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2004 ANNUAL REPORT

Letter to Shareholders

Continued growth and enhanced performance of First PacTrust Bancorp, Inc. is the primary focus of management and the Board of Directors.

During 2004, total assets grew by $50.5 million or 8.1%, from $624.0 million at year-end 2003 to $674.5 million at December 31, 2004. This increase primarily reflected growth in loans receivable of $41.5 million funded by an increase in deposits of $63.7 million. In an environment of high loan prepayments and refinancing activity the Company originated $273.6 million in new loans during 2004 resulting in the increase in loans receivable.

The Company continues to develop strong account relationships with customers by providing high quality service while offering a variety of innovative and competitive deposit products. Staff training and management oversight continue to be emphasized. New products introduced during 2004 included an adjustable rate certificate of deposit, a high yield savings account, and an improved home equity line of credit. To entice new customers to our facilities and as an additional service to existing customers, free self-service coin counting is now offered at all branches. Service quality is guaranteed to each new account holder, and they also are provided the president's phone number should any problems be encountered that the Bank's staff cannot resolve. The Company also has a formal program where we pay customers for suggestions. We believe our customers are the Bank's most important asset, and proactively solicit their recommendations for service improvements.

Growth, good customer relations and improved performance resulted in increased earnings. For the year ended December 31, 2004, the Company reported net income of $5.1 million, an increase of $1.0 million or 23.8%, compared to net income of $4.1 million for the prior year. The Company reported basic and diluted earnings per share of $1.18 and $1.16 for the year ended December 31, 2004, as compared to $.86 and $.85 for the prior year.

This success was achieved through effective interest rate risk management practices, even though the Company was challenged with a flatting yield curve during 2004, as the Federal Reserve increased federal funds rates while mid- to long-term interest rates remained relatively low, by historical standards. This interest rate environment continued to cause significant prepayments and refinancing of higher yielding loans, and resulted in our re-investment of the proceeds in lower yielding assets, as rates paid on deposits and shorter-term borrowed funds increased.

During 2004, the Company continued to increase the dividend payout on a quarterly basis. Dividends paid during 2004 aggregated $0.42 per share compared to $0.26 per share paid in the prior year.

Stock repurchases continued with 448,300 shares repurchased in 2004, up from the 398,600 acquired during 2003. The board of directors has currently authorized the Company to repurchase up to an additional 126,800 common shares (as of March 11, 2005), and will consider additional repurchases when that authorization is completed, subject to market conditions, our capital level, and other available alternatives.

The Company continues to evaluate alternatives relative to improving future earnings which are inherently tied to changes in interest rate levels, credit quality and economic trends. If the Federal Reserve continues to increase short-term interest rates, the Company's interest expense on deposits is expected to increase at a faster pace than the interest income received on earning assets. This is due to the relatively short maturity of the Company's deposits verses the longer term maturity of the loan portfolio. In this environment, considering the Company's current high capital ratios, the plan is for continued leveraging of assets through loan portfolio growth funded with deposit growth and borrowed funds with terms that provide an acceptable net interest spread.

The Company recently took action based on its evaluation of opportunities to improve the Company's investment portfolio results through tax-advantaged investments. In December, to advance the Bank's "Community Reinvestment Act" position as well as to enhance future after-tax net income, the Bank invested in federal low-income housing tax credits (related to properties located in the Bank's CRA assessment areas) through an equity investment in a California Affordable Housing Fund. The investment will result in low income housing project tax credits over several years. Based upon research, analysis and negotiations performed through much of 2004, in January 2005 the Company also completed a $15.0 million bank-owned life insurance (BOLI) investment.

The market rewarded the combined effects of the Company's improved operating results, stock buy-backs and increased dividends rate with a year-end 2004 closing price of $27.35, up 22.5% from the closing price of $22.35 on December 31, 2003.

As a local community bank with a growing regional and internet presence, our customer base is strong and improving. Looking ahead, we expect to continue to build upon our strengths and translate them into value for our shareholders.

We would also like to thank the Bank's management team and employees for their dedicated efforts to make 2004 a very successful year for the Company.

A. L. Majors
Chairman of the Board

Hans R. Ganz
President and Chief Executive Officer

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 2004

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

For the transition period from ______ to ______

Commission file number 000-49806

FIRST PACTRUST BANCORP, INC.
(Exact name of registrant as specified in its charter)

Maryland **(State or other jurisdiction of incorporation or organization)**	**04-3639825** **(I.R.S. Employer Identification No.)**
610 Bay Boulevard, Chula Vista, California **(Address of Principal Executive Offices)**	**91910** **(Zip Code)**

Registrant's telephone number, including area code: (619) 691-1519

Securities Registered Pursuant to Section 12(b) of the Act:

None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, par value $0.01 per share
(Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 ☐.

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained herein, and no disclosure will 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. ☒

Check whether the Registrant is an accelerated filer. YES ☒. NO ☐.

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock on the Nasdaq System as of June 30, 2004, was $96.7 million. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.) As of March 11, 2005, there were issued and outstanding 5,445,000 shares of the Registrant's Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

PART III of Form 10-K — Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held during April 2005.

FIRST PACTRUST BANCORP, INC. AND SUBSIDIARIES

FORM 10-K

December 31, 2004

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PART I

Item 1. Business

General

First PacTrust Bancorp, Inc. ("the Company") was incorporated under Maryland law in March 2002 to hold all of the stock of Pacific Trust Bank ("the Bank"). Maryland was chosen as the state of incorporation because it provides protections similar to Delaware with respect to takeover, indemnification and limitations on liability, with reduced franchise taxes. First PacTrust Bancorp, Inc. is a savings and loan holding company and is subject to regulation by the Office of Thrift Supervision. First PacTrust Bancorp, Inc. is a unitary thrift holding company, which means that it owns one thrift institution. As a thrift holding company, First PacTrust Bancorp, Inc., activities are limited to banking, securities, insurance and financial services-related activities. See "How We Are Regulated - First PacTrust Bancorp, Inc". First PacTrust Bancorp, Inc. is not an operating company and has no significant assets other than all of the outstanding shares of common stock of Pacific Trust Bank, the net proceeds retained from its initial public offering completed in August 2002, and its loan to the First PacTrust Bancorp, Inc. 401(k) Employee Stock Ownership Plan. First PacTrust Bancorp, Inc. has no significant liabilities. The management of the Company and the Bank is substantially the same. The Company utilizes the support staff and offices of the Bank and pays the Bank for these services. If the Company expands or changes its business in the future, the Company may hire the Company's own employees. Unless the context otherwise requires, all references to the Company include the Bank and the Company on a consolidated basis.

The Company is a community-oriented financial institution offering a variety of financial services to meet the needs of the communities we serve. The Company is headquartered in Chula Vista, California, a suburb of San Diego, California and has nine banking offices primarily serving San Diego and Riverside Counties in California. Our geographic market for loans and deposits is principally San Diego and Riverside counties.

The principal business consists of attracting retail deposits from the general public and investing these funds primarily in permanent loans secured by first mortgages on owner-occupied, one-to four- family residences and a variety of consumer loans. The Company also originates loans secured by multi-family and commercial real estate and, to a limited extent, commercial business loans secured primarily by residential real estate.

The Company offers a variety of deposit accounts having a wide range of interest rates and terms, which generally include savings accounts, money market deposits, certificate accounts and checking accounts. The Company solicits deposits in the Company's market area and, to a lesser extent from financial institutions nationwide, and has accepted brokered deposits.

The principal executive offices of First PacTrust Bancorp, Inc. are located at 610 Bay Boulevard, Chula Vista, California, and its telephone number is (619) 691-1519.

The Company's reports, proxy statements and other information the Company files with the SEC, as well as news releases, are available free of charge through the Company's Internet site at http://www.firstpactrustbancorp.com. This information can be found on the First PacTrust Bancorp, Inc. information page of our Internet site. The annual report on Form 10K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed and furnished pursuant to Section 13(a) of the Exchange Act are available as soon as reasonably practicable after they have been filed with the SEC. Reference to the Company's Internet address is not intended to incorporate any of the information contained on our Internet site into this document.

Lending Activities

General. The Company's mortgage loans carry either a fixed or an adjustable rate of interest. Mortgage loans generally are long-term and amortize on a monthly basis with principal and interest due each month. The Company also has loans in the portfolio which require only interest payments on a monthly basis or may have the potential for negative amortization. At December 31, 2004, our net loan portfolio totaled $628.7 million, which constituted 93.2% of our total assets.

Senior loan officers may approve loans to one borrower or group of related borrowers up to $1.0 million. The Executive Vice President of Lending may approve loans to one borrower or group of related borrowers up to $1.5 million. The President/CEO may approve loans to one borrower or group of related borrowers up to $2.0 million. The Management Loan Committee may approve loans to one borrower or group of related borrowers up to $8.0 million with no single loan exceeding $3.5 million. The Board Loan Committee must approve loans over these amounts or outside our general loan policy.

At December 31, 2004, the maximum amount, which the Company could have loaned to any one borrower and the borrower's related entities, was approximately $11.1 million. The largest lending relationship to a single borrower or a group of related borrowers consisted of fifteen loans to a local investor totaling approximately $10.2 million at December 31, 2004. These loans are secured by one- to four-family, multi-family, and commercial real estate properties located in San Diego County, California. These loans were current as of December 31, 2004.

The following table presents information concerning the composition of the Company's loan portfolio in dollar amounts and in percentages as of the dates indicated.

	December 31,									
	2004		2003		2002		2001		2000	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in Thousands)									
Real Estate										
One- to four-family	$517,564	81.90%	$496,253	84.07%	$330,579	81.41%	$185,391	71.61%	$147,472	62.40%
Commercial and multi-family	96,655	15.29	75,386	12.77	56,471	13.91	47,353	18.29	56,895	24.08
Construction	126	0.02	2,229	0.38	107	0.03	2,521	0.97	—	—
Total real estate loans	614,345	97.21	573,868	97.22	387,157	95.35	235,265	90.87	204,367	86.48
Other loans										
Consumer:										
Automobile	1,274	0.20	2,202	0.37	3,748	0.92	6,394	2.47	10,228	4.33
Home equity	12,905	2.04	10,738	1.82	11,219	2.76	12,563	4.85	15,867	6.71
Other	2,746	0.44	2,706	0.46	3,547	0.87	4,364	1.69	5,686	2.41
Commercial	681	0.11	752	0.13	415	0.10	303	0.12	174	0.07
Total other loans	17,606	2.79	16,398	2.78	18,929	4.65	23,624	9.13	31,955	13.52
Total loans	631,951	100.00	590,266	100.00	406,086	100.00	258,889	100.00	236,322	100.00
Net deferred loan origination (fees) costs	1,203		1,217		599		69		(322)	
Allowance for loan losses	(4,430)		(4,232)		(2,953)		(1,742)		(1,699)	
Total loans receivable, net	$628,724		$587,251		$403,732		$257,216		$234,301	

The following table shows the composition of the Company's loan portfolio by fixed- and adjustable-rate at the dates indicated.

	December 31,									
	2004		2003		2002		2001		2000	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
					(Dollars in Thousands)					
FIXED-RATE LOANS										
Real Estate										
One- to four-family	$14,762	2.34%	$54,339	9.20%	$81,191	19.99%	$19,387	7.49%	$17,131	7.25%
Commercial and multi- family	33,684	5.33	3,884	0.66	6,369	1.57	4,288	1.66	5,079	2.15
Construction	—	—	—	—	—	—	—	—	—	—
Total real estate loans	48,446	7.67	58,223	9.86	87,560	21.56	23,675	9.15	22,210	9.40
Other loans										
Consumer:										
Automobile	1,003	0.16	1,727	0.29	3,189	0.79	5,540	2.14	9,165	3.88
Home equity	—	—	—	—	—	—	—	—	1,903	0.81
Other	401	0.06	725	0.12	2,207	0.54	3,253	1.26	2,301	0.97
Commercial	87	0.01	192	0.03	13	0.01	36	0.01	29	0.01
Total other loans	1,491	0.23	2,644	0.44	5,409	1.33	8,829	3.41	13,398	5.67
Total fixed-rate loans	49,937	7.90	60,867	10.31	92,969	22.90	32,504	12.56	35,608	15.07
ADJUSTABLE- RATE										
Real Estate										
One- to four-family	502,802	79.56	441,914	74.87	249,388	61.41	166,004	64.12	130,341	55.15
Commercial and multi- family	62,971	9.97	71,502	12.11	50,102	12.31	43,065	16.64	51,816	21.93
Construction	126	0.02	2,229	0.38	107	0.03	2,521	0.97	—	—
Total real estate loans	565,899	89.55	515,645	87.36	299,597	73.75	211,590	81.73	182,157	77.08
Other loans										
Consumer:										
Automobile	273	0.04	475	0.08	559	0.15	854	0.33	1,063	0.45
Home equity	12,905	2.04	10,738	1.82	11,219	2.77	12,563	4.85	13,964	5.91
Other	2,345	0.37	1,981	0.34	1,340	0.34	1,111	0.43	3,385	1.43
Commercial	594	0.10	560	0.09	402	0.09	267	0.10	145	0.06
Total other loans	16,117	2.55	13,754	2.34	13,520	3.35	14,795	5.71	18,557	7.85
Total adjustable-rate loans	582,014	92.10	529,399	89.70	313,117	77.10	226,385	87.44	200,714	84.93
Total loans	631,951	100.00%	590,266	100.00%	406,086	100.00%	258,889	100.00%	236,322	100.00%
Net deferred loan origination (fees) costs	1,203		1,217		599		69		(322)	
Allowance for loan losses	(4,430)		(4,232)		(2,953)		(1,742)		(1,699)	
Total loans receivable, net	$628,724		$587,251		$403,732		$257,216		$234,301	

The following schedule illustrates the contractual maturity of the Company's loan portfolio at December 31, 2004. The schedule does not reflect the effects of possible prepayments or enforcement of due-on-sale clauses.

	Real Estate											
	One- to Four-Family		Multi-family and Commercial		Construction[1]		Consumer		Commercial Business		Total	
Due During Years Ending December 31,	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)											
2005[2]	$15,825	4.57%	$13,783	5.02%	$126	6.00%	$5,776	5.89%	$595	6.52%	$36,105	4.99%
2006	1,388	5.16	13,629	5.11	—	—	495	6.81	21	4.40	15,533	5.17
2007 and 2008	12,088	5.09	4,219	5.58	—	—	1,101	6.46	—	—	17,408	5.30
2009 to 2013	12,597	5.37	15,225	6.50	—	—	7,073	5.13	65	7.20	34,960	5.82
2014 to 2028	33,402	4.77	11,868	6.52	—	—	1,796	5.43	—	—	47,066	5.23
2029 and following	442,264	4.77	37,931	5.94	—	—	684	13.96	—	—	480,879	4.87
Total	$517,564	4.78%	$96,655	5.83%	$126	6.00%	$16,925	5.92%	$681	6.52%	$631,951	4.98%

(1) Once the construction phase has been completed these loans will automatically convert to permanent financing.
(2) Includes demand loans, loans having no stated maturity and overdraft loans.

The following schedule illustrates the contractual maturity of the Company's loan portfolio at December 31, 2004. Loans which have adjustable or renegotiable interest rates are shown as maturing in the period during which the loan reprices. The schedule does not reflect the effects of possible prepayments or enforcement of due-on-sale clauses.

	Real Estate											
	One- to Four-Family		Multi-family and Commercial		Construction[1]		Consumer		Commercial Business		Total	
Due During Years Ending December 31,	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in Thousands)											
2005[2]	$135,067	4.25%	$31,362	5.58%	$126	6.00%	$15,112	5.37%	$681	6.52%	$182,348	4.58%
2006	53,651	4.47	22,030	5.34	—	—	266	8.84	—	—	75,947	4.74
2007 and 2008	212,560	4.96	33,690	6.35	—	—	583	8.02	—	—	246,833	5.15
2009 to 2013	99,984	5.18	9,573	6.01	—	—	328	8.91	—	—	109,885	5.26
2014 to 2028	16,302	5.58	—	—	—	—	—	—	—	—	16,302	5.58
2029 and following	—	—	—	—	—	—	636	14.28	—	—	636	14.28
Total	$517,564	4.78%	$96,655	5.83%	$126	6.00%	$16,925	5.92%	$681	6.52%	$631,951	4.98%

(1) Once the construction phase has been completed these loans will automatically convert to permanent financing.
(2) Includes demand loans, loans having no stated maturity and overdraft loans.

The total amount of loans due after December 31, 2005 which have predetermined interest rates is $34.3 million, while the total amount of loans due after such date which have floating or adjustable interest rates is $561.5 million.

One- to Four-Family Residential Real Estate Lending. The Company focuses lending efforts primarily on the origination of loans secured by first mortgages on owner-occupied, one- to four-family residences in San Diego and Riverside counties, California. At December 31, 2004, one- to four-family residential mortgage loans totaled $517.6 million, or 81.9% of our gross loan portfolio.

The Company generally underwrites our one- to four-family loans based on the applicant's income and credit history and the appraised value of the subject property. Presently, the Company lends up to 90% of the lesser of the appraised value or purchase price for one- to four-family residential loans. For loans with a loan-to-value ratio in excess of 80%, the Company generally requires private mortgage insurance in order to reduce our exposure below 80% or alternatively, a higher interest rate is charged. Properties securing our one- to four-family loans are appraised by independent fee appraisers approved by the Management Loan Committee. Generally, the Company requires borrowers to obtain title insurance, hazard insurance, and flood insurance, if necessary.

The Company currently originates one- to four-family mortgage loans on either a fixed- or adjustable-rate basis, as consumer demand dictates. The Company's pricing strategy for mortgage loans includes setting interest rates that are competitive with other local financial institutions.

Adjustable-rate mortgage, or "ARM" loans, are offered with flexible initial and periodic repricing dates, ranging from one month to seven years through the life of the loan. The Company uses a variety of indices to reprice our ARM loans. During the year ended December 31, 2004, the Company originated $181.1 million of one- to four-family ARM loans and $13.5 million of one- to four-family fixed-rate mortgage loans.

One- to four-family loans may be assumable, subject to the Company's approval, and may contain prepayment penalties. Most ARM loans are written using generally accepted underwriting guidelines. Due mainly, however, to the generally large loan size, these loans may not be readily saleable to Freddie Mac or Fannie Mae, but are saleable to other private investors. The Company's real estate loans generally contain a "due on sale" clause allowing us to declare the unpaid principal balance due and payable upon the sale of the security property.

The Company also offers ARM loans which may provide for negative amortization of the principal balance. These loans have monthly interest rate adjustments after the specified introductory rate term, and annual maximum payment adjustments of 7 1/2% during the first five years of the loan. The principal balance on these loans may increase up to 110% of the original loan amount as a result of the payments not being sufficient to cover the interest due during the first five years of the loan term. These loans adjust to fully amortize after five years through contractual maturity, with up to a 30-year term.

In order to remain competitive in our market areas, the Company may originate ARM loans at initial rates below the fully indexed rate. The Company's ARM loans generally provide for specified minimum and maximum interest rates, with a lifetime cap and floor, and a periodic adjustment on the interest rate over the rate in effect on the date of origination. As a consequence of using caps, the interest rates on these loans may not be as rate sensitive as is our cost of funds.

ARM loans generally pose different credit risks than fixed-rate loans, primarily because as interest rates rise, the borrower's payment rises, increasing the potential for default. The Company has not experienced significant delinquencies in these loans. However, the majority of these loans have been originated within the past three years. See "- Asset Quality — Non-performing Assets" and "— Classified Assets." At December 31, 2004, the Company's one- to four-family ARM loan portfolio totaled $502.8 million, or 79.6% of our gross loan portfolio. At that date, the fixed-rate one-to four-family mortgage loan portfolio totaled $14.8 million, or 2.3% of the Company's gross loan portfolio.

In addition, the Bank currently offers interest only loans and expects originations of these loans to substantially increase.

Fixed-rate loans secured by one- to four-family residences have contractual maturities of up to 30 years, and are generally fully amortizing, with payments due monthly.

Commercial and Multi-Family Real Estate Lending. The Company offers a variety of multi-family and commercial real estate loans. These loans are secured primarily by multi-family dwellings, and a limited amount of small retail establishments, hotels, motels, warehouses, and small office buildings located in our market area. At December 31, 2004, multi-family and commercial real estate loans totaled $96.7 million or 15.3% of the Company's gross loan portfolio.

The Company's loans secured by multi-family and commercial real estate are originated with either a fixed or adjustable interest rate. The interest rate on adjustable-rate loans is based on a variety of indices, generally determined through negotiation with the borrower. Loan-to-value ratios on multi-family real estate loans typically do not exceed 75% of the appraised value of the property securing the loan. These loans typically require monthly payments, may contain balloon payments and have maximum maturities of 30 years. Loan-to-value ratios on commercial real estate loans typically do not exceed 70% of the appraised value of the property securing the loan and have maximum maturities of 25 years.

Loans secured by multi-family and commercial real estate are underwritten based on the income producing potential of the property and the financial strength of the borrower. The net operating income, which is the income derived from the operation of the property less all operating expenses, must be sufficient to cover the payments related to the outstanding debt. The Company generally does not require personal guarantees of the borrowers. The Company generally requires an assignment of rents or leases in order to be assured that the cash flow from the project will be used to repay the debt. Appraisals on properties securing multi-family and commercial real estate loans are performed by independent state licensed fee appraisers approved by the Management Loan Committee. See "- Loan Originations, Purchases, Sales and Repayments."

The Company generally maintains a tax or insurance escrow account for loans secured by multi-family and commercial real estate. In order to monitor the adequacy of cash flows on income-producing properties, the borrower may be requested or required to provide periodic financial information.

Loans secured by multi-family and commercial real estate properties generally involve a greater degree of credit risk than one- to four-family residential mortgage loans. These loans typically involve large balances to single borrowers or groups of related borrowers. The largest multi-family or commercial real estate loan at December 31, 2004 was secured by property located in San Diego County with a principal balance of $4.5 million. At December 31, 2004, this loan was fully performing.

Because payments on loans secured by multi-family and commercial real estate properties are often dependent on the successful operation or management of the properties, repayment of these loans may be subject to adverse conditions in the real estate market or the economy. If the cash flow from the project is reduced, or if leases are not obtained or renewed, the borrower's ability to repay the loan may be impaired. See "- Asset Quality — Non-performing Loans."

Construction Lending. The Company has not historically originated a significant amount of construction loans. From time to time the Company does, however, purchase participations in real estate construction loans. In addition, the Company may in the future originate or purchase loans or participations in construction. At December 31, 2004, the Company had $126,000 in construction loans outstanding, representing less than .1% of our gross loan portfolio. The Company had a commitment to fund an additional $2.1 million of construction loans at December 31, 2004.

Consumer and Other Lending. Consumer loans generally have shorter terms to maturity, which reduces our exposure to changes in interest rates, and carry higher rates of interest than do one- to four-family residential mortgage loans. In addition, management believes that offering consumer loan products helps to expand and create stronger ties to the Company's existing customer base by increasing the number of customer relationships and providing cross-marketing opportunities. At December 31, 2004, the Company's consumer and other loan portfolio totaled $17.6 million, or 2.8% of our gross loan portfolio. The Company offers a variety of secured consumer loans, including home equity lines of credit, new and used auto loans, boat and recreational vehicle loans, and loans secured by savings deposits. The Company also offers a limited amount of unsecured loans. The Company originates consumer and other loans primarily in its market area.

The Company's home equity lines of credit totaled $12.9 million, and comprised 2.0% of our gross loan portfolio at December 31, 2004. These loans may be originated in amounts, together with the amount of the existing first mortgage, of up to 90% of the value of the property securing the loan. Home equity lines of credit have a seven or ten year draw period and require the payment of 1.0% or 1.5% of the outstanding loan balance per month (depending on the terms) during the draw period, which amount may be re-borrowed at any time during the draw period. Home equity lines of credit with a 10 year draw period have a balloon payment due at the end of the draw period. Once the draw period has lapsed, generally the payment is fixed based on the loan balance at that time. At December 31, 2004, unfunded commitments on these lines of credit totaled $22.8 million. Other consumer loan terms vary according to the type of collateral, length of contract and creditworthiness of the borrower.

Auto loans totaled $1.3 million at December 31, 2004, or .2% of our gross loan portfolio. Auto loans may be written for up to six years and usually have fixed rates of interest. Loan-to-value ratios are up to 100% of the sales price for new autos and 100% of retail value on used autos, based on valuation from official used car guides.

Loans for recreational vehicles, including boats and planes, totaled $396,000 at December 31, 2004, or approximately .1% of our gross loan portfolio. The Company will finance up to 100% of the purchase price for a new recreational vehicle and 100% of the value for a used recreational vehicle, based on the applicable official used recreational vehicle guides. The term to maturity for these types of loans is up to 10 years for recreational vehicles. These loans are generally written with fixed rates of interest.

Consumer and other loans may entail greater risk than do one- to four-family residential mortgage loans, particularly in the case of consumer loans which are secured by rapidly depreciable assets, such as automobiles and recreational vehicles. In these cases, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance. As a result, consumer loan collections are dependent on the borrower's continuing financial stability and, thus, are more likely to be adversely affected by job loss, divorce, illness, or personal bankruptcy.

At December 31, 2004, commercial business loans totaled $681,000 or .1% of the gross loan portfolio. The Company's commercial business lending policy includes credit file documentation and analysis of the borrower's background, capacity to repay the loan, the adequacy of the borrower's capital and collateral as well as an evaluation of other conditions affecting the borrower. Analysis of the borrower's past, present and future cash flows is also an important aspect of our credit analysis. The Company may obtain personal guarantees on our commercial business loans. Nonetheless, these loans are believed to carry higher credit risk than more traditional single-family loans.

Unlike residential mortgage loans, commercial business loans are typically made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself (which, in turn, is often dependent in part upon general economic conditions). Our commercial business loans are usually, but not always, secured by business assets. However, the collateral securing the loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Loan Originations, Purchases, Sales, Repayments, and Servicing

The Company originates real estate secured loans primarily through mortgage brokers and banking relationships. By originating most of our loans through brokers, the Company is better able to control overhead costs and efficiently utilize management resources. The Company is a portfolio lender of products not readily saleable to Fannie Mae and Freddie Mac, although they are saleable to private investors.

The Company also originates consumer and real estate loans on a direct basis through our marketing efforts, and our existing and walk-in customers. While the Company originates both adjustable-rate and fixed-rate loans, the ability to originate loans is dependent upon customer demand for loans in our market areas. Demand is affected by competition and the interest rate environment. During the last few years, the Company has significantly increased our origination of ARM loans. The Company sells most of the fixed-rate, one- to four-family residential loans the Company originates with maturity dates greater than 15 years. Although there have been no sales in the past two years. The Company has also purchased ARM loans secured by one-to- four family residences and participations in commercial real estate loans. Loans and participations purchased must conform to the Company's underwriting guidelines or guidelines acceptable to the management loan committee. Furthermore, during the past few years, the Company, like many other financial institutions, has experienced significant prepayments on loans due to the low interest rate environment prevailing in the United States. In periods of economic uncertainty, the ability of financial institutions to originate or purchase large dollar volumes of real estate loans may be substantially reduced or restricted, with a resultant decrease in interest income.

The following table shows our loan origination, purchase, sale, and repayment activities for the periods indicated.

	Year Ended December 31,		
	2004	2003	2002
		(In thousands)	
Originations by type:			
Adjustable rate:			
Real estate - one- to four-family	$ 181,148	$ 284,145	$ 196,945
- multi-family and commercial	25,475	33,097	24,273
- construction or development	7,664	2,122	—
Non-real estate- consumer	14,238	4,097	3,860
- commercial business	4,335	2,743	1,526
Total adjustable-rate	232,860	326,204	226,604
Fixed rate:			
Real estate - one - to four-family	13,461	38,036	36,903
- multi-family and commercial	26,340	—	—
Non-real estate - consumer	946	1,688	1,504
- commercial business	—	—	—
Total fixed-rate	40,747	39,724	38,407
Total loans originated	273,607	365,928	265,011
Purchases:			
Real estate - one- to four-family	—	68	19,403
- multi-family and commercial	544	—	—
- construction or development	—	—	586
Non-real estate - consumer	—	—	—
- commercial business	—	—	—
Total loans purchased	544	68	19,989
Sales and Repayments:			
Sales and loan participations sold	—	—	—
Principal repayments	(232,466)	(181,489)	(137,274)
Total reductions	(232,466)	(181,489)	(137,274)
Increase (decrease) in other items, net	(212)	(988)	(1,210)
Net increase	$ 41,473	$ 183,519	$ 146,516

Asset Quality

Real estate loans are serviced in house in accordance with secondary market guidelines. When a borrower fails to make a payment on a mortgage loan on or before the default date, a late charge notice is mailed 16 days after the due date. All delinquent accounts are reviewed by a collector, who attempts to cure the delinquency by contacting the borrower once the loan is 30 days past due. If the loan becomes 60 days delinquent, the collector will generally contact by phone or send a personal letter to the borrower in order to identify the reason for the delinquency. Once the loan becomes 90 days delinquent, contact with the borrower is made requesting payment of the delinquent amount in full, or the establishment of an acceptable repayment plan to bring the loan current. When a loan is between 100 and 120 days delinquent, a drive-by inspection is made. If the account becomes 120 days delinquent, and an acceptable repayment plan has not been agreed upon, a collection officer will generally initiate foreclosure or refer the account to the Company's counsel to initiate foreclosure proceedings.

For consumer loans a similar process is followed, with the initial written contact being made once the loan is 16 days past due. Follow-up contacts are generally on an accelerated basis compared to the mortgage loan procedure.

Delinquent Loans. The following table sets forth our loan delinquencies by type, number, and amount at December 31, 2004.

	Loans Delinquent For:				Total	
	60-89 Days		90 Days or More		Loans Delinquent 60 days or more	
	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans	Number of Loans	Principal Balance of Loans
	(Dollars in thousands)					
One- to four-family	5	$ 1,917	—	$ —	5	$ 1,917
Home equity	1	29	—	—	1	29
Construction	—	—	—	—	—	—
Commercial	—	—	—	—	—	—
Consumer	9	40	1	4	10	44
	15	$ 1,986	1	$ 4	16	$ 1,990
Delinquent loans to total gross loans		0.31%		0%		0.31%

Non-performing Assets. The table below sets forth the amounts and categories of non-performing assets in our loan portfolio. Loans are placed on non-accrual status when the loan becomes more than 90 days delinquent. At all dates presented, we had no troubled debt restructurings which involve forgiving a portion of interest or principal on any loans or making loans at a rate materially less than that of market rates. Foreclosed assets owned include assets acquired in settlement of loans.

	December 31,				
	2004	2003	2002	2001	2000
	(Dollars in Thousands)				
Nonaccrual loans:					
One- to four-family	$ —	$ —	$ —	$ —	$ 66
Multi-family	—	—	—	—	—
Construction	—	—	—	—	—
Commercial	—	—	—	—	—
Consumer	4	1	5	10	10
Total	4	1	5	10	76
Accruing loans delinquent more than 90 days:					
One- to four-family	—	—	—	—	—
Multi-family	—	—	—	—	—
Construction	—	—	—	—	—
Commercial	—	—	—	—	—
Consumer	—	—	—	—	—
Total	—	—	—	—	—
Non-performing loans	4	1	5	10	76
Foreclosed Assets	—	—	—	—	—
Total non-performing assets	$ 4	$ 1	$ 5	$ 10	$ 76
Non-performing loans to total loans	— %	— %	— %	— %	0.03%
Non-performing assets to total assets	— %	— %	— %	— %	0.03%

Other Loans of Concern. At December 31, 2004, loans of concern totaled $5.9 million, which primarily consisted of one residential loan totaling $3.2 million that was current as of December 31, 2004.

Classified Assets. Federal regulations provide for the classification of loans and other assets, such as debt and equity securities considered by the Office of Thrift Supervision to be of lesser quality, as "substandard," "doubtful" or "loss." An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

When an insured institution classifies problem assets as either substandard or doubtful, it may establish general allowances for loan losses in an amount deemed prudent by management and approved by the board of directors. General allowances represent loss allowances which have been established to recognize the inherent risk associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as "loss," it is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge off such amount. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the Office of Thrift Supervision and the FDIC, which may order the establishment of additional general or specific loss allowances.

In connection with the filing of our periodic reports with the Office of Thrift Supervision and in accordance with our classification of assets policy, we regularly review the problem assets in our portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of management's review of assets, at December 31, 2004, the Company had classified $5.9 million of our assets as substandard, $0 as doubtful and $0 as loss. The total amount classified represented 7.4% of our equity capital and .9% of our assets at December 31, 2004.

Provision for Loan Losses. The Company recorded a provision for loan losses for the year ended December 31, 2004 of $238,000, compared to $1.3 million for the year ended December 31, 2003. The provision for loan losses is charged to income to adjust our allowance for loan losses to reflect probable losses presently inherent in our loan portfolio based on the factors discussed below under "Allowance for Loan Losses." The provision for loan losses for the year ended December 31, 2004 was based on management's review of such factors which indicated that the allowance for loan losses reflected probable losses presently inherent in the loan portfolio as of the year ended December 31, 2004.

Allowance for Loan Losses. The Company maintains an allowance for loan losses to absorb probable incurred losses in the loan portfolio. The allowance is based on ongoing, quarterly assessments of the estimated probable losses presently inherent in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers the types of loans and the amount of loans in the loan portfolio, peer group information, historical loss experience, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. Large groups of smaller balance homogeneous loans, such as residential real estate, small commercial real estate, home equity and consumer loans, are evaluated in the aggregate using historical loss factors and peer group data adjusted for current economic conditions. Geographic peer group data is obtained by general loan type and adjusted to reflect known differences between peers and the Company, including loan seasoning, underwriting experience, local economic conditions and customer characteristics. More complex loans, such as multi-family commercial real estate loans, are evaluated individually for impairment, primarily through the evaluation of collateral values and cash flows.

At December 31, 2004, our allowance for loan losses was $4.4 million or .70% of the total loan portfolio. Assessing the allowance for loan losses is inherently subjective as it requires making material estimates, including the amount and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. In the opinion of management, the allowance, when taken as a whole, reflects estimated probable loan losses presently inherent in our loan portfolios.

The following table sets forth an analysis of our allowance for loan losses.

	Year Ended December 31,				
	2004	2003	2002	2001	2000
	(Dollars in Thousands)				
Balance at beginning of period	$ 4,232	$ 2,953	$ 1,742	$ 1,699	$ 1,296
Charge-offs					
One- to four-family	—	—	—	(54)	—
Multi-family	—	—	—	—	—
Construction	—	—	—	—	—
Commercial	—	—	—	—	—
Consumer	(98)	(56)	(67)	(128)	(182)
	(98)	(56)	(67)	(182)	(182)
Recoveries					
One- to four-family	—	—	28	61	7
Multi-family	—	—	—	—	—
Construction	—	—	—	—	—
Commercial	—	—	—	—	—
Consumer	58	63	140	96	134
	58	63	168	157	141
Net (charge-offs) recoveries	(40)	7	102	(25)	(41)
Provision for loan losses	238	1,272	1,109	68	444
Balance at end of period	$ 4,430	$ 4,232	$ 2,953	$ 1,742	$ 1,699
Net charge-offs to average loans during this period	— %	— %	— %	0.13%	0.17%
Net charge-offs to average non-performing loans during this period	— %	— %	190.60%	58.14%	30.15%
Allowance for loan losses to non-performing loans	110,750.00%	423,200.00%	59,060.00%	17,420.00%	2,235.53%
Allowance as a % of total loans (end of period)	0.70%	0.72%	0.74%	0.67%	0.72%

The distribution of our allowance for loan losses at the dates indicated is summarized as follows:

	2004			2003			2002			2001			2000		
	Amount	Percent of Allowance to Total Allowance	Percent of Gross Loans in Each Category to Total Gross Loans	Amount	Percent of Allowance to Total Allowance	Percent of Gross Loans in Each Category to Total Gross Loans	Amount	Percent of Allowance to Total Allowance	Percent of Gross Loans in Each Category to Total Gross Loans	Amount	Percent of Allowance to Total Allowance	Percent of Gross Loans in Each Category to Total Gross Loans	Amount	Percent of Allowance to Total Allowance	Percent of Gross Loans in Each Category to Total Gross Loans
	(Dollars in Thousands)														
Secured by residential real estate	$3,623	81.78%	81.90%	$3,474	82.09%	84.07%	$2,314	78.36%	81.41%	$964	55.34%	71.61%	$767	45.15%	62.40%
Secured by commercial real estate	578	13.05	15.29	450	10.63	12.77	321	10.87	13.91	152	8.73	18.29	182	10.71	24.08
Construction	1	.02	.02	12	0.28	0.38	—	—	0.03	8	0.46	0.97	—	—	—
Consumer	217	4.90	2.68	279	6.59	2.65	312	10.57	4.55	469	26.92	9.01	620	36.49	13.45
Commercial	11	.25	.11	17	0.41	0.13	6	0.20	0.10	1	0.05	0.12	—	—	0.07
Unallocated	—	—	—	—	—	—	—	—	—	148	8.50	—	130	7.65	—
Total Allowance for Loan Losses	$4,430	100.00%	100.00%	$4,232	100.00%	100.00%	$2,953	100.00%	100.00%	$1,742	100.00%	100.00%	$1,699	100.00%	100.00%

Investment Activities

Federally chartered savings institutions have the authority to invest in various types of liquid assets, including United States Treasury obligations, securities of various federal agencies, including callable agency securities, certain certificates of deposit of insured banks and savings institutions, certain bankers' acceptances, repurchase agreements, and federal funds. Subject to various restrictions, federally chartered savings institutions may also invest their assets in investment grade commercial paper and corporate debt securities and mutual funds whose assets conform to the investments that a federally chartered savings institution is otherwise authorized to make directly. See "How We Are Regulated - Pacific Trust Bank" and "- Qualified Thrift Lender Test" for a discussion of additional restrictions on our investment activities.

Our Treasurer has the basic responsibility for the management of the investment portfolio, subject to the direction and guidance of the investment committee. The Treasurer considers various factors when making decisions, including the marketability, maturity, and tax consequences of the proposed investment. The maturity structure of investments will be affected by various market conditions, including the current and anticipated slope of the yield curve, the level of interest rates, the trend of new deposit inflows, and the anticipated demand for funds via deposit withdrawals and loan originations and purchases.

The general objectives of our investment portfolio are to provide liquidity when loan demand is high, to assist in maintaining earnings when loan demand is low and to maximize earnings while satisfactorily managing risk, including credit risk, reinvestment risk, liquidity risk and interest rate risk. See Item 7A "- Quantitative and Qualitative Disclosures About Market Risk."

The Company's investment securities currently consist of callable agency debt issues and structured mortgage-related securities issued by Fannie Mae, Ginnie Mae and Freddie Mac (also referred to as REMICs or CMOs). CMOs are securities derived by reallocating the cash flows from mortgage-backed securities or pools of mortgage loans in order to create multiple classes, or tranches, of securities with coupon rates and average lives that differ from the underlying collateral as a whole. The term to maturity of any particular tranche is dependent upon the prepayment speed of the underlying collateral as well as the structure of the particular CMO. As a result of these factors, the estimated average lives of the CMOs may be shorter than the contractual maturities as shown on the table below. Although CMO tranches have been structured (through the use of cash flow priority and "support" tranches) to give somewhat more predictable cash flows, the actual future cash flow and hence the value of CMOs are subject to change.

The Company frequently may invest in CMOs as an alternative to mortgage loans and conventional mortgage-backed securities as part of our asset/liability management strategy. Management believes that CMOs represent attractive investment alternatives relative to other investments due to the wide variety of maturity and repayment options available through such investments. In particular, the Company has from time to time concluded that short and intermediate duration CMOs (with an expected average life of five years or less) represent a better combination of rate and duration than adjustable rate mortgage-backed securities. All of the Company's negotiable securities, including CMOs, are held as "available for sale.

The following table sets forth the composition of our securities portfolio and other investments at the dates indicated. Our securities portfolio at December 31, 2004, did not contain securities of any issuer with an aggregate book value in excess of 10% of our equity capital, excluding those issued by the United States Government or its agencies.

	December 31,					
	2004		2003		2002	
	Carrying Value	% of Total	Carrying Value	% of Total	Carrying Value	% of Total
	(Dollars in Thousands)					
Securities Available for Sale:						
U.S. government and federal agencies	$ 9,921	99.02%	$ 5,104	79.52%	$ 5,236	27.95%
Collateralized mortgage obligations:						
Fannie Mae	10	0.10%	1,284	20.00%	7,180	38.33%
Ginnie Mae	2	0.02%	2	0.03%	2	0.01%
Freddie Mac	—	—	—	—	6,315	33.71%
Marketable equity securities	86	0.86%	29	0.45%	—	—
Total	$ 10,019	100.00%	$ 6,419	100.00%	$ 18,733	100.00%
Average remaining life of securities	4.9 years		2.0 years		.8 years	
Other interest earning assets:						
Interest-earning deposits with banks	8,352	49.69%	4,260	31.18%	3,413	38.90%
Federal funds sold	670	3.99%	1,110	8.12%	855	9.75%
FHLB stock	7,784	46.32%	8,293	60.70%	4,505	51.35%
	$ 16,806	100.00%	$ 13,663	100.00%	$ 8,773	100.00%

The composition and maturities of the securities portfolio, excluding Federal Home Loan Bank stock as of December 31, 2004 are indicated in the following table.

	December 31, 2004					
	One Year or Less	One to Five Years	Five to 10 Years	Over 10 Years	Total Securities	
	Amortized Cost	Amortized Cost	Amortized Cost	Amortized Cost	Amortized Cost	Fair Value
	(Dollars in Thousands)					
Agency Securities FHLB Note	$ —	$ 9,953	$ —	$ —	$ 9,953	$ 9,921
Collateralized mortgage obligations	$ —	$ 12	$ —	$ —	$ 12	$ 12
Total investment securities	$ —	$ 9,965	$ —	$ —	$ 9,965	$ 9,933
Weighted average yield	0%	4.11%	0%	0%		

Sources of Funds

General. The Company's sources of funds are deposits, borrowings, payment of principal and interest on loans, interest earned on or maturation of other investment securities and funds provided from operations.

Deposits. The Company offers a variety of deposit accounts to both consumers and businesses having a wide range of interest rates and terms. The Company's deposits consist of savings accounts, money market deposit accounts, NOW and demand accounts and certificates of deposit. The Company solicits deposits primarily in our market area and from financial institutions. The Company has also accepted brokered deposits and held $12.0 million of brokered certificates of deposit at December 31, 2004. The Company primarily relies on competitive pricing policies, marketing and customer service to attract and retain these deposits.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and prevailing interest rates and competition. The variety of deposit accounts the Company offers has allowed the Company to be competitive in obtaining funds and to respond with flexibility to changes in consumer demand. The Company has become more susceptible to short-term fluctuations in deposit flows, as customers have become more interest rate conscious. The Company tries to manage the pricing of our deposits in keeping with our asset/liability management, liquidity and profitability objectives, subject to competitive factors. Based on our experience, the Company believes that our deposits are relatively stable sources of funds. Despite this stability, the Company's ability to attract and maintain these deposits and the rates paid on them has been and will continue to be significantly affected by market conditions.

The following table sets forth our deposit flows during the periods indicated.

	Year Ended December 31,		
	2004	2003	2002
	(Dollars in thousands)		
Opening balance	$ 389,925	$ 279,714	$ 251,954
Deposits net of withdrawals	55,810	104,196	21,046
Interest credited	7,846	6,015	6,714
Ending balance	$ 453,581	$ 389,925	$ 279,714
Net increase	$ 63,656	$ 110,211	$ 27,760
Percent increase	16.33%	39.40%	11.02%

The following table sets forth the dollar amount of savings deposits in the various types of deposit programs we offered at the dates indicated.

	December 31,					
	2004		2003		2002	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)					
Noninterest-bearing demand	$ 15,561	3.43%	$ 12,327	3.16%	$ 6,389	2.28%
Savings	63,258	13.94	52,843	13.55	47,970	17.15
NOW	69,992	15.43	55,838	14.32	25,534	9.13
Money market	75,641	16.68	65,541	16.81	62,653	22.40
Certificates of deposit						
0.00% - 2.99%	151,807	33.47	163,236	41.86	80,098	28.64
3.00% - 3.99%	60,442	13.33	22,411	5.75	29,088	10.40
4.00% - 4.99%	9,568	2.11	9,992	2.56	14,052	5.02
5.00% - 5.99%	5,711	1.26	5,636	1.45	10,075	3.60
6.00% - 6.99%	1,291	0.28	1,812	0.47	3,585	1.28
7.00% - 7.99%	310	0.07	289	0.07	270	0.10
Total Certificates of Deposit	$ 229,129	50.52	$ 203,376	52.16	137,168	49.04
	$ 453,581	100.00%	$ 389,925	100.00%	$ 279,714	100.00%

The following table indicates the amount of the Company's certificates of deposit and other deposits by time remaining until maturity as of December 31, 2004.

	2005	2006	2007	2008	2009	Total
0.00% - 2.99%	$ 120,434	$ 22,143	$ 9,145	$ 85	—	$ 151,807
3.00% - 3.99%	1,906	6,256	40,364	6,871	5,045	60,442
4.00% - 4.99%	2,252	1,474	3,313	578	1,951	9,568
5.00% - 5.99%	1,412	832	3,467	—	—	5,711
6.00% - 6.99%	1,291	—	—	—	—	1,291
7.00% - 7.99%	310	—	—	—	—	310
	$ 127,605	$ 30,705	$ 56,289	$ 7,534	$ 6,996	$ 229,129
$100,000 and over	$ 41,294	$ 11,254	$ 22,041	$ 3,536	$ 4,684	$ 82,809
Below $100,000	86,311	19,451	34,248	3,998	2,312	146,320
Total	$ 127,605	$ 30,705	$ 56,289	$ 7,534	$ 6,996	$ 229,129

Borrowings. Although deposits are our primary source of funds, the Company may utilize borrowings when they are a less costly source of funds and can be invested at a positive interest rate spread, when the Company desires additional capacity to fund loan demand or when they meet our asset/liability management goals. The Company's borrowings historically have consisted of advances from the Federal Home Loan Bank of San Francisco.

The Company may obtain advances from the Federal Home Loan Bank of San Francisco upon the security of certain of the Company's mortgage loans and mortgage-backed and other securities. These advances may be made pursuant to several different credit programs, each of which has its own interest rate, range of maturities and call features. At December 31, 2004, the Company had $135.5 million in Federal Home Loan Bank advances outstanding and the ability to borrow an additional $124.8 million. See also Note 7 (Item 8) containing the Company's consolidated financial statements for additional information regarding FHLB advances.

The following table sets forth certain information as to our borrowings at the dates and for the years indicated.

	At or for the Year Ended December 31,		
	2004	2003	2002
	(Dollars in Thousands)		
Average balance outstanding	$ 141,515	$ 123,217	$ 48,258
Maximum month-end balance	$ 148,500	$ 164,400	$ 90,100
Balance at end of period	$ 135,500	$ 147,000	$ 90,100
Weighted average interest rate during the period	2.50%	2.54%	2.86%
Weighted average interest rate at end of period	2.62%	2.51%	2.54%

Subsidiary and Other Activities

As a federally chartered savings bank, Pacific Trust Bank is permitted by the Office of Thrift Supervision to invest 2% of our assets or $13.5 million at December 31, 2004, in the stock of, or unsecured loans to, service corporation subsidiaries. The Company may invest an additional 1% of our assets in secure corporations where such additional funds are used for inner city or community development purposes. Pacific Trust Bank currently does not have any subsidiary service corporations.

Competition

The Company faces strong competition in originating real estate and other loans and in attracting deposits. Competition in originating real estate loans comes primarily from other savings institutions, commercial banks, credit unions and mortgage bankers. Other savings institutions, commercial banks, credit unions and finance companies provide vigorous competition in consumer lending.

The Company attracts deposits through the branch office system and through the internet. Competition for those deposits is principally from other savings institutions, commercial banks and credit unions located in the same community, as well as mutual funds and other alternative investments. The Company competes for these deposits by offering superior service and a variety of deposit accounts at competitive rates. Based on the most recent branch deposit data provided by the FDIC, Pacific Trust Bank's share of deposits was 0.84% and 0.45% in San Diego and Riverside Counties, respectively.

Employees

At December 31, 2004, we had a total of 94 full-time employees and 16 part-time employees. Our employees are not represented by any collective bargaining group. Management considers its employee relations to be satisfactory.

HOW WE ARE REGULATED

Set forth below is a brief description of certain laws and regulations which are applicable to First PacTrust Bancorp, Inc. and Pacific Trust Bank. The description of these laws and regulations, as well as descriptions of laws and regulations contained elsewhere herein, does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

Legislation is introduced from time to time in the United States Congress that may affect the operations of the Company and the Bank. In addition, the regulations governing the Company and the Bank may be amended from time to time by the Office of Thrift Supervision. Any such legislation or regulatory changes in the future could adversely affect the Company or the Bank. No assurance can be given as to whether or in what form any such changes may occur.

General

Pacific Trust Bank, as a federally chartered savings institution, is subject to federal regulation and oversight by the Office of Thrift Supervision extending to all aspects of its operations. The Bank is also subject to regulation and examination by the FDIC, which insures the deposits of the Bank to the maximum extent permitted by law, and requirements established by the Federal Reserve Board. Federally chartered savings institutions are required to file periodic reports with the Office of Thrift Supervision and are subject to periodic examinations by the Office of Thrift Supervision and the FDIC. The investment and lending authority of savings institutions are prescribed by federal laws and regulations, and such institutions are prohibited from engaging in any activities not permitted by such laws and regulations. Such regulation and supervision primarily is intended for the protection of depositors and not for the purpose of protecting shareholders.

The Office of Thrift Supervision regularly examines the Bank and prepares reports for the consideration of the Bank's board of directors on any deficiencies that it may find in the Bank's operations. The FDIC also has the authority to examine the Bank in its role as the administrator of the Savings Association Insurance Fund. Our relationship with its depositors and borrowers also is regulated to a great extent by both Federal and state laws, especially in such matters as the ownership of savings accounts and the form and content of our mortgage requirements. Any change in such regulations, whether by the FDIC, the Office of Thrift Supervision or Congress, could have a material adverse impact on the Company and the Bank and their operations.

First PacTrust Bancorp, Inc.

Pursuant to regulations of the Office of Thrift Supervision and the terms of the Company's Maryland charter, the purpose and powers of the Company are to pursue any or all of the lawful objectives of a thrift holding company and to exercise any of the powers accorded to a thrift holding company.

First PacTrust Bancorp, Inc. is a unitary savings and loan holding company subject to regulatory oversight by the Office of Thrift Supervision. First PacTrust is required to register and file reports with the Office of Thrift Supervision and is subject to regulation and examination by the Office of Thrift Supervision. In addition, the Office of Thrift Supervision has enforcement authority over us and our non-savings institution subsidiaries.

First PacTrust generally is not subject to activity restrictions. If First PacTrust acquired control of another savings institution as a separate subsidiary, it would become a multiple savings and loan holding company, and its activities and any of its subsidiaries (other than Pacific Trust Bank or any other savings institution) would generally become subject to additional restrictions.

If the Company fails the qualified thrift lender test, the Company must obtain the approval of the Office of Thrift Supervision prior to continuing after such failure, directly or through other subsidiaries, any business activity other than those approved for multiple thrift companies or their subsidiaries. In addition, within one year of such failure the Company must register as, and will become subject to, the restrictions applicable to bank holding companies.

Pacific Trust Bank

The Office of Thrift Supervision has extensive authority over the operations of savings institutions. As part of this authority, we are required to file periodic reports with the Office of Thrift Supervision and we are subject to periodic examinations by the Office of Thrift Supervision and the FDIC. When these examinations are conducted by the Office of Thrift Supervision and the FDIC, the examiners may require the Bank to provide for higher general or specific loan loss reserves. All savings institutions are subject to a semi-annual assessment, based upon the savings institution's total assets, to fund the operations of the Office of Thrift Supervision.

The Office of Thrift Supervision also has extensive enforcement authority over all savings institutions and their holding companies, including the Bank and the Company. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the Office of Thrift Supervision. Except under certain circumstances, public disclosure of final enforcement actions by the Office of Thrift Supervision is required.

In addition, the investment, lending and branching authority of the Bank is prescribed by federal laws and it is prohibited from engaging in any activities not permitted by such laws. For instance, no savings institution may invest in non-investment grade corporate debt securities. In addition, the permissible level of investment by federal institutions in loans secured by non-residential real property may not exceed 400% of total capital, except with approval of the Office of Thrift

Supervision. Federal savings institutions are also generally authorized to branch nationwide. The Bank is in compliance with the noted restrictions.

The Bank's general permissible lending limit for loans-to-one-borrower is equal to the greater of $500,000 or 15% of unimpaired capital and surplus including allowance for loan losses (except for loans fully secured by certain readily marketable collateral, in which case this limit is increased to 25% of unimpaired capital and surplus). At December 31, 2004, the Bank's lending limit under this restriction was $11.1 million. The Bank is in compliance with the loans-to-one-borrower limitation.

The Office of Thrift Supervision, as well as the other federal banking agencies, has adopted guidelines establishing safety and soundness standards on such matters as loan underwriting and documentation, asset quality, earnings standards, internal controls and audit systems, interest rate risk exposure and compensation and other employee benefits. Any institution which fails to comply with these standards must submit a compliance plan.

Insurance of Accounts and Regulation by the FDIC

The Bank is a member of the Savings Association Insurance Fund, which is administered by the FDIC. Deposits are insured up to the applicable limits by the FDIC and such insurance is backed by the full faith and credit of the United States Government. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the Savings Association Insurance Fund or the Bank Insurance Fund. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the Office of Thrift Supervision an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

Regulatory Capital Requirements

Federally insured savings institutions, such as the Bank, are required to maintain a minimum level of regulatory capital. The Office of Thrift Supervision has established capital standards, including a tangible capital requirement, a leverage ratio or core capital requirement and a risk-based capital requirement applicable to such savings institutions. These capital requirements must be generally as stringent as the comparable capital requirements for national banks. The Office of Thrift Supervision is also authorized to impose capital requirements in excess of these standards on a case-by-case basis.

The capital regulations require tangible capital of at least 1.5% of adjusted total assets, as defined by regulation. Tangible capital generally includes common stockholders' equity and retained earnings, and certain noncumulative perpetual preferred stock and related earnings. In addition, generally all intangible assets, other than a limited amount of purchased mortgage servicing rights, and certain other items, must be deducted from tangible capital for calculating compliance with the requirement. At December 31, 2004, the Bank had no intangible assets.

At December 31, 2004, the Bank had tangible capital of $69.6 million, or 10.3% of adjusted total assets, which was approximately $59.5 million above the minimum requirement of $10.1 million or 1.5% of adjusted total assets in effect on that date.

The capital standards also require core capital equal to at least 3.0% of adjusted total assets. Core capital generally consists of tangible capital plus certain intangible assets, including a limited amount of purchased credit card relationships. As a result of the prompt corrective action provisions discussed below, however, a savings institution must maintain a core capital ratio of at least 4.0% to be considered adequately capitalized unless its supervisory condition is such as to allow it to maintain a 3.0% ratio. At December 31, 2004, the Bank had no intangibles which were subject to these tests.

At December 31, 2004, the Bank had core capital equal to $69.6 million, or 10.3% of adjusted total assets, which was $42.6 million above the minimum requirement of 4.0% in effect on that date.

The Office of Thrift Supervision also requires savings institutions to have total capital of at least 8.0% of risk-weighted assets. Total capital consists of core capital, as defined above, and supplementary capital. Supplementary capital consists of certain permanent and maturing capital instruments that do not qualify as core capital and general valuation loan and lease loss allowances up to a maximum of 1.25% of risk-weighted assets. Supplementary capital may be used to satisfy the risk-based requirement only to the extent of core capital. The Office of Thrift Supervision is also authorized to require a savings institution to maintain an additional amount of total capital to account for concentration of credit risk and the risk of non-traditional activities. At December 31, 2004, the Bank had $4.4 million of general loan loss reserves, which was less than 1.25% of risk-weighted assets.

In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet items, will be multiplied by a risk weight, ranging from 0% to 100%, based on the risk inherent in the type of asset. For example, the Office of Thrift Supervision has assigned a risk weight of 50% for prudently underwritten permanent one- to four-family first lien mortgage loans not more than 90 days delinquent and having a loan-to-value ratio of not more than 80% at origination unless insured to such ratio by an insurer approved by Fannie Mae or Freddie Mac.

On December 31, 2004, the Bank had total risk-based capital of $74.1 million and risk-weighted assets of $423.5 million; or total capital of 17.5% of risk-weighted assets. This amount was $40.2 million above the 8.0% requirement in effect on that date.

The Office of Thrift Supervision and the FDIC are authorized and, under certain circumstances, required to take certain actions against savings institutions that fail to meet their capital requirements. The Office of Thrift Supervision is generally required to take action to restrict the activities of an "undercapitalized institution," which is an institution with less than either a 4% core capital ratio, a 4% Tier 1 risked-based capital ratio or an 8.0% risk-based capital ratio. Any such institution must submit a capital restoration plan and until such plan is approved by the Office of Thrift Supervision may not increase its assets, acquire another institution, establish a branch or engage in any new activities, and generally may not make capital distributions. The Office of Thrift Supervision is authorized to impose the additional restrictions that are applicable to significantly undercapitalized institutions.

As a condition to the approval of the capital restoration plan, any company controlling an undercapitalized institution must agree that it will enter into a limited capital maintenance guarantee with respect to the institution's achievement of its capital requirements.

Any savings institution that fails to comply with its capital plan or has Tier 1 risk-based or core capital ratios of less than 3.0% or a risk-based capital ratio of less than 6.0% and is considered "significantly undercapitalized" must be made subject to one or more additional specified actions and operating restrictions which may cover all aspects of its operations and may include a forced merger or acquisition of the institution. An institution that becomes "critically undercapitalized" because it has a tangible capital ratio of 2.0% or less is subject to further mandatory restrictions on its activities in addition to those applicable to significantly undercapitalized institutions. In addition, the Office of Thrift Supervision must appoint a receiver, or conservator with the concurrence of the FDIC, for a savings institution, with certain limited exceptions, within 90 days after it becomes critically undercapitalized. The OTS may take other action as it determines, with the concurrence of the FDIC, would better achieve its objective, after documenting why. If the OTS determines to take action other than appointing a conservator or receiver, a redetermination must be made not later than the end of the 90-day period beginning on the date the original determination is made. If a redetermination is not made, then a conservator or receiver will, notwithstanding the above and with certain exceptions, be appointed. In general, the OTS will appoint a receiver if the institution is critically undercapitalized on average during the calendar quarter beginning 270 days after the date on which the institution became critically undercapitalized.

The Office of Thrift Supervision is also generally authorized to reclassify an institution into a lower capital category and impose the restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The imposition by the Office of Thrift Supervision or the FDIC of any of these measures on the Bank may have a substantial adverse effect on its operations and profitability. At December 31, 2004, the Bank was considered a "well-capitalized" institution.

Limitations on Dividends and Other Capital Distributions

Office of Thrift Supervision regulations impose various restrictions on savings institutions with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account.

Generally, savings institutions, such as Pacific Trust Bank, that before and after the proposed distribution remain well-capitalized, may make capital distributions during any calendar year equal to up to 100% of net income for the year-to-date plus retained net income for the two preceding years. However, an institution deemed to be in need of more than normal supervision by the Office of Thrift Supervision may have its dividend authority restricted by the Office of Thrift Supervision. The Bank may pay dividends in accordance with this general authority.

Savings institutions proposing to make any capital distribution need not submit written notice to the Office of Thrift Supervision prior to such distribution unless they are a subsidiary of a holding company or would not remain well-capitalized following the distribution. Pacific Trust Bank is a subsidiary of a holding company. Savings institutions that do not, or would

not meet their current minimum capital requirements following a proposed capital distribution or propose to exceed these net income limitations must obtain Office of Thrift Supervision approval prior to making such distribution. The Office of Thrift Supervision may object to the distribution during that 30-day period based on safety and soundness concerns. See "- Regulatory Capital Requirements."

Liquidity

All savings institutions, including Pacific Trust Bank, are required to maintain sufficient liquidity to ensure a safe and sound operation.

Qualified Thrift Lender Test

All savings institutions, including Pacific Trust Bank, are required to meet a qualified thrift lender test to avoid certain restrictions on their operations. This test requires a savings institution to have at least 65% of its portfolio assets, as defined by regulation, in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. As an alternative, the savings institution may maintain 60% of its assets in those assets specified in Section 7701(a)(19) of the Internal Revenue Code. Under either test, such assets primarily consist of residential housing related loans and investments. At December 31, 2004, the Bank met the test and has always met the test since its effectiveness.

Any savings institution that fails to meet the qualified thrift lender test must convert to a national bank charter, unless it requalifies as a qualified thrift lender and thereafter remains a qualified thrift lender. If an institution does not requalify and converts to a national bank charter, it must remain Savings Association Insurance Fund-insured until the FDIC permits it to transfer to the Bank Insurance Fund. If such an institution has not yet requalified or converted to a national bank, its new investments and activities are limited to those permissible for both a savings institution and a national bank, and it is limited to national bank branching rights in its home state. In addition, the institution is immediately ineligible to receive any new Federal Home Loan Bank borrowings and is subject to national bank limits for payment of dividends. If such an institution has not requalified or converted to a national bank within three years after the failure, it must divest of all investments and cease all activities not permissible for a national bank. In addition, it must repay promptly any outstanding Federal Home Loan Bank borrowings, which may result in prepayment penalties. If any institution that fails the qualified thrift lender test is controlled by a holding company, then within one year after the failure, the holding company must register as a bank holding company and become subject to all restrictions on bank holding companies.

Federal Securities Law

The stock of First PacTrust Bancorp, Inc. is registered with the SEC under the Securities Exchange Act of 1934, as amended. The Company will be subject to the information, proxy solicitation, insider trading restrictions and other requirements of the SEC under the Securities Exchange Act of 1934.

Company stock held by persons who are affiliates of the Company may not be resold without registration unless sold in accordance with certain resale restrictions. Affiliates are generally considered to be officers, directors and principal stockholders. If the Company meets specified current public information requirements, each affiliate of the Company will be able to sell in the public market, without registration, a limited number of shares in any three-month period.

Federal Reserve System

The Federal Reserve Board requires all depository institutions to maintain non-interest bearing reserves at specified levels against their transaction accounts, primarily checking, NOW and Super NOW checking accounts. At December 31, 2004, Pacific Trust Bank was in compliance with these reserve requirements. The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy liquidity requirements that may be imposed by the Office of Thrift Supervision. See "- Liquidity."

Savings institutions are authorized to borrow from the Federal Reserve Bank "discount window," but Federal Reserve Board regulations require institutions to exhaust other reasonable alternative sources of funds, including Federal Home Loan Bank borrowings, before borrowing from the Federal Reserve Bank.

Federal Home Loan Bank System

Pacific Trust Bank is a member of the Federal Home Loan Bank of San Francisco, which is one of 12 regional Federal Home Loan Banks, that administers the home financing credit function of savings institutions. Each Federal Home Loan Bank serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the Federal Home Loan Bank System. It makes loans or advances to members in accordance with policies and procedures, established by the board of directors of the Federal Home Loan Bank,

which are subject to the oversight of the Federal Housing Finance Board. All advances from the Federal Home Loan Bank are required to be fully secured by sufficient collateral as determined by the Federal Home Loan Bank. In addition, all long-term advances are required to provide funds for residential home financing.

As a member, the Bank is required to purchase and maintain stock in the Federal Home Loan Bank of San Francisco. At December 31, 2004, the Bank had $7.8 million in Federal Home Loan Bank stock, which was in compliance with this requirement. In past years, the Bank has received substantial dividends on its Federal Home Loan Bank stock. Over the past three fiscal years such dividends have averaged 4.75% and were 4.11% for 2004.

Under federal law the Federal Home Loan Banks are required to provide funds for the resolution of troubled savings institutions and to contribute to low- and moderately priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have affected adversely the level of Federal Home Loan Bank dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of Federal Home Loan Bank stock in the future. A reduction in value of the Bank's Federal Home Loan Bank stock may result in a corresponding reduction in the Bank's capital.

For the year ended December 31, 2004, dividends paid by the Federal Home Loan Bank of San Francisco to the Bank totaled $324,000, as compared to $276,000 for all of 2003.

TAXATION

Federal Taxation

General. First PacTrust Bancorp, Inc. and Pacific Trust Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to the Company or the Bank. The Bank's federal income tax returns have never been audited. Prior to January 1, 2000, the Bank was a credit union, not generally subject to corporate income tax.

Method of Accounting. For federal income tax purposes, Pacific Trust Bancorp currently reports its income and expenses on the accrual method of accounting and uses a fiscal year ending on December 31, for filing its federal income tax return.

Minimum Tax. The Internal Revenue Code imposes an alternative minimum tax at a rate of 20% on a base of regular taxable income plus certain tax preferences, called alternative minimum taxable income. The alternative minimum tax is payable to the extent such alternative minimum taxable income is in excess of an exemption amount. Net operating losses can offset no more than 90% of alternative minimum taxable income. Certain payments of alternative minimum tax may be used as credits against regular tax liabilities in future years. Pacific Trust Bank has not been subject to the alternative minimum tax, nor do we have any such amounts available as credits for carryover.

Net Operating Loss Carryovers. A financial institution may carryback net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. This provision applies to losses incurred in taxable years beginning after August 6, 1997. At December 31, 2004, Pacific Trust Bank had no net operating loss carryforwards for federal income tax purposes.

Corporate Dividends-Received Deduction. First PacTrust Bancorp, Inc. may eliminate from its income dividends received from the Bank as a wholly owned subsidiary of the Company if it elects to file a consolidated return with the Bank. The corporate dividends-received deduction is 100% or 80%, in the case of dividends received from corporations with which a corporate recipient does not file a consolidated tax return, depending on the level of stock ownership of the payor of the dividend. Corporations which own less than 20% of the stock of a corporation distributing a dividend may deduct 70% of dividends received or accrued on their behalf.

State Taxation

Pacific Trust Bancorp, Inc. and Pacific Trust Bank are subject to the California corporate franchise (income) tax which is assessed at the rate of 10.84%. For this purpose, California taxable income generally means federal taxable income subject to certain modifications provided for in the California law.

Executive Officers Who are Not Directors

The business experience for at least the past five years for each of our executive officers who do not serve as directors is set forth below.

James P. Sheehy. Age 58 years. Mr. Sheehy serves as Executive Vice President, a position he has held since 1987, and Secretary and Treasurer for Pacific Trust Bank, and First PacTrust Bancorp, Inc. positions he has held since 1999 and 2002, respectively. He has been employed by Pacific Trust Bank since 1987.

Melanie M. Stewart. Age 44 years. Ms. Stewart is Executive Vice President of Lending at Pacific Trust Bank. She has served in this position since 1998, and started with Pacific Trust Bank in 1990.

Rachel M. Carrillo. Age 34 years. Ms. Carrillo is a Senior Vice President of Branch Operations. She has served in this capacity since 1998. Ms. Carrillo has served in various other capacities at Pacific Trust Bank since 1993.

Regan J. Gallagher. Age 35 years. Ms. Gallagher is currently serving as Senior Vice President –Controller of Pacific Trust Bank, and of First PacTrust Bancorp, Inc. a position she has held since 2000 and 2002, respectively. Prior to her position with Pacific Trust, Ms. Gallagher was an Accountant with Deloitte & Touche.

Lisa R. Goodwin. Age 35 years. Ms. Goodwin is currently serving as Senior Vice President Information Systems, a position she has held since 2001. Prior to serving as Vice President of Information Systems, Ms. Goodwin was an Assistant Vice President, and has been employed by Pacific Trust Bank since 1997. Prior to her position with Pacific Trust, Ms. Goodwin was an Associate Systems Engineer with Security Pacific Financial Services, a Bank of America Company, from 1993 to 1997.

Item 2. Properties

At December 31, 2004, the Bank had six full service offices and three limited service offices. The Bank owns the office building in which our home office and executive offices are located. At December 31, 2004, we owned all but four of our other branch offices. The net book value of our investment in premises, equipment and leaseholds, excluding computer equipment, was approximately $3.4 million at December 31, 2004.

The following table provides a list of Pacific Trust Bank's main and branch offices and indicates whether the properties are owned or leased:

Location	Owned or Leased	Lease Expiration Date	Net Book Value at December 31, 2004
			(Dollars in Thousands)
MAIN AND EXECUTIVE OFFICE	Owned	N/A	$ 740
610 Bay Boulevard Chula Vista, CA 91910			
BRANCH OFFICES:			
279 F Street Chula Vista, CA 91912	Owned	N/A	$ 485
850 Lagoon Drive Chula Vista, CA 91910	*	N/A	N/A
350 Fletcher Parkway El Cajon, CA 91910	Leased	December 2009	N/A
5508 Balboa Avenue San Diego, CA 92111	Leased	March 2007	N/A
27425 Ynez Road Temecula, CA 92591	Owned	N/A	$ 783
8200 Arlington Avenue Riverside, CA 92503	*	N/A	N/A
5030 Arlington Avenue Riverside, CA 92503	Owned	N/A	$ 259
16536 Bernardo Center Drive San Diego, CA	Leased	December, 2013	N/A

* This site, which is on a Goodrich Aerostructures facility, is provided to the Company at no cost as an accommodation to their employees.

The Bank believes that our current facilities are adequate to meet the present and immediately foreseeable needs of Pacific Trust Bank and First PacTrust Bancorp, Inc.

Item 3. Legal Proceedings

From time to time we are involved as plaintiff or defendant in various legal actions arising in the normal course of business. We do not anticipate incurring any material liability as a result of such litigation.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the period under report.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Company's common stock is traded on the Nasdaq National Market under the symbol "FPTB." The approximate number of holders of record of the Company's common stock as of December 31, 2004 was 341. Certain shares of the Company are held in "nominee" or "street" name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number. The following table presents quarterly market information for the Company's common stock for the two periods ended December 31, 2004 and December 31, 2003.

2004	Market Price Range		
	High	Low	Dividends
Quarter Ended			
December 31, 2004	$ 27.90	$ 24.90	.12
September 30, 2004	$ 25.55	$ 22.02	.11
June 30, 2004	$ 23.15	$ 19.53	.10
June 30, 2004	$ 24.33	$ 21.98	.09
			$ .42

2003	Market Price Range		
	High	Low	Dividends
Quarter Ended			
December 31, 2003	$ 22.50	$ 20.26	.08
September 30, 2003	$ 21.51	$ 18.16	.07
June 30, 2003	$ 19.20	$ 17.39	.06
March 31, 2003	$ 17.45	$ 15.47	.05
			$ .26

DIVIDEND POLICY

Dividends from First PacTrust Bancorp, Inc., will depend, in large part, upon receipt of dividends from Pacific Trust Bank, because First PacTrust Bancorp, Inc. will have limited sources of income other than dividends from Pacific Trust Bank, earnings from the investment of proceeds from the sale of shares of common stock retained by First PacTrust Bancorp, Inc., and interest payments with respect to First PacTrust Bancorp, Inc.'s loan to the 401(k) Employee Stock Ownership Plan. A regulation of the Office of Thrift Supervision imposes limitations on "capital distributions" by savings institutions. See "How We Are Regulated – Limitations on Dividends and Other Capital Distributions."

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total # of shares Purchased	Average price paid per share	Total # of shares purchased as part of a publicly announced program	Maximum # of shares that may yet be purchased
10/1/04-12/31/04	no activity for the period	—	—	126,895

Item 6. Selected Financial Data

The following table sets forth certain consolidated financial and other data of the Company at the dates and for the periods indicated. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operation" included herein at Item 7 and the consolidated financial statements and notes thereto included herein at Item 8.

SELECTED FINANCIAL AND OTHER DATA

	2004	2003	December 31, 2002 (In thousands)	2001	2000
Selected Financial Condition Data:					
Total assets	$674,460	$623,964	$459,917	$310,076	$300,347
Cash and cash equivalents	12,315	11,575	11,506	18,003	7,699
Loans receivable, net	628,724	587,251	403,732	257,216	234,301
Securities available-for-sale	10,019	6,419	18,733	13,661	40,948
Other investments (interest-bearing term deposit)	2,490	500	—	—	825
FHLB stock	7,784	8,293	4,505	2,509	2,705
Servicing agent receivable	—	—	13,727	11,687	7,923
Deposits	453,581	389,925	279,714	251,954	218,695
Total borrowings	135,500	147,000	90,100	28,000	53,800
Total equity	79,391	84,539	88,881	28,721	26,457
Selected Operations Data:					
Total interest income	31,733	27,721	$21,834	$21,822	$18,696
Total interest expense	11,426	9,159	8,110	11,573	10,315
Net interest income	20,307	18,562	13,724	10,249	8,381
Provision for loan losses	238	1,272	1,109	68	444
Net interest income after provision for loan losses	20,069	17,290	12,615	10,181	7,937
Customer service charges	1,219	1,092	936	962	982
Loan servicing fees	—	—	16	4	88
Loss on sales of securities available-for-sale	—	—	—	(55)	(125)
Other non-interest income	331	189	55	120	142
Total non-interest income	1,550	1,281	1,007	1,031	1,087
Total non-interest expense	12,658	11,510	9,029	7,604	6,981
Income before taxes	8,961	7,061	4,593	3,608	2,043
Income tax provision(1)	3,886	2,960	1,957	1,512	300
Net income(1)	$5,075	$4,101	$2,636	$2,096	$1,743
Basic earnings per share(5)	$1.18	$.86	.23	N/A	N/A
Diluted earnings per share(5)	$1.16	$.85	.23	N/A	N/A

	2004	2003	December 31, 2002	2001	2000
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Return on assets (ratio of net income to average total assets)	0.77%	0.74%	0.66%	0.68%	0.66%
Return on equity (ratio of net income to average equity)	6.32%	4.66%	5.08%	7.50%	6.69%
Return on assets, net of tax[1]	0.77%	0.74%	0.66%	0.68%	0.49%
Return on equity, net of tax[1]	6.32%	4.66%	5.08%	7.50%	4.94%
Dividend payout ratio	39.1%	33.3%	N/A	N/A	N/A
Interest Rate Spread Information:					
Average during period	2.90%	3.17%	3.50%	3.37%	3.13%
End of period	2.85%	2.82%	4.29%	4.08%	2.84%
Net interest margin[2]	3.16%	3.49%	3.71%	3.58%	3.40%
Ratio of operating expense to average total assets	1.92%	2.09%	2.26%	2.46%	2.66%
Efficiency ratio[3]	56.73%	58.01%	61.29%	67.41%	72.77%
Ratio of average interest-earning assets to average interest- bearing Liabilities	114.72%	118.23%	109.43%	105.03%	106.43%
Quality Ratios:					
Non-performing assets to total assets	— %	— %	0.01%	— %	0.03%
Allowance for loan losses to non-performing loans[4]	110,750.00%	423,200.00%	59,060.00%	17,420.00%	2,235.53%
Allowance for loans losses to gross loans[4]	0.70%	0.72%	0.74%	0.67%	0.72%
Capital Ratios:					
Equity to total assets at end of period	11.8%	13.55%	19.33%	9.26%	8.81%
Average equity to average assets	12.2%	15.98%	13.01%	9.05%	9.93%
Other Data:					
Number of full-service offices	8	8	7	7	7

(1) Had Pacific Trust Bank been subject to federal and state income taxes for the fiscal year ended December 31, 1999, income tax expense would have been approximately $1.2 million and net income would have been approximately $1.7 million. In addition, income tax expense and net income for the fiscal year ended December 31, 2000 would have been $756,000 and $1.3 million, respectively.

(2) Net interest income divided by average interest-earning assets.

(3) Efficiency ratio represents noninterest expense as a percentage of net interest income plus noninterest income, exclusive of securities gains and losses and an impairment loss in 2004.

(4) The allowance for loan losses at December 31, 2004, 2003, 2002, 2001, and 2000 was $4.4 million, $4.2 million, $2.9 million, $1.7 million, and $1.7million, respectively.

(5) Earnings per share of $.23 was reported for the period ended December 31, 2002 and was calculated beginning with the date of conversion. Therefore, approximately four months of earnings were reported.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Executive Management Overview

This overview of management's discussion and analysis highlights selected information in the financial results of the Company and may not contain all of the information that is important to you. For a more complete understanding of trends, commitments, uncertainties, liquidity, capital resources and critical accounting policies and estimates, you should carefully read this entire document. Each of these items could have an impact on the Company's financial condition and results of operations.

First PacTrust Bancorp, Inc. is a savings and loan holding company that owns one thrift institution, Pacific Trust Bank. As a unitary thrift holding company, First PacTrust Bancorp, Inc. activities are limited to banking, securities, insurance and financial services-related activities. Pacific Trust Bank is a federally chartered stock savings bank, in continuous operation since 1941 as a profitable and successful financial institution. The Company is headquartered in Chula Vista, California, a suburb of San Diego, California, and has nine banking offices primarily serving residents of San Diego and Riverside Counties in California. Our geographic market for loans and deposits is principally San Diego and Riverside counties.

The Bank's principal business consists of attracting retail deposits from the general public and investing these funds and other borrowings in permanent loans primarily secured by first mortgages on owner-occupied, one-to four- family residences in San Diego and Riverside counties, California. At December 31, 2004, one- to four-family residential mortgage loans totaled $517.6 million, or 81.9% of our gross loan portfolio.

The Bank continues to develop strong deposit relationships with customers by providing quality service while offering a variety of competitive deposit products. During the year ended December 31, 2004, deposits increased $63.7 million as the Company rolled out new products including a "Peace of Mind" Certificate Account and High Yield Savings products. An increase of $7.0 million in brokered certificates of deposit also contributed to the deposit increase.

The Company's results of operations are dependent primarily on net interest income, which is the difference between interest income on earning assets such as loans, leases and securities, and interest expense paid on liabilities such as deposits and borrowings.

The Company's interest income, which is primarily driven by interest income on residential first mortgage loans, increased by $4.0 million for the year ended December 31, 2004. Strong loan production contributed to a net growth in loans receivable of $41.5 million during the year. Relatively low mid- to long-term interest rate levels experienced throughout the year negatively impacted interest income by continuing to fuel significant prepayments and refinancing of higher yielding loans. Large volumes of prepayments on higher-yielding loans continued to occur as borrowers refinanced their mortgage loans, resulting in reinvestment of funds into lower yielding assets. However, a rising trend in short-term rates, which began in May 2004 and continued throughout the remainder of the year, coupled with deposit growth, resulted in increased interest expense and a decrease to the Company's net interest margin.

During the past year, the Company made some adjustments to its securities portfolio. As most of the securities held at year-end 2003 matured or paid down principal, funds were reinvested, primarily into callable US agency debt securities. One agency note purchased during the year was later sold for a net gain recognized during 2004. The Company also made an equity investment in an affordable housing tax credit fund, which is expected to result in an overall net reduction to the Company's effective tax rate and improvement to net income over an extended number of years. The Company continues to evaluate potential enhancements to its investment portfolio, including other tax-advantaged investment opportunities, and recently completed a $15.0 million bank-owned life insurance (BOLI) investment during the first quarter of 2005.

The Company has continued to focus on improving shareholder value though a series of stock repurchases and increased dividends paid during the year. These stock repurchases resulted in increased earnings per share and a greater percentage of overall ownership of the Company by the remaining shareholders. The Company currently has an active stock repurchase plan and, at December 31, 2004, had the authority to purchase an additional 126,800 shares of common stock.

Future earnings of the Company are inherently tied to changes in interest rate levels, the relationship between short and long term interest rated, credit quality, and economic trends. If short term interest rates continue to increase, the Company's interest expense on deposits will likely increase at a faster pace than the interest income received on earning assets due to the relatively shorter term repricing characteristics of the Company's deposits than the maturity or repricing characteristics of its loan portfolio. The Company intends to mitigate the potential effects of rising interest rates by continuing to focus on the origination of adjustable rate loan products while securing longer term deposits and borrowings.

The plan for our on-going success is continued leveraging of the Company's assets, mostly through loan portfolio growth to make better use of our current relatively high capital ratios, to be funded with deposit growth and borrowed funds

with terms that are appropriate to manage interest rate risk while assuring an adequate net interest spread. The Company will continue its strategy of loan and deposit portfolio growth through high-quality customer service and the development and introduction of innovative financial products. This will be coupled with efforts to further improve our efficiency ratio through controlled operating expense growth, as well as exploring potential new sources of noninterest income.

The following is a discussion and analysis of the Company's financial position and results of operations and should be read in conjunction with the information set forth under "General" in Item 7A, Quantitative and Qualitative Disclosures about Market Risk, and the consolidated financial statements and notes thereto appearing under Item 8 of this report.

Comparison of Financial Condition at December 31, 2004 and December 31, 2003

The Company's total assets increased by $50.5 million, or 8.1%, to $674.5 million at December 31, 2004 from $624.0 million at December 31, 2003. The increase primarily reflected significant growth in loans receivable which was funded by an increase in deposits. Net loans increased by $41.5 million, or 7.1%, to $628.7 million at December 31, 2004 from $587.3 million at December 31, 2003. The increase in loans resulted from increased volume of one-to-four family mortgage loan originations largely as a result of the low interest rates being offered and the continued utilization of third party loan originators. Securities classified as available-for-sale increased by $3.6 million, or 56.1%, to $10.0 million at December 31, 2004 from $6.4 million at December 31, 2003. This was primarily due to security purchases in the amount of $15.4 million in 2004, principal repayments of $1.3 million, and sales of securities of $10.6 million. Other assets increased $3.2 million primarily resulting from a purchase of an equity investment in a tax credit fund in the amount of $4.5 million. Additionally, a decrease of approximately $1.0 million in other assets was related to a tax overpayment made in the prior year. Other interest earning deposits increased to $2.5 million due primarily to the investment of $2.0 million in certificates of deposit in other financial institutions.

Total deposits increased by $63.7 million, or 16.3%, to $453.6 million at December 31, 2004 from $389.9 million at December 31, 2003. The increase primarily reflected growth in certificates of deposit, NOW accounts, savings and money market accounts due to the opening of a new branch in July of 2003, increased advertising, and new products offered. Certificates of deposit increased $25.8 million, or 12.7%, to $229.1 million primarily due to a new "Peace of Mind" Certificate account the Company began offering in April 2004. Additional brokered deposits in the amount of $7 million also contributed to the increase. NOW accounts increased by $14.2 million, or 25.4% due to growth in a new high yield checking account offered. Money market and savings accounts increased by $10.1 million and $10.4 million, respectively due to competitive pricing and increased marketing efforts made during the year.

Federal Home Loan Bank advances decreased $11.5 million, or 7.8 %, to $135.5 million at December 31, 2004 from $147.0 million at December 31, 2003. The decrease was primarily due to FHLB advances maturing in 2004 and increased deposit balances helping to fund loan growth, reducing the amount of additional advances needed during the period. The Company interchanges the use of deposits and borrowings to fund assets depending on various factors including liquidity and asset/liability management.

Equity decreased $5.1 million to $79.4 million at December 31, 2004 from $84.5 million at December 31, 2003. The decrease resulted primarily from the purchase of 448,300 shares of treasury stock for $10.1 million and the payment of dividends of $2.0 million. This was partially offset by $5.1 million of net income earned for the year ended December 31, 2004.

Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following table presents for the periods indicated the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates. Also presented is the weighted average yield on interest-earning assets, rates paid on interest-bearing liabilities and the resultant spread at December 31, 2004. No tax equivalent adjustments were made. All average balances are monthly average balances. Non-accruing loans have been included in the table as loans carrying a zero yield.

	At December 31, 2004	2004			2003			2002		
	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
					(Dollars in Thousands)					
INTEREST-EARNING ASSETS										
Loans receivable[1]	4.96%	$621,628	31,188	5.02%	$504,092	26,973	5.35%	$325,911	$20,405	6.26%
Securities[2]	1.54%	4,582	154	3.36%	12,547	435	3.47%	18,440	818	4.44%
Other interest-earning assets[3]	2.33%	16,625	391	2.35%	15,059	313	2.08%	25,813	610	2.36%
Total interest-earning assets	4.84%	642,835	31,733	4.94%	531,698	27,721	5.21%	370,164	21,833	5.90%
Non-interest earning assets		16,102			19,070			28,543		
Total assets		$658,937			$550,768			$398,707		
INTEREST-BEARING LIABILITIES										
NOW	1.10%	$67,792	768	1.13%	$43,469	381	0.88%	$47,672	$376	0.79%
Money market	1.43%	70,655	1,081	1.53%	64,284	931	1.45%	60,332	1,100	1.82%
Savings deposits	0.96%	58,028	605	1.04%	52,142	495	0.95%	49,229	688	1.40%
Certificates of deposit	2.35%	222,340	5,392	2.43%	166,603	4,220	2.53%	132,684	4,564	3.44%
FHLB advances	2.64%	141,515	3,580	2.53%	123,217	3,132	2.54%	48,258	1,382	2.86%
Total interest-bearing liabilities		560,330	11,426	2.04%	449,715	9,159	2.04%	338,175	8,110	2.40%
Non-interest- bearing liabilities		18,309			13,050			8,664		
Total liabilities		578,639			462,765			346,932		
Equity		80,298			88,003			51,868		
Total liabilities and equity		$658,937			$550,768			$398,707		
Net interest/spread			20,307	2.90%		18,562	3.17%		$13,724	3.50%
Margin[4]				3.16%			3.49%			3.71%
Ratio of interest-earning assets to interest-bearing liabilities		114.72%			118.23%			109.46%		

(1) Calculated net of deferred fees and loss reserves.
(2) Calculated based on amortized cost.
(3) Includes FHLB stock at cost and term deposits with other financial institutions.
(4) Net interest income dividend by interest-earning assets.

Rate/Volume Analysis

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume, which are changes in volume multiplied by the old rate, and (2) changes in rate, which are changes in rate multiplied by the old volume. Changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

	2004 Compared to 2003			2003 Compared to 2002		
	Total Change	Change Due To Volume	Change Due To Rate	Total Change	Change Due To Volume	Change Due To Rate
	(In Thousands)					
INTEREST-EARNING ASSETS						
Loans receivable	$ 4,215	$ 5,980	$ (1,765)	$ 6,567	$ 9,875	$ (3,308)
Securities	(281)	(268)	(13)	(381)	(228)	(153)
Other interest-earning assets	78	34	44	(298)	(230)	(68)
Total interest-earning assets	$ 4,012	$ 5,746	$ (1,734)	$ 5,888	$ 9,417	$ (3,529)
INTEREST-BEARING LIABILITIES						
NOW	$ 387	$ 254	$ 133	$ 5	$ (35)	$ 40
Money market	150	96	54	(169)	68	(237)
Savings deposits	110	59	51	(193)	39	(232)
Certificates of deposit	1,172	1,358	(186)	(344)	1,015	(1,359)
FHLB advances	448	463	(15)	1,750	1,922	(172)
Total interest-bearing liabilities	2,267	2,230	37	1,049	3,009	(1,960)
Net interest/spread	$ 1,745	$ 3,516	$ (1,771)	$ 4,839	$ 6,408	$ (1,569)

Comparison of Operating Results for the Years Ended December 31, 2004 and December 31, 2003

General. Net income for the year ended December 31, 2004 was $5.1 million, an increase of $1.0 million, or 23.8%, from the year ended December 31, 2003. The increase in net income resulted from the fluctuations described below.

Interest income. Interest income increased by $4.0 million, or 14.5%, to $31.7 million for the year ended December 31, 2004 from $27.7 million for the year ended December 31, 2003. The primary factor for the increase in interest income was an increase in the average balance of loans receivable of $117.5 million, or 23.3%, from $504.1 million for the year ended December 31, 2003 to $621.6 million for the year ended December 31, 2004. The increase was primarily the result of loan originations exceeding repayments due to strong demand, reflecting generally lower interest rates in 2004. The growth consisted primarily of increases in single family, multifamily, commercial and land loans. The Company offers competitive rates and does not expect the composition of the loan portfolio to change. A 33 basis point decrease in the average yield on loans receivable, from 5.35% for the year ended December 31, 2003 to 5.02% for the year ended 2004 negatively impacted interest income, and was primarily due to the continued strong refinance market resulting from lower market rates of interest. Contributing to this decrease was also the rollover of the Company's significant adjustable rate loan portfolio adjusting downward from higher rates a few years ago.

Interest income on securities decreased by $281,000, or 64.6%, to $154,000 for the year ended December 31, 2004. The decrease resulted from an $8.0 million, or 63.5%, decrease in the average balance of securities, attributable to the sale of agency debt securities and increased rate of repayment on collateralized mortgage obligations in a declining interest rate environment. These cash flows were reinvested into higher yielding loans receivable. This decrease was also a result of the average yield on the securities portfolio declining to 3.36% for the year ended December 31, 2004 compared to 3.47% for the year ended December 31, 2003, due to generally low levels of market rates of interest in 2004.

Interest income from other interest-earning assets increased $78,000 to $391,000 for the year ended December 31, 2004 from $313,000 for the year ended December 31, 2003. The increase resulted from an increase in the average balance of other interest-earning assets from $15.1 million to $16.6 million, which was primarily due to certificates of deposit in the amount of $2.0 million being deposited in other financial institutions.

Interest Expense. Interest expense increased $2.3 million, or 24.8%, to $11.4 million for the year ended December 31, 2004 from $9.2 million for the year ended December 31, 2003. The increase in interest expense resulted primarily from an increase in the average balances of deposit accounts and Federal Home Loan Bank advances. Interest expense on deposits increased $1.8 million, or 30.2%, to $7.8 million for the year ended December 31, 2004 from $6.0 million for the year ended December 31, 2003. This increase resulted from a $92.3 million increase in the average balance of deposits from $326.5 million for the year ended December 31, 2003 to $418.8 million for the year ended December 31, 2004. The average cost of our interest-bearing liabilities was 2.04% for the year ended December 31, 2004 which was consistent with the prior year. Interest expense on Federal Home Loan Bank advances increased $448,000, or 14.3%, to $3.6 million for the year ended December 31, 2004 from $3.1 million for the year ended December 31, 2003. This increase resulted from a $18.3 million increase in the average balance of FHLB advances from $123.2 million at December 31, 2003 to $141.5 million at December 31, 2004.

Net Interest Income. Net interest income before provision for loan losses increased $1.7 million, or 9.4%, to $20.3 million for the year ended December 31, 2004 from $18.6 million for the year ended December 31, 2003. The overall increase in net interest income was due primarily to the significant increase of $111.1 million in the average loan balance of interest-earning assets. However, this increase was negatively impacted by a decrease in the net interest spread of 27 basis points to 2.90% and a decrease in the net interest margin of 33 basis points during the period to 3.16%. The Company expects a continued shrinking of the net interest margin due to the recent steady increase of short term interest rates. The ratio of average interest-earning assets to average interest-bearing liabilities decreased to 114.72% for the year ended December 31, 2004 from 118.23% in the year ended December 31, 2003.

Provision for Loan Losses. Provisions for loan losses are charged to operations at a level required to reflect probable incurred credit losses inherent in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, peer group information, and prevailing economic conditions. Large groups of smaller balance homogenous loans, such as residential real estate, small commercial real estate, and home equity and consumer loans, are evaluated in the aggregate using historical loss factors and peer group data adjusted for current economic conditions. Large balance and/or more complex loans, such as multi-family and commercial real estate loans, and classified loans, are evaluated individually for impairment.

Provisions of $238,000 and $1.3 million were made for the year ended December 31, 2004 and 2003, respectively. Although a net increase in loans occurred during the year ended December 31, 2004, the provision decreased by $1.0 million

over the prior year due to slower growth in loans in 2004 to 2003 as well as continued low levels of charge-offs and nonperforming loans. Loan delinquencies decreased $2.7 million over prior year to $2.0 million at year end. The loan growth experienced continues to be achieved primarily through the use of independent loan originators and through whole loan purchases. Since Pacific Trust Bank did not have a seasoned portfolio in this type of lending and did not have a related loss history to apply to these types of loans, peer group data adjusted for local economic conditions was used to establish our loan loss allowance, resulting in the $238,000 provision.

This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change. We used the same methodology and generally similar assumptions in assessing the allowance for both periods. The allowance for loan losses as a percentage of loans outstanding decreased to .70% at December 31, 2004 from .72% at December 31, 2003. This decrease was primarily the result of continued growth in the secured portion of Bank's loan portfolio combined with current economic conditions. The level of the allowance is based on estimates and the ultimate losses may vary from the estimates.

Management assesses the allowance for loan losses quarterly. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require Pacific Trust Bank to recognize additional provisions based on their judgment of information available to them at the time of their examination. The allowance for loan losses as of December 31, 2004 was maintained at a level that represented management's best estimate of anticipated losses in the loan portfolio to the extent they were both probable and reasonably estimable.

Noninterest Income. Noninterest income increased $269,000, or 21.0%, to $1.6 million for the year ended December 31, 2004 from $1.3 million for the year ended December 31, 2003, primarily as a result of an increase of $127,000 in customer service fees on deposit accounts, a $93,000 gain made on sale of securities and $55,000 in mortgage loan prepayment penalties. Customer service fees increased as a result of an increased volume of transactions on checking accounts, ATM and debit cards.

Noninterest Expense. Noninterest expense increased $1.1 million, or 10.0%, to $12.7 million for the year ended December 31, 2004 from $11.5 million for the year ended December 31, 2003. This increase was primarily the result of a $1.1 million increase in salaries and employee benefits, a $311,000 impairment loss taken on an equity fund investment and an $86,000 increase in professional fees, partially offset by a $118,000 decrease in other general and administrative expenses.

Salaries and employee benefits represented 56.0% and 52.2% of total noninterest expense for the year ended December 31, 2004 and December 31, 2003, respectively. Total salaries and employee benefits increased $1.1 million, or 17.7%, to $7.1 million for the year ended December 31, 2004 from $6.0 million for the year ended December 31, 2003. The increase was primarily due to an increase of $249,000 in salary expense due to an increase of 11 full time equivalent employees and an increase of $317,000 in RRP compensation expense related to the additional awards made in 2004. Other contributing factors included an increase of $198,000 in the bonus compensation expense due to changes in the bonus structure from the prior period, an increase of $176,000 in ESOP compensation expense resulting from an increase in the Company's stock price for the period ended December 31, 2004 compared to the same period in 2003, and $118,000 in employee taxes, health insurance and other employee benefits resulting primarily from an increase in number of full time employees.

A $4.5 million equity investment was made in an affordable housing fund for purposes of obtaining tax credits and for Community Reinvestment Act purposes. This investment is regularly evaluated for impairment by comparing the carrying value to the remaining tax credits expected to be received. In December, 2004, an other than temporary impairment loss of $311,000 was recognized. At December 31, 2004, total benefits expected to be received by this investment approximated $4.6 million.

Professional fees increased $86,000 due primarily to increased audit fees associated with the required audit related to the Sarbanes Oxley Act.

Other general and administrative expenses decreased $118,000 due to increased expenses incurred in 2003 related to the initial public offering that occurred in the latter part of 2002.

Income Tax Expense. Income tax expense increased to $3.9 million for the year ended December 31, 2004, from $3.0 million for the year ended December 31, 2003. This increase was primarily a result of an increase in pre-tax income. The effective tax rate was 43.4% and 41.9% for the year ended December 31, 2004 and 2003, respectively.

Comparison of Operating Results for the Years Ended December 31, 2003 and December 31, 2002

General. Net income for the year ended December 31, 2003 was $4.1 million, an increase of $1.5 million, or 55.6%, from the year ended December 31, 2002. The increase in net income resulted in the fluctuations as described below.

Interest Income. Interest income increased by $5.9 million, or 27.0%, to $27.7 million for the year ended December 31, 2003 from $21.8 million for the twelve months ended December 31, 2002. The primary factor for the increase in interest income was an increase in the average balance of loans receivable of $178.2 million, or 54.7%, from $325.9 million for the year ended December 31, 2002 to $504.1 million for the year ended December 31, 2003. The increase was primarily the result of loan originations exceeding repayments due to strong demand, reflecting generally lower interest rates in 2003. A 91 basis point decrease in the average yield on loans receivable, from 6.26% for the year ended December 31, 2002 to 5.35% for the year ended 2003, negatively impacted interest income.

Interest income on securities decreased by $383,000, or 46.8%, to $435,000 for the year ended December 31, 2003. The decrease resulted from a $5.9 million, or 30.7%, decrease in the average balance of securities, attributable to the increased rate of repayment on collateralized mortgage obligations in a declining interest rate environment. These cash flows were reinvested into higher yielding loans receivable. This decrease was also a result of the average yield on the securities portfolio declining to 3.47% for the year ended December 31, 2003 compared to 4.44% for the year ended 2002, due to generally lower levels of market of rates of interest in 2003.

Interest income from other interest-earning assets decreased $297,000 to $313,000 for the year ended December 31, 2003 from $610,000 for the year ended December 31, 2002. The decrease resulted from a decrease in the average balance of other interest-earning assets from $25.8 million to $15.1 million, which was due to the temporary investment of funds received from principal repayments on loans and collateralized mortgage obligations.

Interest Expense. Interest expense increased $1.1 million, or 12.9%, to $9.2 million for the year ended December 31, 2003 from $8.1 million for the year ended December 31, 2002. The increase in interest expense resulted primarily from an increase in the average balance of Federal Home Loan Bank advances and, to a lesser extent, deposits. Interest expense on Federal Home Loan Bank advances increased $1.8 million, or 126.6%, to $3.1 million for the year ended December 31, 2003 from $1.4 million for the year ended December 31, 2002. This increase resulted from a $75 million increase in the average balance of FHLB advances from $48.3 million at December 31, 2002 to $123.2 million at December 31, 2003. The average balance of deposits increased from $289.9 million for the year ended December 31, 2002 to $326.5 million for the year ended December 31, 2003. Due to a decrease in market rates of interest during the period, the average cost of our interest-bearing liabilities decreased 36 basis points to 2.04% for the period ending December 31, 2003 from 2.40% for the period ended December 31, 2002. As a result, total interest expense on deposits decreased $701,000, or 10.4%, to $6.0 million for the year ended December 31, 2003 from $6.7 million for the year ended December 31, 2002.

Net Interest Income. Net interest income before provision for loan losses increased $4.8 million, or 35.3%, to $18.6 million for the year ended December 31, 2003 from $13.7 million for the year ended December 31, 2002. The net interest spread decreased 33 basis points to 3.17%, while the net interest margin also decreased 22 basis points during the period to 3.49% from 3.71%. The increase in net interest income primarily reflects the significant increase in the average balance of interest-earning assets. The ratio of average interest-earning assets to average interest-bearing liabilities increased to 118.23% for the year ended December 31, 2003 from 109.46% in the year ended December 31, 2002.

Provision for Loan Losses. Provisions for loan losses, were charged to operations, at a level required to reflect probable incurred credit losses inherent in the loan portfolio. In evaluating the level of the allowance for loan losses, management considers historical loss experience, the types of loans and the amount of loans in the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, peer group information, and prevailing economic conditions. Large groups of smaller balance homogenous loans, such as residential real estate, small commercial real estate, and home equity and consumer loans, are evaluated in the aggregate using historical loss factors and peer group data adjusted for current economic conditions. Large balance and/or more complex loans, such as multi-family and commercial real estate loans, and classified loans, are evaluated individually for impairment.

Provisions of $1.3 million and $1.1 million were made for the year ended December 31, 2003 and 2002, respectively. The provision increased by $163,000 reflecting a $184.2 million, or 45.4%, increase in gross loans, primarily consisting of residential real estate loans. This growth continues to be achieved primarily through the use of independent loan originators and through whole loan purchases. Since Pacific Trust Bank did not have a seasoned portfolio in this type of lending and did not have a related loss history to apply to these types of loans, peer group data adjusted for local economic conditions was used to establish our loan loss allowance, resulting in the $1.3 million provision. Loan delinquencies increased $4.6 million over the prior year to $4.7 million at year end.

This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change. We used the same methodology and generally similar assumptions in assessing the allowance for both periods. The allowance for loan losses as a percentage of loans outstanding decreased to .72% at December 31, 2003 from .74% at December 31, 2002. This decrease was primarily the result of continued growth in the secured portion of Bank's loan portfolio combined with current economic conditions. The level of the allowance is based on estimates, and the ultimate losses may vary from the estimates.

Management assesses the allowance for loan losses quarterly. While management uses available information to recognize losses on loans, future loan loss provisions may be necessary based on changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the allowance for loan losses and may require Pacific Trust Bank to recognize additional provisions based on their judgment of information available to them at the time of their examination. The allowance for loan losses as of December 31, 2003 was maintained at a level that represented management's best estimate of anticipated losses in the loan portfolio to the extent they were both probable and reasonably estimable.

Noninterest Income. Noninterest income increased $232,000, or 22.1%, to $1.3 million for the year ended December 31, 2003 from $1.0 million for the year ended December 31, 2002, primarily as a result of a decrease in other income of $57,000, an increase of $151,000 in mortgage loan prepayment penalties, and an increase of $138,000 in customer service fees on deposit accounts. Mortgage loan prepayment penalties increased due to an increase in penalties charged for prepayments during 2003. Customer service fees increased as a result of an increased volume of transactions. Other noninterest income decreased as a result of various declines in miscellaneous smaller balance accounts.

Noninterest Expense. Noninterest expense increased $2.4 million, or 26.9%, to $11.5 million for the year ended December 31, 2003 from $9.1 million for the twelve months ended December 31, 2002. This increase was primarily the result of a $1.4 million increase in salaries and employee benefits, a $580,000 increase in other general and administrative expenses, a $236,000 increase in data processing, a $117,000 increase in advertising expense, a $77,000 increase in ATM cost, and a $60,000 increase in forms and supplies. Occupancy and equipment expense decreased $82,000 from prior year.

Salaries and employee benefits represented 52.2% and 50.8% of total noninterest expense for the years ended December 31, 2003 and 2002, respectively. Total salaries and employee benefits increased $1.4 million, or 30.4%, to $6.0 million for the year ended December 31, 2003 from $4.6 million for the year ended December 31, 2002. Salaries and employee benefits increased due to the issuance of stock awards during April 2003 resulting in $356,000 of expense and an increase in the number of employees related to the opening of a new branch and increased loan activity due to bringing all servicing in-house. The number of full-time equivalent employees increased from 83 at December 31, 2002 to 106 at December 31, 2003.

Other general and administrative expenses increased $580,000 due to a variety of factors including increased costs related to being a public company such as Nasdaq fees, SEC and OTS filing fees, legal and accounting fees, annual meetings, and printing. In addition, OTS assessment fees and various operating expenses increased as a result of the growth of the Bank and the opening of new branches.

Data processing expense increased $236,000 due to the core system conversion completed in January 2003 and as a result of increased volume in both loans and deposits.

Income Tax Expense. Income tax expense increased to $3.0 million for the year ended December 31, 2003, from $2.0 million for the year ended December 31, 2002. This increase was primarily a result of an increase in pre-tax income. The effective tax rate was 41.9% and 42.6% for the twelve months ended December 31, 2003 and 2002, respectively.

Critical Accounting Policies

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by chargeoffs less recoveries. Management estimates the allowance balance required using past loan loss experience, peer group information, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Loan losses are charged against the allowance when management believes that the uncollectibility of a loan balance is confirmed.

Liquidity and Commitments

The Company is required to have enough investments that qualify as liquid assets in order to maintain sufficient liquidity to ensure a safe and sound operation. Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the return on loans. Historically, the Company has maintained liquid assets above levels believed to be adequate to meet the requirements of normal operations, including potential deposit outflows. Cash flow projections are regularly reviewed and updated to assure that adequate liquidity is maintained.

The Company's liquidity, represented by cash and cash equivalents, is a product of its operating, investing and financing activities. The Company's primary sources of funds are deposits, amortization, prepayments and maturities of outstanding loans and mortgage-backed securities, maturities of investment securities and other short-term investments and funds provided from operations. While scheduled payments from the amortization of loans and mortgage-backed securities and maturing investment securities and short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. In addition, the Company invests excess funds in short-term interest-earning assets, which provide liquidity to meet lending requirements. The Company also generates cash through borrowings. The Company utilizes Federal Home Loan Bank advances to leverage its capital base and provide funds for its lending and investment activities, and to enhance its interest rate risk management.

Liquidity management is both a daily and long-term function of business management. Excess liquidity is generally invested in short-term investments such as overnight deposits or U.S. Agency securities. On a longer term basis, the Company maintains a strategy of investing in various lending products as described in greater detail under Item 1. "Business of Pacific Trust Bank - Lending Activities." The Company uses its sources of funds primarily to meet its ongoing commitments, to pay maturing certificates of deposit and savings withdrawals, to fund loan commitments and to maintain its portfolio of mortgage-backed securities and investment securities. At December 31, 2004, the total approved loan origination commitments outstanding amounted to $9.8 million. At the same date, unused lines of credit were $22.8 million and outstanding letters of credit totaled $20,000. There are no investments and mortgage-backed securities scheduled to mature in one year or less at December 31, 2004. Certificates of deposit scheduled to mature in one year or less at December 31, 2004, totaled $127.6 million. Although the average cost of deposits decreased throughout 2003, management's policy is to maintain deposit rates at levels that are competitive with other local financial institutions. Based on the competitive rates and on historical experience, management believes that a significant portion of maturing deposits will remain with the Company. In addition, the Company has the ability at December 31, 2004 to borrow an additional $124.8 million from the Federal Home Loan Bank of San Francisco as a funding source to meet commitments and for liquidity purposes.

Commitments

	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	One Year or Less	Over One Year Through Three Years	Over Three Years Through Five Years	Over Five Years
			(in thousands)		
Commitments to extend credit	$ 9,773	$ 8,207	$ 1,566	$ —	$ —
Standby letters of credit	20	—	—	—	20
Operating Lease Obligations	1,954	326	588	482	578
	$ 11,747	$ 8,533	$ 2,154	$ 482	$ 578

Capital

Consistent with its goals to operate a sound and profitable financial organization, Pacific Trust Bank actively seeks to maintain a "well capitalized" institution in accordance with regulatory standards. Total equity was $69.6 million at December 31, 2004, or 11.8% of total assets on that date. As of December 31, 2004, Pacific Trust Bank exceeded all capital requirements of the Office of Thrift Supervision. Pacific Trust Bank's regulatory capital ratios at December 31, 2004 were as follows: core capital 10.3%; Tier I risk-based capital, 16.4%; and total risk-based capital, 17.5%. The regulatory capital requirements to be considered well capitalized are 5.0%, 6.0% and 10.0%, respectively.

Impact of Inflation

The consolidated financial statements presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America. These principles require the measurement of financial position and

operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

The Company's primary assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on our performance than the effects of general levels of inflation. Interest rates, however, do not necessarily move in the same direction or with the same magnitude as the price of goods and services, since such prices are affected by inflation. In a period of rapidly rising interest rates, the liquidity and maturities structures of our assets and liabilities are critical to the maintenance of acceptable performance levels.

The principal effect of inflation, as distinct from levels of interest rates, on earnings is in the area of noninterest expense. Such expense items as employee compensation, employee benefits and occupancy and equipment costs may be subject to increases as a result of inflation. An additional effect of inflation is the possible increase in the dollar value of the collateral securing loans that we have made. The Company is unable to determine the extent, if any, to which properties securing our loans have appreciated in dollar value due to inflation.

Recent Accounting Pronouncements

Please refer to footnote 1 of the financial statements set forth at Item 8.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Asset Liability Management

Our Risk When Interest Rates Change. The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. Market interest rates change over time. Accordingly, our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our assets and liabilities. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk and is our most significant market risk.

How We Measure Our Risk of Interest Rate Changes. As part of our attempt to manage our exposure to changes in interest rates and comply with applicable regulations, we monitor our interest rate risk. In monitoring interest rate risk we continually analyze and manage assets and liabilities based on their payment streams and interest rates, the timing of their maturities, and their sensitivity to actual or potential changes in market interest rates.

In order to manage the potential for adverse effects of material and prolonged increases in interest rates on our results of operations, we adopted asset and liability management policies to better align the maturities and repricing terms of our interest-earning assets and interest-bearing liabilities. These policies are implemented by the asset and liability management committee. The asset and liability management committee is chaired by the treasurer and is comprised of members of our senior management. The asset and liability management committee establishes guidelines for and monitors the volume and mix of assets and funding sources taking into account relative costs and spreads, interest rate sensitivity and liquidity needs. The objectives are to manage assets and funding sources to produce results that are consistent with liquidity, capital adequacy, growth, risk and profitability goals. The asset and liability management committee generally meets on at least a monthly basis to review, among other things, economic conditions and interest rate outlook, current and projected liquidity needs and capital position, anticipated changes in the volume and mix of assets and liabilities and interest rate risk exposure limits versus current projections pursuant to net present value of portfolio equity analysis. At each meeting, the asset and liability management committee recommends appropriate strategy changes based on this review. The treasurer or his designee is responsible for reviewing and reporting on the effects of the policy implementations and strategies to the board of directors on a monthly basis.

In order to manage our assets and liabilities and achieve the desired liquidity, credit quality, interest rate risk, profitability and capital targets, we have focused our strategies on:

- originating and purchasing adjustable-rate mortgage loans,
- originating shorter-term consumer loans,
- managing our deposits to establish stable deposit relationships,
- using FHLB advances to align maturities and repricing terms, and
- attempting to limit the percentage of fixed-rate loans in our portfolio.

At times, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, the asset and liability management committee may determine to increase the Company's interest rate risk position somewhat in order to maintain its net interest margin.

As part of its procedures, the asset and liability management committee regularly reviews interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and market value of portfolio equity, which is defined as the net present value of an institution's existing assets, liabilities and off-balance sheet instruments, and evaluating such impacts against the maximum potential changes in net interest income and market value of portfolio equity that are authorized by the board of directors of the Company.

The Office of Thrift Supervision provides Pacific Trust Bank with the information presented in the following tables. They present the change in Pacific Trust Bank's net portfolio value at December 31, 2004 and 2003, that would occur upon an immediate change in interest rates based on Office of Thrift Supervision assumptions, but without effect to any steps that management might take to counteract that change. A reduction in interest rates of more than 100 basis points is not presented because it would compute to a rate less than zero for certain products.

September 30, 2004

Change in Interest Rates in Basis Points ("bp") (Rate Shock in Rates)[1]	Net Portfolio Value			Net Portfolio Value as% of PV of Assets	
	$ Amount	$ Change	% Change	NPV Ratio	Change
+300 bp	63,160	(26,742)	(30)%	9.66%	(330)bp
+200 bp	74,494	(15,409)	(17)%	11.12%	(183)bp
+100 bp	83,730	(6,172)	(7)%	12.25%	(70)bp
0 bp	89,903			12.95%	0bp
-100 bp	92,227	2,324	3%	13.16%	20bp

December 31, 2003

Change in Interest Rates in Basis Points ("bp") (Rate Shock in Rates)[1]	Net Portfolio Value			Net Portfolio Value as% of PV of Assets	
	$ Amount	$ Change	% Change	NPV Ratio	Change
+300 bp	58,468	(19,139)	(25)%	9.75%	(254)bp
+200 bp	66,293	(11,314)	(15)%	10.84%	(145)bp
+100 bp	72,818	(4,789)	(6)%	11.70%	(59)bp
0 bp	77,607			12.29%	0bp
-100 bp	80,525	2,918	4%	12.61%	31bp

(1) Assumes an instantaneous uniform change in interest rates at all maturities.

The Office of Thrift Supervision uses certain assumptions in assessing the interest rate risk of savings associations. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates, and the market values of certain assets under differing interest rate scenarios, among others.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable rate mortgage loans, have features which restrict changes in interest rates on a short-term basis and over the life of the asset. Further, if interest rates change, expected rates of prepayments on loans and early withdrawals from certificates could deviate significantly from those assumed in calculating the table.

Item 8. Financial Statements and Supplementary Data

FIRST PACTRUST BANCORP, INC.
Chula Vista, California

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2004, 2003, and 2002

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
First PacTrust Bancorp, Inc.
Chula Vista, California

We have audited the accompanying consolidated statements of financial condition of First PacTrust Bancorp, Inc. as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 PacTrust Bancorp, Inc. as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with US generally accepted accounting principles.

Crowe Chizek and Company LLP

Crowe Chizek and Company LLP

Livingston, New Jersey
March 5, 2005

FIRST PACTRUST BANCORP, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2004 and 2003
(Amounts in thousands, except share and per share data)

	2004	2003
ASSETS		
Cash and due from banks	$ 5,783	$ 6,705
Federal funds sold	670	1,110
Interest-bearing deposits	5,862	3,760
Total cash and cash equivalents	12,315	11,575
Interest-bearing deposit in other financial institutions	2,490	500
Securities available-for-sale	10,019	6,419
Federal Home Loan Bank stock, at cost	7,784	8,293
Loans, net of allowance of $4,430 in 2004 and $4,232 in 2003	628,724	587,251
Accrued interest receivable	2,255	2,121
Premises and equipment, net	5,279	5,372
Other assets	5,594	2,433
Total assets	$ 674,460	$ 623,964
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	$ 15,561	$ 12,327
Interest-bearing checking	69,992	55,838
Money market accounts	75,641	65,541
Savings accounts	63,258	52,843
Certificates of deposit	229,129	203,376
Total deposits	453,581	389,925
Advances from Federal Home Loan Bank	135,500	147,000
Accrued expenses and other liabilities	5,988	2,500
Total liabilities	595,069	539,425
Shareholders' equity:		
Preferred stock, $.01 par value per share, 5,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $.01 par value; 20,000,000 shares authorized; 2004 – 5,445,000 shares issued, 2003—5,455,000 shares issued	54	55
Additional paid-in capital	65,281	64,966
Retained earnings	37,385	34,137
Treasury stock, at cost (2004 – 800,100, 2003 – 393,600 shares)	(17,180)	(8,016)
Unearned employee stock ownership plan (2004 – 296,240 shares, 2003 - 338,560 shares)	(3,555)	(4,063)
Unearned employee stock award shares (2004 – 143,560, 2003 – 148,000 shares)	(2,594)	(2,591)
Accumulated other comprehensive income	—	51
Total shareholders' equity	79,391	84,539
Total liabilities and shareholders' equity	$ 674,460	$ 623,964

See accompanying notes to consolidated financial statements.

FIRST PACTRUST BANCORP, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2004, 2003, and 2002
(Amounts in thousands, except share and per share data)

	2004	2003	2002
Interest and dividend income			
Loans, including fees	$ 31,188	$ 26,973	$ 20,406
Securities	154	435	818
Dividends and other interest-earning assets	391	313	610
Total interest and dividend income	31,733	27,721	21,834
Interest expense			
Savings	605	495	688
Checking	768	381	376
Money market	1,081	931	1,100
Certificates of deposit	5,392	4,220	4,564
Federal Home Loan Bank advances	3,580	3,132	1,382
Total interest expense	11,426	9,159	8,110
Net interest income	20,307	18,562	13,724
Provision for loan losses	238	1,272	1,109
Net interest income after provision for loan losses	20,069	17,290	12,615
Noninterest income			
Customer service fees	1,219	1,092	954
Mortgage loan prepayment penalties	206	151	—
Net gain on sales of securities available-for-sale	93	—	—
Other	32	38	95
Total noninterest income	1,550	1,281	1,049
Noninterest expense			
Salaries and employee benefits	7,069	6,004	4,605
Occupancy and equipment	1,778	1,847	1,929
Advertising	344	399	282
Professional fees	362	276	150
Stationary, supplies, and postage	393	458	398
Data processing	804	797	561
ATM costs	495	509	432
Impairment Loss on Equity Investment	311	—	—
Other general and administrative	1,102	1,220	714
Total noninterest expense	12,658	11,510	9,071
Income before income taxes	8,961	7,061	4,593
Income tax expense	3,886	2,960	1,957
Net income	$ 5,075	$ 4,101	$ 2,636
Basic earnings per share	$ 1.18	$ .86	$ .23
Diluted earnings per share	$ 1.16	$ .85	$ .23

See accompanying notes to consolidated financial statements.

FIRST PACTRUST BANCORP, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years ended December 31, 2004, 2003, and 2002
(Amounts in thousands, except share and per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Unearned ESOP	Unearned Stock Awards	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2002	$ —	$ —	$ 28,669	$ —	$ —	$ —	$ 52	$ 28,721
Issuance of stock	53	61,707	—	—	(5,078)	—	—	56,682
Employee stock ownership plan shares earned	—	126	—	—	507	—	—	633
Comprehensive income:								
Net income	—	—	2,636	—	—	—	—	2,636
Change in net unrealized gain on securities available-for-sale, net of reclassification and tax effects	—	—	—	—	—	—	209	209
Total comprehensive income								2,845
Balance at December 31, 2002	53	61,833	31,305	—	(4,571)	—	261	88,881
Comprehensive income:								
Net income	—	—	4,101	—	—	—	—	4,101
Change in net unrealized gain on securities available-for-sale, net of reclassification and tax effects	—	—	—	—	—	—	(210)	(210)
Total comprehensive income								3,891
Issuance of stock awards	2	2,843	—	102	—	(2,947)	—	—
Stock awards earned	—	—	—	—	—	356	—	356
Purchase of 398,600 shares of treasury stock	—	—	—	(8,118)	—	—	—	(8,118)
Employee stock ownership plan shares earned	—	290	—	—	508	—	—	798
Dividends declared ($.26 per share)	—	—	(1,269)	—	—	—	—	(1,269)
Balance at December 31, 2003	55	64,966	34,137	(8,016)	(4,063)	(2,591)	51	84,539
Comprehensive income:								
Net income	—	—	5,075	—	—	—	—	5,075
Change in net unrealized gain on securities available-for-sale, net of reclassification and tax effects	—	—	—	—	—	—	(51)	(51)
Total comprehensive income								5,024
Forfeiture and retirement of Stock	(1)	(171)	—	(41)	—	212	—	(1)
Issuance of stock awards	—	(47)	—	936	—	(889)	—	—
Stock awards earned	—	—	—	—	—	674	—	674
Purchase of 448,300 shares of treasury stock	—	—	—	(10,059)	—	—	—	(10,059)
Employee stock ownership plan shares earned	—	484	—	—	508	—	—	992
Tax Benefits of RRP Shares Vesting	—	49	—	—	—	—	—	49
Dividends declared ($.42 per share)	—	—	(1,827)	—	—	—	—	(1,827)
Balance at December 31, 2004	$ 54	$ 65,281	$ 37,385	$ (17,180)	$ (3,555)	$ (2,594)	$ -	$ 79,391

See accompanying notes to consolidated financial statements.

FIRST PACTRUST BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2004, 2003, and 2002
(Amounts in thousands, except share and per share data)

	2004	2003	2002
Cash flows from operating activities			
Net income	$ 5,075	$ 4,101	$ 2,636
Adjustments to reconcile net income to net cash provided by operating activities			
Provision for loan losses	238	1,272	1,109
Net amortization of securities	30	220	181
Depreciation and amortization	472	415	494
Employee stock ownership plan compensation expense	992	798	633
Stock award compensation expense	674	356	—
Realized gain on sales of securities available-for-sale, net	(93)	—	—
Impairment of equity investment	311	—	—
Loss on disposal of premises and equipment	37	8	—
Deferred income tax benefit	(269)	(127)	(110)
Federal Home Loan Bank stock dividends	(324)	(276)	(106)
Net change in:			
Deferred loan fees	14	(614)	(530)
Accrued interest receivable	(134)	(312)	(349)
Other assets	1,297	(802)	935
Accrued expenses and other liabilities	862	1,278	(217)
Net cash provided by operating activities	9,182	6,317	4,676
Cash flows from investing activities			
Proceeds from sales of securities available-for-sale	10,556	—	—
Proceeds from maturities and principal repayments of securities available-for-sale	1,270	11,755	6,681
Purchases of securities available-for-sale	(15,449)	(19)	(11,577)
Purchases of equity investment	(1,791)	—	—
Loan originations and principal collections, net	(41,181)	(171,064)	(129,732)
Purchase of loans	(544)	—	(19,403)
Increase in other interest-bearing deposits	(1,990)	(500)	—
Additions to premises and equipment	(416)	(632)	(1,794)
Redemption of Federal Home Loan Bank stock	833	—	—
Purchase of Federal Home Loan Bank stock	—	(3,512)	(1,890)
Net cash used in investing activities	(48,712)	(163,972)	(157,715)
Cash flows from financing activities			
Net increase in deposits	63,656	110,211	27,760
Net change in Federal Home Loan Bank open line	(500)	8,900	16,100
Repayments of Federal Home Loan Bank advances	(28,000)	(20,000)	(83,100)
Proceeds from Federal Home Loan Bank advances	17,000	68,000	129,100
Net proceeds from stock issuance	—	—	56,682
Purchase of treasury stock	(10,059)	(8,118)	—
Dividends paid on common stock	(1,827)	(1,269)	—
Net cash provided by financing activities	40,270	157,724	146,542

(Continued)

FIRST PACTRUST BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2004, 2003, and 2002
(Amounts in thousands, except share and per share data)

	2004	2003	2002
Net change in cash and cash equivalents	$ 740	$ 69	$ (6,497)
Cash and cash equivalents at beginning of year	11,575	11,506	18,003
Cash and cash equivalents at end of year	$ 12,315	$ 11,575	$ 11,506
Supplemental cash flow information			
Interest paid on deposits and borrowed funds	$ 11,368	$ 8,941	$ 8,101
Income taxes paid	2,547	4,466	2,108
Supplemental disclosure of noncash activities			
Amount due from servicing agent	—	—	13,727
Commitment for additional equity investment	2,709	—	—

See accompanying notes to consolidated financial statements.

NOTE 1 - CONVERSION TO STOCK FORM OF OWNERSHIP

On March 1, 2002, the Board of Directors of Pacific Trust Bank (the Bank) adopted a plan of conversion to convert from a federally chartered mutual savings bank to a federally chartered stock savings bank with the concurrent formation of a holding company. The conversion was accomplished through the sale of all of the Bank's stock to First PacTrust Bancorp, Inc. (the Company) and the sale of the Company's stock to the public on August 22, 2002.

In connection with the conversion, the Company issued 5,290,000 shares of common stock for gross proceeds of $63.5 million. The Company loaned $5.1 million to the Bank's employee stock ownership plan (ESOP) to purchase stock in the offering and incurred $1.7 million of expenses associated with the offering, resulting in net proceeds of $56.7 million. The aggregate purchase price was determined by an independent appraisal. The Bank issued all of its outstanding capital stock to the Company in exchange for one-half of the net proceeds of the offering.

In accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations*, when accounting for a transfer of assets or exchange of shares between entities under common control, the entity that receives the net assets or the equity interests shall initially recognize the assets and liabilities transferred at their carrying amounts in the accounts of the transferring entity at the date of transfer. Therefore, First PacTrust Bancorp, Inc. recorded the acquisition of the Bank at historical cost.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, the Bank. All significant intercompany transactions and balances are eliminated in consolidation.

Nature of Operations: The only business of the Company is the ownership of the Bank. The Bank is a federally chartered stock savings bank and member of the Federal Home Loan Bank (FHLB) system, which maintains insurance on deposit accounts with the Savings Association Insurance Fund (SAIF) of the Federal Deposit Insurance Corporation. The Bank is engaged in the business of retail banking with operations conducted through its main office and eight branches located in the San Diego and Riverside counties.

The accounting and reporting policies of the Company are based upon accounting principles generally accepted in the United States of America and conform to predominant practices within the banking industry. Significant accounting polices followed by the Company are presented below.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates in the Preparation of Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The collectibility of loans, fair value of financial instruments, and status of contingencies are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash on hand, deposits with other financial institutions under 90 days, and daily federal funds sold. The Company reports net cash flows for customer loan transactions and deposit transactions and interest bearing deposits in other financial institutions.

Interest-bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

Securities: Debt securities are classified as held to maturity when the Company has the positive intent and ability to hold those securities to maturity. Accordingly, they are stated at cost, adjusted for amortization of premiums and accretion of discounts. All other securities are classified as available for sale since the Company may decide to sell those securities in response to changes in market interest rates, liquidity needs, changes in yields or alternative investments, and for other reasons. These securities are carried at fair value with unrealized holding gains and losses, net of taxes, reported in other comprehensive income. Other securities such as Federal Home Loan Bank stock are carried at cost.

Interest income includes amortization of purchase premium or discount. Gains and losses on sales are recorded on the trade date and based on the amortized cost of the security sold.

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, and (3) the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

Affordable Housing Fund: The Company has a 19% equity investment in an affordable housing fund totaling $4.2 million, with a commitment to fund an additional $300, for purposes of obtaining tax credits and for Community Reinvestment Act purposes. This investment is recorded in other assets on the balance sheet and is accounted for using the equity method of accounting. Under the equity method of accounting, the Company recognizes its ownership share of the profits and losses of the Fund. This investment is regularly evaluated for impairment by comparing the carrying value to the remaining tax credits expected to be received. In December 2004, the Company recognized an impairment charge on an equity investment in an affordable housing fund which was considered to have other than temporary loss. The Company adjusted the basis (carrying value) of the security to reflect its fair value at the date of impairment recognizing a loss of $311.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or repayment are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income on mortgage and commercial loans is discontinued at the time the loan is 91 days delinquent unless the loan is well-secured and in process of collection. Consumer loans are typically charged off no later than 180 days past due. Payments received on such loans are reported as principal reductions. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, peer group information, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller-balance loans of similar nature, such as residential mortgage and consumer loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Servicing Agent Receivable: The Bank contracted with a servicing agent to process payments and service a portion of the Bank's real estate loan portfolio. The servicing agent remits cash receipts within 15 days of the end of each month for loan payments received. These cash amounts are reflected as due from servicing agent on the consolidated statements of financial condition. During April 2003, loan servicing was brought in-house and the contract with the servicing agent was canceled.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings are depreciated using the straight-line method with an average useful life of 39 years. Leasehold improvements are depreciated using the straight-line method over estimated useful lives not to exceed the lease term. Lease terms range up to ten years. Furniture, fixtures, and equipment are depreciated using the straight-line method with useful lives ranging from five to seven years. Maintenance and repairs are charged to expense as incurred, and improvements that extend the useful lives of assets are capitalized.

Long-term Assets: Premises and equipment, core deposit and other intangible assets, and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Loan Commitments and Related Financial Statements: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. Instruments, such as standby letters of credit, that are considered financial guarantees in accordance with FASB Interpretation No. 45 are recorded at fair value.

Stock Compensation: Employee compensation expense under stock options is reported using the intrinsic value method. No stock-based compensation cost is reflected in net income, as all options granted had an exercise price equal to the market price of the underlying common stock at date of grant. The following table illustrates the effect on net income and earnings per share if expense was measured using the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation.*

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	2004	2003
Net income as reported	$ 5,075	$ 4,101
Deduct: Stock-based compensation expense determined under fair value based method, net of tax	82	49
Pro forma net income	$ 4,993	$ 4,052
Basic earnings per share as reported	$ 1.18	$ .86
Pro forma basic earnings per share	1.16	.85
Diluted earnings per share as reported	1.16	.85
Pro forma diluted earnings per share	1.14	.84

The fair value of options granted and pro forma effects are computed using option pricing models, using the following weighted-average assumptions as of grant date.

	April 21 2004	May 14 2004
Date of Grant		
Options granted	101,050	5,000
Estimated fair value of stock options granted	$ 1.58	$ 2.02
Assumptions used:		
Risk-free interest rate	3.52%	3.92%
Expected option life	5 years	5 years
Expected stock price volatility	4.93%	5.71%
Dividend yield	2.07%	2.01%

	April 24 2003	May 14 2003	June 24 2003	December 15 2003
Date of grant				
Options granted	389,000	26,450	5,000	10,000
Estimated fair value of stock options granted	$ 1.51	$ 1.45	$ 1.31	$ 2.12
Assumptions used:				
Risk-free interest rate	2.92%	2.47%	2.21%	3.26%
Expected option life	5 years	5 years	5 years	5 years
Expected stock price volatility	8.77%	7.81%	7.18%	9.65%
Dividend yield	1.41%	1.29%	1.29%	1.38%

Income Taxes: The Company records income tax expense based on the amount of taxes due on its tax return, plus deferred taxes computed on the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities, using enacted tax rates. A valuation allowance, if needed reduces deferred tax assets to the amount expected to be realized.

Employee Stock Ownership Plan: The cost of shares issued to the ESOP but not yet allocated to participants is shown as a reduction of shareholders' equity. Compensation expense is based on the market price of shares as they are committed to be released to participant accounts. Dividends on allocated and/or unearned shares first reduces retained accrued interest and secondly principal.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Common Share: Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. ESOP shares are considered outstanding for this calculation unless unearned. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options and stock awards. Earnings per share are calculated beginning with August 22, 2002, the date of conversion.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, net of tax, which are also recognized as a separate component of equity.

New Accounting Standards: SOP 03-3 requires that a valuation allowance for loans acquired in a transfer, including in a business combination, reflect only losses incurred after acquisition and should not be recorded at acquisition. It applies to any loan acquired in a transfer that showed evidence of credit quality deterioration since it was made.

In March 2004, the FASB Emerging Issues Task Force ("EITF") reached a consensus regarding EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The consensus clarifies the meaning of other-than-temporary impairment and its application to investments classified as either available-for-sale or held-to-maturity under SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities," and investments accounted for under the cost method or the equity method. The recognition and measurement guidance for which the consensus was reached is to be applied to other-than-temporary impairment evaluations. In September 2004, the Financial Accounting Standards Board ("FASB") issued a final FASB Staff Position, FSP EITF Issue 03-01-1, which delays the effective date for the measurement and recognition guidance of EITF 03-01. The comment period is currently open related to this staff position. The implementation date is unknown until further guidance is issued by the FASB. We are currently evaluating the impact of adopting EITF 03-01.

SFAS 123R, "Accounting for Stock-Based Compensation, Revised," requires all public companies to record compensation cost for stock options provided to employees in return for employee service. The cost is measured at the fair value of the options when granted, and this cost is expensed over the employee service period, which is normally the vesting period of the options. This will apply to awards granted or modified as of the beginning of the first quarter or annual reporting period that begins after June 15, 2005. Compensation cost will also be recorded on the date of grant as the Company's options vest immediately. The effect on results of operations will depend on the level of future option grants and the calculation of the fair value of the options granted at such future date and so cannot currently be predicted. No existing options vest after adoption date so no additional compensation expense will be recorded subsequent to the date of adoption with respect to outstanding options. There will be no significant effect on financial position as total equity will not change.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Operating Segments: While the chief decision-makers monitor the revenue streams of the various products and services, the identifiable segments are not material and operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications: Some items in the prior year financial statements were reclassified to conform to the current presentation.

NOTE 3 - SECURITIES

The fair value of securities available for sale and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
2004			
Agency securities FHLB note	$ 9,921	$ —	$ (32)
Collateralized mortgage obligations			
Federal National Mortgage Association	10	—	—
Government National Mortgage Association	2	—	—
Equity Securities	86	32	—
	$ 10,019	$ 32	$ (32)

The FHLB notes will mature in November, 2009.

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
2003			
Agency securities FHLB note	$ 5,104	$ 72	$ —
Collateralized mortgage obligations			
Federal National Mortgage Association	1,284	4	—
Government National Mortgage Association	2	—	—
Equity Securities	29	10	—
Total securities available for sale	$ 6,419	$ 86	$ —

Sales of securities available-for-sale were as follows:

	2004	2003	2002
Proceeds from sales of securities	$ 10,556	—	—
Gross realized gains	93	—	—

Securities with unrealized losses at year-end 2004, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Description of Securities						
Agency Securities FNMA Note	$ -	$ -	$ 9,921	$ 32	$ 9,921	$ 32
Total temporarily impaired	$ -	$ -	$ -	$ 32	$ 9,921	$ 32

At December 31, 2003, there were no temporarily impaired securities.

(Continued)

The Company evaluates securities for other-than-temporary impairment-at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. In analyzing an issuer's financial condition, the Company may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition.

As of December 31, 2004, the Company had recorded $32 of unrealized losses on two agency securities. The unrealized losses relate principally to the general change in interest rate levels that has occurred since the securities purchase dates, and such unrecognized losses or gains will continue to vary with general interest rate level fluctuations in the future. In analyzing the issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades have occurred, and industry analysts' reports. As management has the ability to hold these debt securities, classified as available for sale, for the foreseeable future, no declines are deemed to be other than temporary.

(Continued)

NOTE 4 - LOANS

Loans receivable consist of the following:

	2004	2003
One-to-four-family	$ 517,564	$ 496,253
Commercial real estate and multi-family	89,299	73,789
Construction loans	126	2,229
Home equity loans	12,905	10,738
Consumer	4,020	4,908
Commercial	681	752
Land	7,356	1,597
Total	631,951	590,266
Allowance for loan losses	(4,430)	(4,232)
Net deferred loan costs	1,203	1,217
Loans receivable, net	$ 628,724	$ 587,251

Activity in the allowance for loan losses is summarized as follows:

	2004	2003	2002
Balance at beginning of year	$ 4,232	$ 2,953	$ 1,742
Loans charged off	(98)	(56)	(67)
Recoveries of loans previously charged off	58	63	169
Provision for loan losses	238	1,272	1,109
Balance at end of year	$ 4,430	$ 4,232	$ 2,953

There were no loans individually classified as impaired loans in 2004 or 2003.

Nonperforming loans were as follows:

	2004	2003
Loans past due over 90 days still on accrual	$ —	$ —
Nonaccrual loans	$ 4	$ 1

Nonperforming loans includes both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

(Continued)

NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	2004	2003
Land and improvements	$ 1,638	$ 1,638
Buildings	3,625	3,803
Furniture, fixtures, and equipment	3,619	3,220
Leasehold improvements	973	971
Construction in process	—	3
Total	9,855	9,635
Less accumulated depreciation and amortization	4,576	4,263
Premises and equipment, net	$ 5,279	$ 5,372

Depreciation expense was $472, $415, and $494 for 2004, 2003, and 2002.

Pursuant to the terms of noncancelable lease agreements in effect at December 31, 2004 pertaining to banking premises and equipment, future minimum rent commitments under various operating leases are as follows, before considering renewal options that generally are present.

2005	$ 326
2006	326
2007	262
2008	241
2009	241
Thereafter	558
Total	$ 1,954

Total rent expense for the years ended December 31, 2004, 2003, and 2002 amounted to $335, $229, and $178.

(Continued)

NOTE 6 - DEPOSITS

Certificate of deposit accounts with balances of $100 or more totaled $82,809 and $64,894 at December 31, 2004 and 2003.

The scheduled maturities of time deposits at December 31, 2004 are as follows:

2005	$ 127,605
2006	30,705
2007	56,289
2008	7,534
2009	6,996
Total	$ 229,129

NOTE 7 – FEDERAL HOME LOAN BANK ADVANCES

At December 31, 2004, the interest rates on the Bank's advances from the FHLB ranged from 1.80% to 4.05% with a weighted average rate of 2.62%. At December 31, 2003, the interest rates on the Bank's advances from the FHLB ranged from 0.97% to 5.22% with a weighted average rate of 2.51%. The contractual maturities by year of the Bank's advances are as follows:

	2004	2003
2004	$ —	$ 28,000
2005	27,000	26,000
2006	50,000	35,000
2007	14,000	13,000
2008	20,000	20,000
Overnight borrowings	24,500	25,000
Total advances	$ 135,500	$ 147,000

Each advance is payable at its maturity date, with a prepayment penalty. The Bank's advances from the FHLB were collateralized by certain real estate loans of an aggregate unpaid principal balance of $575,836 and $512,029, certain mortgage-backed securities of $10 and $1,944, and the Bank's investment of capital stock of FHLB of San Francisco of $7,784 and $8,293 at year-end 2004 and 2003. Based on this collateral and the Company's holdings of FHLB stock, the Company is eligible to borrow an additional $124,800 at year-end 2004.

(Continued)

NOTE 8 - EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

In connection with the conversion, the Bank established an ESOP for the benefit of its employees. The Company issued 423,200 shares of common stock to the ESOP in exchange for a ten-year note in the amount of approximately $5.1 million. The $5.1 million for the ESOP purchase was borrowed from the Company.

Shares issued to the ESOP are allocated to ESOP participants based on principal repayments made by the ESOP on the loan from the Company. The loan is secured by shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Company's contributions to the ESOP and earnings on ESOP assets. Principal payments are scheduled to occur over a ten-year period. Dividends on allocated and/or unearned shares first reduces accrued interest and secondly principal.

During 2004, 2003 and 2002, 42,320 shares of stock with an average fair value $23.46, $18.90 and $14.97 per share were committed to be released, resulting in ESOP compensation expense of $992, $798 and $633. Shares held by the ESOP at December 31, 2004 and 2003 are as follows:

Shares held by the ESOP were as follows:

	2004	2003
Allocated shares	121,245	84,640
Unearned shares	296,240	338,560
Total ESOP shares	417,485	423,200
Fair value of unearned shares at December 31, 2004	$ 8,102	$ 7,557

NOTE 9 - INCOME TAXES

Allocation of federal and state income taxes between current and deferred portions is as follows:

	2004	2003	2002
Current tax provision			
Federal	$ 3,106	$ 2,294	$ 1,491
State	1,049	793	576
	4,155	3,087	2,067
Deferred tax benefit			
Federal	(209)	(96)	(83)
State	(60)	(31)	(27)
	(269)	(127)	(110)
	$ 3,886	$ 2,960	$ 1,957

(Continued)

NOTE 9 - INCOME TAXES (Continued)

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows:

	2004	2003	2002
Statutory federal tax rate	34.0%	34.0%	34.0%
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	7.5	7.5	7.0
Other, net	1.9	0.4	1.6
Effective tax rates	43.4%	41.9%	42.6%

The components of the net deferred tax asset, included in other assets, are as follows:

	2004	2003
Deferred tax assets		
Allowance for loan losses	$ 1,379	$ 1,411
Section 475 mark-to-market adjustment	—	35
RRP Plan	195	146
Deferred California tax	366	271
Impairment	128	—
Other	164	12
	2,232	1,875
Deferred tax liabilities		
Deferred loan fees	(757)	(826)
FHLB stock dividends	(416)	(289)
Unrealized gain on securities available-for-sale	—	(35)
Depreciation	(97)	(9)
Other	(71)	(94)
	(1,341)	(1,253)
Net deferred tax asset	$ 891	$ 622

NOTE 10 - LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

Some financial instruments such as loan commitments, credit lines, letters of credit, and overdraft protection are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contact are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although

(Continued)

NOTE 10 - LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES (Continued)

material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amount of financial instruments with off-balance-sheet risk was as follows at year end:

	Contract Amount December 31,	
	2004	**2003**
Financial instruments whose contract amounts represent credit risk		
Commitments to extend credit	$ 7,716	$ 14,049
Unused lines of credit	22,835	19,986
Construction loans in process	2,057	4,721
Standby letters of credit	20	10

At December 31, 2004 and 2003, fixed rate commitments to extend credit consisted of $5,910 and $470 respectively. The fixed rate commitments at December 31, 2004 are due to expire within 1 to 60 days of issuance and have rates ranging from 5.25% to 7.95% and maturities ranging from 1 years to 5 years.

Financial instruments that potentially subject the Bank to concentrations of credit risk include interest-bearing deposit accounts in other financial institutions, and loans. At December 31, 2004 and 2003, the Bank had deposit accounts with balances totaling approximately $2,401 and $2,084 at Pacific Coast Bankers Bank.

NOTE 11 - MINIMUM REGULATORY CAPITAL REQUIREMENTS

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action.

(Continued)

NOTE 11 - MINIMUM REGULATORY CAPITAL REQUIREMENTS (Continued)

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2004 and 2003, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts and ratios are presented below at year-end.

	Actual		Minimum Capital Requirements		Minimum Required to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2004						
Total capital (to risk- weighted assets)	$ 74,062	17.49%	$ 33,879	8.00%	$ 42,349	10.00%
Tier 1 capital (to risk- weighted assets)	69,590	16.43	16,940	4.00	25,410	6.00
Tier 1 (core) capital (to adjusted tangible assets)	69,590	10.33	26,950	4.00	33,688	5.00
December 31, 2003						
Total capital (to risk- weighted assets)	$ 66,915	18.15%	$ 29,489	8.00%	$ 36,862	10.00%
Tier 1 capital (to risk- weighted assets)	62,740	17.02	14,745	4.00	22,117	6.00
Tier 1 (core) capital (to adjusted tangible assets)	62,740	10.07	24,932	4.00	31,166	5.00

The Qualified Thrift Lender test requires at least 65% of assets be maintained in housing-related finance and other specified areas. If this test is not met, limits are placed on growth, branching, new investments, FHLB advances and dividends, or the Bank must convert to a commercial bank charter. Management believes that this test is met.

NOTE 11 - MINIMUM REGULATORY CAPITAL REQUIREMENTS (Continued)

Banking regulations limit capital distributions by savings associations (or national banks). Generally, capital distributions are limited to undistributed net income for the current and prior two years. At year-end 2004, approximately $12.0 million is available to pay dividends to the holding company. These regulations pose no practical restrictions to paying dividends at historical levels.

NOTE 12 - EMPLOYEE BENEFIT PLANS

The Bank has a 401(k) plan whereby substantially all employees participate in the plan. Employees may contribute up to 15% of their compensation subject to certain limits based on federal tax laws. The Bank makes matching contributions, to be determined annually by management, on the first 4% of the employee's compensation contributed to the plan. Matching contributions vest to the employee at the end of the calendar year in which the contribution was made. For the years ended December 31, 2004, 2003, and 2002, expense attributable to the plan amounted to $70, $67, and $72.

Effective June 1, 2001, the Board of Directors adopted a Deferred Compensation Plan under Section 401 of the Internal Revenue Code. The purpose of this plan is to provide specified benefits to a select group of management and highly compensated employees. Participants may elect to defer compensation, which accrues interest quarterly at the prime rate as reflected in *The Wall Street Journal* as of the last business day of the prior quarter. The Company does not make contributions to the Plan.

NOTE 13 - EMPLOYEE STOCK COMPENSATION

RRP Plan: A Recognition and Retention Plan (RRP) provides for issue of shares to directors, officers, and employees. Compensation expense is recognized over the vesting period of the shares as of the market value at date of grant. Pursuant to its 2003 stock-based incentive plan, total shares issuable under the plan are 211,600. The Company awarded 41,800 and 170,000 shares of restricted stock during 2004 and 2003 of which 12,000 shares have been forfeited. These shares vest over a five-year period. The unamortized cost of shares not yet earned (vested) is reported as a reduction of shareholders' equity. Compensation expense for restricted stock awards totaled approximately $674 and $356 for the year ended December 31, 2004 and 2003, respectively.

(Continued)

NOTE 13 - EMPLOYEE STOCK COMPENSATION (Continued)

SOP Plan: A Stock Option Plan (SOP) provides for issue of options to directors, officers, and employees. The Company adopted the SOP during 2003 under the terms of which 529,000 shares of the Company's common stock may be awarded. The options become exercisable in equal installments over a five-year period from the date of grant. The options expire ten years from the date of grant.

A summary of the activity in the SOP is as follows:

	2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at Beginning of year	425,450	$ 17.40	—	$ —
Granted	106,050	20.32	430,450	17.40
Exercised	—	—	—	—
Forfeited or expired	43,000	17.79	5,000	18.61
Outstanding at end of year	488,500	$ 17.99	425,450	$ 17.40
Options exercisable at year-end	77,690		—	
Weighted-average fair Value of options Granted during year	$ 1.57		$ 1.51	

Options outstanding at year-end 2004 were as follows.

	Outstanding			Exercisable	
Range of Exercise Prices	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$17 - $20	374,450	8.31	$ 17.23	75,690	$ 17.23
$20 - $22	114,050	9.28	20.46	2,000	21.99
Outstanding at year end	488,500			77,690	

(Continued)

NOTE 14 - EARNINGS PER COMMON SHARE

The factors used in the earnings per share computation follow.

	2004	2003	2002
Basic			
Net income	$ 5,075	$ 4,101	$ 2,636
Less net income of Bank prior to conversion	—	—	1,533
Net income attributable to common shareholders	$ 5,075	$ 4,101	$ 1,103
Weighted average common shares outstanding	4,292,473	4,796,897	4,881,868
Basic earnings per share	$ 1.18	$ .86	$ .23
Diluted			
Net income	$ 5,075	$ 4,101	$ 1,103
Weighted average common shares outstanding for basic earnings per common share	4,292,473	4,796,897	4,881,868
Add: Dilutive effects of stock options	67,715	13,769	—
Add: Dilutive effects of stock awards	20,984	5,750	—
Average shares and dilutive potential common shares	4,381,171	4,816,416	4,881,868
Diluted earnings per common share	$ 1.16	$ .85	$ .23

(Continued)

NOTE 15 - RELATED PARTY TRANSACTIONS

The Company has granted loans to certain officers and directors and their related interests.

Activity in the loan accounts of officers and directors and their related interests follows for the year ended December 31, 2004:

Balance at beginning of year	$ 1,559
Loans originated	33
Principal repayments	(85)
Balance at end of year	$ 1,507

Deposits from principal officers, directors, and their related interests at year-end 2004 and 2003 were $ 1,197 and $1,254.

NOTE 16 - FAIR VALUES OF FINANCIAL INSTRUMENTS

Carrying amount and estimated fair value of financial instruments consist of the following:

	December 31, 2004		December 31, 2003	
	Approximate Carrying Amount	Estimated Fair Value	Approximate Carrying Amount	Estimated Fair Value
Financial assets				
Cash and cash equivalents	$ 12,315	$ 12,315	$ 11,575	$ 11,575
Interest-bearing deposits with other financial institutions	2,490	2,490	500	500
Securities available for sale	10,019	10,019	6,419	6,419
FHLB stock	7,784	7,784	8,293	8,293
Loans, net	628,724	634,307	587,251	596,150
Accrued interest receivable	2,255	2,255	2,121	2,121
Financial liabilities				
Deposits	$ 453,581	$ 453,433	$ 389,925	$ 391,191
Federal Home Loan Bank Advances	135,500	134,333	147,000	146,752
Accrued interest payable	295	295	236	236

(Continued)

NOTE 16 - FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, interest bearing deposits with other financial institutions, FHLB stock, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans or deposits that reprice frequently and fully. Security fair values are based on market prices or dealer quotes and, if no such information is available, on the rate and term of the security and information about the issuer. For fixed rate loans and deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk.

The fair value of advances from the FHLB is based on current rates for similar financing. The fair value of off-balance-sheet items is based on the current fees or the cost that would be charged to enter into or terminate such arrangements. The fair value of off-balance-sheet financial instruments is immaterial.

NOTE 17 - OTHER COMPREHENSIVE INCOME

Other comprehensive income components and related taxes were as follows:

	2004	2003	2002
Unrealized holding gains (losses) on securities available for sale	$ 7	$ (358)	$ 357
Reclassification adjustments for gains recognized in income	(93)	—	—
Net unrealized gains (losses)	(86)	(358)	357
Tax effect	35	148	(148)
Other comprehensive income (loss)	$ (51)	$ (210)	$ 209

(Continued)

NOTE 18 - QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

	Three Months Ended			
	March 31	June 30	September 30	December 31
2004				
Interest income	$ 7,743	$ 7,827	$ 8,028	$ 8,135
Interest expense	2,606	2,726	2,919	3,175
Net interest income	5,137	5,101	5,109	4,960
Provision for loan losses	108	148	194	(212)
Noninterest income	331	452	437	330
Noninterest expense	3,107	3,048	2,962	3,541
Income before income taxes	2,253	2,357	2,390	1,961
Income tax expense	1,058	926	1,033	869
Net income	$ 1,195	$ 1,431	$ 1,357	$ 1,092
Earnings per share	$ .26	$ .34	$ .32	$ .26
2003				
Interest income	$ 6,332	$ 6,861	$ 6,950	$ 7,578
Interest expense	2,027	2,200	2,386	2,546
Net interest income	4,305	4,661	4,564	5,032
Provision for loan losses	328	300	435	209
Noninterest income	238	326	384	333
Noninterest expense	2,550	2,856	2,894	3,210
Income before income taxes	1,665	1,831	1,619	1,946
Income tax expense	708	785	649	818
Net income	$ 957	$ 1,046	$ 970	$ 1,128
Earnings per share	$ .19	$ .21	$ .20	$ .24

(Continued)

NOTE 19 - PARENT COMPANY CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS
December 31, 2004 and 2003

	2004	2003
ASSETS		
Cash and cash equivalents	$ 5,640	$ 16,406
Interest-bearing deposits in other financial institution	505	500
Securities available for sale	86	30
ESOP loan	3,555	4,570
Investment in bank subsidiary	69,572	62,785
Accrued interest receivable and other assets	86	282
Total assets	$ 79,444	$ 84,573
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued expenses and other liabilities	$ 53	$ 34
Shareholders' equity	79,391	84,539
Total liabilities and shareholders' equity	$ 79,444	$ 84,573

(Continued)

NOTE 19 - PARENT COMPANY CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF INCOME
For the years ended December 31, 2004, 2003 and
for the period 8/22/02 to 12/31/02

	2004	2003	2002
Income			
ESOP loan	$ 228	$ 255	$ 100
Deposits in other financial institutions	150	366	167
Other income	—	1	—
Total income	378	622	267
Other Expenses			
Other operating expense	212	321	40
Income before income taxes and equity in undistributed earnings of bank subsidiary	166	301	227
Income taxes	68	69	108
Income before equity in undistributed earnings of bank subsidiary	98	232	119
Equity in undistributed earnings of bank subsidiary	4,977	3,869	984
Net income	$ 5,075	$ 4,101	$ 1,103

(Continued)

NOTE 19 - PARENT COMPANY CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENT OF CASH FLOWS
For the year ended December 31, 2004, 2003 and
for the period 8/22/02 to 12/31/02

	2004	2003	2002
Cash flows from operating activities			
Net income	$ 5,075	$ 4,101	$ 1,103
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed subsidiary income	(4,977)	(3,869)	(984)
Change in other assets and liabilities	205	325	(69)
Net cash from operating activities	303	557	50
Cash flows from investing activities			
Purchase of bank subsidiary stock	—	—	(30,880)
Increase in other interest-bearing deposits	(5)	(500)	—
Purchase of securities	(35)	(19)	—
Net cash from investing activities	(40)	(519)	(30,880)
Cash flows from financing activities			
Proceeds from sale of common stock	—	—	56,682
Capital contribution to the Bank	(158)	(97)	—
ESOP loan payments	1,015	—	—
Purchase of treasury stock	(10,059)	(8,118)	—
Dividends paid	(1,827)	(1,269)	—
Net cash from financing activities	(11,029)	(9,484)	56,682
Net change in cash and cash equivalents	(10,766)	(9,446)	25,852
Beginning cash and cash equivalents	16,406	25,852	—
Ending cash and cash equivalents	$ 5,640	$ 16,406	$ 25,852

(Continued)

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

No disclosure is required under this Item.

Item 9A.Controls and Procedures

An evaluation of our disclosure controls and procedures (as defined in Section 13(a)-14(c) of the Securities Exchange Act of 1934 (the "Exchange Act")) as of December 31, 2004, was carried out under the supervision and with the participation of the our Chief Executive Officer, Principal Financial Officer and several other members of our senior management within the 90-day period preceding the filing date of this annual report. Our Chief Executive Officer and Principal Financial Officer concluded that, as of December 31, 2004, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is (i) accumulated and communicated to our management (including our Chief Executive Officer and Principal Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There were no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2004, that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

We do not expect that our disclosure controls and procedures will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgment in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

The Sarbanes-Oxley Act of 2002 (the"Act") imposed many requirements regarding corporate governance and financial reporting. One requirement under Section 404 of the Act, beginning with this annual report, is for management to report on the effectiveness of *First PacTrust*'s internal control over financial reporting as of December 31, 2004, and for our independent registered public accounting firm to attest to this report. On November 30, 2004, the Securities and Exchange Commission issued an exemptive order providing a 45-day extension for the filing of these reports and attestations by eligible companies. We elected to utilize this 45-day extension; accordingly this Form 10-K does not include these reports but an amendment to this Form 10-K, including these reports will be filed on or before May 2, 2005. Currently, we are not aware of any material weaknesses in our internal control over financial reporting.

Item 9B. Other Information

None

PART III

Item 10. Directors and Executive Officers of the Registrant

Directors and Executive Officers. The information concerning directors of the Company required by this item is incorporated herein by reference from the Company's definitive proxy statement for its 2004 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company's fiscal year. Information concerning the executive officers of the Company who are not directors is incorporated herein by reference from Part I of this Form 10K under the caption "Executive Officers of the Registrant Who Are Not Directors."

Audit Committee Financial Expert. Information concerning the audit committee of the Company's Board of Directors, including information regarding the audit committee financial experts serving on the audit committee, is incorporated herein by reference from the definitive proxy statement for the Annual Meeting of Stockholders to be held in April 2005, except for information contained under the heading "Report of the Audit Committee," a copy of which is filed not later than 120 days after the close of the fiscal year.

Code of Ethics. The Company adopted a written Code of Ethics based upon the standards set forth under Item 406 of Regulation S-K of the Securities Exchange Act. The Code of Ethics applies to all of the Company's directors, officers and employees. A copy of the Company's Code of Ethics was filed with the SEC as Exhibit 14 to the Annual Report on Form 10-K for the year ended December 31, 2003. You may obtain a copy of the Code of Ethics free of charge from the Company by writing to the Corporate Secretary of the Company, 610 Bay Boulevard, Chula Vista, California 91910 or by calling (619) 691-9741. These documents are also available in the corporate governance section of the Company's website at www.firstpactrustbancorp.com/corporate governance.

Section 16(a) Beneficial Ownership Reporting Compliance. The information concerning compliance with the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934 by directors, officers and ten percent stockholders of the Company required by this item is incorporated herein by reference from the Company's definitive proxy statement for its 2004 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company's fiscal year.

Item 11. Executive Compensation

The information concerning executive compensation required by this item is incorporated herein by reference from the Company's definitive proxy statement for its 2004 Annual Meeting of Stockholders, except for information contained under the headings "Compensation Committee report on Executive Compensation, "Shareholder Return Performance Presentation" and "Report of the Audit Committee," a copy of which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company's fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information concerning security ownership of certain beneficial owners and management required by this item is incorporated herein by reference from the Company's definitive proxy statement for its 2004 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company's fiscal year.

Equity Compensation Plan Information. The following table summarizes our equity compensation plans as of December 31, 2005.

Plan Category	Number of securities to be issued upon exercise of outstanding options warrants and rights	Weighted-average exercise price of outstanding options warrants and rights	Number of Securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	690,300	$ 17.98	50,300[(1)]
Equity compensation plans not approved by security holders	—	—	—

(1) Includes 40,500 shares available for future grants under First PacTrust Bancorp, Inc's stock option plan and 9,800 shares available for future grants under First PacTrust Bancorp, Inc's recognition and retention plan.

Item 13. Certain Relationships and Related Transactions

The information concerning certain relationships and related transactions required by this item is incorporated herein by reference from the Company's definitive proxy statement for its 2004 Annual Meeting of Stockholders, a copy of which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company's fiscal year.

Item 14. Principal Accountant Fees and Services

(a) Information concerning principal accountant fees and services is incorporated herein by reference from the definitive proxy statement for the Annual Meeting of Stockholders to be held on April 20, 2005 (excluding the information contained and the heading of "Report of the Audit/Compliance Committee"). A copy of such will be filed no later than 120 days after December 31, 2004.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a)(1) Financial Statements: See Part II—Item 8. Financial Statements and Supplementary Data

(a)(2) Financial Statement Schedule: All financial statement schedules have been omitted as the information is not required under the related instructions or is not applicable.

(a)(3) Exhibits

Regulation S-K Exhibit Number	Document	Reference to Prior Filing or Exhibit Number Attached Hereto
2.0	Plan of acquisition, reorganization, arrangement, liquidation or succession	None
3.1	Charter for First PacTrust Bancorp, Inc.	*
3.2	Bylaws of First PacTrust Bancorp, Inc.	*
4.0	Form of Stock Certificate of First PacTrust Bancorp, Inc.	*
9.0	Voting Trust Agreement	None
10.1	Severance Agreement with Hans Ganz	***
10.2	Severance Agreement with Melanie Stewart	***
10.3	Severance Agreement with James P. Sheehy	***
10.4	401(k) Employee Stock Ownership Plan	*
10.5	Registrant's Stock Option and Incentive Plan	**
10.6	Registrant's Recognition and Retention Plan	**
10.7	Named Executive Officers Salary and Bonus Arrangements for 2005 and Director Fee Arrangements for 2005.	10.7
11.0	Statement regarding computation of ratios	None
14.0	Code of Ethics	***
16.0	Letter regarding change in certifying accountant	None
18.0	Letter regarding change in accounting principles	None
21.0	Subsidiaries of the Registrant	*
22.0	Published Report regarding matters submitted to vote of security holders	None
23.0	Consent of Crowe Chizek and Company LLP	23.0
24.0	Power of Attorney, included in signature pages	24.0
31.1	Rule 13(a)-14(a) Certification (Chief Executive Officer)	31.1
31.2	Rule 13(a)-14(a) Certification (Chief Financial Officer)	31.2
32.0	Section 906 of The Sarbanes-Oxley Act Certification	32

* Filed in First PacTrust's Registration Statement on Form S-1. Filed on March 28, 2002. Such information is hereby incorporated by reference.

** Filed as an appendix to the Registrant's definitive proxy statement filed on March 21, 2003. Such previously filed document is incorporated herein by reference in accordance with Item 601 of Regulation S-K.

*** Filed as an Exhibit to the Company's annual report on Form 10-K for the year ended December 31, 2003.

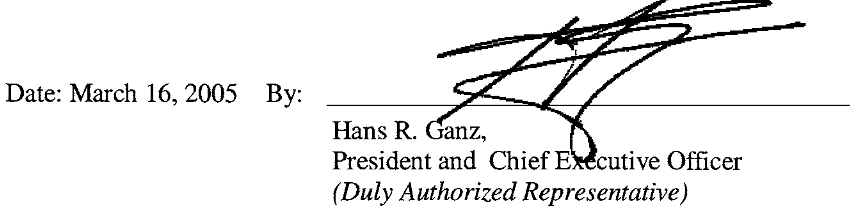
(b) Exhibits – Included, see list in (a)(3).

(c) Financial Statement Schedules - None

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 hereunto duly authorized.

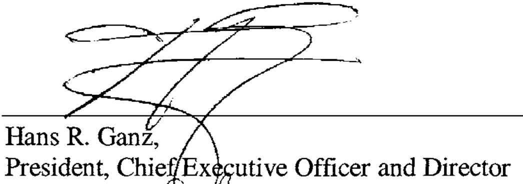
FIRST PACTRUST BANCORP, INC.



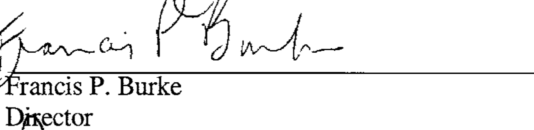
Date: March 16, 2005 By: ______________________________

Hans R. Ganz,
President and Chief Executive Officer
(Duly Authorized Representative)

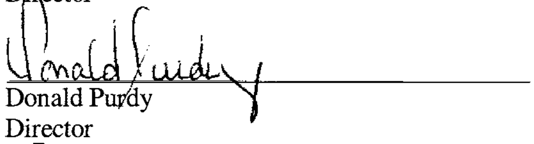
Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.



Hans R. Ganz,
President, Chief Executive Officer and Director



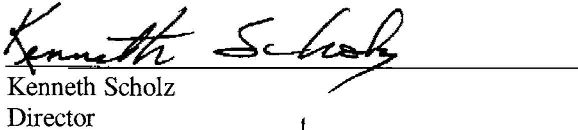
Francis P. Burke
Director



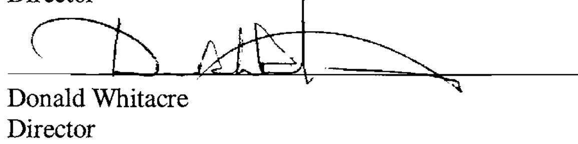
Donald Purdy
Director

Regan Gallagher
Senior Vice President/Controller
(Principal Financial and Accounting Officer)

Alvin L. Majors
Chairman of the Board



Kenneth Scholz
Director



Donald Whitacre
Director

Exhibit 10.7

Named Executive Officer Salary and Bonus Arrangements for 2005

Base Salaries

The base salaries for 2005 for the executive officers (the "named executive officers") of First PacTrust Bancorp, Inc. (the "Company") and Pacific Trust Bank who will be named in the compensation table that will appear in the Company's upcoming 2005 annual meeting proxy statement are as follows:

Name and Title	Base Salary
Hans R. Ganz President and Chief Executive Officer	$ 225,493
James P. Sheehy Secretary and Treasurer	$ 121,763
Melanie M. Stewart Executive Vice President – Lending	$ 130,499
Regan J. Gallagher Senior Vice President – Controller	$ 89,918
Rachel M. Carrillo Senior Vice President – Branch Operations	$ 85,821

Description of 2005 Bonus Incentive Plan

On March 15, 2005, the Company's Board of Directors approved a cash incentive bonus plan for 2005 (the "2005 Bonus Plan") for all officers and employees of the Company and the Bank. Bonuses will be paid under the 2005 Bonus Plan in early 2006 if and to the extent the Company's performance in 2005 meets or exceeds certain minimum levels on certain key performance indicators.

The key performance indicators used to determine whether any bonuses will be paid under the 2005 Bonus Plan will be the same for all employees. The amounts of the bonuses under the 2005 Bonus Plan, if earned, will be determined, in part, by multiplying the employee's salary by an the employee's payout percentage up to a maximum of 45% of salary, plus a discretionary component which may or may not be paid in whole or in part based on the Compensation Committee's qualitative assessment of individual contributions toward the Company's success relative to Customer Service, Deposit Growth, Compliance, Loan Originations and Portfolio Growth, Loan Charge-Off and Delinquency Ratios. While the payout percentages will vary from employee to employee, they will increase proportionately for all employees if and to the extent the Company attains a net income level above the minimum threshold. All named executive officers are eligible under the plan.

Discretionary Bonus 2005: The total discretionary amount available for distribution to all employees will not to exceed 4% of after-tax net income.

Director Fee Arrangements for 2005

Each director of First PacTrust Bancorp, Inc., (the "Company") also is a director of Pacific Trust Bank (the "Bank"). As of the March 11, 2005 shareholder record date for the 2005 annual meeting, as for 2004, each non-employee director receives a fee of $600 for each Bank board meeting attended. In addition, the Chairman of the Board receives an additional $300 per Bank board meeting attended and each director receives $200 per Bank committee meeting attended. Attendance by telephone is compensated at one-third the rate for directors attending in person. Directors are not paid a fee for service on the Company's board. There are no deferred compensation arrangements with any non-employee director.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 000-49806 on Form S-8 of First PacTrust Bancorp, Inc. of our report dated March 5, 2005, appearing in this Annual Report on Form 10-K of First PacTrust Bancorp, Inc. for the year ended December 31, 2004.

Crowe Chizek and Company LLP

Livingston, New Jersey
March 16, 2005

Exhibit 31.1

CERTIFICATIONS

I, Hans R. Ganz, certify that:

1. I have reviewed this annual report on Form 10-K of First PacTrust Bancorp, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures; and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation, and based on our evaluation; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of our annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting; and

Date: March 16, 2005 By:

Hans R. Ganz
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Regan Gallagher, certify that:

1. I have reviewed this annual report on Form 10-K of First PacTrust Bancorp, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

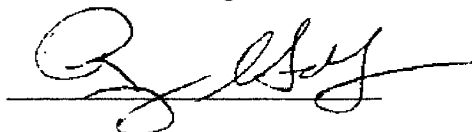
    b) evaluated the effectiveness of the registrant's disclosure controls and procedures; and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation, and based on our evaluation; and

    c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of our annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

    a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting; and

Date: March 16, 2005 By: 

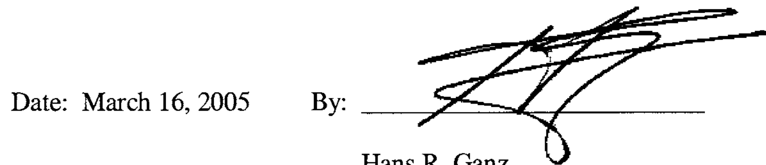
Regan Gallagher
Senior Vice President/Controller

Exhibit 32

CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

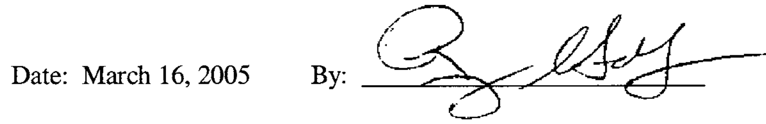
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned hereby certifies in his or her capacity as an officer of First PacTrust Bancorp, Inc. ("the Company") that this Annual Report of the Company on Form 10-K for the year ended December 31, 2004 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and that information contained in such report fairly presents, in all material respects, the financial condition of the Registrant as of the dates and for the periods presented in the financial statements included in such reports.

Date: March 16, 2005 By:



Hans R. Ganz
President and Executive Officer
(Principal Executive Officer)

Date: March 16, 2005 By:



Regan Gallagher
Senior Vice President/Controller
(Principal Financial and Accounting Officer)

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Shareholder Information

Annual Meeting

April 20, 2005. 9:00 a.m. PDT
The Bonita Golf Club
5540 Sweetwater Road
Bonita, California 91902

Investor Relations

To obtain information about the Company, including a copy of our Annual Report on Form 10K, please contact:
The Secretary
First PacTrust Bancorp, Inc.
610 Bay Boulevard
Chula Vista, California 91910
(619) 691-1519
E-mail: FPTB@pacifictrustbank.com

Listing of Common Stock

First PacTrust Bancorp, Inc.'s common stock is traded on the Nasdaq National Market. Its symbol is "FPTB"

Transfer Agent and Registrar for Common Stock

Register and Transfer Company
10 Commerce Drive
Cranford, NJ 07016-3572
Stockholder Customer Service: (800) 368-5948

Auditors

Crowe Chizek and Company LLP
354 Eisenhower Parkway, Plaza I
Livingston, NJ 07039

Corporate Counsel

Silver, Freedman & Taff, LLP
1700 Wisconsin Ave. N.W.
Washington, D.C. 20007

First PacTrust Bancorp, Inc.
Directors and Officers

Board of Directors:

Alvin L. Majors - Chairman of the Board
Hans R. Ganz
Francis P. Burke
Donald M. Purdy
Kenneth W. Scholz
Donald A. Whitacre

Executive Officers

Hans R. Ganz – President and Chief Executive Officer
James P. Sheehy – Executive Vice President, Secretary and Treasurer
Regan J. Gallagher – Senior Vice President - Controller

Pacific Trust Bank

Executive Officers

Hans R. Ganz – President and Chief Executive Officer
James P. Sheehy – Executive Vice President, Secretary and Treasurer
Melanie M. Stewart – Executive Vice President - Lending
Regan J. Gallagher – Senior Vice President - Controller
Rachel M. Carrillo – Senior Vice President - Branch Operations
Lisa R. Goodwin – Senior Vice President - Information Services

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