduce our ratio of demand deposits to total deposits and increase our ratio of time deposits to total deposits.

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. Changes in economic conditions, however, such as increases in the general level of interest rates, could negatively impact our customers and lead to increased provisions for credit losses. See also *Financial Condition Nonperforming Assets* below.

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 2005 | Ratio |
|---------------------------------|--------------|
| First | 53.6 % |
| Second | 49.1 % |
| Third | 50.1 % |
| Fourth | 48.3 % |

Additionally, our operating results have been influenced significantly by acquisitions. The six acquisitions we completed from January 1, 2003 through December 31, 2005 added approximately \$1.1 billion in assets. Our assets at December 31, 2005 totaled approximately \$3.2 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 2005, 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 of America. 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 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 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, 2005, in the event that 5 percent of our loans were downgraded from the pass to substandard category within our current allowance methodology, the allowance for loan losses would increase by approximately \$16.9 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 significant 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 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. While the core deposit and customer relationship intangibles arising from several acquisitions are being amortized over their estimated useful lives of up to 10 years, the amortization of goodwill was discontinued for periods after December 31, 2001, in accordance with generally accepted accounting principles. Instead, goodwill, a long-lived asset, is evaluated for impairment at least annually. We selected June 30th as our interim impairment analysis date to evaluate the carrying value of goodwill each year.

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 operations.

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 operations. 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, 2005, 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 of the acquired deposits and in the case of the customer relationship intangible the acquired loans, and estimated 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 operations. 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. Bank of Coronado (\$88 million in assets) was acquired in January 2003, Verdugo Banking Company (\$212 million in assets) was acquired in August 2003, 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, and Pacific Liberty (\$183 million in assets) was acquired in October of 2005. The following table presents net earnings and summarizes per share data and key financial ratios:

| | For the Years Ended December 31, | | |
|--------------------------------|--|-------------|-------------|
| | 2005 | 2004 | 2003 |
| | (Dollars in thousands, except share data) | | |
| Net earnings | \$ 50,366 | \$ 36,363 | \$ 32,055 |
| Profitability measures: | | | |
| Basic earnings per share | \$ 3.05 | \$ 2.34 | \$ 2.08 |
| Diluted earnings per share | \$ 2.98 | \$ 2.27 | \$ 2.02 |
| Return on average assets | 1.68 | % 1.35 | % 1.41 |
| Return on average equity | 12.10 | % 10.36 | % 9.84 |
| Dividend payout ratio | 32.55 | % 37.33 | % 33.42 |

The 39% increase in net earnings during 2005 as compared to 2004 was due mainly to loan growth and acquisitions which together increased our revenues by 22%. The revenue increase was offset by a 7% increase in our noninterest expense. Our net interest income increased during 2005 largely due to a \$334 million increase in our average loans over 2004. Noninterest income was \$3.3 million lower for 2005

when compared to 2004 and is attributable to reduced gains on asset sales and lower service charges on deposit accounts. The increase in noninterest expenses for 2005 when compared to 2004 was a result of our acquisitions, increased compensation expense and professional fees, and a \$775,000 legal settlement. The increased compensation expense for 2005 compared to 2004 is largely the result of an increased number of employees due to acquisitions, staff additions to support expanded lending activity and the amortization of restricted and performance stock awarded after June 30, 2003. Professional fees increased due to expenditures for compliance with the Sarbanes-Oxley Act and legal fees related to outstanding litigation. Other noninterest expense categories increased in order to support customer services and other growth.

The increase in net earnings for 2005 compared to 2004 was primarily due to acquisition activity.

Net Interest Income

Net interest income, which is one of our principal sources 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 on average interest-bearing liabilities.

Analysis of Average Balances, Yields and Rates

| | For the Years Ended December 31, 2005 | | | 2004 | | | 2003 | | |
|--|--|--------------------------------|------------------------|--------------------|--------------------------------|------------------------|--------------------|--------------------------------|------------------------|
| | Average Balance (Dollars in thousands) | Interest Income/ Expense | Yields and Rates | Average Balance | Interest Income/ Expense | Yields and Rates | Average Balance | Interest Income/ Expense | Yields and Rates |
| ASSETS | | | | | | | | | |
| Loans, net of fees and costs(1)(2) | \$ 2,231,975 | \$ 174,202 | 7.80 % | \$ 1,897,755 | \$ 130,175 | 6.86 % | \$ 1,493,211 | \$ 101,879 | 6.82 % |
| Investment securities(2) | 248,471 | 7,900 | 3.18 % | 324,156 | 9,584 | 2.96 % | 349,837 | 10,272 | 2.94 % |
| Federal funds sold | 39,117 | 1,245 | 3.18 % | 29,206 | 354 | 1.21 % | 68,742 | 718 | 1.04 % |
| Other earning assets | 198 | 5 | 2.53 % | 1,560 | 34 | 2.18 % | 1,168 | 12 | 1.03 % |
| Total interest-earning assets | 2,519,761 | 183,352 | 7.28 % | 2,252,677 | 140,147 | 6.22 % | 1,912,958 | 112,881 | 5.90 % |
| Noninterest-earning assets | 473,024 | | | 437,893 | | | 366,785 | | |
| Total assets | \$ 2,992,785 | | | \$ 2,690,570 | | | \$ 2,279,743 | | |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | | | | | | |
| Interest checking | \$ 190,846 | \$ 116 | 0.06 % | \$ 185,255 | \$ 114 | 0.06 % | \$ 166,316 | \$ 206 | 0.12 % |
| Money market | 719,372 | 6,494 | 0.90 % | 668,881 | 3,716 | 0.56 % | 584,840 | 3,607 | 0.62 % |
| Savings | 97,144 | 179 | 0.18 % | 82,101 | 102 | 0.12 % | 78,053 | 348 | 0.45 % |
| Time deposits | 226,538 | 4,298 | 1.90 % | 257,930 | 3,192 | 1.24 % | 309,165 | 5,418 | 1.75 % |
| Total interest-bearing deposits | 1,233,900 | 11,087 | 0.90 % | 1,194,167 | 7,124 | 0.60 % | 1,138,374 | 9,579 | 0.84 % |
| Borrowings and subordinated debentures | 227,376 | 11,830 | 5.20 % | 172,459 | 7,293 | 4.23 % | 51,967 | 3,068 | 5.90 % |
| Total interest-bearing liabilities | 1,461,276 | 22,917 | 1.57 % | 1,366,626 | 14,417 | 1.05 % | 1,190,341 | 12,647 | 1.06 % |
| Non interest-bearing liabilities | | | | | | | | | |
| Demand deposits | 1,072,071 | | | 933,418 | | | 733,536 | | |
| Other liabilities | 43,352 | | | 39,608 | | | 30,145 | | |
| Total liabilities | 2,576,699 | | | 2,339,652 | | | 1,954,022 | | |
| Shareholders equity | 416,086 | | | 350,918 | | | 325,721 | | |
| Total liabilities and shareholders equity | \$ 2,992,785 | | | \$ 2,690,570 | | | \$ 2,279,743 | | |
| Net interest income | | \$ 160,435 | | | \$ 125,730 | | | \$ 100,234 | |
| Net interest spread | | | 5.71 % | | | 5.17 % | | | 4.84 % |
| Net interest margin | | | 6.37 % | | | 5.58 % | | | 5.24 % |

(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

| | 2005 Compared to 2004 | | | 2004 Compared to 2003 | | |
|--|--|-----------------------------------|-----------|---------------------------|-----------------------------------|----------|
| | Total Increase (Decrease) (Dollars in thousands) | Increase (Decrease) Due to Volume | Rate | Total Increase (Decrease) | Increase (Decrease) Due to Volume | Rate |
| Loans, net of fees and costs | \$ 44,027 | \$ 24,698 | \$ 19,329 | \$ 28,296 | \$ 27,746 | \$ 550 |
| Investment securities | (1,684) | (2,365) | 681 | (688) | (759) | 71 |
| Federal funds sold | 891 | 154 | 737 | (364) | (465) | 101 |
| Other earning assets | (29) | (34) | 5 | 22 | 5 | 17 |
| Total interest income | 43,205 | 22,453 | 20,752 | 27,266 | 26,527 | 739 |
| Interest checking | 2 | 3 | (1) | (92) | 21 | (113) |
| Money market | 2,778 | 299 | 2,479 | 109 | 488 | (379) |
| Savings | 77 | 21 | 56 | (246) | 17 | (263) |
| Time deposits | 1,106 | (427) | 1,533 | (2,226) | (803) | (1,423) |
| Borrowings and subordinated debentures | 4,537 | 1,602 | 2,935 | 4,225 | 5,315 | (1,090) |
| Total interest expense | 8,500 | 1,498 | 7,002 | 1,770 | 5,038 | (3,268) |
| Net interest income | \$ 34,705 | \$ 20,955 | \$ 13,750 | \$ 25,496 | \$ 21,489 | \$ 4,007 |

2005 compared to 2004

The increase in net interest income in 2005 over 2004 was due primarily to a increase in both loan volume and loan yield. Loan volume increased due to loan growth, both from acquisitions and to a lesser extent from 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 \$1.1 billion during 2005, or 46% of total average deposits. Maintaining this high percentage of noninterest-bearing demand deposits to total deposits contributed to our overall cost of deposits being 0.48% for 2005 compared to 0.33% for 2004. We estimated that as a result of the mix and rate structure of the deposits acquired in the Cedars acquisition our net interest margin was negatively impacted by approximately 20 basis points for the month of January 2006 compared to the month of December 2005. In addition, since Cedars' entire loan portfolio is composed of variable rate loans, we expect that we will remain asset sensitive.

Loans increased \$349.6 million during 2005. Such increase was composed of organic loan growth of \$121.1 million and loans acquired of \$228.5 million resulting in average loans increasing \$334.2 million for the year. During 2005 average loans represented 89% of the total average interest-earning assets compared to 84% for 2004. 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 94 basis points during 2005. During 2005, our base lending rate increased from 5.25% at December 31, 2004, to 7.25% at December 31, 2005, in response to the market interest rate changes made by the Federal Reserve Bank. Approximately 61% of our loan portfolio is eligible to reprice immediately as our base lending rate changes.

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 and acquisitions. Interest-bearing deposit costs increased 30 basis points to 0.90% in 2005 compared to 2004, as a result of 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 2005 as they have repriced in the higher interest rate environment. The increase in market interest rates contributed to both the increase in our deposit costs and the upward repricings of our borrowings which resulted in a 52 basis point increase in the cost of our interest-bearing liabilities for 2005.

compared to 2004. In a rising interest rate environment we expect our cost of funds to increase and there can be no guarantee that we will be able to keep the net interest margin at the levels we achieved in 2005.

2004 compared to 2003

The increase in net interest income for 2004 compared to 2003 resulted largely from the increased volume in loans, which resulted primarily from organic loan growth and to a lesser extent from the loans acquired through our acquisition activity, coupled with the decrease in the rates paid on our interest-bearing liabilities. Noninterest-bearing demand deposits averaged \$933.4 million during 2004, or 44% of total average deposits, and lowered our overall cost of deposits for 2004 to 0.33% compared to 0.51% for 2003. The rate decline on deposits and other interest-bearing liabilities was due largely to the continued low interest rate environment of 2004 and the increase in our noninterest-bearing deposits as a percentage of total deposits year-over-year. Average demand deposits as a percentage of total average deposits were 39% for 2003.

The increase in interest income in 2004 over 2003 was due largely to an increase in average loans. Loans increased by \$522.3 million during 2004. Such increase was composed of organic loan growth of \$312.5 million and loans acquired of \$209.8 million resulting in average loans increasing \$404.5 million for the year. The 32 basis point increase in yield on average interest-earning assets to 6.22% for 2004 from 5.90% for 2003 is the result of a change in the mix of earning assets. During 2004 average loans represented 84% of the total average interest-earning assets compared to 78% for 2003.

Total interest expense increased in 2004 compared with 2003 due largely to the \$120.5 million increase in average borrowed funds, including subordinated debentures, used to fund loan growth and acquisitions. We increased our subordinated debentures \$61.9 million through an offering of trust preferred securities in the first quarter of 2004. Interest expense related to our subordinated debentures totaled \$6.1 million for 2004 and \$2.9 million for 2003. Our interest expense on deposits decreased compared with 2003 largely as a result of the decline in interest rates paid on deposits during 2004. The cost of interest-bearing liabilities declined one basis point to 1.05% for 2004 compared to 2003 as the cost of borrowings and subordinated debt declined 167 basis points and they represented a higher proportion of interest-bearing liabilities.

Provision for Credit Losses

The amount of the provision for credit losses in each year is a charge against earnings in that year. The amount of provision is based upon management's evaluation of the loan portfolio, past loan loss experience, general economic conditions and other pertinent factors.

We made a provision for credit losses of \$1.4 million during 2005 and \$465,000 during 2004. 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. The 2004 provision for credit losses was composed of a \$521,000 reduction to the allowance for loan losses and \$986,000 added to the reserve for unfunded loan commitments. The provision for 2005 was in response to loan growth and the level of nonaccrual loans. During 2005, approximately \$9.5 million of foreign loans were placed on nonaccrual. By December 31, 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 loan losses was \$27.3 million at December 31, 2005, and represented 1.11% of loans, net of deferred fees and costs, and 324.2% of nonaccrual loans as of that date. The allowance for loan losses was \$24.1 million at December 31, 2004, and represented 1.14% of loans, net of deferred fees and costs, and 270.3% of nonaccrual loans as of that date. The reserve for unfunded commitments totaled \$5.7 million at December 31, 2005, and \$5.4 million at December 31, 2004. The total reserve for credit losses was \$33.0 million at December 31, 2005 and \$29.5 million at December 31, 2004. Net loans charged-off in 2005 decreased by \$371,000 to \$1.2 million when compared to 2004.

The high level of credit quality in our loan portfolio along with modest charge-offs has resulted in moderate provisions for credit losses. Increased provisions for credit losses may be required in the future based on loan and unfunded commitment growth and the affect 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 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 2005 and 2004 and between 2004 and 2003.

| | For the Years Ended December 31, | | 2004 | Increase (Decrease) | 2003 |
|--|----------------------------------|------------------------|------------------|------------------------|------------------|
| | 2005 | Increase (Decrease) | | | |
| | (Dollars in thousands) | | | | |
| Noninterest income: | | | | | |
| Service charges on deposit accounts | \$ 6,367 | \$ (1,931) | \$ 8,298 | \$ (696) | \$ 8,994 |
| Other commissions and fees | 4,292 | 295 | 3,997 | 164 | 3,833 |
| Gain on sale of loans | 596 | (1,208) | 1,804 | 891 | 913 |
| Gain (loss) on sale of securities | (45) | (39) | (6) | (1,762) | 1,756 |
| Gain on sale of other real estate owned | | | | (340) | 340 |
| Increase in cash surrender value of life insurance | 1,628 | (270) | 1,898 | 35 | 1,863 |
| Insurance settlement | | | | (825) | 825 |
| Other income | 1,052 | (178) | 1,230 | 117 | 1,113 |
| Total noninterest income | \$ 13,890 | \$ (3,331) | \$ 17,221 | \$ (2,416) | \$ 19,637 |

2005 compared to 2004

Noninterest income was \$13.9 million in 2005 compared to \$17.2 million in 2004. This decrease in noninterest income results largely from lower service charges and fees on deposit accounts which have declined due to increased market interest rate-related earning credits on business accounts. NSF fees received have also declined approximately \$470,000 as we have 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. Based on recently proposed changes to the accounting requirements for loan sales, we have suspended our SBA loan sale program and will instead retain such loans as earning assets. 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 cash surrender value of life insurance policies declined for 2005 when compared to 2004. Income is recognized on the appreciation of the cash surrender value of life insurance policies. The income recognized is noncash income and not subject to income tax. The after-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. Our crediting rate, or yield for our life insurance policies, changes

quarterly and is determined by the performance of the underlying investments adjusted by the stable value protection insurance. The stable value protection insurance is a mechanism which absorbs large movements in the returns earned on the underlying investments and smoothes the crediting rate for our life insurance policies. We have stable value protection insurance on approximately \$35.6 million of our bank owned life insurance. As a result, our crediting rate tends to lag the market. Consequently, our yield declined year over year even though market interest rates increased over this same time period. We do not expect to make any further investments in such life insurance programs.

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.

2004 compared to 2003

Noninterest income decreased \$2.4 million and totaled \$17.2 million in 2004 compared to \$19.6 million in 2003. The amount for 2003 included an insurance settlement of \$825,000, a gain on sale of securities of \$1.8 million, and a gain on sale of real estate owned of \$340,000, which when taken together totaled \$2.9 million. Although there were no similar amounts in 2004 other than the \$6,000 loss on sale of securities, the 2004 amount included the aforementioned gain on sale of an acquired charged-off loan.

Service charges on deposit accounts declined because of increased earnings credits tied to increased market interest rates and changes in certain pricing structures. Other commissions and fees for 2003 included approximately \$235,000 in escrow fees related to the Bank of Coronado acquisition which did not reoccur in 2004 because we closed the escrow operations in late 2003.

We recognized a \$6,000 loss on sale of securities in 2004 and a gain of \$1.8 million in 2003. During 2004 we sold securities in order to pay off the debt acquired in the FC Financial acquisition. During 2003 we continued the restructure of our securities portfolio, which we began 2002, the result of which produced the 2003 gain. Although we had substantial securities sales in 2004 and both purchases and sales in 2003, this is not a line of business for the Company. Accordingly, such sales did not occur in 2005 and may not occur in future periods. We use the available-for-sale securities portfolio primarily to augment earnings as we invest excess liquidity, to supply collateral to secure public funds on deposit and lines of credit, and to manage our balance sheet risk.

Income from cash surrender value of life insurance policies remained flat for 2004 when compared to 2003, and was expected as our last incremental investment in life insurance policies occurred in April 2003. The after-tax yield for our life insurance policies was 6.38% during 2004 compared to 7.33% during 2003.

Fees related to loan referral programs for SBA loans and single family mortgages increased \$439,000 and are included in other income.

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 2005 and 2004 and between 2004 and 2003.

| | For the Years Ended December 31, | | 2004 | Increase (Decrease) | 2003 | |
|---|----------------------------------|------------------------|------------------|------------------------|------------------|---|
| | 2005 (Dollars in thousands) | Increase (Decrease) | | | | |
| Noninterest expense: | | | | | | |
| Compensation | \$ 48,623 | \$ 3,403 | \$ 45,220 | \$ 12,813 | \$ 32,407 | |
| Occupancy | 10,733 | 275 | 10,458 | 1,047 | 9,411 | |
| Furniture and equipment | 2,730 | (193) | 2,923 | (334) | 3,257 | |
| Data processing | 4,869 | 86 | 4,783 | (262) | 5,045 | |
| Other professional services | 4,548 | 422 | 4,126 | 1,916 | 2,210 | |
| Business development | 1,188 | (63) | 1,251 | 241 | 1,010 | |
| Communications | 1,993 | (16) | 2,009 | (187) | 2,196 | |
| Insurance and assessments | 1,715 | 68 | 1,647 | 140 | 1,507 | |
| Cost of real estate owned | | | | (168) | 168 | |
| Intangible asset amortization | 3,607 | 354 | 3,253 | 724 | 2,529 | |
| Other | 7,408 | 1,251 | 6,157 | 77 | 6,080 | |
| Total noninterest expense | \$ 87,414 | \$ 5,587 | \$ 81,827 | \$16,007 | \$ 65,820 | |
| Efficiency ratio | 50.1 | % | 57.2 | % | 54.9 | % |
| Noninterest expense as a percentage of average assets | 2.9 | % | 3.0 | % | 2.9 | % |

2005 compared to 2004

The \$5.6 million increase in noninterest expense for 2005 compared to 2004 relates mostly to our acquisition activity as we completed four acquisitions since March 1, 2004. 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. The increase in other professional services was caused by 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 9 of 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 which is included in other noninterest expense. The proposed settlement is subject to final terms being agreed upon by the plaintiffs and other parties participating in the settlement, and is subject to approval by the Los Angeles Superior Court. 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 a final settlement will be reached or that we will not be subject to further claims by parties who did not participate in the settlement.

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.

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 \$8.3 million in relation to our 2005 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 \$4.2 million for 2006, excluding any amortization from the recently completed Cedars acquisition and the announced Foothill acquisition.

Compensation expense includes \$4.0 million for 2005 and \$7.5 million for 2004 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. Of the 255,000 shares of performance stock awarded in 2003, 12,500 were forfeited, 127,500 shares vested in March 2005, and 57,500 shares vested in March 2006. The remaining 57,500 are expected to vest in the first quarter of 2007. On January 3, 2006, 285,000 shares of performance stock were awarded. These shares will vest either when the Company achieves the designated performance goal, a change of control occurs, or the death of the grantee occurs. In February 2006, 42,000 shares of restricted stock were awarded. Stock compensation expense related to all outstanding unvested restricted and performance stock, including the awards made in January and February 2006, is estimated to be \$6.7 million in 2006. This estimate is subject to change based on additional awards which may be made, award forfeitures which may occur, and progress towards meeting performance goals.

2004 compared to 2003

The overall increase in noninterest expense is due mainly to the completion of the three acquisitions during the time period from August 2003 to April 2004, which added \$515.8 million in assets, and expanded business activity. In addition, a portion of the increase in compensation expense in 2004 when compared to 2003 relates to the amortization expense for restricted and performance stock of \$1.9 million and \$5.6 million, respectively. The total amortization expense for both restricted and performance stock in 2003 was \$1.0 million. The practice of awarding employees restricted and performance stock started in the latter half of 2003. These increases were partially offset by planned staff reductions and other savings achieved as a result of back office consolidations and data systems conversions following these acquisitions. Occupancy expense increased in 2004 when compared to 2003 largely as the result of the office locations added in the Harbor National and FC Financial acquisitions. Other professional services increased due mainly to legal costs of \$648,000 for litigation matters and to additional fees of \$620,000 incurred as the result of our efforts to comply with the requirements of the Sarbanes-Oxley Act.

Income Taxes

Effective income tax rates were 41.1%, 40.1%, and 40.4% for the years ended December 31, 2005, 2004 and 2003, respectively. The difference in the effective tax rates between the years relates mainly to the amount of tax exempt income recorded in each of the years. For further information on income taxes, see Note 12 of 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:

| | 2005 | | 2004 | | 2003 | | 2002 | | 2001 | |
|--------------------------------|------------------------|------------|--------------|------------|--------------|------------|--------------|------------|------------|------------|
| | Amount | % of Loans | Amount | % of Loans | Amounts | % of Loans | Amount | % of Loans | Amount | % of Loans |
| | (Dollars in thousands) | | | | | | | | | |
| Loan Category: | | | | | | | | | | |
| Domestic: | | | | | | | | | | |
| Commercial | \$ 639,393 | 26 % | \$ 604,995 | 28 % | \$ 426,796 | 26 % | \$ 382,584 | 27 % | \$ 245,748 | 49 % |
| Real estate construction | 570,080 | 23 | 410,167 | 19 | 347,321 | 22 | 354,296 | 25 | 84,241 | 17 |
| Real estate mortgage | 1,117,030 | 45 | 967,270 | 46 | 712,390 | 45 | 578,556 | 40 | 160,521 | 32 |
| Consumer | 47,221 | 2 | 42,723 | 2 | 31,383 | 2 | 35,393 | 3 | 11,580 | 2 |
| Foreign: | | | | | | | | | | |
| Commercial | 94,930 | 4 | 88,428 | 4 | 67,821 | 4 | 59,995 | 4 | | |
| Other | 8,320 | * | 11,731 | 1 | 14,895 | 1 | 18,504 | 1 | | |
| Total gross loans | 2,476,974 | 100 % | 2,125,314 | 100 % | 1,600,606 | 100 % | 1,429,328 | 100 % | 502,090 | 100 % |
| Less net deferred loan fees | (9,146) | | (7,143) | | (4,769) | | (4,932) | | (350) | |
| Loans, net of fees | 2,467,828 | | 2,118,171 | | 1,595,837 | | 1,424,396 | | 501,740 | |
| Less allowance for loan losses | (27,303) | | (24,083) | | (22,531) | | (21,392) | | (11,209) | |
| Total net loans | \$ 2,440,525 | | \$ 2,094,088 | | \$ 1,573,306 | | \$ 1,403,004 | | \$ 490,531 | |

* Amount is less than 1%.

2005 compared to 2004

In 2005, loans, net of fees, grew by \$349.6 million, including organic growth of \$121.1 million and acquired loans of \$228.5 million. While the majority of our loan portfolio is concentrated in commercial and real estate loans, we continue to originate foreign commercial and foreign real estate loans as part of our ongoing services. 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. Our foreign loan commitments totaled \$29.5 million at December 31, 2005.

2004 compared to 2003

In 2004, loans, net of fees, grew by \$522.3 million, of which organic growth was \$312.5 million and loans acquired were \$209.8 million. Our foreign loan commitments totaled \$37.0 million at December 31, 2004.

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, 2005:

| Loan Category: | Repricing or Maturing In | | Over 5 years | Total |
|--------------------------|--------------------------|----------------------|-----------------|--------------|
| | 1 year or less | Over 1 to 5 years | | |
| (Dollars in thousands) | | | | |
| Domestic: | | | | |
| Commercial | \$ 369,128 | \$ 137,593 | \$ 132,672 | \$ 639,393 |
| Real estate construction | 501,135 | 58,515 | 10,430 | 570,080 |
| Foreign | 86,428 | 8,057 | 8,765 | 103,250 |
| Total | \$ 956,691 | \$ 204,165 | \$ 151,867 | \$ 1,312,723 |

| Domestic: | Fixed | Floating | Total |
|--------------------------|------------|--------------|--------------|
| | Rate | Rate | |
| (Dollars in thousands) | | | |
| Commercial | \$ 70,889 | \$ 568,504 | \$ 639,393 |
| Real estate construction | 30,456 | 539,624 | 570,080 |
| Foreign | 10,991 | 92,259 | 103,250 |
| Total | \$ 112,336 | \$ 1,200,387 | \$ 1,312,723 |

Approximately \$1.1 billion of real estate mortgage loans are not included in the above tables. Approximately \$147.5 million of the \$1.1 billion are fixed rate with a weighted average period to next repricing date of 5 years.

Nonperforming Assets

The following table sets forth certain information with respect to our nonaccrual loans and accruing loans for which payments of principal and interest were contractually past due 90 days or more as well as other nonperforming assets:

| | December 31, | | | | |
|--|--------------|----------|----------|-----------|----------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| (Dollars in thousands) | | | | | |
| Nonaccrual loans | \$ 8,422 | \$ 8,911 | \$ 7,411 | \$ 10,216 | \$ 4,672 |
| Loans past due 90 days or more and still accruing | | | | | |
| Nonperforming loans | 8,422 | 8,911 | 7,411 | 10,216 | 4,672 |
| Other real estate owned | | | | 3,117 | 3,075 |
| Total nonperforming assets | \$ 8,422 | \$ 8,911 | \$ 7,411 | \$ 13,333 | \$ 7,747 |
| Nonperforming loans to loans, net of deferred fees and costs | 0.34 | % 0.42 | % 0.46 | % 0.72 | % 0.93 |
| Nonperforming assets to loans and other real estate owned | 0.34 | % 0.42 | % 0.46 | % 0.93 | % 1.53 |

The decline in nonaccrual loans as a percent of total loans since 2001 is attributed to our underwriting criteria and workout of troubled loans from acquisitions. During 2005, however, we experienced an increase in nonaccrual foreign loans. Such increase was isolated to several borrowers whose loans totaled \$9.5 million. Our foreign loans are covered by third party insurance arrangements. Under these insurance arrangements, we have deductibles ranging from zero to \$120,000 per relationship plus loss retention of up

to 20% of the balance after applying the deductible. By December 31, 2005, \$7.3 million of these loans were repaid, \$1.5 million were charged off, and \$730,000 were returned to accrual status.

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.

On December 31, 2005, we had \$8.4 million of loans on nonaccrual status compared to \$8.9 million and \$7.4 million on December 31, 2004 and 2003. As of December 31, 2005, 2004 and 2003, there were no loans past due over 90 days and still accruing interest. Additional interest income of \$788,000, \$571,000 and \$385,000, would have been recorded for the years ended December 31, 2005, 2004 and 2003 if nonaccrual loans had been performing in accordance with their original terms. Interest income of \$107,000, \$163,000, and \$214,000 was recorded on loans transferred to a nonaccrual status for the years ended December 31, 2005, 2004 and 2003.

Subsequent to December 31, 2005, and in the normal course of our review of outstanding loans, we identified one loan totaling approximately \$1.4 million that has the potential to be placed on nonaccrual status. At this time, however, we believe that no significant losses will be recognized on this loan. Other than as described herein, as of March 6, 2006, management is not aware of any other loans that have the potential to become nonaccrual loans.

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 December 31, 2004 balance sheet and the allowance for credit loss tables included in Note 5 of 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 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, 2005, in the event that 5 percent of our loans were downgraded from the pass to substandard category within our current allowance methodology, the allowance for loan losses would increase by approximately \$16.9 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 significant 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 the collectibility of loans in the Company's portfolio.

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.

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

| | For the Years Ended December 31, | | | | | |
|---|----------------------------------|-----------|-----------|-----------|-----------|---|
| | 2005 | 2004 | 2003 | 2002 | 2001(1) | |
| | (Dollars in thousands) | | | | | |
| Balance at beginning of year | \$ 24,083 | \$ 22,531 | \$ 21,392 | \$ 11,209 | \$ 3,930 | |
| Loans charged off: | | | | | | |
| Domestic: | | | | | | |
| Commercial | (1,646) | (2,830) | (3,331) | (2,764) | (6,839) | |
| Real estate construction | | | | | | |
| Real estate mortgage | (100) | (128) | | (537) | (140) | |
| Consumer | (180) | (305) | (1,145) | (1,488) | (490) | |
| Small Business Administration, unguaranteed portion held for investment | | | | | (52) | |
| Foreign | (1,592) | (344) | | | | |
| Total loans charged off | (3,518) | (3,607) | (4,476) | (4,789) | (7,521) | |
| Recoveries on loans charged off: | | | | | | |
| Domestic: | | | | | | |
| Commercial | 2,106 | 1,653 | 2,453 | 2,036 | 1,168 | |
| Real estate construction | | | | | | |
| Real estate mortgage | 11 | 64 | 84 | 737 | 6 | |
| Consumer | 241 | 311 | 468 | 418 | 29 | |
| Small Business Administration, unguaranteed portion held for investment | | | | | | |
| Foreign | 2 | 50 | | 6 | | |
| Total recoveries on loans charged off | 2,360 | 2,078 | 3,005 | 3,197 | 1,203 | |
| Net loans charged off | (1,158) | (1,529) | (1,471) | (1,592) | (6,318) | |
| Provision for loan losses | 1,345 | (521) | 48 | (2,902) | 639 | |
| Additions due to acquisitions | 3,033 | 3,602 | 2,562 | 14,677 | 12,958 | |
| Balance at end of year | \$ 27,303 | \$ 24,083 | \$ 22,531 | \$ 21,392 | \$ 11,209 | |
| Ratios: | | | | | | |
| Allowance for loan losses as a percentage of total loans at year end | 1.11 | % 1.14 | % 1.41 | % 1.50 | % 2.23 | % |
| Net loans charged off as a percentage of average loans | 0.05 | % 0.08 | % 0.10 | % 0.16 | % 1.60 | % |

(1) The 2001 balance includes the reserve for unfunded loan commitments.

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

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

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

The increase in the allowance for loan losses in 2005 compared to 2004 is due primarily to the 2005 acquisitions, offset partially by net charge-offs of \$1.2 million. The decrease in the percentage of allowance for loan losses to loans, net of deferred fees and costs, is due to a reduction in problem loans that we acquired through our acquisitions. Following the acquisitions made during 2003, our loan portfolio increased substantially, as well as the dollar amount of problem loans. We have successfully settled, worked-out of, or otherwise resolved, a substantial amount of those problem loans. As a result and in light of our loan growth in 2005, the remaining problem loans represent a smaller percentage of our overall loan portfolio. Based on our experience, we believe that the allowance for loan losses of \$27.3 million at December 31, 2005 is adequate to cover known and inherent risks in the loan portfolio. See Critical Accounting Policies and Note 5 of 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, | | | | | |
| 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 % |
| 2001(1) | | | | | |
| Allowance for loan losses | \$ 7,435 | \$ 3,604 | \$ 170 | | \$ 11,209 |
| % of loans to total loans | 49 % | 49 % | 2 % | | 100 % |

(1) The 2001 balance includes the reserve for unfunded loan commitments

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 of U.S. Treasury and U.S. government agency obligations, mortgage-backed securities, obligations of states and political subdivisions, and Federal Reserve Bank, Federal Home Loan Bank and other 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 and U.S. government agencies from this calculation. We do, however, own Federal National Mortgage Association and Federal Home Loan Mortgage Corporation guaranteed mortgage-backed securities that have carrying values of \$122.4 million and \$40.4 million at December 31, 2005.

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

Investment Portfolio

| | At December 31, | | |
|--|------------------------|------------|------------|
| | 2005 | 2004 | 2003 |
| | (Dollars in thousands) | | |
| U.S. Treasury securities | \$ | \$ 87 | \$ 1,125 |
| U.S. government agency securities | 46,788 | 12,312 | 51,545 |
| States and political subdivisions | 9,054 | 10,406 | 13,541 |
| Mortgage-backed and other securities | 156,759 | 222,590 | 351,445 |
| Subtotal | 212,601 | 245,395 | 417,656 |
| Federal Reserve and Federal Home Loan Bank stock | 26,753 | 24,112 | 14,662 |
| Total investments | \$ 239,354 | \$ 269,507 | \$ 432,318 |

The following table presents a summary of yields and contractual maturities of debt securities:

Analysis of Investment Yields and Maturities December 31, 2005

| | 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. government agency securities | \$ 14,877 | 3.32 % | \$ 31,911 | 3.89 % | \$ | % | \$ | | \$ 46,788 | 3.71 % |
| States and political subdivisions | 2,027 | 5.84 % | 3,962 | 4.57 % | 3,065 | 4.85 % | | | 9,054 | 4.95 % |
| Mortgage-backed and other securities | 505 | 6.12 % | 13,371 | 3.75 % | 14,639 | 4.65 % | 128,244 | 3.83 % | 156,759 | 3.91 % |
| Total investments(1) | \$ 17,409 | 3.69 % | \$ 49,244 | 3.90 % | \$ 17,704 | 4.68 % | \$ 128,244 | 3.83 % | \$ 212,601 | 3.91 % |

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

At December 31, 2005, our investment portfolio included \$124.2 million of investment securities that have been in a continuous unrealized loss position for 12 months or longer. 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, | | | | | |
|----------------------|----------------------------------|--------|--------------|--------|--------------|--------|
| | 2005 | | 2004 | | 2003 | |
| | Amount | Rate | Amount | Rate | Amount | Rate |
| | (Dollars in thousands) | | | | | |
| Non-interest bearing | \$ 1,072,071 | | \$ 933,418 | | \$ 733,536 | |
| Interest checking | 190,846 | 0.06 % | 185,255 | 0.06 % | 166,316 | 0.12 % |
| Money market | 719,372 | 0.90 % | 668,881 | 0.56 % | 584,840 | 0.62 % |
| Savings | 97,144 | 0.18 % | 82,101 | 0.12 % | 78,053 | 0.45 % |
| Time | 226,538 | 1.90 % | 257,930 | 1.24 % | 309,165 | 1.75 % |
| Total deposits | \$ 2,305,971 | 0.48 % | \$ 2,127,585 | 0.33 % | \$ 1,871,910 | 0.51 % |

The increase in average deposits in 2005 is due primarily to having the full year impact of the deposits acquired in 2004 and the addition of the deposits acquired in 2005. Deposit growth in 2004 is attributed mainly to the full year impact of the deposits acquired in 2003 and the addition of the deposits acquired in 2004.

Deposits by foreign customers, primarily located in Mexico and Canada, totaled \$101.7 million, or approximately 4% of total deposits, as of December 31, 2005 and \$110.4 million at December 31, 2004.

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, 2005 | \$ 76,449 | \$ 27,035 | \$ 45,237 | \$ 13,942 | \$ 162,663 |

Borrowings

The holding company and the Banks 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 or other financial institutions. See [Liquidity](#) and Note 8 of Notes to Consolidated Financial Statements contained in [Item 8. Financial Statements and Supplementary Data](#) for information on our borrowings.

At December 31, 2005, we had outstanding \$160.3 million due to the Federal Home Loan Bank of San Francisco, composed of \$85.0 of term advances and \$75.3 million in overnight advances, and \$121.7 million of subordinated debentures due to various investors. At December 31, 2004, we had outstanding \$85.0 million of term advances due to the Federal Home Loan Bank of San Francisco, \$5.0 million due on our revolving lines of credit at the holding company and \$121.7 million of subordinated debentures due to various investors. Average borrowings increased to \$227.4 million in 2005 compared to \$172.5 million in 2004 due mostly to our loan growth outpacing our deposit growth during 2005. Excluding the \$365 million deposit received on December 31, 2004 and deposits from acquisitions, we experienced net deposit outflow of \$21.6 million in 2005. This lack of deposit growth caused us to rely more heavily on outside borrowings to fund loan growth, which, after excluding loans from acquisitions, totaled \$121.1 million in 2005. The maximum amount that we could borrow under our credit lines with the Federal

Home Loan Bank of San Francisco at December 31, 2005 is \$665.2 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 shelf registration statement covering 3.4 million of our common shares. In August and September 2005, we sold 1.0 million shares of common stock for net proceeds of \$49.0 million in order to fund the First American acquisition and to augment our regulatory capital. On January 31, 2006 we sold an additional 1.9 million shares for net proceeds of \$109.5 million in order to fund the Cedars acquisition and to further augment our regulatory capital.

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 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:

| | Regulatory Requirements | | Actual |
|---------------------------------|-------------------------|------------------|-------------|
| | Adequately Capitalized | Well Capitalized | The Company |
| As of December 31, 2005: | | | |
| Total risk-based capital ratio | 8.00 % | 10.00 % | 11.79 % |
| Tier 1 risk-based capital ratio | 4.00 % | 6.00 % | 10.66 % |
| Tier 1 leverage capital ratio | 4.00 % | 5.00 % | 10.55 % |

As of December 31, 2005, we exceeded each of the capital requirements of the FRB and were deemed to be well capitalized. In addition, each of our banks exceeded the capital requirements of its primary federal banking regulator and was deemed to be well capitalized. For further information on regulatory capital, see Note 18 of 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 us which, in turn, issued \$118 million of trust preferred securities. These 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 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, 2005. 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 Banks is their core deposit base. The Banks have not relied on large denomination time deposits. To meet short-term liquidity needs, the Banks maintain 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 13.2% as of December 31, 2005.

As an additional source of liquidity, the Banks maintain unsecured lines of credit of \$120 million with correspondent banks for purchase of overnight funds. These lines are subject to availability of funds. The Banks have also established secured borrowing relationships with the Federal Home Loan Bank of San Francisco which would allow the Banks to borrow approximately \$665.2 million in the aggregate. Before 2004, the Banks rarely used either of these facilities. However, beginning in 2004 the Banks began to rely upon the secured borrowing facilities at the Federal Home Loan Bank of San Francisco in order to repay borrowings acquired in the FC Financial acquisition and to meet loan demand.

The primary sources of liquidity for the Company, on a stand-alone basis, include the dividends from the Banks, and our ability to raise capital, issue subordinated debt and secure outside borrowings. See Note 8 of 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 Banks' earnings. The availability of dividends from the Banks is limited by various statutes and regulations of state and federal law. Dividends paid by national banks such as First National and Pacific Western are regulated by the OCC under its general supervisory authority as it relates to a bank's capital requirements. A national bank may declare a dividend without the approval of the OCC as long as the total dividends declared in a calendar year do not exceed the total of net profits for that year combined with the retained profits for the preceding two years. See Item 5. Market For Registrant's Common Equity and Related Stockholders Matters - Dividends. During 2005, First Community received dividends of \$23.5 million from the Banks. The amount of dividends available for payment by the Banks to the holding company at December 31, 2005, was \$49.5 million. See Note 17 of 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, 2005 are as follows:

| | At December 31, 2005 | | | | Total |
|-------------------------------|--|-----------------------|------------------------|---------------------|------------|
| | Within One Year (Dollars in thousands) | One to Three Years | Three to Five Years | After Five Years | |
| Short-term debt obligations | \$ 115,300 | \$ | \$ | \$ | \$ 115,300 |
| Long-term debt obligations | | 45,000 | | 121,654 | 166,654 |
| Operating lease obligations | 7,831 | 14,943 | 11,876 | 22,914 | 57,564 |
| Other contractual obligations | 3,076 | 1,224 | | | 4,300 |
| Total | \$ 126,207 | \$61,167 | \$ 11,876 | \$144,568 | \$343,818 |

Debt obligations and operating lease obligations are discussed in Notes 8 and 11 of 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.

Not included in the above table is our merger-related liability which was \$2.5 million at December 31, 2005. See Note 2 of Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data.

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, 2005, our loan-related commitments, including standby letters of credit and financial guarantees, totaled \$1.1 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 9 of 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 deposit gathering 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 ALM Committee and approved by our Board of Directors. Our 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, 2005 and 2004, 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, may influence our interest rate risk profile. Our financial instruments include loans receivable, Federal funds sold, interest-bearing deposits in financial institutions, Federal Reserve Bank and 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 ALM Committee 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, 2005. These models indicate that our interest rate sensitivity is within limits approved by our Board of Directors 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, 2005. 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.

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, 2005 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, 2005. 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 immediately and 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 non-term deposit products reprice more slowly, usually changing less than the change in market rates and at our discretion.

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. Management reviews the model assumptions for reasonableness on a quarterly basis.

The following table presents forecasted net interest income and net interest margin 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 as of December 31, 2005.

**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)% |

Our simulation results as of December 31, 2005 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. The Cedars acquisition will have certain effects on our interest rate risk profile. We estimated that as a result of the mix and rate structure of the deposits acquired in the Cedars acquisition our net interest margin was negatively impacted by approximately 20 basis points for the month of January 2006 compared to the month of December 2005. In addition, since Cedars' entire loan portfolio is composed of variable rate loans, we expect that we will remain asset sensitive.

As of December 31, 2004, 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 2005 simulation.

**Sensitivity of Net Interest Income for the next 12 months
as of December 31, 2004
(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 | \$ 157,809 | 13.8 % | 6.35 % | 0.76 % |
| Up 200 basis points | \$ 151,064 | 9.0 % | 6.08 % | 0.49 % |
| Up 100 basis points | \$ 144,342 | 4.1 % | 5.81 % | 0.23 % |
| BASE | \$ 138,620 | | 5.59 % | |
| Down 100 basis points | \$ 134,584 | (2.9)% | 5.43 % | (0.16)% |
| Down 200 basis points | \$ 128,465 | (7.3)% | 5.18 % | (0.40)% |
| Down 300 basis points | \$ 120,372 | (13.2)% | 4.86 % | (0.73)% |

Given the recent increases in short-term market interest rates and market indications of a continued rising interest rate environment, we performed an additional net interest income simulation analysis assuming 0.25% increases in market interest rates at the end of March, June and September 2006. We extended our balance sheet at December 31, 2005 one year and repriced any assets and liabilities that would contractually reprice or mature during that period using the products pricing as of December 31, 2005. We used the same underlying assumptions used in our net interest income simulation described above.

Based on the assumed gradual rise in market interest rates, we calculated a different base case for our forecasted net interest income and net interest margin. We compared these results to the results of our original net interest income simulation model. The following table shows that our forecasted net interest income and net interest margin may increase over a future 12 month period given either a gradual increase in rates or an immediate shift upward in rates, but we may earn less interest income or have a lower net interest margin if rates were to increase gradually instead of all at one time.

| Net Interest Income (Dollars in thousands) | | | Net Interest Margin | | |
|---|---|--|----------------------------|---|--|
| Original Base Case | Original with 100 basis point parallel shift | Original with 25 basis point increments | Original Base Case | Original with 100 basis point parallel shift | Original with 25 basis point increments |
| \$178,802 | \$ 189,070 | \$ 184,015 | 6.40% | 6.77% | 6.59% |

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,

2005. 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.

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 % |

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, 2005, 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, 2004. 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, 2004
(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 | \$ 619,263 | 9.6 % | 22.1 % | 165.6 % |
| Up 200 basis points | \$ 605,794 | 7.2 % | 21.6 % | 162.0 % |
| Up 100 basis points | \$ 590,252 | 4.5 % | 21.1 % | 157.9 % |
| BASE | \$ 564,883 | | 20.1 % | 151.1 % |
| Down 100 basis points | \$ 526,118 | (6.9) % | 18.8 % | 140.7 % |
| Down 200 basis points | \$ 482,176 | (14.6) % | 17.2 % | 129.0 % |
| Down 300 basis points | \$ 437,776 | (22.5) % | 15.6 % | 117.1 % |

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, 2005****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 | NonSensitive(1) | Total |
|---|--|---|---------------------------------------|-------------------------|------------------------|---------------------|
| ASSETS | | | | | | |
| Cash and due from banks | \$ 90 | \$ | \$ | \$ | \$ 100,662 | \$ 100,752 |
| Federal funds sold | 4,600 | | | | | 4,600 |
| Investment securities | 41,558 | 49,825 | 123,170 | 24,801 | | 239,354 |
| Loans | 1,571,103 | 88,640 | 718,306 | 89,779 | | 2,467,828 |
| Other assets | | | | | 413,877 | 413,877 |
| Total assets | \$ 1,617,351 | \$ 138,465 | \$ 841,476 | \$ 114,580 | \$ 514,539 | \$ 3,226,411 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | | | |
| Non-interest bearing demand deposits | \$ | \$ | \$ | \$ | \$ 1,179,808 | \$ 1,179,808 |
| Interest-bearing demand, money market and savings deposits | 955,235 | | | | | 955,235 |
| Time deposits | 115,514 | 127,269 | 27,435 | 100 | | 270,318 |
| Borrowings | 75,300 | 40,000 | 45,000 | | | 160,300 |
| Subordinated debentures | 103,096 | 10,310 | | 8,248 | | 121,654 |
| Other liabilities | | | | | 38,318 | 38,318 |
| Shareholders equity | | | | | 500,778 | 500,778 |
| Total liabilities and shareholders equity | \$ 1,249,145 | \$ 177,579 | \$ 72,435 | \$ 8,348 | \$ 1,718,904 | \$ 3,226,411 |
| Period gap | \$ 368,206 | \$ (39,114) | \$ 769,041 | \$ 106,232 | \$ (1,204,365) | |
| Cumulative interest earning assets | 1,617,351 | 1,755,816 | 2,597,292 | \$ 2,711,872 | | |
| Cumulative interest bearing liabilities | 1,249,145 | 1,426,724 | 1,499,159 | 1,507,507 | | |
| Cumulative Gap | 368,206 | 329,092 | 1,098,133 | 1,204,365 | | |
| Cumulative interest earning assets to cumulative interest bearing liabilities | 129.5 | % 123.1 | % 173.2 | % 179.9 | % | |
| Cumulative gap as a percent of: | | | | | | |
| Total assets | 11.4 | % 10.2 | % 34.0 | % 37.3 | % | |
| Interest earning assets | 13.6 | % 12.1 | % 40.5 | % 44.4 | % | |

(1) Assets or liabilities which are not interest rate-sensitive

Note: All amounts are reported at their contractual maturity or repricing periods. This analysis makes certain assumptions as to interest rate sensitivity of savings and NOW accounts which have no stated maturity and have had very little price fluctuation in the past three years. Money market accounts are repriced at management's discretion and generally are more rate sensitive.

The preceding table indicates that we had a positive one year cumulative gap of \$329.1 million, or 10.2% total assets, at December 31, 2005. This gap position suggests that we are asset-sensitive and if rates were to increase, our net interest margin would most likely increase. Conversely, if rates were to fall during this period, interest income would decline by a greater amount than interest expense and net interest income would likely decrease. The ratio of interest-earning assets to interest-bearing liabilities maturing or repricing within one year at December 31, 2005 is 123.1%. This one year gap position indicates that interest income is likely to be affected to a greater extent than interest expense for any changes in interest rates within one year from December 31, 2005.

The gap table has inherent limitations and actual results may vary significantly from the results suggested by the gap table. The gap table is unable to incorporate certain balance sheet characteristics or factors. The gap table assumes a static balance sheet, as does the net interest income simulation, and, accordingly, looks at the repricing of existing assets and liabilities without consideration of new loans and deposits that reflect a more current interest rate environment. Unlike the net interest income simulation, however, the interest rate risk profile of certain deposit products and floating rate loans that have reached their floors cannot be captured effectively in a gap table. Although the table shows the amount of certain assets and liabilities scheduled to reprice in a given time frame, it does not reflect when or to what extent such repricings may actually occur. For example, interest-bearing demand, money market and savings deposits are shown to reprice in the first 3 months, but we may choose to reprice these deposits more slowly and incorporate only a portion of the movement in market rates based on market conditions at that time. Alternatively, a loan which has reached its floor may not reprice even though market interest rates change causing such loan to act like a fixed rate loan regardless of its scheduled repricing date. For example, a loan already at its floor would not reprice if the adjusted rate was less than its floor. The gap table as presented cannot factor in the flexibility we believe we have in repricing either deposits or the floors on our loans.

We believe the estimated effect of a change in interest rates is better reflected in our net interest income and market value of equity simulations which incorporate many of the factors mentioned.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of First Community Bancorp, including its consolidated subsidiaries, is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with U.S. generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with management's authorization, assets are safeguarded, and financial records are reliable. Management also takes steps to see that information and communication flows are effective and to monitor performance, including performance of internal control procedures.

As of December 31, 2005, First Community Bancorp management assessed the effectiveness of the Company's internal control over financial reporting based on the framework established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2005, is effective.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements should they occur. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the control procedures may deteriorate.

KPMG LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements included in this Annual Report on Form 10-K, have issued a report on management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. The report, which expresses unqualified opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, is included in this Item under the heading Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting.

/s/ MATTHEW P. WAGNER
Matthew P. Wagner
President and Chief Executive Officer

/s/ VICTOR R. SANTORO
Victor R. Santoro
Executive Vice President and Chief Financial Officer

March 10, 2006

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The Board of Directors
First Community Bancorp:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that First Community Bancorp maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. First Community Bancorp's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that First Community Bancorp maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*. Also, in our opinion, First Community Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of First Community Bancorp and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of earnings, shareholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2005, and our report dated March 10, 2006 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Los Angeles, California
March 10, 2006

Report of Independent Registered Public Accounting Firm

The Board of Directors
First Community Bancorp:

We have audited the accompanying consolidated balance sheets of First Community Bancorp and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of earnings, shareholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Community Bancorp and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of First Community Bancorp's internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)*, and our report dated March 10, 2006, expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Los Angeles, California
March 10, 2006

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Consolidated Balance Sheets as of December 31, 2005 and 2004

| | 2005 | 2004 |
|---|------------------------|--------------|
| | (Dollars in thousands) | |
| Assets | | |
| Cash and due from banks (note 16) | \$ 100,662 | \$ 72,581 |
| Federal funds sold | 4,600 | 246,700 |
| Total cash and cash equivalents | 105,262 | 319,281 |
| Interest-bearing deposits in financial institutions | 90 | 702 |
| Investments: | | |
| Federal Reserve Bank and Federal Home Loan Bank stock, at cost | 26,753 | 24,112 |
| Securities available-for-sale, at fair value (notes 4 and 8) | 212,601 | 245,395 |
| Total investments | 239,354 | 269,507 |
| Loans, net of fees (notes 5 and 8) | 2,467,828 | 2,118,171 |
| Less allowance for loan losses (note 5) | (27,303) | (24,083) |
| Net loans | 2,440,525 | 2,094,088 |
| Premises and equipment, net (note 6) | 19,063 | 14,919 |
| Accrued interest | 12,006 | 9,058 |
| Goodwill (notes 2 and 3) | 295,890 | 234,360 |
| Core deposit and customer relationship intangibles (note 3) | 27,298 | 22,595 |
| Cash surrender value of life insurance | 56,207 | 52,283 |
| Other assets (note 12) | 30,716 | 32,660 |
| Total assets | \$ 3,226,411 | \$ 3,049,453 |
| Liabilities and shareholders' Equity | | |
| Deposits (note 7): | | |
| Noninterest-bearing | \$ 1,179,808 | \$ 941,716 |
| Interest-bearing | 1,225,553 | 1,490,674 |
| Total deposits | 2,405,361 | 2,432,390 |
| Interest payable and other liabilities (notes 5 and 12) | 38,318 | 31,533 |
| Borrowings (note 8) | 160,300 | 90,000 |
| Subordinated debentures (note 8) | 121,654 | 121,654 |
| Total liabilities | 2,725,633 | 2,675,577 |
| Shareholders' equity (notes 15, 17, 18 and 19): | | |
| Preferred stock, no par value. Authorized 5,000,000 shares; none issued and outstanding | | |
| Common stock, no par value. Authorized 30,000,000 shares; issued and outstanding, 18,346,566 (includes 405,831 shares of unvested restricted stock) and 16,267,862 (includes 585,416 shares of unvested restricted stock) shares as of December 31, 2005 and 2004, respectively | 410,419 | 318,880 |
| Unearned equity compensation | (9,551) | (11,445) |
| Retained earnings | 102,325 | 67,911 |
| Accumulated other comprehensive loss - net unrealized loss on securities available-for-sale, net (notes 4 and 14) | (2,415) | (1,470) |
| Total shareholders' equity | 500,778 | 373,876 |
| Commitments and contingencies (notes 9 and 11) | | |
| Total liabilities and shareholders' equity | \$ 3,226,411 | \$ 3,049,453 |

See accompanying Notes to Consolidated Financial Statements.

FIRST COMMUNITY BANCORP AND SUBSIDIARIES**Consolidated Statements of Earnings for the Years Ended December 31, 2005, 2004 and 2003**

| | 2005 | 2004 | 2003 |
|--|---|------------|------------|
| | (Dollars in thousands, except per share data) | | |
| Interest income: | | | |
| Interest and fees on loans | \$ 174,202 | \$ 130,175 | \$ 101,879 |
| Interest on federal funds sold | 1,245 | 354 | 718 |
| Interest on time deposits in financial institutions | 5 | 34 | 12 |
| Interest on investment securities | 7,900 | 9,584 | 10,272 |
| Total interest income | 183,352 | 140,147 | 112,881 |
| Interest expense: | | | |
| Deposits (note 7) | 11,087 | 7,124 | 9,579 |
| Borrowings (note 8) | 3,350 | 1,144 | 156 |
| Subordinated debentures (note 8) | 8,480 | 6,149 | 2,912 |
| Total interest expense | 22,917 | 14,417 | 12,647 |
| Net interest income before provision for credit losses | 160,435 | 125,730 | 100,234 |
| Provision for credit losses (notes 5 and 9) | 1,420 | 465 | 300 |
| Net interest income after provision for credit losses | 159,015 | 125,265 | 99,934 |
| Noninterest income: | | | |
| Service charges on deposit accounts | 6,367 | 8,298 | 8,994 |
| Other commissions and fees | 4,292 | 3,997 | 3,833 |
| Gain on sale of loans, net | 596 | 1,804 | 913 |
| Gain (loss) on sale of securities, net (note 4) | (45) | (6) | 1,756 |
| Gain on sale of other real estate owned | | | 340 |
| Increase in cash surrender value of life insurance | 1,628 | 1,898 | 1,863 |
| Other | 1,052 | 1,230 | 1,938 |
| Total noninterest income | 13,890 | 17,221 | 19,637 |
| Noninterest expense: | | | |
| Compensation | 48,623 | 45,220 | 32,407 |
| Occupancy | 10,733 | 10,458 | 9,411 |
| Furniture and equipment | 2,730 | 2,923 | 3,257 |
| Data processing | 4,869 | 4,783 | 5,045 |
| Other professional services | 4,548 | 4,126 | 2,210 |
| Business development | 1,188 | 1,251 | 1,010 |
| Communications | 1,993 | 2,009 | 2,196 |
| Insurance and assessments | 1,715 | 1,647 | 1,507 |
| Cost of real estate owned | | | 168 |
| Intangible asset amortization (note 3) | 3,607 | 3,253 | 2,529 |
| Other (note 9) | 7,408 | 6,157 | 6,080 |
| Total noninterest expense | 87,414 | 81,827 | 65,820 |
| Earnings before income taxes | 85,491 | 60,659 | 53,751 |
| Income taxes (note 12) | 35,125 | 24,296 | 21,696 |
| Net earnings | \$ 50,366 | \$ 36,363 | \$ 32,055 |
| Basic earnings per share (note 13) | \$ 3.05 | \$ 2.34 | \$ 2.08 |
| Diluted earnings per share (note 13) | \$ 2.98 | \$ 2.27 | \$ 2.02 |

See accompanying Notes to Consolidated Financial Statements.

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Consolidated Statements of Shareholders Equity and Comprehensive Income
for the Years Ended December 31, 2005, 2004 and 2003

| | Common Stock Shares | Amount | Unearned Equity Compensation | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total | Comprehensive Income (note 14) |
|--|------------------------|------------|------------------------------------|----------------------|--|------------|--------------------------------------|
| (Dollars in thousands, except per share data) | | | | | | | |
| Balance at December 31, 2002 | 15,297,037 | \$ 291,803 | \$ | \$ 23,039 | \$ 1,450 | \$ 316,292 | \$ 18,054 |
| Net earnings | | | | 32,055 | | 32,055 | \$ 32,055 |
| Exercise of stock options | 136,104 | 1,716 | | | | 1,716 | |
| Restricted stock awarded | 460,000 | 14,817 | (14,817) | | | | |
| Earned stock award compensation | | | 1,006 | | | 1,006 | |
| Cash dividends paid (\$0.6750 per share) | | | | (10,388) | | (10,388) | |
| Other comprehensive income-net unrealized loss on securities available-for-sale, net of tax effect of \$2.3 million | | | | | (3,118) | (3,118) | (3,118) |
| Balance at December 31, 2003 | 15,893,141 | \$ 308,336 | \$ (13,811) | \$ 44,706 | \$ (1,668) | \$ 337,563 | \$ 28,937 |
| Net earnings | | | | 36,363 | | 36,363 | \$ 36,363 |
| Exercise of stock options | 235,971 | 3,456 | | | | 3,456 | |
| Tax benefits from exercise of options and vesting of restricted stock | | 1,936 | | | | 1,936 | |
| Restricted stock awarded | 138,750 | 5,152 | (5,152) | | | | |
| Earned stock award compensation | | | 7,518 | | | 7,518 | |
| Cash dividends paid (\$0.8475 per share) | | | | (13,158) | | (13,158) | |
| Other comprehensive income-net unrealized gain on securities available-for-sale, net of tax effect of \$143 thousand | | | | | 198 | 198 | 198 |
| Balance at December 31, 2004 | 16,267,862 | \$ 318,880 | \$ (11,445) | \$ 67,911 | \$ (1,470) | \$ 373,876 | \$ 36,561 |
| Net earnings | | | | 50,366 | | \$ 50,366 | \$ 50,366 |
| Exercise of stock options | 256,045 | 3,748 | | | | 3,748 | |
| Tax benefits from exercise of options and vesting of restricted stock | | 1,710 | | | | 1,710 | |
| Sale of common stock (note 2) | 1,044,680 | 49,022 | | | | 49,022 | |
| Issuance of common stock (note 2) | 783,625 | 36,627 | | | | 36,627 | |
| Restricted stock awarded, net of shares surrendered and forfeited | (5,646) | 432 | (2,144) | | | (1,712) | |
| Earned stock award compensation | | | 4,038 | | | 4,038 | |
| Cash dividends paid (\$0.97 per share) | | | | (15,952) | | (15,952) | |
| Other comprehensive income-net unrealized loss on securities available-for-sale, net of tax effect of \$684 thousand | | | | | (945) | (945) | (945) |

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| | | | | | | | |
|---------------------------------|------------|------------|-------------|------------|-------------|------------|-----------|
| Balance at December 31, 2005 | 18,346,566 | \$ 410,419 | \$ (9,551) | \$ 102,325 | \$ (2,415) | \$ 500,778 | \$ 49,421 |
|---------------------------------|------------|------------|-------------|------------|-------------|------------|-----------|

See accompanying Notes to Consolidated Financial Statements.

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FIRST COMMUNITY BANCORP AND SUBSIDIARIES

Consolidated Statements of Cash Flows for the Years Ended December 31, 2005, 2004 and 2003

| | 2005 | 2004 | 2003 |
|---|------------------------|------------|------------|
| | (Dollars in thousands) | | |
| Cash flows from operating activities: | | | |
| Net earnings | \$ 50,366 | \$ 36,363 | \$ 32,055 |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 8,702 | 9,322 | 8,982 |
| Provision for credit losses | 1,420 | 465 | 300 |
| Gain on sale of real estate owned | | | (340) |
| Gain on sale of loans | (596) | (1,804) | (913) |
| Loss (gain) on sale of securities | 45 | 6 | (1,756) |
| Real estate valuation adjustments | | | 153 |
| Amortization of unearned compensation related to restricted stock | 4,038 | 7,518 | 1,006 |
| Tax benefit from exercise of options and vesting of restricted stock | 1,710 | 1,936 | |
| Decrease in accrued and deferred income taxes, net | 7,254 | 11,765 | 6,258 |
| Decrease (increase) in other assets | 7,440 | (2,494) | (16,123) |
| Decrease in accrued interest payable and other liabilities | (8,052) | (12,955) | (15,002) |
| Dividends on FHLB stock | (421) | (304) | (85) |
| Net cash provided by operating activities | 71,906 | 49,818 | 14,526 |
| Cash flows provided by (used in) investing activities: | | | |
| Net cash and cash equivalents acquired (paid) in acquisitions | 92,308 | (37,347) | (806) |
| Net (increase) decrease in loans outstanding | (133,825) | (328,463) | 32,328 |
| Proceeds from sale of loans | 9,411 | 14,978 | 9,124 |
| Net decrease in interest-bearing deposits in financial institutions | 612 | 3,077 | 830 |
| Securities held-to-maturity: | | | |
| Proceeds from sale | | | 3,452 |
| Maturities | | | 3,360 |
| Securities available-for-sale: | | | |
| Proceeds from sale | | 64,662 | 179,916 |
| Maturities | 66,927 | 107,848 | 194,550 |
| Purchases | (37,550) | (2,721) | (484,603) |
| Net sales (purchases) of FRB and FHLB stock | 277 | (8,153) | (7,161) |
| Proceeds from sale of other real estate owned | 50 | | 3,570 |
| Purchases of premises and equipment | (2,992) | (2,724) | (3,576) |
| Proceeds from sale of premises and equipment | 95 | 46 | 58 |
| Net cash used in investing activities | (4,687) | (188,797) | (68,958) |
| Cash flows from financing activities: | | | |
| Net increase (decrease) in deposits: | | | |
| Noninterest-bearing | 102,534 | 66,599 | 91,201 |
| Interest-bearing | (489,178) | 259,339 | (120,992) |
| Proceeds from issuance of subordinated debentures | | 61,856 | 20,620 |
| Proceeds from issuance of common stock | 49,022 | | |
| Net proceeds from exercise and vesting of stock awards | 2,036 | 3,456 | 1,716 |
| Net increase in borrowings | 70,300 | 36,300 | 52,477 |
| Repayment of acquired debt | | (60,700) | |
| Cash dividends paid | (15,952) | (13,158) | (10,388) |
| Net cash (used in) provided by financing activities | (281,238) | 353,692 | 34,634 |
| Net (decrease) increase in cash and cash equivalents | (214,019) | 214,713 | (19,798) |
| Cash and cash equivalents at beginning of year | 319,281 | 104,568 | 124,366 |
| Cash and cash equivalents at end of year | \$ 105,262 | \$ 319,281 | \$ 104,568 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | \$ 21,610 | \$ 14,308 | \$ 12,684 |
| Income taxes | 32,177 | 17,113 | 13,226 |
| Supplemental disclosure of noncash investing and financing activities: | | | |
| Transfer of loans to other real estate owned | 43 | | |
| Transfer from loans to loans held-for-sale | 8,848 | 13,174 | 8,481 |

See accompanying Notes to Consolidated Financial Statements.

FIRST COMMUNITY BANCORP AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2005 and 2004

(1) Nature of Operations and Summary of Significant Accounting Policies

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 subsidiaries. As of December 31, 2005, those subsidiaries were First National Bank, which we refer to as First National, and Pacific Western National Bank, or Pacific Western. We refer to Pacific Western and First National herein as the Banks and when we say we, our or the Company, we mean the Company on a consolidated basis with the Banks. When we refer to First Community or to the holding company, we are referring to the parent company on a standalone basis.

The Banks are full-service community banks offering a broad range of banking products and services including: accepting time and demand deposits, originating commercial loans, including asset-based lending and factoring, real estate and construction loans, Small Business Administration guaranteed loans, or SBA loans, consumer loans, mortgage loans, international loans for trade finance, and other business oriented products. Our operations are primarily located in southern California and the Banks focus 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 and factoring operations, we also operate in Arizona and Texas.

We have completed sixteen acquisitions since May 2000 including the Cedars acquisition in January 2006. This also includes the merger whereby the former Rancho Santa Fe National Bank and First Community Bank of the Desert became wholly-owned subsidiaries of the Company in a pooling-of-interests transaction. Accordingly, all of our financial statements for the periods prior to these acquisitions have been restated as if they had occurred at the beginning of the earliest period presented. All other acquisitions have been accounted for using the purchase method of accounting and, accordingly, their operating results have been included in the consolidated financial statements from their respective dates of acquisition. Please see Notes 2 and 3 for more information about our acquisitions.

(a) Basis of Presentation

The accounting and reporting policies of the Company are in accordance with U.S. generally accepted accounting principles. All significant intercompany balances and transactions have been eliminated.

(b) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period to prepare these consolidated financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates. Material estimates subject to change in the near term include, among other items, the allowance for credit losses, the carrying values of intangible assets, and the realization of deferred tax assets.

(c) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's presentation.

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

(d) Investment Securities and Securities Available-for-Sale

We determine the classification of securities at the time of purchase. If we have the intent and the ability at the time of purchase to hold securities until maturity, they are classified as held-to-maturity. Investment securities held-to-maturity are stated at amortized cost. Securities to be held for indefinite periods of time, but not necessarily to be held-to-maturity or on a long-term basis, are classified as available-for-sale and carried at fair value with unrealized gains or losses reported as a separate component of shareholders' equity in accumulated other comprehensive income, net of applicable income taxes. The carrying values of all securities are adjusted for amortization of premiums and accretion of discounts over the shorter of the period to call or maturity of the related security using the interest method. Realized gains or losses on the sale of securities, if any, are determined using the amortized cost of the specific securities sold. If a decline in the fair value of a security below its amortized cost is judged by management to be other than temporary, the cost basis of the security is written down to fair value and the amount of the write-down is included in operations. Securities available-for-sale include securities that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in interest rates, prepayment risk and other related factors. Securities are individually evaluated for appropriate classification when acquired; consequently, similar types of securities may be classified differently depending on factors existing at the time of purchase.

Investments in Federal Reserve Bank and Federal Home Loan Bank (FHLB) stock, which are carried at cost because they can only be redeemed at par, are required investments based on measurements of the Banks' capital, assets, and/or borrowing levels.

(e) Loans and Loan Fees

Loans are stated at the principal amount outstanding, net of any unearned discount or unamortized premium. Interest income is recorded on the accrual basis in accordance with the terms of the respective loan and includes prepayment penalties. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest payments are past due 90 days or when, in the opinion of management, there is a reasonable doubt as to collectibility in the normal course of business. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Loans are restored to accrual status when the loans become both well-secured and are in the process of collection.

Nonrefundable loan fees and related direct costs associated with the origination or purchase of loans are deferred and netted against outstanding loan balances. The net deferred fees or costs are recognized as an adjustment to interest income over the contractual life of the loans using the interest method or taken into income when the related loans are paid off or sold. The amortization of loan fees is discontinued on nonaccrual loans.

(f) Loan Sales

Gains or losses resulting from sales of loans are recognized at the date of settlement and are based on the difference between the cash received and the carrying value of the related loans less related transaction

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

costs. A transfer of financial assets in which control is surrendered is accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in the exchange. Liabilities and derivative financial instruments issued or obtained through the sale of financial assets are measured at fair value, if practicable. Assets or other retained interests received through the sale are measured by allocating the previous carrying value between the asset sold and the asset or retained interest received, if any, based on their relative fair values at the date of the sale.

(g) Comprehensive Income

Comprehensive income consists of net earnings and net unrealized gains (losses) on securities available-for-sale, net and is presented in the consolidated statements of shareholders' equity and comprehensive income.

(h) 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 sheet as of December 31, 2004, and the allowance for credit losses tables included in Note 5 reflect these reclassifications.

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. 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.

A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. We measure impairment of a loan based upon either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price or the fair value of the collateral if the loan is collateral-dependent, depending on the circumstances. If the measurement of impairment for the loan is less than the recorded

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

investment in the loan, a valuation allowance is established with a corresponding charge to the provision for credit losses.

We believe that the allowance for loan losses is adequate. In making its evaluation, we consider certain qualitative factors including our historical loan 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 the collectibility of loans in our 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. Given current processes employed by the Company, management believes the risk ratings and inherent loss rates currently assigned are appropriate.

We also believe 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.

Various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and the reserve for unfunded loan commitments. These agencies may require the Company to recognize additions to the allowance and/or the reserve based on their judgments related to information available to them at the time of their examinations.

(i) Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is charged to noninterest expense using the straight-line method over the estimated useful lives of the assets which range from three to thirty years. Leasehold improvements are capitalized and amortized to noninterest expense on a straight-line basis over the terms of the leases or the estimated useful lives of the improvements, whichever is shorter.

(j) Other Real Estate Owned

Other real estate owned is recorded at the fair value of the property at the time of acquisition. Fair value is based on current appraisals less estimated selling and holding costs. The excess of the recorded loan balance over the estimated fair value of the property at the time of acquisition is charged to the allowance for loan losses. Any subsequent write downs are charged to noninterest expense and recognized as a valuation allowance. Subsequent increases in the fair value of the asset less selling costs

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

reduce the valuation allowance, not below zero, and are credited to income. Operating expenses of such properties and gains and losses on their disposition are included in noninterest income and expense.

(k) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents consist of cash, due from banks and federal funds sold. Generally, federal funds are sold for one-day periods.

(l) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

(m) Goodwill and Other Intangible Assets

Goodwill represents the excess of cost over the fair value of the net assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. Intangible assets with estimable useful lives are amortized over such useful lives to their estimated residual values, and reviewed annually for impairment.

Goodwill is our only intangible asset with an indefinite life. To accomplish the annual impairment analysis of goodwill, we identify our reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units. We have identified one reporting unit—banking operations. We determined the fair value of our reporting unit and compared it to its carrying amount on June 30, our annual impairment analysis date. If the carrying amount of a reporting unit exceeds its fair value, we are required to perform a second step to the impairment test. Our annual impairment analysis indicated that there was no impairment in our goodwill.

Core deposit intangible assets, which we refer to as CDI, and customer relationship intangible assets, which we refer to as CRI, are recognized apart from goodwill at the time of acquisition based on market valuations prepared by independent third parties. In preparing such valuations, the third parties consider variables such as deposit servicing costs, attrition rates, and market discount rates. CDI are amortized to expense over their useful lives, which we have estimated to be 10 years. CRI are amortized to expense over their useful lives, which we have estimated to be 5 years. Both CDI and CRI are reviewed for impairment at least annually. If the recoverable amount of either CDI or CRI is determined to be less than its carrying value, we would then measure the amount of impairment based on an estimate of the intangible asset's fair

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

value at that time. If the fair value is below the carrying value, the intangible asset is reduced to such fair value and a loss is recognized by a charge to operations.

(n) *Stock Incentive Plan*

The Company had a stock-based compensation plan as of December 31, 2005 which is described in Note 15. We adopted the fair value method of accounting for stock options effective January 1, 2003, using the prospective method of transition specified in SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure - an amendment of FASB Statement No. 123*. The cost of all stock options granted on or after January 1, 2003 is based on their fair value and is included as a component of compensation expense over the vesting period for such options. For stock options granted prior to January 1, 2003, the Company continues to apply the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees*. Accordingly, no compensation cost has been recognized for fixed stock option awards granted prior to January 1, 2003, with an exercise price equal to or greater than the fair market value of the underlying stock on the date of grant.

Compensation expense related to awards of restricted and performance stock is based on the fair value of the underlying stock on the award date and is recognized over the vesting period using the straight-line method. The vesting of performance stock awards and recognition of related compensation expense may occur over a shorter vesting period if financial performance targets are achieved earlier than anticipated.

Had we determined compensation expense for our stock-based compensation plan consistent with SFAS No. 123, *Accounting for Stock-Based Compensation*, our net earnings and earnings per share would have been reduced to the pro forma amounts indicated in the table below.

| | For the Years Ended | | |
|--|--------------------------------------|-------------|-------------|
| | December 31, | | |
| | 2005 | 2004 | 2003 |
| | (Dollars in thousands, except | | |
| | per share amounts) | | |
| Net earnings, as reported | \$ 50,366 | \$ 36,363 | \$ 32,055 |
| Add: Stock-based compensation expense included in net earnings, net of related tax effects | 2,342 | 4,360 | 583 |
| Deduct: All stock-based compensation expense calculated using the fair value based method for all awards, net of related taxes | (2,612) | (4,910) | (1,194) |
| Pro forma net earnings | \$ 50,096 | \$ 35,813 | \$ 31,444 |
| Earnings per share: | | | |
| Basic as reported | \$ 3.05 | \$ 2.34 | \$ 2.08 |
| Basic pro forma | \$ 3.03 | \$ 2.31 | \$ 2.04 |
| Diluted as reported | \$ 2.98 | \$ 2.27 | \$ 2.02 |
| Diluted pro forma | \$ 2.97 | \$ 2.24 | \$ 1.98 |

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

(o) Business Segments

We have determined that we have one reportable business segment, banking.

(p) Earnings Per Share

Basic earnings per share is calculated by dividing net earnings by the weighted average number of common shares outstanding (excluding unvested restricted stock) during the year. Diluted earnings per share is calculated by adjusting net earnings and average outstanding shares, assuming conversion of all potentially dilutive common stock equivalents, which include stock options and restricted shares using the treasury stock method.

(q) Debt Issuance Costs

We have incurred debt issuance costs relating to each issuance of subordinated debentures except for those debentures issued as part of Trust VI. These costs are being amortized on a straight line basis over the period to the first call date, which is five years from the date of issuance, except for Trust I for which the period is ten years. The unamortized balance of debt issuance costs was \$560,000 and \$847,000 at December 31, 2005 and 2004, and is included in other assets in the consolidated balance sheet.

(r) Recently Issued Accounting Standards

In December 2003, the FASB modified and reissued Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46R). The original Interpretation 46 issued in January 2003 was adopted by us in the first quarter of 2003 and had no effect on our financial position or operating results. FIN 46R requires the deconsolidation of trust preferred entities, and we adopted this pronouncement on December 31, 2003. As a result of adoption, we deconsolidated our trust preferred entities as of December 31, 2003 and 2002. The adoption of FIN 46R did not have any material effect on our financial condition and operating results.

Statement of Position (SOP) 03-3, *Accounting for Loans or Certain Debt Securities Acquired in a Transfer*, was issued in December 2003, and was effective for us prospectively on January 1, 2005. This SOP affected loans purchased and loans acquired in business combinations that have evidence of credit deterioration. At the time of acquisition, the initial carrying value of these acquired loans is to be the present value of expected amounts of principal and interest to be received, i.e., fair value. Estimated losses on such acquired loans that arise subsequent to their acquisition date would be provided for through establishment of an allowance for loan losses and a charge to current earnings. These accounting treatments may be applied to groups of loans acquired in the same fiscal quarter if such loans share common risk characteristics. Otherwise, these accounting treatments are to be applied to loans acquired on an individual basis. We expect that this accounting pronouncement will affect the comparability of financial statements as discounts, premiums, and acquired allowances for loan losses on nonperforming, classified and impaired loans acquired either through direct purchase or merger after December 31, 2004, will no longer be displayed separately. Because the loan portfolios we acquired in 2005 had substantially no classified, nonperforming or impaired loans, the comparability of the financial information described was not materially affected.

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share Based Payment*, (SFAS 123R). We adopted SFAS 123R on January 1, 2006. SFAS 123R applies to all stock-based compensation transactions in which an entity acquires services by either issuing stock or other equity instruments, such as stock options, restricted and performance stock, and/or stock appreciation rights, or incurring liabilities that are based on an entity's stock price, and requires entities that engage in these transactions to recognize compensation expense based on the fair value of the stock or other equity instrument either issued, modified, or settled. We adopted SFAS 123R using the modified prospective approach. Under this approach, compensation expense is recognized for (1) new share-based payment awards (e.g., stock options, restricted stock, and performance stock), (2) awards that are modified, repurchased, or cancelled after December 31, 2005, and (3) the remaining portion of the requisite service under previously granted unvested stock awards as of December 31, 2005. The Company has been recognizing compensation expense related to stock options since January 1, 2003. There will be no material effect on our financial statements for the remaining portion of the requisite service for our outstanding stock options, as all but 398 stock options have vested as of December 31, 2005. We have recognized compensation expense for all restricted and performance stock awards since the dates on which they were awarded.

As permitted under formerly effective accounting rules, we did not consider estimated forfeitures during the amortization period and recognized the effect of forfeitures as they occurred. SFAS 123R requires us to make an adjustment to our first quarter 2006 earnings to recognize the cumulative effect of forfeitures for years ended prior to January 1, 2006. We have estimated that the after tax effect of this adjustment will be an increase to earnings for an amount less than \$200,000. SFAS 123R also requires us to use estimated forfeitures in recognizing stock compensation expense beginning January 1, 2006, and to true-up such expense when forfeitures occur. Our estimates of stock compensation expense related to restricted and performance stock awards presented in Management's Discussion and Analysis of Financial Condition and Results of Operations reflects an estimate of forfeitures. When we made restricted and performance stock awards prior to January 1, 2006, we established an unearned equity compensation contra account within our shareholders' equity equal to the market value of our common stock underlying the award on the award date. SFAS 123R requires us to eliminate the unearned equity compensation account on January 1, 2006, by reclassifying it to common stock. Such reclassification will have no effect on the amount of the Company's shareholders' equity.

Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections* (SFAS 154), replaces APB No. 20, *Accounting Changes*, and FASB Statement No. 3, *Reporting Changes in Interim Financial Statements*. APB No. 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 changes the accounting for, and reporting of, a change in accounting principle. SFAS 154 requires retrospective application to prior periods' financial statements of voluntary changes in accounting principle and changes required by new accounting standards when the standard does not include specific transition provisions, unless it is impracticable to do so. SFAS 154 is effective for us for accounting changes and corrections of errors beginning January 1, 2006. SFAS 154 is not expected to have a material financial impact on our financial condition or results of operations.

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(1) Nature of Operations and Summary of Significant Accounting Policies (Continued)

In November 2005, the FASB issued FASB Staff Positions (FSPs) 115-1 and 124-1. These FSPs address the determination as to when an investment is considered impaired, whether such impairment is other than temporary, the measurement of an impairment loss, and disclosure requirements for temporarily impaired investments. We adopted these FSPs on January 1, 2006. Our financial statements included the required disclosures beginning in 2004. We do not expect that adoption of these FSPs will have a material effect on our financial condition, results of operations, or related disclosures.

(2) Acquisitions

We completed the following acquisitions during the time period of January 1, 2003 to December 31, 2005, using the purchase method of accounting, and accordingly, their operating results have been included in our consolidated financial statements from their respective dates of acquisition:

| Acquisition Date Acquired | Bank of Coronado January 2003 | Verdugo Banking Company August 2003 | FC Financial March 2004 | Harbor National April 2004 | First American Bank August 2005 | Pacific Liberty Bank October 2005 |
|---|--|---|----------------------------------|-------------------------------------|---|--|
| Assets Acquired: | | | | | | |
| Cash and cash equivalents | \$ 11,974 | \$ 33,075 | \$ 3,965 | \$ 34,338 | \$ 121,229 | \$ 30,765 |
| Interest-bearing deposits in other banks | 100 | | | 3,468 | | |
| Investment securities | 2,699 | | | 993 | 1,607 | 990 |
| Loans | 63,891 | 147,471 | 72,708 | 132,272 | 106,244 | 119,245 |
| Premises and equipment | 261 | 82 | 106 | 1,394 | 4,458 | 32 |
| Goodwill | 7,250 | 22,080 | 22,580 | 21,408 | 37,715 | 24,335 |
| Core deposit and customer relationship intangible assets | 714 | 4,376 | 2,518 | 1,293 | 6,529 | 1,781 |
| Other assets | 1,601 | 4,467 | 4,268 | 2,942 | 8,111 | 6,137 |
| | 88,490 | 211,551 | 106,145 | 198,108 | 285,893 | 183,285 |
| Liabilities Assumed: | | | | | | |
| Non-interest bearing deposits | (17,079) | (48,642) | | (60,752) | (89,664) | (45,894) |
| Interest bearing deposits | (56,007) | (119,111) | | (96,031) | (127,772) | (96,285) |
| Accrued interest payable and other liabilities | (3,802) | (9,545) | (5,445) | (5,675) | (8,771) | (4,479) |
| Debt | | | (60,700) | | | |
| Total liabilities assumed | (76,888) | (177,298) | (66,145) | (162,458) | (226,207) | (146,658) |
| Total consideration paid | \$ 11,602 | \$ 34,253 | \$ 40,000 | \$ 35,650 | \$ 59,686 | \$ 36,627 |
| Total consideration paid: | | | | | | |
| Cash paid for common stock | 11,602 | 34,253 | \$ 40,000 | \$ 35,650 | 59,686 | |
| Fair value of common stock issued | | | | | | 36,627 |
| Total consideration paid | \$ 11,602 | \$ 34,253 | \$ 40,000 | \$ 35,650 | \$ 59,686 | \$ 36,627 |

FIRST COMMUNITY BANCORP AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2005 and 2004

(2) Acquisitions (Continued)

Bank of Coronado Acquisition

On January 9, 2003, we acquired Bank of Coronado. We paid \$11.6 million in cash in exchange for all of the outstanding common shares and options of Bank of Coronado. At the time of the acquisition, Bank of Coronado was merged into First National.

Verdugo Banking Company Acquisition

On August 22, 2003, we acquired Verdugo Banking Company. We paid approximately \$34.3 million in cash for all outstanding shares of common stock and options of Verdugo Banking Company. At the time of the acquisition, Verdugo Banking Company was merged into Pacific Western.

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 shares of common stock and options of FC Financial. At the time of the acquisition, FC Financial became a wholly-owned subsidiary of First National.

Harbor National Bank

On April 16, 2004, we acquired Harbor National Bank, or Harbor National, based in Newport Beach, California. We paid \$35.7 million in cash for all the outstanding shares of common stock and options of Harbor National. At the time of the acquisition, Harbor National was merged into Pacific Western.

First American Bank

On August 12, 2005, we acquired First American Bank, or First American, based in Rosemead, California. We paid \$59.7 million in cash to First American shareholders, and caused First American to pay \$2.6 million in cash for all the outstanding options to purchase First American common stock. The aggregate deal value was approximately \$62.3 million. At the time of the acquisition, Harbor National was merged into Pacific Western. We made this acquisition to expand our presence in Los Angeles County, California. In August and September 2005 we issued 1,044,680 shares of common stock for net proceeds of \$49.0 million. We used these proceeds to augment our regulatory capital in support of the First American acquisition.

Pacific Liberty Bank

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. At the time of the acquisition, Pacific Liberty was merged into Pacific Western. We made this acquisition to expand our presence in Orange County, California.

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(2) Acquisitions (Continued)

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. At the time of the merger, Cedars was merged into Pacific Western. 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 December 15, 2005, First Community announced that it had entered into a definitive agreement to acquire all of the outstanding common stock and options of Foothill Independent Bancorp in exchange for \$238.0 million in consideration consisting of First Community Bancorp common stock for the outstanding common stock of Foothill and cash for the Foothill stock options. Foothill Independent Bancorp had \$799 million in assets and twelve branch offices at December 31, 2005. The acquisition of Foothill Independent Bancorp is subject to regulatory approval and the approval of Foothill shareholders, and is currently expected to close in the second quarter of 2006. Upon completion of the acquisition, Foothill Independent Bancorp will be merged into Pacific Western.

Preliminary purchase price allocations for 2006 acquisitions

An unaudited summary of First Community's preliminary purchase price allocations for the Cedars and Foothill acquisitions follows. These purchase price allocations are based on estimates and are subject to change as more information becomes available and after final analyses of the fair values of both tangible and intangible assets acquired and liabilities assumed are completed. Accordingly, the final fair value adjustments may be materially different from those presented in this report.

| | Cedars (Unaudited) | Foothill |
|---|-------------------------------|-----------------|
| Assets acquired or to be acquired: | | |
| Cash and investments | \$ 36,150 | \$208,031 |
| Loans, net | 357,307 | 547,137 |
| Intangible assets | 78,913 | 182,195 |
| Other assets | 16,652 | 33,566 |
| Total assets acquired | 489,022 | 970,929 |
| Liabilities assumed or to be assumed: | | |
| Deposits | 367,442 | 672,941 |
| Other liabilities | 7,427 | 74,988 |
| Total liabilities assumed | 374,869 | 747,929 |
| Total consideration paid net of cash paid for options | \$ 114,153 | \$ 223,000 |

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(2) Acquisitions (Continued)

Merger-related charges

All of the acquisitions consummated after December 31, 2000 were completed using the purchase method of accounting. Accordingly, we recorded the estimated merger-related charges associated with each acquisition as a liability at closing when allocating the related purchase price.

For each acquisition we developed an integration plan for the consolidated Company which addressed, among other things, requirements for staffing, systems platforms, branch locations and other facilities. The established plans are evaluated regularly during the integration process and modified as required. Merger and integration expenses are summarized in the following primary categories: (i) severance and employee-related charges; (ii) system conversion and integration costs, including contract termination charges; (iii) asset write-downs, lease termination costs for abandoned space and other facilities-related costs; and (iv) other charges. Other charges include investment banking fees, legal fees, other professional fees relating to due diligence activities and shareholder expenses associated with preparation of securities filings, as appropriate. These costs were included in the allocation of the purchase price at the acquisition date based on our formal integration plans.

The following table presents the activity in the merger-related liability account for 2004 and 2005:

| | Severance and Employee- related (Dollars in thousands) | System Conversion and Integration | Asset Write- downs, Lease Terminations and Other Facilities-related | Other | Total |
|--|--|--|---|----------|----------|
| Balance at December 31, 2003 | \$ 1,178 | \$ 431 | \$ 3,712 | \$ 616 | \$ 5,937 |
| Additions related to 2004 acquisitions | 975 | 600 | 320 | 3,757 | 5,652 |
| Reversals | (124) | (176) | | | (300) |
| Noncash write-downs and other | 60 | (203) | (18) | 152 | (9) |
| Cash outlays | (1,491) | (564) | (1,385) | (3,471) | (6,911) |
| Balance at December 31, 2004 | \$ 598 | \$ 88 | \$ 2,629 | \$ 1,054 | \$ 4,369 |
| Additions related to 2005 acquisitions | 3,973 | 425 | 140 | 3,524 | 8,062 |
| Reversals | (175) | | (80) | (562) | (817) |
| Noncash write-downs and other | (46) | (24) | | 68 | (2) |
| Cash outlays | (4,350) | (409) | (957) | (3,394) | (9,110) |
| Balance at December 31, 2005 | \$ | \$ 80 | \$ 1,732 | \$ 690 | \$ 2,502 |

As of December 31, 2005, the integration of our 2004 and 2005 acquisitions was substantially complete; no additional merger-related accruals are expected going forward related to our completed acquisitions.

Unaudited Pro Forma Information for Purchase Acquisitions

The following table presents our unaudited pro forma results of operations for the years ended December 31, 2005 and 2004 as if the First American, Pacific Liberty, Cedars and Foothill acquisitions described above had been completed at the beginning of 2004. The operating results of our 2004 acquisitions, FC Financial and Harbor National, are already included in the below table since their acquisition dates. We have not included any pro forma information for the FC Financial and Harbor

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(2) Acquisitions (Continued)

acquisitions because it is not material. The unaudited pro forma results of operations include (1) the historical accounts of the Company, First American, Pacific Liberty, Cedars and Foothill; and (2) pro forma adjustments, as may be required, including the amortization of intangibles with definite lives and the amortization or accretion of any premiums or discounts arising from fair value adjustments for assets acquired and liabilities assumed. The unaudited pro forma information is intended for informational purposes only and is not necessarily indicative of our future operating results or operating results that would have occurred had these acquisitions been completed at the beginning of 2004.

Unaudited Pro Forma Results of Operations

| | For the years ended December 31, 2005 | | 2004 |
|--|---|------------|-------------|
| | (Dollar in thousands, except for share data) | | |
| Revenues (net interest income plus noninterest income) | \$ 257,225 | \$ 214,144 | |
| Net earnings | \$ 70,138 | \$ 51,527 | |
| Net income per share: | | | |
| Basic | \$ 2.87 | \$ 2.20 | |
| Diluted | \$ 2.79 | \$ 2.13 | |

(3) Goodwill and Other Intangible Assets

Goodwill and intangible assets arise from purchase business combinations. Goodwill and other intangible assets deemed to have indefinite lives generated from purchase business combinations are not subject to amortization and are instead tested for impairment no less than annually. We performed the initial and annual impairment tests of goodwill, which resulted in no impact on our results of operations and financial condition.

Intangible assets with definite lives are amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment annually. The amortization expense represents the estimated decline in the value of the underlying deposits or loan customers acquired. We recorded an expense of approximately \$3.6 million for 2005. The estimated aggregate amortization expense related to the intangible assets will range from \$3.4 million to \$4.2 million for each of the next five years and is expected to total \$19.0 million over this time horizon; these amounts exclude any amortization related to the recently completed Cedars acquisition and the announced Foothill acquisition.

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(3) Goodwill and Other Intangible Assets (Continued)

The changes in the carrying amount of goodwill for the years ended December 31, 2005 and 2004 are as follows:

| | Goodwill | |
|---|-------------------------------|-------------|
| | 2005 | 2004 |
| | (Dollars in thousands) | |
| Balance as of January 1, | \$ 234,360 | \$ 199,919 |
| Acquisitions | 62,050 | 43,988 |
| Adjustments to goodwill: | | |
| Decrease related to income taxes | | (9,374) |
| Decrease due to reduction in accrued merger liabilities | (520) | (173) |
| Balance as of December 31, | \$ 295,890 | \$ 234,360 |

The goodwill recorded in 2005 and 2004 has been assigned to our one reporting segment, banking, and none of the goodwill is deductible for income tax purposes. The decrease to goodwill related to income taxes in 2004 was the result of us finalizing and filing our 2003 Federal income tax return in the third quarter of 2004. During the process of preparing this tax return we were able to confirm the amounts relating to income tax assets and liabilities and certain acquired net operating loss carryforwards. As a result of this process, income tax assets and liabilities were increased, and goodwill was reduced, by \$9.4 million.

The following table presents the changes in the gross amounts of core deposit and customer relationship intangibles and the related accumulated amortization for years ended December 31, 2005 and 2004.

| | Core deposit and | |
|--------------------------------|--------------------------------|-------------|
| | customer | |
| | relationship intangible | |
| | 2005 | 2004 |
| | (Dollars in thousands) | |
| Gross amount: | | |
| Balance as of January 1, | \$ 29,646 | \$ 25,835 |
| Additions due to acquisitions | 8,310 | 3,811 |
| Balance as of December 31, | 37,956 | 29,646 |
| Accumulated amortization: | | |
| Balance as of January 1, | (7,051) | (3,798) |
| Amortization | (3,607) | (3,253) |
| Balance as of December 31, | (10,658) | (7,051) |
| Net balance as of December 31, | \$ 27,298 | \$ 22,595 |

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(4) Securities Available-for-Sale

The amortized cost, gross unrealized gains and losses, and fair value of securities available-for-sale as of December 31, 2005 and 2004 are as follows:

| | 2005 | | | |
|--------------------------------------|---|------------------------------|-------------------------------|------------|
| | Amortized Cost (Dollars in thousands) | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. government agency securities | \$ 47,262 | \$ | \$ 474 | \$ 46,788 |
| Municipal securities | 9,001 | 96 | 43 | 9,054 |
| Mortgage-backed and other securities | 160,502 | 111 | 3,854 | 156,759 |
| Total | \$ 216,765 | \$ 207 | \$ 4,371 | \$ 212,601 |

| | 2004 | | | |
|--------------------------------------|---|------------------------------|-------------------------------|------------|
| | Amortized Cost (Dollars in thousands) | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. Treasury securities | \$ 87 | \$ | \$ | \$ 87 |
| U.S. government agency securities | 12,492 | | 180 | 12,312 |
| Municipal securities | 10,170 | 248 | 12 | 10,406 |
| Mortgage-backed and other securities | 225,181 | 639 | 3,230 | 222,590 |
| Total | \$ 247,930 | \$ 887 | \$ 3,422 | \$ 245,395 |

The contractual maturity distribution based on amortized cost and fair value as of December 31, 2005, is shown below. Mortgage-backed securities have contractual terms to maturity, but require periodic payments to reduce principal. In addition, expected maturities may differ from contractual maturities because obligors and/or issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Maturity Distribution as of December 31, 2005 | |
|--|--|------------|
| | Amortized Cost (Dollars in thousands) | Fair Value |
| Due in one year or less | \$ 17,498 | \$ 17,409 |
| Due after one year through five years | 50,158 | 49,244 |
| Due after five years through ten years | 17,863 | 17,704 |
| Due after ten years | 131,246 | 128,244 |
| Total | \$ 216,765 | \$ 212,601 |

Although we had no sales of securities during 2005, we recognized a gross loss of \$45,000 related to the impairment of an interest-only investment, which was initially recorded at the time of a loan sale. Proceeds from the sale of securities totaled \$64.7 million for 2004 and \$183.4 million for 2003. Gross gains on the sale of securities totaled \$318,000 and gross losses on the sale of securities totaled \$324,000 in 2004. Gross gains on the sale of securities available for sale and held-to-maturity totaled \$1.8 million and gross losses on the sale of securities totaled \$21,000 in 2003.

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(4) Securities Available-for-Sale (Continued)

As of December 31, 2005 and 2004, securities available-for-sale with a fair value of \$202.7 million and \$232.6 million were pledged as security for borrowings, public deposits and other purposes as required by various statutes and agreements.

The following table presents the fair value and the unrealized loss on securities that were temporarily impaired as of December 31, 2005.

| | Impairment Period Less than 12 months | | 12 months or longer | | Total Fair Value | Unrealized Losses |
|---------------------------------------|--|----------------------|---------------------|----------------------|---------------------|----------------------|
| | Fair Value (Dollars in thousands) | Unrealized Losses | Fair Value | Unrealized Losses | | |
| U.S. government agency securities | \$ 36,997 | \$ 270 | \$ 9,791 | \$ 205 | \$ 46,788 | \$ 474 |
| Municipal securities | 2,457 | 23 | 565 | 20 | 3,022 | 43 |
| Mortgage-backed securities | 32,165 | 549 | 113,874 | 3,306 | 146,039 | 3,854 |
| Total temporarily impaired securities | \$ 71,619 | \$ 842 | \$ 124,230 | \$ 3,531 | \$ 195,849 | \$ 4,371 |

All individual securities that have been in a continuous unrealized loss position for 12 months or longer at December 31, 2005, were securities that have been issued by U.S. 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.

(5) Loans and Allowance for Credit Losses

As of December 31, 2005 and 2004, loans consisted of the following:

| | 2005 (Dollars in thousands) | 2004 |
|----------------------------------|--------------------------------|--------------|
| Commercial | \$ 676,394 | \$ 661,068 |
| Real estate, construction | 570,080 | 410,167 |
| Real estate, mortgage | 1,090,946 | 978,721 |
| Consumer | 47,341 | 43,003 |
| SBA, portion held for investment | 92,213 | 32,355 |
| Gross loans | 2,476,974 | 2,125,314 |
| Less: | | |
| Deferred loan fees, net | (9,146) | (7,143) |
| Allowance for loan losses | (27,303) | (24,083) |
| Total loans | \$ 2,440,525 | \$ 2,094,088 |

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(5) Loans and Allowance for Credit Losses (Continued)

The Company grants commercial, real estate and consumer loans to customers in the regions the Banks serve in Southern California, and to a lesser extent foreign credits related to Mexico. We acquired foreign loans through the First National Bank acquisition in 2002 and continue to originate both foreign commercial and foreign real estate loans as part of our ongoing services. 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. As of December 31, 2005 and 2004, foreign loan balances totaled \$103.3 million and \$100.2 million, respectively. Although the Company has a diversified loan portfolio with a concentration in real estate, a substantial portion of its debtors' ability to honor their contracts is dependent upon the strength of the real estate market and the economy in general in the Banks' primary service areas. Should the real estate market experience an overall decline in property values or should other events occur, including, but not limited to, adverse economic conditions (which may or may not affect real property values), the ability of borrowers to make timely scheduled principal and interest payments on the Company's loans may be adversely affected, and in turn may result in increased delinquencies and foreclosures and additional provisions for credit losses. In the event of foreclosures under such conditions, the value of the property acquired may be less than the appraised value when the loan was originated and may, in some instances, result in insufficient proceeds upon disposition to recover the Company's investment in the foreclosed property.

At December 31, 2005, approximately \$1.1 billion of real estate and commercial loans are pledged to secure FHLB lines of credit. See Note 8 for more information.

Nonaccrual loans totaling \$8.4 million, \$8.9 million and \$7.4 million were outstanding as of December 31, 2005, 2004 and 2003, respectively. There were no loans that were past due 90 days or more and still accruing interest as of December 31, 2005, 2004 and 2003. Interest income of \$788,000, \$571,000 and \$385,000 would have been recorded for the years ended December 31, 2005, 2004 and 2003, respectively, if nonaccrual loans had been performing in accordance with their original terms. Interest income of \$107,000, \$163,000 and \$214,000 was recorded on loans subsequently transferred to a nonaccrual status for the years ended December 31, 2005, 2004 and 2003, respectively.

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(5) Loans and Allowance for Credit Losses (Continued)

A summary of the activity in the allowance for credit losses is as follows:

| | Allowance for Loan Losses (Dollars in thousands) | Reserve for Unfunded Loan Commitments | Total Allowance for Credit Losses |
|--|--|---|--|
| Balance, January 1, 2003 | \$ 21,392 | \$ 2,902 | \$ 24,294 |
| Provision for credit losses | 48 | 252 | 300 |
| Loans charged off | (4,476) | | (4,476) |
| Recoveries on loans previously charged off | 3,005 | | 3,005 |
| Loans charged off, net of recoveries | (1,471) | | (1,471) |
| Additions due to acquisitions | 2,562 | 67 | 2,629 |
| Balance, December 31, 2003 | \$ 22,531 | \$ 3,221 | \$ 25,752 |
| Provision for credit losses | (521) | 986 | 465 |
| Loans charged off | (3,607) | | (3,607) |
| Recoveries on loans previously charged off | 2,078 | | 2,078 |
| Loans charged off, net of recoveries | (1,529) | | (1,529) |
| Additions due to acquisitions | 3,602 | 1,217 | 4,819 |
| Balance, December 31, 2004 | \$ 24,083 | \$ 5,424 | \$ 29,507 |
| Provision for credit losses | 1,345 | 75 | 1,420 |
| Loans charged off | (3,518) | | (3,518) |
| Recoveries on loans previously charged off | 2,360 | | 2,360 |
| Loans charged off, net of recoveries | (1,158) | | (1,158) |
| Additions due to acquisitions | 3,033 | 169 | 3,202 |
| Balance, December 31, 2005 | \$ 27,303 | \$ 5,668 | \$ 32,971 |

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(5) Loans and Allowance for Credit Losses (Continued)

The Company measures its impaired loans by using the fair value of the collateral if the loan is collateral-dependent and the present value of the expected future cash flows discounted at the loan's effective interest rate if the loan is not collateral-dependent. As of December 31, 2005 and 2004, all impaired loans were collateral-dependent. The Company recognizes income from impaired loans on an accrual basis unless the loan is on nonaccrual status. Income from loans on nonaccrual status is recognized to the extent cash is received and the loan's principal balance is deemed collectible. For the years ended December 31, 2005, 2004 and 2003, no interest income was recorded on impaired loans during the time such loans were impaired. The average balance of impaired loans was \$14.7 million, \$7.7 million and \$9.9 million for 2005, 2004 and 2003. The following table presents a breakdown of impaired loans and any impairment allowance related to impaired loans as of December 31, 2005 and 2004:

| | As of December 31, 2005 | | 2004 | |
|---|--|-------------------------|------------------------|-------------------------|
| | Recorded Investment (Dollars in thousands) | Impairment Allowance | Recorded Investment | Impairment Allowance |
| Loans with impairment allowance other collateral | \$ 1,485 | \$ 583 | \$ 1,217 | \$ 375 |
| Loans with impairment allowance real estate | | | 1,253 | 186 |
| Loans without impairment allowance other collateral | 6,937 | | 6,441 | |
| Total impaired loans | \$ 8,422 | \$ 583 | \$ 8,911 | \$ 561 |

Based on the Company's evaluation process to determine the level of the allowance for loan losses mentioned previously and the fact that a majority of the Company's nonperforming loans are secured, management believes the allowance level to be adequate as of December 31, 2005 to absorb the estimated known and inherent risks identified through its analysis.

The following is the activity in the valuation allowance for other real estate owned:

| | For the Years Ended December 31, | | |
|----------------------------|-------------------------------------|------|--------|
| | 2005 | 2004 | 2003 |
| | (Dollars in thousands) | | |
| Balance, beginning of year | \$ | \$ | \$ 690 |
| Additions | 43 | | |
| Reductions | 43 | | 690 |
| Balance, end of year | \$ | \$ | \$ |

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(6) Premises and Equipment

Premises and equipment as of December 31, 2005 and 2004 are as follows:

| | As of December 31, | |
|--|-------------------------------|-------------|
| | 2005 | 2004 |
| | (Dollars in thousands) | |
| Land | \$ 3,950 | \$ 1,380 |
| Buildings | 4,866 | 3,140 |
| Furniture, fixtures and equipment | 10,501 | 8,988 |
| Leasehold improvements | 9,025 | 7,859 |
| Vehicles and in process | 1,091 | 837 |
| Premises and equipment | 29,433 | 22,204 |
| Less accumulated depreciation and amortization | 10,370 | 7,285 |
| Premises and equipment, net | \$ 19,063 | \$ 14,919 |

Depreciation and amortization expense was \$3.3 million for each of the years ended December 31, 2005, 2004 and 2003. Our leasehold improvements are amortized over their estimated useful lives, or the life of the lease, whichever is shorter. Our furniture, fixtures and equipment are depreciated over their estimated useful lives ranging from 3 years to 10 years. Land is not depreciated and buildings are depreciated over periods up to 35 years.

(7) Deposits

Interest-bearing deposits as of December 31, 2005 and 2004 are comprised of the following:

| | As of December 31, | |
|------------------------------------|-------------------------------|--------------|
| | 2005 | 2004 |
| | (Dollars in thousands) | |
| Interest bearing checking deposits | \$ 184,293 | \$ 189,598 |
| Money market deposits | 666,383 | 994,730 |
| Savings deposits | 104,559 | 83,092 |
| Time deposits under \$100,000 | 107,655 | 80,047 |
| Time deposits of \$100,000 or more | 162,663 | 143,207 |
| Total | \$ 1,225,553 | \$ 1,490,674 |

The following summarizes the maturity of time deposits as of December 31, 2005 (in thousands):

| | |
|------------|------------|
| 2006 | \$ 242,783 |
| 2007 | 20,355 |
| 2008 | 3,703 |
| 2009 | 558 |
| 2010 | 2,819 |
| Thereafter | 100 |
| Total | \$ 270,318 |

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(7) Deposits (Continued)

Interest expense on deposits for the years ended December 31, 2005, 2004 and 2003 is comprised of the following:

| | For the Years Ended | | |
|------------------------------------|------------------------|----------|----------|
| | December 31, | | |
| | 2005 | 2004 | 2003 |
| | (Dollars in thousands) | | |
| Interest bearing checking deposits | \$ 116 | \$ 114 | \$ 206 |
| Money market deposits | 6,494 | 3,716 | 3,607 |
| Savings deposits | 179 | 102 | 348 |
| Time deposits under \$100,000 | 1,621 | 1,055 | 2,126 |
| Time deposits of \$100,000 or more | 2,677 | 2,137 | 3,292 |
| Total interest expense on deposits | \$ 11,087 | \$ 7,124 | \$ 9,579 |

(8) Borrowings and Subordinated Debentures

Borrowings

We and our Banks have various lines of credit available. We also borrow funds from time to time on a term or overnight basis from the Federal Home Loan Bank or other financial institutions.

Federal Funds Arrangements with Commercial Banks. As of December 31, 2005, 2004 and 2003, we had unsecured lines of credit with correspondent banks in the amounts of \$120.0 million, \$110.0 million and \$100.0 million. These lines are renewable annually. As of December 31, 2005, 2004 and 2003, there were no balances outstanding and the average balances outstanding for each of these years were \$214,000, \$96,000 and \$19,000. The highest balance at any month-end was \$26.0 million in 2005 and zero in 2004 and 2003. The average rate paid was 4.06%, 2.07% and 1.74% during 2005, 2004 and 2003.

Federal Home Loan Bank Lines of Credit. As of December 31, 2005, 2004 and 2003, we had Federal Home Loan Bank collateralized borrowing limits of approximately \$665.2 million, \$615.1 million and \$321.6 million, of which \$160.3 million, \$85.0 million and \$46.7 million was outstanding at December 31, 2005, 2004 and 2003. The borrowing arrangements with the Federal Home Loan Bank are collateralized by the majority of our securities available-for sale and by a blanket lien covering a large portion of our real estate secured loans. The average balance outstanding for short-term advances was \$76 million in 2005, \$49.2 million in 2004, and \$1.4 million in 2003. The average rate paid was 2.95% in 2005, 1.75% in 2004, and 1.28% in 2003. As of December 31, 2005 and 2004, the interest rates for short-term advances were 3.69% and 2.84%. The highest balance at any month-end during 2005 was \$130.8 million, \$137.5 million in 2004, and \$46.7 million in 2003. The average balance outstanding for long-term advances was \$28.8 million in 2005, \$2.8 million for 2004 and zero for 2003. The average rate paid was 3.34% in 2005, 3.12% in 2004 and zero in 2003. The highest balance at any month-end during 2004 was \$45.0 million for 2005, \$40.0 million for 2004 and zero for 2003.

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(8) Borrowings and Subordinated Debentures (Continued)

The following table summarizes our term advances outstanding at December 31, 2005:

| Amount (Dollars in thousands) | Rate | | Maturity Date | Collateral |
|----------------------------------|------|---|---------------|------------|
| \$ 75,300 | 4.00 | % | 1/3/2006 | Securities |
| 20,000 | 3.03 | % | 5/9/2006 | Loans |
| 20,000 | 3.21 | % | 12/6/2006 | Loans |
| 45,000 | 4.78 | % | 12/8/2008 | Loans |
| \$160,300 | | | | |

Treasury, Tax and Loan. At the beginning of 2003 and in previous years, we were a participant in the Treasury, Tax and Loan Note program, which we refer to as the Note program. We exited the Note program during 2003. The Note program provided a borrowing line with a limit at the Federal Reserve Bank. Note balances fluctuate based on the amounts deposited by customers and the amounts called for payment by the Federal Reserve Bank. As of December 31, 2003, there was no balance outstanding under the Note program. The average balances under the Note program was \$203,000 in 2003. The highest balance at any month-end was \$1.7 million in 2003. The average rate paid was 1.05% in 2003.

Revolving Lines of Credit. In August 2005, we executed amendments to the August 2003 amended and restated Revolving Credit Agreement with The Northern Trust Company for \$20.0 million and a Revolving Credit Agreement with U.S. Bank, N.A. for \$50.0 million. The maturity dates were extended to August 3, 2006 for both agreements. All of the shares of common stock of First National have been pledged as collateral against these revolving credit lines. The credit agreements contain covenants that impose certain restrictions on our activities and financial condition. Such covenants include minimum net worth ratios, maximum debt ratios, a minimum return on average assets, minimum and maximum credit quality ratios, and dividend payment limitations. As of December 31, 2005, we, and where applicable, the Banks, were in compliance with all covenants covering both agreements. The highest balance at any month-end during 2005, 2004 and 2003 was \$6.5 million, \$9.0 million and \$24.0 million. The average outstanding amount during 2005, 2004 and 2003 was \$532,000, \$4.3 million and \$3.8 million. We pay a quarterly fee of 25 basis points on the unused amounts. There were no amounts outstanding at December 31, 2005 and we had \$5.0 million and \$7.0 million outstanding at December 31, 2004 and 2003. As of December 31, 2004 and 2003, the interest rates were 3.64% and 2.50%.

Subordinated Debentures

The Company had an aggregate of \$121.7 million of subordinated debentures outstanding at December 31, 2005 and 2004. The subordinated debentures were issued in seven separate series. Each issuance has a maturity of thirty years from its date of issue. The subordinated debentures were issued to trusts established by us, which in turn issued trust preferred securities. These trust preferred securities are presently considered Tier 1 capital for regulatory purposes. With the exception of Trust I, the subordinated debentures are callable at par, only by the issuer, five years from the date of issuance, subject to certain exceptions. We are permitted to call the debentures in the first five years if the prepayment election relates to one of the following three events: (i) a change in the tax treatment of the debentures stemming from a change in the IRS laws; (ii) a change in the regulatory treatment of the underlying trust preferred

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(8) Borrowings and Subordinated Debentures (Continued)

securities as Tier 1 capital; and (iii) a requirement to register the underlying trust as a registered investment company. However, redemption in the first five years will be subject to a prepayment penalty. Trust I may not be called for 10 years from the date of issuance unless one of the three events described above has occurred and then a prepayment penalty applies. In addition, there is a prepayment penalty if this debenture is called 10 to 20 years from the date of its issuance and it may be called at par after 20 years. The proceeds of the subordinated debentures were used primarily to fund several of our acquisitions.

The following table summarizes the terms of each subordinated debenture issuance:

| Series (Dollars in thousands) | Date issued | Amount | Maturity | Earliest Call Date | Fixed or Variable Rate | Rate Index | Current Rate | Next Reset Date |
|----------------------------------|-------------|------------|------------|-----------------------|------------------------------|--------------------------|-----------------|--------------------|
| Trust I | 9/7/2000 | \$ 8,248 | 9/7/2030 | 9/7/2020 | Fixed | N/A | 10.60% | N/A |
| Trust II | 12/18/2001 | 10,310 | 12/18/2031 | 12/18/2006 | Variable | 3-month LIBOR + 3.60% | 8.10% | 3/16/2006 |
| Trust III | 11/28/2001 | 10,310 | 12/8/2031 | 12/8/2006 | Variable | 6-month LIBOR + 3.75 | 8.42% | 6/13/2006 |
| Trust IV | 6/26/2002 | 10,310 | 6/26/2032 | 6/26/2007 | Variable | 3-month LIBOR + 3.55 | 8.07% | 3/23/2006 |
| Trust V | 8/15/2003 | 10,310 | 9/17/2033 | 9/17/2008 | Variable | 3-month LIBOR + 3.10 | 7.60% | 3/15/2006 |
| Trust VI | 9/3/2003 | 10,310 | 9/15/2033 | 9/15/2008 | Variable | 3-month LIBOR + 3.05 | 7.54% | 3/13/2006 |
| Trust VII | 2/5/2004 | 61,856 | 4/23/2034 | 4/23/2009 | Variable | 3-month LIBOR + 2.75 | 7.41% | 4/27/2006 |
| Total | | \$ 121,654 | | | | | | |

(9) Commitments and Contingencies

The Banks are party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit, standby letters of credit and financial guarantees. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in those particular classes of financial instruments.

Commitments to extend credit amounting to \$1.0 billion and \$849.6 million were outstanding as of December 31, 2005 and 2004, respectively. Of the \$1.0 billion at December 31, 2005, approximately \$47.2 million were fixed rate commitments and \$956.5 million were variable rate commitments. Additionally, \$29.5 million of the \$1.0 billion is related to foreign loan commitments. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit and financial guarantees amounting to \$62.1 million and \$63.0 million were outstanding as of December 31, 2005 and 2004, respectively. Standby letters of credit and financial guarantees are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. Most guarantees will expire within one year. The Company generally requires collateral or other security to support financial instruments with credit risk.

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(9) Commitments and Contingencies (Continued)

Legal Matters. 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. While we understand that the plaintiffs intend to seek to certify a class for purposes of pursuing a class action, a class has not yet been certified and no motion for class certification has been filed. 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 is 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 toward which we would contribute \$775,000. The proposed settlement is subject to the final settlement terms and documentation being agreed upon by First Community, the

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(9) Commitments and Contingencies (Continued)

plaintiffs and other parties who are also contributing to this settlement. Additionally, the settlement is subject to approval by the Los Angeles Superior Court. 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 a final settlement will be reached 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 in principle 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. Approximately \$775,000 was accrued for the proposed settlement in November 2005 and is included in other noninterest expense on the consolidated statement of earnings. The proposed settlement is subject to final terms being agreed upon by the plaintiffs and other parties participating in the settlement, and is subject to approval by the Los Angeles Superior Court. 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 a final settlement will be reached or that we will not be subject to further claims by parties who did not participate in the 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.

(10) Fair Value of Financial Instruments

Estimated fair values for the Company's financial instruments and a description of the methodologies and assumptions used to determine such amounts follow:

(a) Cash and Due from Banks and Federal Funds Sold

The carrying amount is assumed to be the fair value because of the liquidity of these instruments.

(b) Interest-bearing Deposits in Financial Institutions

The carrying amount is assumed to be the fair value given the short-term nature of these deposits.

(c) Investment Securities and Securities Available-for-Sale

Fair values are based on quoted market prices available as of the balance sheet date. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. Fair values of Federal Home Loan Bank Stock and Federal Reserve Bank stock are based on current redemption prices which are equal to the carrying amount.

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(10) Fair Value of Financial Instruments (Continued)

(d) Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type and further segmented into fixed and adjustable rate interest terms and by credit risk categories. The fair value estimates do not take into consideration the value of the loan portfolio in the event the loans have to be sold outside the parameters of normal operating activities.

The fair value of fixed rate loans and non-performing or adversely classified adjustable rate loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loans. The discount rates used for performing fixed rate loans are the Company's current offer rates for comparable instruments with similar terms.

The fair value of performing adjustable rate loans is estimated to be carrying value. These loans reprice frequently at market rates and the credit risk is not considered to be greater than normal.

(e) Deposits

The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings and checking accounts, is equal to the amount payable on demand as of the balance sheet date. The fair value of time deposits is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. No value has been separately assigned to the Company's long-term relationships with its deposit customers, such as core deposit intangible.

(f) Borrowings

The carrying amount is assumed to be the fair value because rates paid are the same as rates currently offered for borrowings with similar remaining maturities and characteristics.

(g) Subordinated Debentures

The fair value of the subordinated debentures is based on the discounted value of contractual cash flows for fixed rate securities. The discount rate is estimated using the rates currently offered for similar securities of similar maturity. The fair value of subordinated debentures with variable rates is deemed to be the carrying value.

(h) Commitments to Extend Credit and Standby Letters of Credit

The majority of our commitments to extend credit carry current market interest rates if converted to loans. Because these commitments are generally unassignable by either the borrower or us, they only have value to the borrower and us. The estimated fair value approximates the recorded deferred fee amounts and is excluded from the following table because it is not material.

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(10) Fair Value of Financial Instruments (Continued)

(i) Limitations

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instrument. These estimates do not reflect income taxes or any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a portion of the Company's financial instruments, fair value estimates are based on what management believes to be conservative judgments regarding expected future cash flows, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimated fair values are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Since the fair values have been estimated as of December 31, 2005 and 2004, the amounts that will actually be realized or paid at settlement or maturity of the instruments could be significantly different.

The fair values of the Company's financial instruments as of December 31, 2005 and 2004 are as follows:

| | 2005 | Fair Value | 2004 | Fair Value |
|---|-------------------------------|-------------------|------------------------|-------------------|
| | Carrying or | Estimates | Carrying or | Estimates |
| | Contract Amount | | Contract Amount | |
| | (Dollars in thousands) | | | |
| Financial Assets: | | | | |
| Cash and due from banks | \$ 100,662 | \$ 100,662 | \$ 72,581 | \$ 72,581 |
| Federal funds sold | 4,600 | 4,600 | 246,700 | 246,700 |
| Interest-bearing deposits in financial institutions | 90 | 90 | 702 | 702 |
| Investment in Federal Reserve Bank and Federal Home Loan Bank Stock | 26,753 | 26,753 | 24,112 | 24,112 |
| Securities available-for-sale | 212,601 | 212,601 | 245,395 | 245,395 |
| Loans, net | 2,440,525 | 2,395,174 | 2,094,088 | 2,079,756 |
| Financial Liabilities: | | | | |
| Deposits | 2,405,361 | 2,404,494 | 2,432,390 | 2,432,589 |
| Borrowings | 160,300 | 161,055 | 90,000 | 90,729 |
| Subordinated debentures | 121,654 | 123,756 | 121,654 | 123,760 |

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(11) Lease Commitments

As of December 31, 2005, aggregate minimum rental commitments for certain real property under noncancellable operating leases having initial or remaining terms of more than one year are as follows (in thousands):

| | |
|------------|-----------|
| 2006 | \$ 7,831 |
| 2007 | 7,602 |
| 2008 | 7,341 |
| 2009 | 6,052 |
| 2010 | 5,824 |
| Thereafter | 22,914 |
| Total | \$ 57,564 |

Total gross rental expense for the years ended December 31, 2005, 2004 and 2003 was \$7.3 million, \$7.0 million and \$6.5 million, respectively. Most of the leases provide that the Company pay maintenance, insurance and certain other operating expenses applicable to the leased premises in addition to the monthly minimum payments. Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Total rental income for the years ended December 31, 2005, 2004 and 2003 was approximately \$250,000, \$226,000 and \$306,000, respectively. The future minimum rental income to be received under noncancelable subleases is \$4.6 million.

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(12) Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities, the net balance of which is included in other assets, as of December 31, 2005 and 2004 are as follows:

| | 2005 | 2004 |
|---|-------------------------------|------------------|
| | (Dollars in thousands) | |
| Deferred tax assets: | | |
| Lease income | \$ 20 | \$ 28 |
| Allowance for credit losses, due to differences in computation of bad debts | 13,141 | 12,123 |
| Interest on nonaccrual loans | 521 | 454 |
| Deferred loan fees and costs | 957 | 1,123 |
| Deferred compensation | 2,930 | 2,421 |
| Net operating losses | 4,403 | 5,350 |
| Accrued liabilities | 4,999 | 6,433 |
| Unrealized loss on securities available-for-sale | 1,749 | 1,065 |
| Premises and equipment, principally due to differences in depreciation | | 992 |
| Other | 1,444 | 1,026 |
| State tax benefit | 2,709 | 1,848 |
| Total deferred tax assets, net | 32,873 | 32,863 |
| Deferred tax liabilities: | | |
| Core deposit and customer relationship intangibles | 11,479 | 9,500 |
| Premises and equipment, principally due to differences in depreciation | 266 | |
| FHLB stock dividends | 417 | 204 |
| Total gross deferred tax liabilities | 12,162 | 9,704 |
| Total net deferred taxes assets | \$ 20,711 | \$ 23,159 |

Based upon our tax paying history and estimates of taxable income over the years in which the items giving rise to the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences.

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(12) Income Taxes (Continued)

For the years ended December 31, 2005, 2004 and 2003, the components of income taxes consist of the following:

| | For the Years Ended December 31, | | |
|-------------------------------|---|-------------|-------------|
| | 2005 | 2004 | 2003 |
| | (Dollars in thousands) | | |
| Current income taxes: | | | |
| Federal | \$ 27,657 | \$ 18,911 | \$ 12,698 |
| State | 7,579 | 4,721 | 4,858 |
| Total current income taxes | 35,236 | 23,632 | 17,556 |
| Deferred income taxes: | | | |
| Federal | (645) | (212) | 3,243 |
| State | 534 | 876 | 897 |
| Total deferred income taxes | (111) | 664 | 4,140 |
| Total income tax expense | \$ 35,125 | \$ 24,296 | \$ 21,696 |

The following table is a reconciliation of total income taxes to the amount of taxes computed by applying the applicable statutory Federal income tax rate of 35% for 2005, 2004 and 2003 to earnings before income taxes:

| | For the Years Ended December 31, | | |
|--|---|-------------|-------------|
| | 2005 | 2004 | 2003 |
| | (Dollars in thousands) | | |
| Computed expected income taxes at Federal statutory rate | \$ 29,922 | \$ 21,231 | \$ 18,813 |
| State tax, net of federal tax benefit | 5,273 | 3,638 | 3,741 |
| Increase in cash surrender value of life insurance | (569) | (664) | (654) |
| Other, net | 499 | 91 | (204) |
| Recorded income taxes | \$ 35,125 | \$ 24,296 | \$ 21,696 |

As of December 31, 2005 and 2004, net current taxes payable, included in other liabilities, totaled \$3.4 million and \$4.2 million.

The Company has available at December 31, 2005, approximately \$12.1 million of unused Federal net operating loss carryforwards that may be applied against future taxable income through 2025. The Company has available at December 31, 2005, approximately \$2.4 million of unused state net operating loss carryforwards that may be applied against future taxable income through 2015. The applications of the net operating loss and other carryforwards are subject to annual limitations set forth in Section 382 of the Internal Revenue Code.

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(13) Earnings Per Share

The following is a summary of the calculation of basic and diluted net earnings per share for the years ended December 31, 2005, 2004 and 2003.

| | For the Years Ended December 31, | | |
|---|--|-------------|-------------|
| | 2005 | 2004 | 2003 |
| | (Dollars in thousands, except per share data) | | |
| Net earnings used for basic and diluted earnings per share | \$ 50,366 | \$ 36,363 | \$ 32,055 |
| Weighted average shares outstanding used for basic earnings per share | 16,536 | 15,521 | 15,382 |
| Effect of dilutive stock options and restricted stock | 358 | 466 | 486 |
| Diluted weighted average shares outstanding | 16,894 | 15,987 | 15,868 |
| Basic earnings per share | \$ 3.05 | \$ 2.34 | \$ 2.08 |
| Diluted earnings per share | \$ 2.98 | \$ 2.27 | \$ 2.02 |

Diluted earnings per share does not include all potentially dilutive shares that may result from outstanding stock options and restricted stock awards which may eventually vest. For the years ended December 31, 2005, 2004 and 2003, the number of stock options, performance and restricted shares which are outstanding but not included in the calculation of diluted earnings per share were 592,461, 925,817 and 1,029,023.

(14) Comprehensive Income

| | For the Years Ended December 31, | | |
|---|---|-------------|-------------|
| | 2005 | 2004 | 2003 |
| | (Dollars in thousands) | | |
| Net earnings | \$ 50,366 | \$ 36,363 | \$ 32,055 |
| Other comprehensive income, net of related income taxes: | | | |
| Unrealized gains (losses) on securities available for sale: | | | |
| Unrealized holding gains (losses) arising during the period | (945) | 56 | (2,479) |
| Less reclassifications of realized gains included in income | | (142) | 639 |
| | (945) | 198 | (3,118) |
| Comprehensive income | \$ 49,421 | \$ 36,561 | \$ 28,937 |

(15) Benefit Plans

Stock-Based Compensation

Under the Company's 2003 Stock Incentive Plan (the "Incentive Plan"), the Company's Board of Directors may grant stock-based compensation awards to officers, directors, key employees and consultants under the terms described in the Incentive Plan. The allowable stock-based compensation awards include stock options (within the meaning of Section 422 of the Internal Revenue Code), nonqualified stock options, restricted stock awards, performance stock awards and stock appreciation rights. The Incentive Plan authorizes grants of stock-based compensation instruments to purchase or issue up to 2,500,000 shares of authorized but unissued Company common stock, subject to adjustments

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(15) Benefit Plans (Continued)

provided by the Incentive Plan. As of December 31, 2005, there were 419,909 shares available for grant under the Incentive Plan.

Stock Options. Under the Incentive Plan, the exercise price of an option shall not be less than the market price of a share of Company common stock on the date of grant and the maximum term of any option is ten years measured from the date of grant. Options generally vest over a period of 3 to 4 years as determined at the date of grant and become fully exercisable in installments of at least 20% per year. The Company last granted options in the first quarter of 2003.

The fair value of all option grants are estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for all fixed option grants in 2003:

| | |
|-------------------------|-------------|
| | 2003 |
| Expected dividend yield | 2.00% |
| Risk-free interest rate | 2.90% |
| Volatility | 33% |
| Expected lives | 2.5 years |
| Estimated fair value | \$ 6.11 |

A summary of the status of our stock options as of December 31, 2005, 2004 and 2003 and the changes during the years then ended is presented in the table below.

| | 2005 | | 2004 | | 2003 | |
|----------------------------------|------------|---------------------------------|------------|---------------------------------|------------|---------------------------------|
| | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price | Shares | Weighted-Average Exercise Price |
| Outstanding at beginning of year | 806,716 | \$ 19.06 | 1,055,354 | \$ 15.23 | 1,267,217 | \$ 17.86 |
| Granted | | | | | 1,000 | 29.97 |
| Exercised | (256,045) | 14.64 | (235,971) | 14.64 | (136,104) | 12.61 |
| Cancelled | (6,878) | 26.37 | (12,667) | 21.48 | (71,756) | 24.65 |
| Forfeited | | | | | (5,003) | 14.46 |
| Outstanding at year-end | 543,793 | 21.05 | 806,716 | 19.06 | 1,055,354 | 18.10 |
| Options exercisable at year-end | 543,395 | 21.05 | 674,377 | 17.70 | 726,822 | 15.23 |

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(15) Benefit Plans (Continued)

The following table summarizes information about stock options outstanding at December 31, 2005.

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------|---|---|---------------------------------|---|---------------------------------|
| | Number Outstanding at December 31, 2005 | Weighted-Average Remaining Contractual life (years) | Weighted-Average Exercise Price | Number Exercisable at December 31, 2005 | Weighted-Average Exercise Price |
| \$4.00 to \$10.00 | 109,985 | 1.47 | \$ 9.56 | 109,985 | \$ 9.56 |
| \$10.01 to \$20.00 | 153,590 | 0.59 | \$ 18.05 | 153,525 | \$ 18.05 |
| \$20.01 to \$30.66 | 280,218 | 1.66 | \$ 27.20 | 279,885 | \$ 27.20 |
| \$4.00 to \$30.66 | 543,793 | 1.32 | \$ 21.05 | 543,395 | \$ 21.05 |

Restricted Stock. The Incentive Plan provides that eligible participants may be granted restricted shares of Company common stock which are subject to forfeiture until the restrictions lapse or terminate. During 2005, the Compensation, Nominating and Governance (CNG) Committee of the Company's Board of Directors awarded 44,159 shares, net of forfeitures, of restricted common stock with a corresponding market value at the time of award of \$2,542,000. During 2004 and 2003, the CNG Committee of the Company's Board of Directors awarded 138,750 and 205,000 shares, net of forfeitures, of restricted common stock with a corresponding market value at the time of award of \$5,152,000 and \$6,645,000. The weighted-average grant-date fair value of restricted stock awarded in 2005, 2004 and 2003 was \$47.48, \$36.82 and \$32.41 per share. The awarded shares of restricted common stock will vest over a service period of three to four years. The portion of the market value of the restricted stock related to current service was recognized as compensation expense in 2005, 2004 and 2003 using the straight-line method and that portion of the market value relating to future service (unearned equity compensation) will be amortized over the remaining vesting period. Using the straight-line method, the related compensation expense was \$2.9 million, \$1.9 million and \$513,000 for 2005, 2004 and 2003. At December 31, 2005, unvested shares of restricted common stock awarded and outstanding totaled 290,831.

Performance Stock. The Incentive Plan provides that eligible participants may be granted shares of performance common stock which are subject to forfeiture until the restrictions lapse or terminate. No performance shares were awarded in 2005 and 2004. During 2003, the CNG Committee of the Company's Board of Directors awarded 255,000 shares of performance common stock with a corresponding market value at the time of award of \$8,172,000 and a weighted-average grant-date fair value of \$32.05 per share. The awarded shares of performance common stock will vest in full, or in part, on the date the CNG Committee, as Administrator of the Incentive Plan, determines that the Company achieved certain financial targets established by the CNG Committee. The awarded shares of performance common stock expire seven years from the date of grant. The related compensation expense was \$1.1 million, \$5.6 million and \$493,000 for 2005, 2004 and 2003. During 2005, 127,500 shares vested and 12,500 cancelled leaving 115,000 unvested shares outstanding at December 31, 2005. Of this amount, 57,500 vested in March 2006 and the remaining 57,500 shares are expected to vest during the first quarter of 2007.

Prior to vesting of the restricted or performance common stock, each grant recipient is entitled to dividend rights with respect to the shares of granted stock, subject to termination of such rights under the

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(15) Benefit Plans (Continued)

terms of the Incentive Plan. Dividends on vested restricted and performance stock are charged to compensation expense when paid.

Directors Deferred Compensation Plan

The Company has a deferred compensation plan, known as the DDCP, in which the Company's directors and executive officers may participate. The DDCP is administered by an administrative committee, which consists of certain non-director executive officers of the Company.

The DDCP allows all directors of the Company, including executive officers who are directors of the Company or its subsidiaries, to defer payment of all or a portion of their directors' fees, in the case of outside directors, or base salary, bonus or other compensation, including restricted and performance stock awards, in the case of employee directors, for the next succeeding calendar year. Participation in the DDCP is voluntary and participants may not change their investment elections once made.

Participants may elect to have their contributions used to purchase Company common stock. The DDCP held 104,223 shares of Company common stock at December 31, 2005.

401(K) Plans

During 2004, we merged the Banks' separate 401(k) plans, which included several 401(k) plans that were in place at banks acquired by the Company, into the First Community Bancorp 401(k) Plan. The Company accrued to expense employer-related 401(k) contributions in the amount of \$598,000, \$410,000 and \$263,000 for the years ended December 31, 2005, 2004, and 2003.

(16) Restricted Cash Balances

The Company is required to maintain reserve balances with the Federal Reserve Bank. Reserve requirements are based on a percentage of deposit liabilities and may be satisfied by cash on hand. The average reserves required to be held at the Federal Reserve Bank for the years ended December 31, 2005 and 2004 were \$633,000 and zero.

(17) Dividend Availability

Holders of Company common stock are entitled to receive dividends declared by the Board of Directors out of funds legally available under state law governing the Company and certain federal laws and regulations governing the banking and financial services business. In addition, the Banks are subject to restrictions under certain federal laws and regulations governing banks which limit their ability to transfer funds to the Company through intercompany loans, advances or cash dividends. Dividends paid by national banks such as First National and Pacific Western are regulated by the OCC under its general supervisory authority as it relates to a bank's capital requirements. A national bank may declare a dividend without the approval of the OCC as long as the total dividends declared in a calendar year do not exceed the total of net profits for that year combined with the retained profits for the preceding two years. During 2005, First Community received dividends of \$23.5 million from the Banks. The amount of dividends available for payment by the Banks to the holding company at December 31, 2005, was \$49.5 million.

FIRST COMMUNITY BANCORP AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

December 31, 2005 and 2004

(17) Dividend Availability (Continued)

During 2005, 2004 and 2003, the Company paid \$16.0 million, \$13.2 million and \$10.4 million, respectively, in cash dividends on common stock.

Our ability to pay dividends is also limited by certain covenants contained in our revolving lines of credit agreements and the indentures governing trust preferred securities that we have issued, and the debentures underlying the trust preferred securities. The indentures provide, 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 Banks to the holding company) with respect to our common stock. In addition, our ability to pay dividends is limited by certain provisions of our revolving lines of credit agreements with U.S. Bank, N.A. and The Northern Trust Company. Both agreements provide that we may not declare or pay any dividend on the Company's common stock in any quarter if such dividend, when added together with any purchases or redemptions of the Company's capital stock and the previous three quarterly cash dividends declared and paid, would exceed fifty percent (50%) of the Company's consolidated net income for the immediately preceding four quarterly periods.

(18) Regulatory Matters

First Community, as a bank holding company, is subject to regulation by the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended.

The Banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Banks must meet specific capital guidelines that involve quantitative measures of the Company's and the Banks' assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Banks to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2005, that the Company and the Banks have met all capital adequacy requirements to which they are subject.

As of December 31, 2005, the most recent notification from the regulatory agencies categorized the Company and each of the Banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Company and the Banks must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Company's or any of the Banks' categories.

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(18) Regulatory Matters (Continued)

Actual capital amounts and ratios for the Company and each of the Banks as of December 31, 2005 and 2004 are presented in the following table:

Capital Requirements

| | Actual Amount | Ratio | Adequately Capitalized Amount | Ratio | Well capitalized Amount | Ratio |
|---|--------------------------|--------------|--|--------------|------------------------------------|--------------|
| As of December 31, 2005 | | | | | | |
| Total Capital (to Risk-Weighted Assets): | | | | | | |
| Consolidated Company | \$ 342,337 | 11.79 % | \$ 232,290 | 8.00 % | \$ 290,362 | 10.00 % |
| Pacific Western Bank | 203,355 | 10.63 | 153,042 | 8.00 | 191,303 | 10.00 |
| First National Bank | 134,530 | 13.64 | 78,903 | 8.00 | 98,629 | 10.00 |
| Tier I Capital (to Risk-Weighted Assets): | | | | | | |
| Consolidated Company | 309,366 | 10.66 | 116,085 | 4.00 | 174,127 | 6.00 |
| Pacific Western Bank | 184,846 | 9.67 | 76,462 | 4.00 | 114,692 | 6.00 |
| First National Bank | 122,176 | 12.39 | 39,443 | 4.00 | 59,165 | 6.00 |
| Tier I Capital (to Average Assets): | | | | | | |
| Consolidated Company | 309,366 | 10.55 | 117,295 | 4.00 | 146,619 | 5.00 |
| Pacific Western Bank | 184,846 | 9.69 | 76,304 | 4.00 | 95,380 | 5.00 |
| First National Bank | 122,176 | 11.92 | 40,999 | 4.00 | 51,248 | 5.00 |
| As of December 31, 2004 | | | | | | |
| Total Capital (to Risk-Weighted Assets): | | | | | | |
| Consolidated Company | \$ 275,383 | 10.88 % | \$ 202,488 | 8.00 % | \$ 253,109 | 10.00 % |
| Pacific Western Bank | 155,694 | 10.42 | 119,535 | 8.00 | 149,418 | 10.00 |
| First National Bank | 117,814 | 11.37 | 82,895 | 8.00 | 103,618 | 10.00 |
| Tier I Capital (to Risk-Weighted Assets): | | | | | | |
| Consolidated Company | 245,876 | 9.72 | 101,184 | 4.00 | 151,775 | 6.00 |
| Pacific Western Bank | 141,350 | 9.46 | 59,767 | 4.00 | 89,651 | 6.00 |
| First National Bank | 104,839 | 10.12 | 41,438 | 4.00 | 62,158 | 6.00 |
| Tier I Capital (to Average Assets): | | | | | | |
| Consolidated Company | 245,876 | 9.56 | 102,877 | 4.00 | 128,596 | 5.00 |
| Pacific Western Bank | 141,350 | 9.41 | 60,085 | 4.00 | 75,106 | 5.00 |
| First National Bank | 104,839 | 9.68 | 43,322 | 4.00 | 54,152 | 5.00 |

We have issued subordinated debentures to trusts that were established by us which, in turn, issued trust preferred securities totaling \$118.0 million. These securities are treated as regulatory capital for purposes of determining the Company's capital ratios. The Board of Governors of the Federal Reserve System, which is the holding company's banking regulator, has promulgated a modification of the capital regulations affecting trust preferred securities. Under this modification,

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(18) Regulatory Matters (Continued) (Continued)

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, 2005. 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.

On June 14, 2005, the Office of the Comptroller of the Currency (the OCC), informed the Company's subsidiary First National Bank that, as of June 13, 2005, the OCC had terminated the Memorandum of Understanding (the MOU) between the OCC and First National, dated April 8, 2004, relating to Bank Secrecy Act/Anti-Money Laundering (BSA/AML) matters. The memorandum required us to evaluate and strengthen our BSA/AML program and processes. The memorandum was limited in scope to BSA/AML issues and management believes that it did not have any material impact on our operating results or financial condition. The OCC stated that it had determined that First National had complied with its obligations under the terms of the MOU.

(19) Condensed Financial Information of Parent Company

The parent company only condensed balance sheets as of December 31, 2005 and 2004 and the related condensed statements of earnings and condensed statements of cash flows for each of the years in the three-year period ended December 31, 2005 are presented below.

| | At December 31, | |
|--|-------------------------------|-------------|
| | 2005 | 2004 |
| | (Dollars in thousands) | |
| Condensed Balance Sheets | | |
| Assets: | | |
| Cash and due from banks | \$ 5,975 | \$ 786 |
| Investments in subsidiaries | 616,434 | 492,189 |
| Other assets | 6,762 | 8,684 |
| Total assets | \$ 629,171 | \$ 501,659 |
| Liabilities: | | |
| Short-term borrowings | \$ | \$ 5,000 |
| Subordinated debentures | 121,654 | 121,654 |
| Other liabilities | 6,739 | 1,129 |
| Total liabilities | 128,393 | 127,783 |
| Shareholders' equity | 500,778 | 373,876 |
| Total liabilities and shareholders' equity | \$ 629,171 | \$ 501,659 |

FIRST COMMUNITY BANCORP AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2005 and 2004

(19) Condensed Financial Information of Parent Company (Continued)

| | For the Years Ended December 31, | | |
|---|-------------------------------------|-----------|-----------|
| | 2005 | 2004 | 2003 |
| | (Dollars in thousands) | | |
| Condensed Statements of Earnings | | | |
| Interest income | \$ | \$ 2 | \$ 9 |
| Other income | 269 | 182 | 98 |
| Dividend income from subsidiaries | 23,500 | 38,500 | 24,000 |
| Total income | 23,769 | 38,684 | 24,107 |
| Interest expense | 8,617 | 6,332 | 3,047 |
| Other expense | 13,492 | 14,740 | 7,911 |
| Total expense | 22,109 | 21,072 | 10,958 |
| Earnings before income taxes and equity in undistributed earnings of subsidiaries | 1,660 | 17,612 | 13,149 |
| Income tax benefit | (9,178) | (8,779) | (4,557) |
| Earnings before equity in undistributed earnings of subsidiaries | 10,838 | 26,391 | 17,706 |
| Equity in undistributed earnings of subsidiaries | 39,528 | 9,972 | 14,349 |
| Net earnings | \$ 50,366 | \$ 36,363 | \$ 32,055 |

| | For the Years Ended December 31, | | |
|--|----------------------------------|-----------|-----------|
| | 2005 | 2004 | 2003 |
| | (Dollars in thousands) | | |
| Condensed Statements of Cash Flows | | | |
| Net earnings | \$ 50,366 | \$ 36,363 | \$ 32,055 |
| Change in other assets | 4,830 | (2,444) | 1,325 |
| Change in other liabilities | 4,412 | (815) | (3,151) |
| Amortization of unearned compensation related to restricted stock | 4,038 | 7,518 | 1,006 |
| Undistributed earnings of subsidiaries | (39,528) | (9,972) | (14,349) |
| Cash flows provided by operating activities | 24,118 | 30,650 | 16,886 |
| Increase in investment in subsidiaries | (49,035) | (82,501) | (48,309) |
| Other investing activities | | 4 | (5) |
| Cash flows used in investing activities | (49,035) | (82,497) | (48,314) |
| Proceeds from exercise and vesting of stock awards | 2,036 | 3,456 | 1,716 |
| Dividends paid | (15,952) | (13,158) | (10,388) |
| Issuance of subordinated debentures | | 61,856 | 20,620 |
| (Decrease) increase in borrowed funds | (5,000) | (2,000) | 7,000 |
| Proceeds from issuance of common stock | 49,022 | | |
| Other financing activities | | | |
| Cash flows provided by financing activities | 30,106 | 50,154 | 18,948 |
| Net increase (decrease) in cash | 5,189 | (1,693) | (12,480) |
| Cash, beginning of the period | 786 | 2,479 | 14,959 |
| Cash, end of the period | \$ 5,975 | \$ 786 | \$ 2,479 |
| Supplemental disclosure of noncash investing and financing activities: | | | |
| Common stock issued for acquisitions | \$ 36,627 | | |

(20) Related Party Transactions

Castle Creek Financial, LLC, which we refer to as Castle Creek Financial, serves as the exclusive financial advisor for the Company pursuant to an engagement letter dated November 17, 2005, between Castle Creek Financial and the Company. Castle Creek Financial is an affiliate of Castle Creek Capital, LLC, which is controlled by the Company's chairman. During 2005, 2004, and 2003 the Company paid Castle Creek Financial \$1.2 million, \$955,000, and \$1.3 million for financial advice relating to the 2005, 2004, and 2003 acquisitions. Castle Creek Financial is also entitled to reimbursement of expenses and, until October 2005, a quarterly retainer. These amounts totaled \$32,000 in 2005, \$47,000 in 2004, and \$59,000 in 2003.

(21) Quarterly Results of Operations (Unaudited)

| | For the Quarters Ended | | | |
|---|---|------------------|-----------------------|----------------------|
| | March 31, 2005 | June 30, 2005 | September 30, 2005 | December 31, 2005 |
| | (Dollars in thousands, except per share data) | | | |
| Interest income | \$ 40,254 | \$ 42,645 | \$ 46,734 | \$ 53,719 |
| Interest expense | 4,669 | 5,433 | 5,954 | 6,861 |
| Net interest income | 35,585 | 37,212 | 40,780 | 46,858 |
| Provision for credit losses | 800 | 620 | | |
| Net interest income after provision for credit losses | 34,785 | 36,592 | 40,780 | 46,858 |
| Other income | 3,502 | 3,331 | 3,514 | 3,543 |
| Other expenses | 20,951 | 19,892 | 22,213 | 24,358 |
| Earnings before income taxes | 17,336 | 20,031 | 22,081 | 26,043 |
| Income taxes | 7,074 | 8,213 | 9,087 | 10,751 |
| Net earnings | \$ 10,262 | \$ 11,818 | \$ 12,994 | \$ 15,292 |
| Earnings per share: | | | | |
| Basic | \$ 0.65 | \$ 0.74 | \$ 0.79 | \$ 0.86 |
| Diluted | \$ 0.63 | \$ 0.72 | \$ 0.78 | \$ 0.84 |
| Dividends per common share declared and paid | \$ 0.22 | \$ 0.25 | \$ 0.25 | \$ 0.25 |
| Common stock price range: | | | | |
| High | \$ 46.20 | \$ 48.95 | \$ 51.62 | \$ 57.30 |
| Low | \$ 39.00 | \$ 41.18 | \$ 45.50 | \$ 45.07 |

(21) Quarterly Results of Operations (Unaudited) (Continued)

| | For the Quarters Ended | | | |
|---|---|------------------|-----------------------|----------------------|
| | March 31, 2004 | June 30, 2004 | September 30, 2004 | December 31, 2004 |
| | (Dollars in thousands, except per share data) | | | |
| Interest income | \$ 29,422 | \$ 34,801 | \$ 36,951 | \$ 38,973 |
| Interest expense | 3,088 | 3,460 | 3,701 | 4,168 |
| Net interest income | 26,334 | 31,341 | 33,250 | 34,805 |
| Provision for credit losses | | 200 | 265 | |
| Net interest income after provision for credit losses | 26,334 | 31,141 | 32,985 | 34,805 |
| Other income | 4,132 | 4,133 | 4,194 | 4,762 |
| Other expenses | 17,920 | 20,396 | 21,000 | 22,511 |
| Earnings before income taxes | 12,546 | 14,878 | 16,179 | 17,056 |
| Income taxes | 5,046 | 6,040 | 6,603 | 6,607 |
| Net earnings | \$ 7,500 | \$ 8,838 | \$ 9,576 | \$ 10,449 |
| Earnings per share: | | | | |
| Basic | \$ 0.49 | \$ 0.57 | \$ 0.62 | \$ 0.67 |
| Diluted | \$ 0.47 | \$ 0.55 | \$ 0.60 | \$ 0.65 |
| Dividends per common share declared and paid | \$ 0.1875 | \$ 0.22 | \$ 0.22 | \$ 0.22 |
| Common stock price range: | | | | |
| High | \$ 40.68 | \$ 39.97 | \$ 43.65 | \$ 43.99 |
| Low | \$ 36.00 | \$ 32.02 | \$ 37.38 | \$ 39.56 |

Comparison of quarterly results may not be meaningful due to acquisitions. See Note 2 for information.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation was carried out by the Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective.

There have not been any changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during our most recent fiscal quarter ending December 31, 2005, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting and the Report of Independent Registered Public Accounting Firm thereon are set forth in Part II, Item 8 of this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this Item regarding the Company's directors and executive officers, including information with respect to beneficial ownership reporting compliance, will appear in the Proxy Statement we will deliver to our shareholders in connection with our Annual Meeting of Shareholders to be held on April 19, 2006. We are incorporating herein by reference the information contained in that section. Information relating to the registrant's Code of Business Conduct and Ethics that applies to its employees, including its senior financial officers, is included in Part I of this Annual Report on Form 10-K under Item 1. Business Available Information.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item will appear in the Proxy Statement we will deliver to our shareholders in connection with our Annual Meeting of Shareholders to be held on April 19, 2006. We are incorporating herein by reference the information contained in that section.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required by this Item regarding security ownership of certain beneficial owners and management will appear in the Proxy Statement we will deliver to our shareholders in connection with our Annual Meeting of Shareholders to be held on April 19, 2006. We are incorporating herein by reference the information contained in that section. Information relating to securities authorized for issuance under the Company's equity compensation plans is included in Part II of this Annual Report on Form 10-K under Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item will appear in the Proxy Statement we will deliver to our shareholders in connection with our Annual Meeting of Shareholders to be held April 19, 2006. We are incorporating herein by reference the information contained in that section.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item will appear in the Proxy Statement we will deliver to our shareholders in connection with our Annual Meeting of Shareholders to be held on April 19, 2006. We are incorporating herein by reference the information contained in that section.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

The consolidated financial statements of First Community Bancorp and its subsidiaries and independent auditors' report are included in Part II (Item 8) of this Form 10-K.

2. Financial Statement Schedules

All financial statement schedules have been omitted, as they are either inapplicable or included in the Notes to Consolidated Financial Statements.

3. Exhibits

The following documents are included or incorporated by reference in this Annual Report on Form 10-K:

- 2.1 Agreement and Plan of Merger, dated as of April 28, 2005, by and between First Community Bancorp and First American Bank (Exhibit 2.1 to Form 8-K filed on May 4, 2005 and incorporated herein by this reference).
- 2.2 Agreement and Plan of Merger, dated as of June 9, 2005, by and between First Community Bancorp and Pacific Liberty Bank (Exhibit 2.1 to Form 8-K filed on June 10, 2005 and incorporated herein by this reference).
- 2.3 Agreement and Plan of Merger, dated as of September 13, 2005, by and between First Community Bancorp and Cedars Bank (Exhibit 2.1 to Form 8-K filed on September 15, 2005 and incorporated herein by this reference).
- 2.4 Agreement and Plan of Merger, dated as of December 14, 2005, by and between First Community Bancorp and Foothill Independent Bancorp (Exhibit 2.1 to Form 8-K filed on December 20, 2005 and incorporated herein by this reference).
- 3.1 Articles of Incorporation of First Community Bancorp, as amended to date (Exhibit 3.1 to Form 10-Q filed on November 14, 2002 and incorporated herein by this reference).
- 3.2 Bylaws of First Community Bancorp, as amended to date (Exhibit 4.2 to Form S-3 filed on June 11, 2002 and incorporated herein by this reference).
- 4.1 Indenture between State Street Bank and Trust Company of Connecticut, National Association and First Community Bancorp dated as of September 7, 2000 (Exhibit 10.6 of Form 10-Q filed on November 13, 2000 and incorporated herein by this reference).
- 4.2 Indenture between First Community Bancorp as Issuer and Wilmington Trust Company as Trustee Dated as of November 28, 2001 (Exhibit 10.2 to Form 10-Q filed on May 15, 2002 and incorporated herein by this reference).
- 4.3 Indenture between State Street Bank and Trust Company of Connecticut, National Association, as Trustee and First Community Bancorp, as Issuer dated as of December 18, 2001 (Exhibit 10.5 to Form 10-Q filed on May 15, 2002 and incorporated herein by this reference).
- 4.4 Indenture between State Street Bank and Trust Company of Connecticut, National Association, as Trustee, and First Community Bancorp, as Issuer, dated as of June 26, 2002 (Exhibit 10.2 to Form 10-Q filed on August 14, 2002 and incorporated herein by this reference).
- 4.5 Indenture between First Community Bancorp, as Issuer, and U.S. Bank, N.A., as Trustee, dated as of August 15, 2003 (Exhibit 4.5 to Form 10-Q filed on November 7, 2003 and incorporated herein by this reference).

- 4.6 Indenture between First Community Bancorp, as Issuer, and The Bank of New York, as Trustee, dated as of September 3, 2003 (Exhibit 4.6 to Form 10-Q filed on November 7, 2003 and incorporated herein by this reference).
- 4.7 Indenture between First Community Bancorp, as Issuer and JPMorgan Chase Bank, as Trustee, dated as of February 5, 2004 (Exhibit 4.7 to Form 10-K filed on March 12, 2004 and incorporated herein by this reference).
- 10.1* First Community Bancorp 2003 Stock Incentive Plan, as amended and restated, dated February 8, 2006 (Exhibit 10.1 to Form 8-K filed on February 13, 2006 and incorporated herein by this reference).
- 10.2* Amended and Restated Directors' Deferred Compensation Plan, dated as of August 29, 2003 (Exhibit 10.2 to Form 10-K filed on March 12, 2004 and incorporated herein by this reference).
- 10.3 Amended and Restated Directors' Deferred Compensation Plan Trust, dated as of December 8, 2003 (Exhibit 10.3 to Form 10-K filed on March 12, 2004 and incorporated herein by this reference).
- 10.4 Amended and Restated Revolving Credit Agreement, dated August 15, 2003, by and between First Community Bancorp and the Northern Trust Company (Exhibit 10.3 to Form 10-Q filed on November 7, 2003 and incorporated herein by this reference).
- 10.5 Revolving Credit Agreement, dated as of August 15, 2003, by and between First Community Bancorp and U.S. Bank, N.A (Exhibit 10.4 to Form 10-Q filed on November 7, 2003 and incorporated herein by this reference).
- 10.6 Amended and Restated Pledge Agreement, dated as of August 15, 2003, between First Community Bancorp and The Northern Trust Company (Exhibit 10.5 to Form 10-Q filed on November 7, 2003 and incorporated herein by this reference).
- 10.7 Amended and Restated Declaration of Trust of First Community/CA Statutory Trust I, dated September 7, 2000, By and Among State Street Bank and Trust Company of Connecticut, National Association as Institutional Trustee, First Community Bancorp, as Sponsor and Mark Christian and Arnold C. Hahn, as Administrators (Exhibit 10.5 of Form 10-Q filed on November 13, 2000 and incorporated herein by this reference).
- 10.8 Guarantee Agreement By and Between First Community Bancorp and State Street Bank and Trust Company of Connecticut, National Association Dated as of September 7, 2000 (Exhibit 10.4 of Form 10-Q filed on November 13, 2000 and incorporated herein by this reference).
- 10.9 Amended and Restated Declaration of Trust of First Community/CA Statutory Trust III, dated November 28, 2001 (Exhibit 10.1 to Form 10-Q filed on May 15, 2002 and incorporated herein by this reference).
- 10.10 Guarantee Agreement By and Between First Community Bancorp and Wilmington Trust Company Dated as of November 28, 2001 (Exhibit 10 to Form 10-Q filed on May 15, 2002 and incorporated herein by this reference).
- 10.11 Amended and Restated Declaration of Trust of First Community/CA Statutory Trust II By and Among State Street Bank and Trust Company of Connecticut, National Association, as Institutional Trustee, First Community Bancorp, as Sponsor, and Matthew P. Wagner, Robert Borgman and Mark Christian, as Administrators, dated December 18, 2001 (Exhibit 10.4 to Form 10-Q filed on May 15, 2002 and incorporated herein by this reference).

- 10.12 Guarantee Agreement By and Between First Community Bancorp and State Street Bank and Trust Company of Connecticut, National Association Dated as of December 18, 2001 (Exhibit 10.3 to Form 10-Q filed on May 15, 2002 and incorporated herein by this reference).
- 10.13 Amended and Restated Declaration of Trust of First Community/CA Statutory Trust IV, dated June 26, 2002, By and Among State Street Bank and Trust Company of Connecticut, National Association, as Institutional Trustee, First Community Bancorp, as Sponsor, and Matthew P. Wagner, Lynn M. Hopkins and Robert Borgman, as Administrators (Exhibit 10.1 to Form 10-Q filed on August 14, 2002 and incorporated herein by this reference).
- 10.14 Guarantee Agreement By and Between First Community Bancorp and State Street Bank and Trust Company of Connecticut, National Association Dated as of June 26, 2002 (Exhibit 10 to Form 10-Q filed on August 14, 2002 and incorporated herein by this reference).
- 10.15 Amended and Restated Declaration of Trust of First Community/CA Statutory Trust V by and among U.S. Bank, N.A. as Institutional Trustee, First Community Bancorp, as Sponsor and Matthew P. Wagner, Lynn M. Hopkins and Jared M. Wolff, as Administrators dated as of August 15, 2003 (Exhibit 10.6 to Form 10-Q filed on November 7, 2003 and incorporated herein by this reference).
- 10.16 Guarantee Agreement by and between First Community Bancorp and U.S. Bank, N.A. dated as of August 15, 2003 (Exhibit 10.18 to Form 10-Q filed on November 7, 2003 and incorporated herein by this reference).
- 10.17 Amended and Restated Trust Agreement of First Community/CA Statutory Trust VI among First Community Bancorp as Depositor, The Bank of New York as Property Trustee, The Bank of New York (Delaware) as the Delaware Trustee, and the Administrative Trustees named therein, dated as of September 3, 2003 (Exhibit 10.7 to Form 10-Q filed on November 7, 2003 and incorporated herein by this reference).
- 10.18 Guarantee Agreement between First Community Bancorp and The Bank of New York, dated as of September 3, 2003 (Exhibit 10.19 to Form 10-Q filed on November 7, 2003 and incorporated herein by this reference).
- 10.19 Amended and Restated Trust Agreement of First Community/CA Statutory Trust VII among First Community Bancorp as Sponsor, Chase Manhattan Bank USA, N.A. as Delaware Trustee, JPMorgan Chase Bank, as Institutional Trustee, and the Administrators named therein, dated as of February 5, 2004 (Exhibit 10.19 to Form 10-K filed on March 12, 2004 and incorporated herein by this reference).
- 10.20 Guarantee Agreement between First Community Bancorp and JPMorgan Chase Bank, dated as of February 5, 2004 (Exhibit 10.20 to Form 10-K filed on March 12, 2004 and incorporated herein by this reference).
- 10.21 Services Agreement, dated as of November 2, 2005, between First Community Bancorp and Castle Creek Financial LLC.
- 10.22* Change in Control Severance Agreement, as amended, applicable to the executive officers of First Community Bancorp and certain senior officers of the First Community Bancorp and its subsidiaries (Exhibit 10.22 to Form 10-K filed on March 12, 2004 and incorporated herein by this reference).
- 10.23* Executive Incentive Plan, dated February 8, 2006.

- 10.24* Indemnification Agreement, as amended, applicable to the directors and executive officers of First Community Bancorp (Exhibit 10.24 to Form 10-K filed on March 12, 2004 and incorporated herein by this reference).
- 10.25 First Amendment to Revolving Credit Agreement, dated as of August 13, 2004, between First Community Bancorp and The Northern Trust Company (Exhibit 10.25 to Form 10-Q filed on November 8, 2004 and incorporated herein by this reference).
- 10.26 First Amendment to Revolving Credit Agreement, dated as of August 6, 2004, between First Community Bancorp and U.S. Bank, N.A. (Exhibit 10.26 to Form 10-Q filed on November 8, 2004 and incorporated herein by this reference).
- 10.27 Second Amendment to Revolving Credit Agreement, dated as of September 7, 2004, between First Community Bancorp and U.S. Bank, N.A. (Exhibit 10.27 to Form 10-Q filed on November 8, 2004 and incorporated herein by this reference).
- 10.28* Form of Stock Award Agreement and Grant Notice pursuant to the Company's 2003 Stock Incentive Plan, as amended (Exhibit 10.28 to Form 10-K filed on March 14, 2005 and incorporated herein by this reference).
- 10.29 Lease Agreement, as amended through January 1, 2004, between DL FNBC, L.P. and First National Bank, for the premises located at 401 West A Street, San Diego, California (Exhibit 10.29 to Form 10-K filed on March 14, 2005 and incorporated herein by this reference).
- 10.30 Second Amendment to Revolving Credit Agreement, dated as of August 4, 2005, between First Community Bancorp and The Northern Trust Company (Exhibit 10.30 to Form 10-Q filed on August 5, 2005 and incorporated herein by this reference).
- 10.31 Third Amendment to Revolving Credit Agreement, dated as of August 4, 2005, between First Community Bancorp and U.S. Bank, N.A. (Exhibit 10.31 to Form 10-Q filed on August 5, 2005 and incorporated herein by this reference).
- 10.32 Form of Purchase Agreement between First Community Bancorp and investors purchasing shares pursuant to direct sales by the Company under its shelf registration statement on Form S-3 (Exhibit 10.32 to Form 8-K filed on August 26, 2005 and incorporated herein by this reference).
- 11.1 Statement re: Computation of Per Share Earnings (See Note 14 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K).
- 12.1 Statement re: Computation of Ratios (See Item 6. Selected Financial Data of this Annual Report on Form 10-K).
- 21.1 Subsidiaries of the Registrant.
- 23.1 Consent of KPMG LLP.
- 24.1 Powers of Attorney (included on signature page).
- 31.1 Section 302 Certifications.
- 32.1 Section 906 Certifications.

* Management contract or compensatory plan or arrangement.

(b) Exhibits

The exhibits listed in Item 15(a)3 are incorporated by reference or attached hereto.

(c) Excluded Financial Statements

Not Applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 10, 2006

FIRST COMMUNITY BANCORP
By: /s/ MATTHEW P. WAGNER
Matthew P. Wagner
(President and Chief Executive Officer)

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John M. Eggemeyer, Matthew P. Wagner, Timothy B. Matz, Victor R. Santoro and Jared M. Wolff, and each of them severally, his or her true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his or her name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with this Annual Report on Form 10-K and any and all amendments hereto, as fully for all intents and purposes as he or she might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | | Date |
|--|---|----------------|
| /s/ JOHN M. EGGEMEYER John M. Eggemeyer | Chairman of the Board of Directors | March 10, 2006 |
| /s/ MATTHEW P. WAGNER Matthew P. Wagner | President, Chief Executive Officer and Director (Principal Executive Officer) | March 10, 2006 |
| /s/ VICTOR R. SANTORO Victor R. Santoro | Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) | March 10, 2006 |
| /s/ STEPHEN M. DUNN Stephen M. Dunn | Director | March 10, 2006 |
| /s/ BARRY C. FITZPATRICK Barry C. Fitzpatrick | Director | March 10, 2006 |
| /s/ CHARLES H. GREEN Charles H. Green | Director | March 10, 2006 |
| /s/ SUSAN E. LESTER Susan E. Lester | Director | March 10, 2006 |

| Signature | | Date |
|--|----------|----------------|
| /s/ TIMOTHY B. MATZ Timothy B. Matz | Director | March 10, 2006 |
| /s/ ARNOLD W. MESSER Arnold W. Messer | Director | March 10, 2006 |
| /s/ DANIEL B. PLATT Daniel B. Platt | Director | March 10, 2006 |
| /s/ ROBERT A. STINE Robert A. Stine | Director | March 10, 2006 |
| /s/ DAVID S. WILLIAMS David S. Williams | Director | March 10, 2006 |