1ST CENTENNIAL
BANCORP

Celebrating Our First 15 Years

2005 ANNUAL REPORT

15 years honoring our relations

Celebrating 15 Years

1ST CENTENNIAL
BANCORP

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 16, 2006

TO THE SHAREHOLDERS OF 1st CENTENNIAL BANCORP:

NOTICE IS HEREBY GIVEN that pursuant to its Bylaws and the call of its Board of Directors, the Annual Meeting of Shareholders (the "Meeting") of 1st Centennial Bancorp will be held at the Redlands Country Club, 1749 Garden Street, Redlands, California, on Tuesday, May 16, 2006, at 6:00 p.m., for the purpose of considering and voting upon the following matters.

1. **Election of Directors**. Electing the following ten (10) persons to the Board of Directors to serve until the next Annual Meeting of Shareholders and until their successors are elected and have qualified:

James R. Appleton	William A. McCalmon
Bruce J. Bartells	Patrick J. Meyer
Carole H. Beswick	Thomas E. Vessey
Larry Jacinto	Stanley C. Weisser
Ronald J. Jeffrey	Douglas F. Welebir

2. Transacting such other business as may properly come before the Meeting and any and all adjournments thereof.

Our Bylaws provide for the nomination of directors in the following manner:

> "Nominations for election of members of the Board of Directors may be made by the Board of Directors or by any shareholder of any outstanding class of voting stock of the Corporation entitled to vote for the election of directors. Notice of intention to make any nominations, other than by the Board of Directors, shall be made in writing and shall be received by the President of the Corporation no more than 60 days prior to any meeting of shareholders called for the election of directors, and no more than 10 days after the date the notice of such meeting is sent to shareholders pursuant to Section 2.2(d) of these bylaws; provided, however, that if only 10 days' notice of the meeting is given to shareholders, such notice of intention to nominate shall be received by the President of the Corporation not later than the time fixed in the notice of the meeting for the opening of the meeting. Such notification shall contain the following information to the extent known to the notifying shareholder: (A) the name and address of each proposed nominee; (B) the principal occupation of each proposed nominee; (C) the number of shares of voting stock of the Corporation owned by each proposed nominee; (D) the name and residence address of the notifying shareholder; and (E) the number of shares of voting stock of the Corporation owned by the notifying shareholder. Nominations not made in accordance herewith shall be disregarded by the chairman of the meeting, and the inspectors of election shall then disregard all votes cast for each such nominee."

Only those shareholders of record at the close of business on March 20, 2006 will be entitled to notice of and to vote at the Meeting.

DATED: April 14, 2006

By Order of the Board of Directors

/s/ Sally Flanders

Sally Flanders
Secretary

IT IS VERY IMPORTANT THAT EVERY SHAREHOLDER VOTE. WE URGE YOU TO SIGN AND RETURN THE ENCLOSED PROXY AS PROMPTLY AS POSSIBLE, WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON. IF YOU DO ATTEND THE MEETING, YOU MAY THEN WITHDRAW YOUR PROXY. THE PROXY MAY BE REVOKED AT ANY TIME PRIOR TO ITS EXERCISE.

IN ORDER TO FACILITATE THE PROVIDING OF ADEQUATE ACCOMMODATIONS, PLEASE INDICATE ON THE PROXY WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING.

1st CENTENNIAL BANCORP
218 East State Street
Redlands, California 92373
(909) 798-3611

PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
To Be Held May 16, 2006

INTRODUCTION

This Proxy Statement is furnished in connection with the solicitation of proxies for use at the Annual Meeting of Shareholders (the "Meeting") of 1st Centennial Bancorp ("1st Centennial") to be held at the Redlands Country Club, 1749 Garden Street, Redlands, California, at 6:00 p.m., on Tuesday, May 16, 2006 and at any and all adjournments thereof. The solicitation of the Proxy accompanying this Proxy Statement is made by our Board of Directors, and we will bear the costs of such solicitation.

We expect to mail this Proxy Statement and accompanying Notice to shareholders on approximately April 14, 2006.

The matters to be considered and voted upon at the Meeting will be:

1. **Election of Directors**. To elect ten (10) persons to the Board of Directors to serve until the next Annual Meeting of Shareholders and until their successors are elected and have qualified.

2. To transact such other business as may properly come before the Meeting and any and all adjournments thereof.

Revocability of Proxies

A Proxy for use at the Meeting is enclosed. Any shareholder who executes and delivers such Proxy has the right to revoke it at any time before it is exercised by filing with the Secretary of 1st Centennial[1] an instrument revoking it or a duly executed proxy bearing a later date, or by attending the Meeting and voting in person. Subject to such revocation, all shares represented by a properly executed Proxy received in time for the Meeting will be voted by the proxy holders whose names are set forth in the accompanying Proxy (the "Proxy Holders") in accordance with the instructions on the Proxy. If no instruction is specified with respect to a matter to be acted upon, the shares represented by the Proxy will be voted in favor of the election of the nominees for directors set forth herein and, if any other business is properly presented at the Meeting, in accordance with the recommendations of the Board of Directors.

Solicitation of Proxies

1st Centennial will bear the cost of this solicitation, including the expense of preparing, assembling, printing and mailing this Proxy Statement and the material used in this solicitation of proxies. The proxies will be solicited principally through the mails, but officers, directors and regular employees of 1st Centennial may solicit proxies personally or by telephone. Arrangements will be made with brokerage firms and other custodians, nominees and fiduciaries to forward these proxy solicitation materials to shareholders whose stock in 1st Centennial is held of record by such entities, and we will reimburse such brokerage firms, custodians, nominees and fiduciaries for reasonable out-of-pocket expenses incurred by them in connection therewith. In addition, we may pay for and

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[1] As used throughout this Proxy Statement, the terms "1st Centennial," "we," "us" and "our" refer to 1st Centennial Bancorp and its subsidiaries unless the context indicates another meaning.

utilize the services of individuals or companies we do not regularly employ in connection with this solicitation of proxies, if management determines it advisable.

VOTING SECURITIES

There were 2,126,011 shares[2] of our common stock issued and outstanding on March 20, 2006, which has been set as the Record Date for the purpose of determining the shareholders entitled to notice of and to vote at the Meeting. The presence, in person or by proxy, of at least a majority of the total number of outstanding shares of our common stock is necessary to constitute a quorum at the Meeting for the transaction of business. Abstentions and broker non-votes are each included in the determination of the number of shares present for determining a quorum but are not counted on any matters brought before the Meeting.

Each holder of common stock will be entitled to one vote, in person or by proxy, for each share of common stock standing in his or her name on the books of 1st Centennial as of the Record Date for the Meeting on any matter submitted to the vote of the shareholders, except that in connection with the election of directors, the shares are entitled to be voted cumulatively if a candidate's or candidates' name(s) have been properly placed in nomination prior to the voting and a shareholder present at the Meeting has given notice of his or her intention to vote his or her shares cumulatively. If a shareholder has given such notice, all shareholders may cumulate their votes for candidates in nomination. Cumulative voting entitles a shareholder to give one nominee as many votes as is equal to the number of directors to be elected multiplied by the number of shares owned by such shareholder, or to distribute his or her votes on the same principle between two or more nominees as he or she deems appropriate. The ten (10) candidates receiving the highest number of votes will be elected. If cumulative voting is declared at the Meeting, votes represented by Proxies delivered pursuant to this Proxy Statement may be cumulated in the discretion of the Proxy Holders, in accordance with the recommendations of the Board of Directors. An abstention or broker non-vote will have the same effect as a vote against a director nominee and against any other matters submitted for shareholder approval.

PRINCIPAL SHAREHOLDERS

Management knows of no person who owned beneficially more than 5% of the outstanding common stock of 1st Centennial as of March 20, 2006, except for Keefe Managers, LLC ("Keefe Managers"). The following table furnishes information, as of March 20, 2006, regarding Keefe Managers:

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common Stock	Keefe Managers, LLC 375 Park Avenue, 23rd Floor New York, New York 10152	144,761[2,3]	6.90%

ELECTION OF DIRECTORS

Our Bylaws currently provide that the number of directors shall be not fewer than eight (8) nor more than thirteen (13) until changed by a bylaw amendment duly adopted by the vote or written consent of our shareholders. The Bylaws further provide that the exact number of directors shall be fixed from time to time, within the foregoing range, by a bylaw or amendment thereof or by a resolution duly adopted by the vote or written consent of our shareholders or by our Board of Directors. The exact number of directors is presently fixed at ten (10).

[2] This figure has not been adjusted to reflect the 50% stock distribution paid on April 3, 2006 to shareholders of record as of March 3, 2006.

[3] Represents shares reported on a Schedule 13G by Keefe Managers, an investment adviser as defined in applicable SEC rules. Clients of Keefe Managers have the right to receive, or the power to direct the receipt of, dividends from, or the proceeds from, the sale of the stock, but none of such clients is known to have a beneficial ownership interest in more than 5% of 1st Centennial's Common Stock. Keefe Managers has sole voting and dispositive power with respect to all 144,761 shares.

The first ten (10) persons named below, all of whom are present members of the Board of Directors, will be nominated for election to serve as directors until the next Annual Meeting of Shareholders and until their successors are elected and have qualified. Votes will be cast pursuant to the enclosed Proxy in such a way as to effect the election of said ten (10) nominees, or as many thereof as possible under applicable voting rules. In the event that any of the nominees should be unable to serve as a director, it is intended that the Proxy will be voted for the election of such substitute nominee, if any, as shall be designated by the Board of Directors. Management has no reason to believe that any nominee will become unavailable.

The following table sets forth certain information as of March 20, 2006 with respect to (i) each of the persons to be nominated by the Board of Directors for election as directors, (ii) each of our directors and executive officers, and (iii) our directors and executive officers as a group:

				Common Stock Beneficially Owned on March 20, 2006		
Name, Address and Offices Held with 1st Centennial[4]	**Principal Occupation for the Past Five Years**	**Age**	**Year First Elected or Appointed Director**	**Number of Shares**[5]	**Vested Option Shares**[6]	**Percentage of Shares Outstanding**[7]
James R. Appleton Director	Chancellor (formerly President), University of Redlands	69	2001 (2001)[8]	31,420[9]	1,518	1.55%
Bruce J. Bartells Vice Chairman of the Board	Executive Vice President, Dekker, Ltd.[10]	61	1999 (1992)[8]	34,256[9]	9,960	2.07%
Carole H. Beswick Director	Entrepreneur (formerly Partner, Paper Partners, Inc.)	64	2000 (1990)[8]	38,879[9,11]	8,960	2.24%
Larry Jacinto Director	President, L.J. Construction, Inc., L.J. Farming, Inc., Pangahamo Materials, Inc., and Mentone Enterprises, Inc.	56	2000 (1998)[8]	87,779[9,12]	-	4.13%

[4] All offices held apply to both 1st Centennial Bancorp and 1st Centennial Bank unless otherwise indicated. The business address of each of the executive officers and directors is 218 East State Street, Redlands, California 92373.

[5] Except as otherwise noted, may include shares held by such person's spouse (except where legally separated) and minor children, and by any other relative of such person who has the same home; shares held in "street name" for the benefit of such person; shares held by a family trust as to which such person is a trustee and primary beneficiary with sole voting and investment power (or shared power with a spouse); or shares held in an Individual Retirement Account or pension plan as to which such person is the sole beneficiary and has pass-through voting rights and investment power. Figures in this table have not been adjusted to reflect the 50% stock distribution paid on April 3, 2006 to shareholders of record as of March 3, 2006.

[6] Represents option shares which are vested or will vest within 60 days of March 20, 2006 pursuant to our 2001 Stock Incentive Plan. (See " – Compensation of Directors" and " – Stock Options" herein.)

[7] This percentage is based on the total number of shares of 1st Centennial's common stock outstanding, plus the numbers of option shares for the applicable individual or group which are vested or will vest within 60 days of March 20, 2006 pursuant to our 2001 Stock Incentive Plan. (See " – Stock Options" and " – Compensation of Directors" herein.)

[8] Year first elected or appointed a director of 1st Centennial Bank.

[9] Includes 963 shares of restricted stock (see "— Compensation of Directors" herein).

[10] Mr. Bartells has been Executive Vice President of Dekker, Ltd., a software development company in Ontario, California since April 2005. Previously, he served as Chief Executive Officer and Chief Financial Officer of Wilden Pump & Engineering in Grand Terrace, California since 1995.

[11] Includes 1,517 shares held by Mrs. Beswick as trustee for her adult son and 2,461 shares held in joint tenancy with her brother, as to which shares Mrs. Beswick has shared voting and investment power; and 13,667 shares held in the name of her husband's SEP, as to which shares Mrs. Beswick has neither voting nor investment power.

[12] Includes 8,846 shares held by Larry Jacinto Construction, Inc., of which Mr. Jacinto is President and sole shareholder, as to which shares Mr. Jacinto has sole voting and investment power.

(Table and footnotes continued on following page.)

Name, Address and Offices Held with 1st Centennial[4]	Principal Occupation for the Past Five Years	Age	Year First Elected or Appointed Director	Common Stock Beneficially Owned on March 20, 2006 Number of Shares[5]	Vested Option Shares[6]	Percentage of Shares Outstanding[7]
Ronald J. Jeffrey Director	Vice President Tri-City Acoustics, Inc.	62	2000 (1990)[8]	40,995[9]	9,960	2.39%
William A. McCalmon Director	President and Owner, RPM Financial and Insurance Services, Inc. (Registered Principal of Associated Securities Corporation)	60	2000 (1990)[8]	29,002[9]	8,940	1.78%
Patrick J. Meyer Chairman of the Board	Owner, Urban Environs (Land Planning Consultation)	54	1999 (1990)[8]	50,618[9]	7,890	2.74%
Thomas E. Vessey President, Chief Executive Officer and Director	President and Chief Executive Officer, 1st Centennial Bancorp[13]	66	2005 (2005)[8]	4,858[14]	17,775	1.06%
Stanley C. Weisser Director	Retired (formerly Chief Executive Officer and Pharmacist, Network Pharmaceuticals)	64	2001 (2001)[8]	24,275[9]	4,019	1.33%
Douglas F. Welebir Director	Attorney-at-Law, Welebir & McCune	63	2000 (1990)[8]	44,852[9,15]	9,960	2.57%
Beth Sanders Executive Vice President and Chief Financial Officer	Executive Vice President and Chief Financial Officer, 1st Centennial Bancorp[13]	54	n/a	23,077[16]	28,103	2.38%
Suzanne Dondanville Executive Vice President and Chief Operating Officer, 1st Centennial Bank	Executive Vice President and Chief Operating Officer, 1st Centennial Bank[13]	43	n/a	2,897[14]	15,884	0.88%
John P. Lang Executive Vice President and Chief Credit Officer, 1st Centennial Bank	Executive Vice President and Chief Credit Officer, 1st Centennial Bank[13]	59	n/a	-	-	-
Directors and Executive Officers as a Group (13 persons)				412,908[14,16]	122,969	23.83%

(Certain footnotes appear on previous page.)

[13] For additional information concerning this individual's principal occupation or employment, see the narrative discussion which follows this table.

[14] Includes 711 and 557 shares allocated to the accounts of Mr. Vessey and Mrs. Dondanville, respectively, pursuant to 1st Centennial's Employee Stock Ownership Plan with 401(k) Provisions ("KSOP"), as to which shares these individuals have pass-through voting rights and investment power.

[15] Includes 29,954 shares held by the Welebir & McCune Retirement Trust, of which Mr. Welebir is a co-trustee, as to which shares Mr. Welebir has shared voting and investment power.

[16] Includes 933 shares allocated to Mrs. Sanders' account pursuant to the KSOP, as to which shares Mrs. Sanders has pass-through voting rights and investment power.

The following provides additional information on the principal occupation or employment for each of the executive officers of 1st Centennial Bank and 1st Centennial Bancorp:

Thomas E. Vessey has served as President and Chief Executive Officer of both 1st Centennial Bank and 1st Centennial Bancorp since October 2004. Previously he served as Executive Vice President and Chief Credit Officer of 1st Centennial Bank since March 2002; as Senior Vice President and Senior Credit Officer of Wells Fargo Bank from March 2001 to March 2002; and as Executive Vice President and Senior Credit Officer of First Security Bank of California in Covina since 1996. Mr. Vessey has also served as a director of both 1st Centennial Bank and 1st Centennial Bancorp since May 2005.

Beth Sanders has served as Executive Vice President and Chief Financial Officer of 1st Centennial Bancorp since it was formed in 1999. She has also been Chief Financial Officer of 1st Centennial Bank since its inception in 1990, initially as Vice President until 1993, then as Senior Vice President until she was promoted to Executive Vice President in 1997.

Suzanne Dondanville has been Executive Vice President and Chief Operating Officer of 1st Centennial Bank since January 2003. Previously, she served as Senior Vice President/Marketing and Strategic Development of 1st Centennial Bank since January 2001; as a consultant to 1st Centennial Bank since January 1998; and as Vice President/Chief Information Officer of Highland Federal Bank in Burbank, California from October 1995 until that bank was acquired by Jackson Federal Bank in December 2000.

John P. Lang has served as Executive Vice President and Chief Credit Officer of 1st Centennial Bank since April 25, 2006. Previously, he served as Director of Finance and Investments for Citizens Business Bank in Ontario, California from 2001 through 2005; as Director of Finance and Accounting of that bank from 1998 through 2001; and as Senior Credit Officer and Chief Financial Officer of OneCentral Bank in Glendale, California from 1987 through 1997.

Board Committees and Other Corporate Governance Matters

The Board of Directors believes that it is important to encourage the highest level of corporate ethics and responsibility. We are proud that we have adopted the corporate governance requirements of Nasdaq even though our stock is not listed on Nasdaq and we are therefore not legally required to do so. We have also fully implemented all of the corporate governance requirements of the SEC. Among other things, we have adopted a Code of Ethics which applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer and persons performing similar functions. The Code of Ethics requires that our directors, officers and employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in 1st Centennial's best interests. Under the terms of the Code of Ethics, directors, officers and employees are required to report any conduct that they believe in good faith to be an actual or apparent violation of the Code of Ethics.

As a mechanism to encourage compliance with the Code of Ethics, we have established procedures for (i) receiving, retaining and addressing complaints received regarding accounting, internal accounting controls or auditing matters; (ii) allowing employees to anonymously report any problems they may detect with respect to such matters; and (iii) reporting any suspected violations of the Code or of law. The Code of Ethics also prohibits 1st Centennial from retaliating against any director, officer or employee who makes a good faith report of a suspected violation of the Code or of law (even if the report is mistaken), or against anyone who assists in the investigation of a reported violation. The Code of Ethics may be found on our web site at "www.1stcent.com." We intend to post notice of any waiver from, or amendment to, any provision of our Code of Ethics on this web site.

Director Independence. The overwhelming majority of the members of our Board of Directors have historically been independent, and our Audit, Personnel and Compensation, and Corporate Governance and Nomination Committees are comprised solely of independent directors in accordance with applicable SEC and Nasdaq requirements. The Board has determined all of its directors, other than the President and Chief Executive Officer, are "independent" as that term is defined by Nasdaq rules.

Audit Committee. Our Board of Directors has, among others, a standing Audit Committee, composed of directors Bartells (Chairman), Appleton, Jeffrey, McCalmon, Meyer and Welebir. The purpose of the Audit Committee, which met thirteen (13) times during 2005, is to meet with our outside auditors in order to fulfill the legal and technical requirements necessary to adequately protect our directors, shareholders, employees and depositors. It is also the responsibility of the Audit Committee to select our independent registered public accounting firm and to make certain that this firm has the necessary freedom and independence to freely examine all of our records. The Audit Committee reviews the scope of external and internal audits, and meets monthly, or as needed, to review and assess the results of examinations of all applicable regulatory agencies and of our independent accountants. The Committee then reports any significant findings to the Board. Prior to the public release of annual and quarterly financial information, the Committee discusses with management and the independent accountants the results of the independent accountants' audit or limited review procedures associated with this information. Further, the Audit Committee pre-approves all audit and permissible non-audit services to be performed by the independent accountants, with certain de minimis exceptions. The Audit Committee also reviews our financial disclosure documents, management perquisites, material litigation and regulatory proceedings and other issues relative to potentially significant corporate liability and reviews and monitors applicable portions of our Code of Ethics. Our Audit Committee Charter, a copy of which is attached hereto as Appendix "A," requires that the Audit Committee be comprised entirely of independent non-employee directors. The Audit Committee is currently composed of six (6) non-employee directors, each of whom is an independent director as defined by the rules of Nasdaq. No member of the Audit Committee, other than in his capacity as a member of the Board of Directors or Audit Committee, may accept any consulting, advisory or other compensatory fee from 1st Centennial. The Board of Directors has determined that Bruce J. Bartells, Chairman of the Audit Committee, is an "audit committee financial expert" as defined under the SEC's rules.

Report of the Audit Committee

Our Audit Committee has reviewed and discussed with management our audited consolidated financial statements as of and for the year ended December 31, 2005. The committee has discussed with our independent auditors, which are responsible for expressing an opinion on the conformity of our audited consolidated financial statements with generally accepted accounting principles, the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, including their judgments as to the quality of our financial reporting. The committee has received from the independent auditors written disclosures and a letter as required by the Independence Standards Board, Standard No. 1, as amended, and discussed with the independent auditors the firm's independence from management and 1st Centennial. In considering the independence of our independent auditors, the committee took into consideration the amount and nature of the fees paid the firm for non-audit services, as described on page 17 below.

In reliance on the review and discussions described above, the committee recommends to the Board of Directors that the year-end audited consolidated financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2005 for filing with the SEC.

Submitted by:
Bruce J. Bartells, Chairman
James R. Appleton   William A. McCalmon
Ronald J. Jeffrey   Patrick J. Meyer
Douglas F. Welebir

Compensation Committee. Our Board of Directors also has a Personnel and Compensation Committee (the "Compensation Committee"), of which directors Appleton (Chairman), Beswick, Meyer, Weisser and Welebir are members. The Compensation Committee met eight (8) times during 2005. All of the members of the Compensation Committee are "independent" under the Nasdaq rules. The primary functions of this committee are to (i) oversee and make recommendations to the Board of Directors concerning the compensation of the Company's Chief Executive Officer and senior management; (ii) consider and make recommendations to the Board of Directors concerning 1st Centennial's incentive compensation plans and equity-based plans in which directors and executive officers may be participants; (iii) administer and implement such plans, including, but not limited to approving option grants and restricted stock or other awards to our Named Executive Officers (as defined on page 9 below); (iv) evaluate the performance of our Chief Executive Officer in light of our goals and objectives, and set the Chief

Executive Officer's compensation levels based on this evaluation; (v) annually review and make recommendations to the Board concerning the compensation arrangements for all executive officers; (vi) assess the desirability of, and make recommendations to the Board with respect to, any proposed new incentive compensation plans for executive officers, equity-based plans for all employees and increases in shares reserved under existing equity plans; (vii) review and make recommendations to the Board concerning any employment agreements, salary continuation agreements or other contractual arrangements with any officers; (viii) direct the preparation of and approve an annual report on executive compensation for inclusion in our annual proxy statement in accordance with all SEC regulations, and monitor the disclosures in such proxy statement relating to executive compensation; (ix) review and administer the non-audit-related portions of our Code of Ethics; and (x) review and make recommendations to the Board concerning personnel policies and any similar documents relating to personnel matters which require Board approval. The Board has adopted a Personnel and Compensation Committee charter, which may be found on our web site at www.1stcent.com.

Board and Committee Meeting Attendance. During the fiscal year ended December 31, 2005, our Board of Directors held a total of thirteen (13) meetings. Each incumbent director who served as a director of 1st Centennial during 2005 attended at least 75% of the aggregate of (1) the total number of such meetings, and (2) the total number of meetings held by all committees of the Board on which such director served during 2005 (or during such shorter period as such person served as a director), except director Appleton, who attended 74% of such meetings.

Corporate Governance and Nomination Committee. 1st Centennial also has a standing Corporate Governance and Nomination Committee (the "Corporate Governance Committee") of which directors Weisser (Chairman), Appleton, Beswick, Jacinto, Jeffrey, McCalmon and Meyer are members. The Corporate Governance Committee met once during 2005. All of the members of the Corporate Governance Committee are "independent" directors under the Nasdaq rules. We do not pay fees to any third party to identify or evaluate or assist in identifying or evaluating potential nominees. The Board has adopted a Corporate Governance and Nomination Committee charter, which may be found on our web site at www.1stcent.com. The Board and the Corporate Governance Committee have also adopted specific policies and procedures concerning the director nomination process, in accordance with which the Corporate Governance Committee considers various matters and criteria and on that basis recommends the proposed slate of nominees to the full Board. The specific procedures and criteria which the Corporate Governance Committee follows and considers in making its decisions concerning recommended nominations for directors may be described as follows:

Consideration of Recommendations for Director Nominees. Prior to making any recommendations concerning the nomination of directors for each year's annual meeting, the Corporate Governance Committee shall:

- Evaluate the performance, attendance records of, and any loans or other transactions between 1st Centennial Bancorp or 1st Centennial Bank and each of the current Board members proposed for reelection, and on that basis consider the appropriateness of such members standing for reelection.
- Review the composition and size of the Board in order to ensure that the Board is comprised of members reflecting the proper expertise, skills, attributes and personal and professional backgrounds for service as directors of 1st Centennial.
- Consider the need to augment the Board for any specific purpose.
- Review and consider any additional requests from outside parties to serve as directors.
- If a new nominee is needed, determine the specific skills and experience desired in a new director.
- In such case, identify potential nominees who have such skills and experience, determine whether the potential nominees are shareholders of 1st Centennial, investigate the potential nominee's background, develop personal knowledge about the candidate, develop a consensus of the directors with respect to which potential nominee would be best suited for the position, determine whether the candidate is interested, and vote on the recommended nomination.

In identifying and evaluating potential nominees, the Corporate Governance Committee shall consider recommendations from directors, officers and employees of 1st Centennial Bancorp and its wholly-owned subsidiary, 1st Centennial Bank, as well as persons recommended by our shareholders, and shall evaluate persons recommended by directors, officers or employees in the same manner as those recommended by shareholders in selecting Board nominees.

Director Qualifications. In considering possible candidates for election as a director, the Corporate Governance Committee shall be guided by the principle that each director should:

- Be an individual of the highest ethical character and integrity.
- Have substantial experience which is of particular relevance to 1st Centennial.
- Have the ability and willingness to devote sufficient time to 1st Centennial's affairs.
- Have a meaningful financial stake in 1st Centennial so as to assure that every director's interests are aligned with those of the shareholders.
- Be knowledgeable about the business activities and market areas in which 1st Centennial and its subsidiaries engage.
- Have an excellent personal and professional reputation in and commitment to one or more communities in which we do business.
- Have an inquiring mind, a willingness to ask hard questions, and the ability to work constructively with others.
- Have no conflict of interest that would interfere with their performance as a director.
- Have the capacity and desire to represent the best interests of the shareholders as a whole and not primarily a specific interest group or constituency.

In considering the desirability of any particular candidate as a potential director, the Corporate Governance Committee shall also consider the fit of the individual's skills and personality with those of other directors and potential directors in building a board that is effective, collegial and responsive to the needs of 1st Centennial. While the Corporate Governance Committee believes that every director should possess as many as possible of the above attributes, it has not established any specific group of such attributes as "minimum qualifications" for serving as a director.

Consideration of Shareholder Recommendations. In considering any additional requests from outside parties to serve as directors, including parties recommended by shareholders, the Corporate Governance Committee shall follow the same principles outlined above, and shall request of any potential nominee such information as the Corporate Governance Committee deems necessary to evaluate that individual's qualifications to serve as a director of 1st Centennial, including a completed Directors' and Officers' Questionnaire of the same type completed by each of our existing directors and executive officers each year in connection with the preparation of our proxy materials, in order to enable the Corporate Governance Committee to properly evaluate such person's qualifications and to be aware of any information concerning such person which might require disclosure to shareholders pursuant to the SEC rules concerning proxy statements.

A shareholder wishing to submit recommendations for director candidates for election at an annual meeting of shareholders must do so in writing by December 15 of the previous calendar year, and must include the following in the written recommendation:

- A statement that the writer is a shareholder and is proposing a candidate for consideration.
- The name and contact information for the candidate.
- A statement of the candidate's business and educational experience.
- Information regarding the candidate's qualifications to be director.

- The number of shares of 1st Centennial's stock owned either beneficially or of record by the candidate and the length of time such shares have been so owned.
- The written consent of the candidate to serve as a director if nominated and elected.
- Information regarding any relationship or understanding between the proposing shareholder and the candidate.
- A statement that the proposed candidate has agreed to furnish 1st Centennial all information (including the completion of a Directors' and Officers' Questionnaire as described above) as we deem necessary tô evaluate such candidate's qualifications to serve as a director.
- As to the shareholder giving the notice:
    - the name and address of the shareholder; and
    - the number of shares of 1st Centennial's stock which are owned beneficially or of record by the shareholder.

Nominations by Shareholders. The procedures for nominating directors (as opposed to making recommendations pursuant to the above procedure), other than by the Board of Directors itself, are set forth in 1st Centennial's Bylaws and in the Notice of Annual Meeting of Shareholders.

Shareholder Communications with Board of Directors. Shareholders may communicate with the Board of Directors or any individual director by mailing a communication to our principal executive offices addressed to the Board of Directors or to the individual director. All of such communications, except those clearly of a marketing nature, will be forwarded unopened directly to the appropriate director or presented to the full Board of Directors at the next regularly scheduled Board of Directors' meeting.

Director Attendance at Annual Meetings of Shareholders. The Board believes it is important for all directors to attend the annual meeting of shareholders in order to show their support for 1st Centennial and to provide an opportunity for shareholders to communicate any concerns to them. Our policy is that all directors are expected to attend each annual meeting of shareholders unless personal or family illness or other compelling personal or business circumstances prevent attendance. All of our directors attended our annual meeting of shareholders in 2005.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of Forms 3, 4 and 5 and amendments thereto furnished to 1st Centennial during and with respect to its 2005 fiscal year, no director, executive officer or beneficial owner of 10% or more of our common stock failed to file, on a timely basis, reports required during or with respect to 2005 by Section 16(a) of the Securities Exchange Act of 1934, as amended, except for Mrs. Beswick, who inadvertently failed to timely file two reports on Form 4, one with respect to the exercise of a stock option and one with respect to a small purchase; Messrs. Appleton and McCalmon, each of whom inadvertently failed to timely file one report on Form 4 with respect to the exercise of a stock option; and Mr. Lang, who inadvertently failed to timely file his initial report on Form 3 with respect to becoming an executive officer, and one report on Form 4 with respect to the grant of a stock option.

Executive Compensation

The following table sets forth certain summary compensation information with respect to our Chief Executive Officer and our only other executive officers as of December 31, 2005 whose total salary and bonus for the fiscal year ended December 31, 2005, exceeded $100,000 (the "Named Executive Officers"):

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation Salary[17]	Bonus	Long Term Compensation Stock Options Granted (Number of Shares)[18]	All Other Compensation
Thomas E. Vessey	2005	$189,167	$115,000	0	$9,692[19]
President and	2004	125,417	85,000	18,323	8,926[19]
Chief Executive Officer	2003	112,605	39,500	0	8,158[19]
Beth Sanders	2005	136,750	70,000	0	47,836[20]
Executive Vice President	2004	130,500	70,000	11,903	50,727[20]
and Chief Financial Officer	2003	125,000	39,500	0	50,941[20]
Suzanne Dondanville	2005	131,250	70,000	0	22,029[21]
Executive Vice President	2004	119,000	70,000	11,903	17,582[21]
and Chief Operating Officer	2003	100,193	39,500	0	12,160[21]
John P. Lang	2005	92,910[22]	50,000	10,000	557[23]
Executive Vice President					
and Chief Credit Officer					

Employment Agreements

1st Centennial has entered into an employment agreement with Beth Sanders, Executive Vice President and Chief Financial Officer, for a term of three (3) years commencing December 1, 2004. Mrs. Sanders' employment agreement calls for an annual base salary of $136,000 for each year of the term, with annual increases at the discretion of the Board of Directors. Her employment agreement also calls for discretionary bonuses, reimbursement for business expenses, use of a company owned automobile, and certain insurance benefits. In the event of termination without cause, Mrs. Sanders will continue to receive her base salary for a period of twelve (12) months immediately following the effective date of termination, less any payments received from other employment, plus insurance benefits for a period of ninety (90) days. If Mrs. Sanders' employment is terminated or constructively terminated in connection with or within one (1) year following a merger or certain changes in control of 1st Centennial, she will be entitled to a lump sum payment in an amount equal to twelve (12) months' then base salary at the time of such termination.

[17] Includes portions of these individuals' salaries which were deferred pursuant to 1st Centennial's Employee Stock Ownership Plan with 401(k) Provisions ("KSOP"). The KSOP permits all participants to contribute a portion of their annual compensation on a pre-tax basis (subject to a statutory maximum), which contributions vest immediately when made. Our policy is to match 50% of employee contributions which do not exceed 10% of such employee's annual compensation, which contributions become vested over a period of six years at the rate of 20% per year beginning at the end of the second year of completed employment.

[18] As adjusted to reflect stock dividends declared by 1st Centennial since the date of grant, except the 50% stock distribution paid on April 3, 2006 to shareholders of record as of March 3, 2006.

[19] Consists of employer contributions to Mr. Vessey's account pursuant to the KSOP in the amount of $8,500, $8,000 and $7,000 in 2005, 2004 and 2003, respectively; and term life insurance premiums of $1,192, $926 and $1,158 in 2005, 2004 and 2003, respectively.

[20] Includes $39,894, $47,859 and $44,412 expensed by 1st Centennial in 2005, 2004 and 2003, respectively, in connection with Mrs. Sanders' salary continuation agreement; employer contributions to Mrs. Sanders' account pursuant to the KSOP in the amounts of $6,750, $1,833 and $6,000 in 2005, 2004 and 2003, respectively; and term life insurance premiums of $1,192, $1,035 and $529 in 2005, 2004 and 2003, respectively. (See "– Salary Continuation Agreements" herein.)

[21] Includes $16,077, $12,231 and $10,687 expensed by 1st Centennial in 2005, 2004 and 2003, respectively, in connection with Mrs. Dondanville's salary continuation agreement; employer contributions to Mrs. Dondanville's account pursuant to the KSOP in the amounts of $4,800, $4,400 and $1,313 in 2005, 2004 and 2003, respectively; and term life insurance premiums of $1,152, $951 and $160 in 2005, 2004 and 2003, respectively. (See "– Salary Continuation Agreements" herein.)

[22] Represents salary paid from April 25, 2005 (commencement of employment) through December 31, 2005.

[23] Consists entirely of term life insurance premiums.

1st Centennial has also entered into an employment agreement with Suzanne Dondanville, Executive Vice President and Chief Operating Officer, for a term of three (3) years commencing December 1, 2004. Mrs. Dondanville's employment agreement calls for an annual base salary of $130,000 for each year of the term, and the remaining terms of her agreement are identical in all material respects to Mrs. Sanders' employment agreement as described above.

Salary Continuation Agreements

1st Centennial entered into a salary continuation agreement with Thomas E. Vessey in April 2006 to provide him with (i) supplemental income upon retirement, (ii) an additional incentive to remain with 1st Centennial in order to receive his full retirement benefits; and (iii) a compensation package which is competitive in the marketplace. Pursuant to his salary continuation agreement, Mr. Vessey (or his beneficiary) will receive an annual benefit for fifteen (15) years upon retirement, subject to certain conditions. The amount of the annual benefit will be between $65,000 and $125,000 per year (increasing in equal increments of $20,000 each year), depending on the age at which he retires between 70 and 73. In order to receive his full retirement benefits, Mr. Vessey must remain continuously employed by 1st Centennial until he retires (at age 70 or higher), except that (i) the full annual benefits (depending on his age at death) will be paid in the event of death prior to retirement; and (ii) in the event of a merger or similar transaction in which 1st Centennial is not the surviving entity or in the event of certain changes in control of 1st Centennial, if Mr. Vessey's employment is terminated or constructively terminated in connection with or within one (1) year following such event, he will be fully vested in his full retirement benefits. The exact amount of the benefits would depend on the date of the sale, as the retirement benefits would be based on the next future retirement date at the time of termination or constructive termination. In addition, the amount of any benefits to be paid under Mr. Vessey's salary continuation agreement in the event of a merger or other change in control would be limited to the amounts allowed as deductible payments pursuant to Section 280G of the Internal Revenue Code. All benefits would be forfeited in the event of termination for cause or voluntary termination by Mr. Vessey. If Mr. Vessey's employment were terminated without cause or due to disability prior to age 70, he would be entitled to receive, at age 70, an annual retirement benefit of $19,000 or $40,000 in the event of termination at age 68 or 69, respectively.

1st Centennial also entered into a salary continuation agreement with Beth Sanders in 2001 (amended in 2004), pursuant to which she (or her beneficiary) will receive $116,848 per year for fifteen (15) years upon retirement at age 65, subject to certain conditions. The material terms of her agreement are similar to those of Mr. Vessey's agreement, except that (i) the retirement age is simply 65; (ii) in the event of a merger or change in control, the exact amount of the benefits would depend on the date of the sale, as the retirement benefits of $116,848 per year are based on an initial amount of $75,000 per year beginning in December 2001 and increasing by 3% per year thereafter, and the amount of payments due in the event of a change in control would reflect the 3% increase each year through the date of the merger but not thereafter; and (iii) in the event of voluntary termination or termination without cause, she would be entitled to receive, at the retirement age, an annual retirement benefit based on the percentage of total retirement benefits which had vested under the salary continuation agreement as of the termination date. Such benefits began to vest at the rate of 10% per year on December 1, 2002.

1st Centennial also entered into a salary continuation agreement with Suzanne Dondanville in 2002 (amended in 2004), containing the same material terms as Mrs. Sanders' salary continuation agreement, except that the amount of her annual benefits will be $152,460, and her benefits began to vest on December 1, 2003.

1st Centennial also entered into a salary continuation agreement with John P. Lang in April 2006, containing the same material terms as Mr. Vessey's agreement, except that (i) Mr. Lang's retirement age is between 65 and 68, the amount of the annual benefits at retirement at those ages is between $70,000 and $100,000 (increasing in equal increments of $10,000 each year); (ii) the amount of the annual benefit in the event of death prior to age 65 is $70,000; and (iii) if Mr. Lang's employment were to end due to disability or termination without cause prior to age 65, he would be entitled to receive, at age 65, an annual retirement benefit of between $10,000 and $57,000 depending on his age at termination between ages 60 and 64.

1st Centennial intends to fund its obligations under the salary continuation agreements through the proceeds of single premium life insurance policies previously purchased by 1st Centennial which policies name 1st Centennial as beneficiary. The cost of making payments under the salary continuation agreements is accrued for annually by 1st Centennial in amounts such that all future payments to be made will have been fully accrued for by the retirement date. 1st Centennial will eventually be reimbursed, however, for payments made under the salary continuation agreements through the proceeds of the life insurance policies referred to above. The amounts expensed by 1st Centennial in 2005, 2004 and 2003 to fund the salary continuation agreements for the Named Executive Officers are set forth in the Summary Compensation Table above (see " – Executive Compensation" above). However, these amounts were more than offset by tax advantaged income 1st Centennial earned on the insurance policies during 2005, and largely offset by such income in 2003 and 2004.

Stock Options

1st Centennial's 2001 Stock Incentive Plan, as amended and restated March 19, 2004 (the "Plan") is intended to advance 1st Centennial's interests by encouraging stock ownership on the part of key employees, and was approved by the shareholders on May 18, 2004. The Plan provides for the issuance of both "incentive" and "non-qualified" stock options to salaried officers and employees, and "non-qualified" stock options to non-employee directors, of 1st Centennial. (The Plan also provides for the issuance of restricted stock awards and other forms of equity-based compensation.) All options are granted at an exercise price of not less than 100% of the fair market value of the stock on the date of grant.[24] Each option expires not later than ten (10) years from the date the option was granted. Options are exercisable in installments as provided in individual stock option agreements; provided, however, that if an optionee fails to exercise his or her rights under the options within the year such rights arise, the optionee may accumulate them and exercise the same at any time thereafter during the term of the option. In addition, in the event of a "Terminating Event," i.e., a merger or consolidation of 1st Centennial as a result of which 1st Centennial will not be the surviving corporation, a sale of substantially all of 1st Centennial's assets, or a change in ownership of at least 25% of 1st Centennial's stock (subject to certain exceptions), all outstanding options under the Plan shall become exercisable in full (subject to certain notification requirements), and shall terminate if not exercised within a specified period of time, unless provision is made in connection with the Terminating Event for assumption of such options, or substitution of new options covering stock of a successor corporation. As of December 31, 2005, 1st Centennial had options outstanding to purchase a total of 375,383[25] shares of its common stock under the Plan, with an average exercise price of $19.45[25] per share with respect to all such options. As of December 31, 2005, the fair market value of 1st Centennial's common stock was $32.50 per share.[25]

The following table furnishes information regarding stock options granted to the Named Executive Officers during 2005:

Name	Number of Options Granted[25]	Percent of Total Options Granted to Employees During Period	Exercise or Base Price[25]	Expiration Date	Grant Date Present Value[26]
Thomas E. Vessey	0	n/a	n/a	n/a	n/a
Beth Sanders	0	n/a	n/a	n/a	n/a
Suzanne Dondanville	0	n/a	n/a	n/a	n/a
John P. Lang	10,000[27]	69.00%	$35.00	9/29/15	$149,500

[24] Exercise price per share is equivalent to market price per share on the date of grant, as determined by the Board of Directors, based upon trades in 1st Centennial's common stock known to us and "bid" and "asked" prices received by brokers dealing in our common stock.

[25] As adjusted to reflect stock dividends declared by 1st Centennial since the date of grant, if applicable, except the 50% stock distribution paid on April 3, 2006 to shareholders of record as of March 3, 2006.

[26] The present value of options was estimated on the date of grant using the binomial option-pricing model with the following weighted-average assumptions: dividend yield of 0.00%, expected volatility of 21.58%, risk-free interest rate of 4.14% and expected life of ten years.

[27] This option vests at the rate of 20% per year commencing on September 29, 2006.

No options were exercised by the Named Executive Officers during 2005. The following information is furnished with respect to stock options held by the Named Executive Officers at December 31, 2005:

Name	Number of Unexercised Options at December 31, 2005[28]		Value of Unexercised In-the-Money Options at December 31, 2005[29]	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Thomas E. Vessey	17,775	17,400	$218,572	$151,431
Beth Sanders	27,435	12,459	496,385	117,363
Suzanne Dondanville	15,215	11,293	226,346	94,630
John P. Lang	0	10,000	n/a	0

Compensation of Directors

The non-employee directors are paid directors' fees by 1st Centennial Bancorp and 1st Centennial Bank for services they provide as directors of both entities. 1st Centennial Bancorp and 1st Centennial Bank have entered into an allocation agreement that provides for each entity to pay its allocated portion of such directors' fees. During 2005, the non-employee directors each received a fee of $1,721 per month, except for the Chairman who received $3,921 per month and the Chairman of the Audit Committee who received $2,221 per month. In addition, the directors and their dependents participate in 1st Centennial Bank's self-funded dental plan. Under 1st Centennial Bank's dental plan, the maximum reimbursement by 1st Centennial Bank to any participant is $1,200 per year.

No stock options were granted to the non-employee directors during 2005. During 2005, directors Appleton, Beswick and McCalmon exercised stock options covering 535, 1000 and 1020 shares of common stock, respectively, recognizing values[30] of $0, $27,723 and $29,294, respectively, upon exercise. The following information is furnished with respect to stock options held by the non-employee directors at December 31, 2005:

Name	Number of Unexercised Options at December 31, 2005[28]		Value of Unexercised In-the-Money Options at December 31, 2005[29]	
	Exercisable	Unexercisable	Exercisable	Unexercisable
James R. Appleton	1,518	3,571	$ 17,264	$ 34,499
Bruce J. Bartells	9,960	3,571	193,729	34,499
Carole H. Beswick	8,960	3,571	167,506	34,499
Larry Jacinto	9,546	3,985	172,755	42,832
Ronald J. Jeffrey	9,960	3,571	193,729	34,499
William A. McCalmon	8,940	3,571	166,982	34,499
Patrick J. Meyer	8,890	3,571	165,670	34,499
Stanley C. Weisser	4,019	3,571	51,749	34,499
Douglas F. Welebir	9,960	3,571	193,729	34,499

No restricted stock awards were granted to the non-employee directors during 2005. Each of the non-employee directors had outstanding restricted stock awards covering 963 shares[28] of Common Stock as of December 31, 2005, with a value as of that date of $31,297. The recipients have voting and dividend rights with respect to the shares, but cannot dispose of the shares until they are vested. The restricted stock awards vest at the rate of 20% per year beginning December 19, 2004.

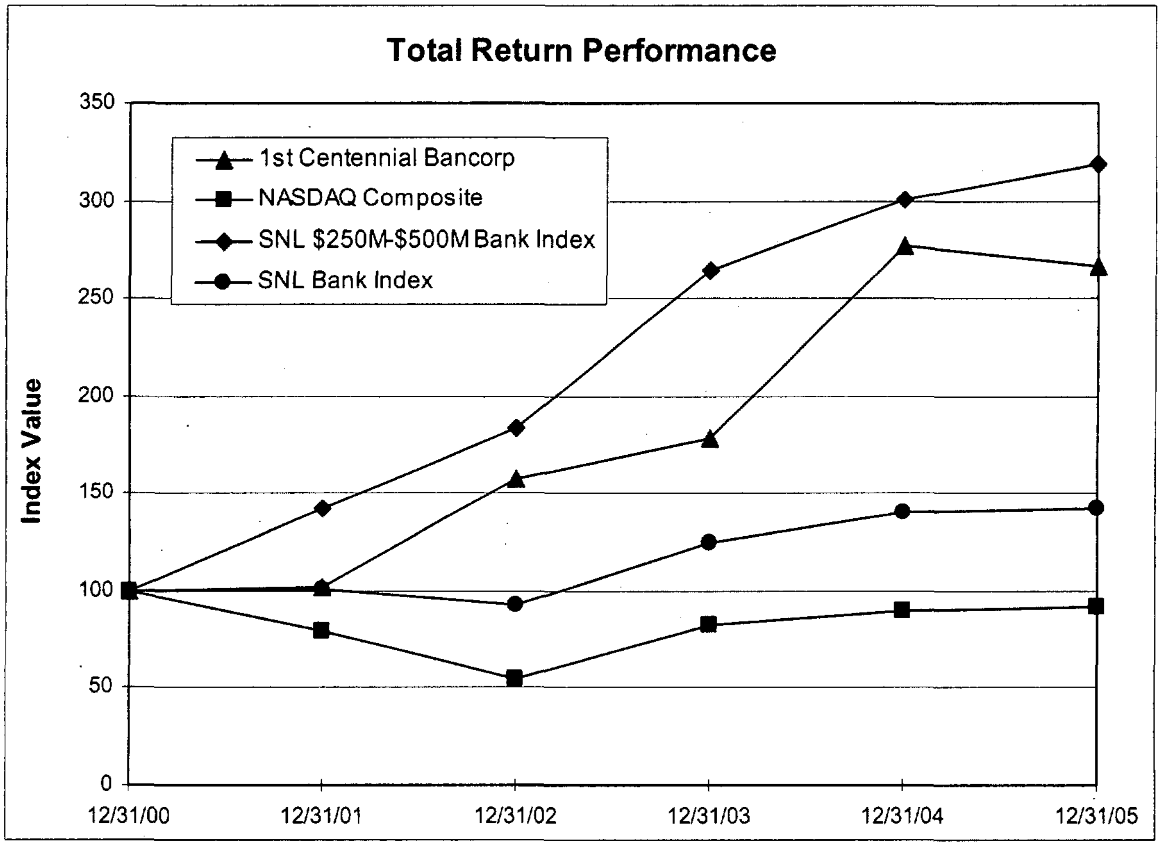
[28] As adjusted to reflect stock dividends declared by 1st Centennial since the date of grant, if applicable, except the 50% stock distribution paid on April 3, 2006 to shareholders of record as of March 3, 2006.

[29] Represents the excess of the aggregate fair market value over the aggregate exercise price of the shares at December 31, 2005.

[30] Represents the excess of the aggregate fair market value over the aggregate exercise price of the shares at the time of exercise.

Performance Graph

The following graph compares the yearly percentage change in the cumulative total shareholders' return on the Company's stock with the cumulative total return of (i) the Nasdaq market index; (ii) all banks and bank holding companies listed on Nasdaq; and (iii) an index comprised of banks and bank holding companies located throughout the United States with total assets of between $250 million $500 million. The latter two indexes were compiled by SNL Financial of Charlottesville, Virginia. The Company reasonably believes that the members of the third group listed above constitute peer issuers for the period from December 31, 2000 through December 31, 2005. The graph assumes an initial investment of $100 and reinvestment of dividends. The graph is not necessarily indicative of future price performance.



	Period Ending					
Index	**12/31/00**	**12/31/01**	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**
1st Centennial Bancorp	100.00	101.68	157.95	178.13	276.41	267.00
NASDAQ Composite	100.00	79.18	54.44	82.09	89.59	91.54
SNL $250M-$500M Bank Index	100.00	142.07	183.20	264.70	300.43	318.97
SNL Bank Index	100.00	101.00	92.61	124.93	140.00	141.91

* Source: SNL Financial, Charlottsville, Virginia.

Board of Directors' Compensation Committee Report

The Compensation and Personnel Committee of the Board of Directors (the "Compensation Committee" or the "Committee") is comprised of five independent directors within the meaning of NASD Rule 4200(a)(15). No member of the Compensation Committee is a current or former officer or employee of 1st Centennial Bancorp or the Bank. The Committee is responsible for establishing and administering our executive compensation program and general compensation and incentive plans.

Compensation Philosophy

The Compensation Committee's primary objective is to attract and retain highly qualified executives who are motivated to achieve our objectives, which include maximizing both long-and short-term shareholder value. Key elements of this philosophy include:

- Establishing compensation plans that deliver pay commensurate with 1st Centennial's performance, as measured by operating, financial and strategic objectives;
- Providing significant equity-based incentives for executives to ensure that they are motivated over the long term as owners, rather than just as employees; and
- Providing short-term and long-term compensation that rewards executives meeting certain financial and performance goals.

Components of executive compensation include base salaries, annual incentive bonuses, stock options and a deferred compensation plan. During 2005, the Compensation Committee reviewed and approved the total compensation of each executive officer.

Base Salaries. Executive base salaries are determined by evaluating both the most recent comparative peer data and the individuals' roles and responsibilities. The purpose of base salaries is to attract and retain key executives who are critical to our long-term success. Individual salaries are reviewed annually and salary increases are based on 1st Centennial's overall performance. In setting the salary for President and Chief Executive Officer, Thomas E. Vessey, the Committee considered (i) his leadership in setting high standards for financial performance and motivating his management colleagues, (ii) his involvement in community affairs, and (iii) the Board and Committee's satisfaction with 1st Centennial's management and financial performance. As a result, with input from our third-party consultant, Mr. Vessey's salary was increased by $50,000 to $235,000. Recommendations regarding the base salaries of other Named Executive Officers were made to the Committee by the President and Chief Executive Officer and were approved without modification.

Annual Incentive Bonuses. For 2005, cash bonuses were paid on a discretionary basis and were granted to executive officers based on the extent to which 1st Centennial achieved its financial and performance objectives. Principal objectives were achieving target goals with respect to return on average assets, return of average equity, net income, asset quality, and earnings per share. The earnings targets and corporate performance goals are based on confidential information and are competitively sensitive to 1st Centennial as they are derived from our internal projections and business plan. Mr. Vessey was paid a $115,000 bonus for 2005.

During the year, the Committee engaged JLR Associates, Management Consultants, to assist us in developing a more coherent set of policies for executive compensation. This firm evaluated the compensation paid to our executive officers (both cash and non-cash) in comparison to an appropriate peer group of banks and bank holding companies. As a result of the analysis, the Committee determined the base salaries, stock options, deferred compensation plans and cash incentive program that were appropriate for the executive officers.

Of particular note is the decision to move away from the concept of discretionary "bonuses" that were not carefully articulated to objective measures, and instead towards a formal incentive plan that will provide annual cash rewards to the four Named Executive Officers based on specific company, peer, and individual performance criteria. This plan has been implemented for 2006.

Stock Options. Consistent with our long-term incentive strategy, the Compensation Committee and the Board grant stock options to employees of 1st Centennial and its subsidiaries under our 2001 Stock Incentive Plan, as amended (the "Plan"). The Committee believes that the granting of options is the most appropriate form of long-term compensation to executive officers, as this practice provides executive officers with equity interests in 1st Centennial and thereby aligns the interests of management with those of our shareholders. The specific terms of each stock option are determined in the discretion of the Board of Directors or the Committee, subject to specific limitations and requirements set forth in the Plan. The only option granted to a Named Executive Officer in 2005 was an option to purchase 10,000 shares granted to our newly hired Chief Credit Officer, John P. Lang. We granted this option in order to (i) provide an incentive for him to accept his position with the Bank and encourage him to remain with us, (ii) bring his compensation into line with our other Named Executive Officers, and (iii) conform to peer group information provided by our third-party consultant, JLR Associates. Additional details concerning the Plan and options held at December 31, 2005 by the Named Executive Officers are set forth above under " – Stock Options."

Employment Agreements. 1st Centennial has entered into employment agreements with two of its Named Executive Officers, Mrs. Sanders and Mrs. Dondanville. The agreements are for terms of three years beginning December 1, 2004, and provide for specified base compensation for the first year of the term. Annual increases thereafter, as well as bonuses, are in the discretion of the Board of Directors. Both of the employment agreements provide for certain lump sum severance payments within a specified period following a "change in control," as defined in the agreements, as well as severance provisions in the event of termination without cause. The materials terms of these agreements are described above under " – Employment Agreements."

Deferred Compensation Plans. We have also entered into salary continuation agreements with all four of our Named Executive Officers, in order to provide them with (i) supplemental income upon retirement, (ii) an additional incentive to remain with us in order to receive their full retirement benefits, and (iii) a compensation package which is competitive in the marketplace. The agreements are funded through bank owned life insurance policies that generate a cash surrender value to fund the future benefits. The material terms of the salary continuation agreements for each of the Named Executive Officers are described above under " – Salary Continuation Agreements."

Conclusion. The Compensation Committee intends to continue to link executive compensation to corporate performance and shareholder return. We believe our executive compensation policies and programs serve the best interests of our company and our shareholders effectively. The various pay vehicles offered are balanced to provide increased motivation for executives to contribute to our overall future success, thereby enhancing 1st Centennial's value for the benefit of all of our shareholders.

Personnel and Compensation Committee

Dr. James R. Appleton, Chairman

Carole H. Beswick — Stanley C. Weisser

Patrick J. Meyer — Douglas F. Welebir

Compensation Committee Interlocks and Insider Participation in Compensation Decisions

The persons named above were the only persons who served on the Compensation Committee during the fiscal year ended December 31, 2005. None of these individuals has ever been an officer or employee of 1st Centennial or any of its subsidiaries.

Certain Transactions

Some of the executive officers and directors of 1st Centennial and the companies with which they are associated have been customers of, and have had banking transactions with, 1st Centennial Bank in the ordinary course of 1st Centennial Bank's business since January 1, 2005, and 1st Centennial Bank expects to continue to have such banking transactions in the future. All loans and commitments to lend included in such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons of similar creditworthiness, and in the opinion of Management of 1st Centennial, did not involve more than the normal risk of repayment or present any other unfavorable features.

RELATIONSHIP WITH INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed Hutchinson and Bloodgood LLP ("Hutchinson and Bloodgood") as our independent registered public accounting firm for the fiscal year ending December 31, 2006. Hutchinson and Bloodgood audited our financial statements for the fiscal year ended December 31, 2005, and have been our accountants since inception. It is anticipated that a representative or representatives of Hutchinson and Bloodgood will be present at the Meeting and will be available to respond to appropriate questions. All professional services rendered by Hutchinson and Bloodgood concerning the fiscal year ended December 31, 2005 were furnished at customary rates and terms.

Fees

The aggregate fees billed by our principal accounting firm, Hutchinson and Bloodgood, for the fiscal years ended December 31, 2005 and 2004, were as follows:

	2005	2004
Audit fees	$ 98,000	$ 97,300
Audit related fees	26,720[31]	25,471[31]
Tax fees	13,763	5,891
All other fees	22,248[32]	28,520[32]
Total	$160,731	$157,182

None of the fees paid to our independent auditors during 2005 and 2004 were paid under the de minimis safe harbor exception from pre-approval requirements. The Audit Committee has concluded the provision of the non-audit services listed above is compatible with maintaining the independence of Hutchinson and Bloodgood.

PROPOSALS OF SHAREHOLDERS

Under certain circumstances, shareholders are entitled to present proposals at shareholder meetings. Any such proposal concerning our 2007 Annual Meeting of Shareholders must be submitted by a shareholder prior to December 15, 2006 in order to qualify for inclusion in the proxy statement relating to such meeting. The submission by a shareholder of a proposal does not guarantee that it will be included in the proxy statement. Shareholder proposals are subject to certain regulations and requirements under federal securities laws.

The persons named as proxies for the 2007 Annual Meeting of Shareholders will have discretionary authority to vote on any shareholder proposal which is not included in our proxy materials for the meeting, unless we receive notice of the proposal by March 1, 2007. If we receive proper notice by that date, the proxy holders will not have discretionary voting authority except as provided in federal regulations governing shareholder proposals.

[31] Consisted of reviewing documentation relating to the Company's internal control over financial reporting in preparation for compliance with Section 404 of the Sarbanes-Oxley Act, and review of financial information in our Form 10-K and 10-Q annual and quarterly reports filed with the SEC.

[32] For 2005, consisted of $15,000 for the regulatory mandated review of our information technology systems and $7,248 for management consulting. For 2004, consisted of $15,000 for the regulatory mandated review of our information technology systems; $9,920 for management consulting; and $3,600 relating to the regulatory mandated review of our interest rate risk model.

OTHER MATTERS

Management does not know of any matters to be presented to the Meeting other than those set forth above. However, if other matters properly come before the Meeting, it is the intention of the Proxy Holders to vote said Proxy in accordance with the recommendations of your Board of Directors, and authority to do so is included in the Proxy.

DATED: April 14, 2006

1st CENTENNIAL BANCORP

/s/ Thomas E. Vessey

Thomas E. Vessey
President and Chief Executive Officer

A COPY OF OUR 2005 ANNUAL REPORT ON FORM 10-K INCLUDING FINANCIAL STATEMENTS (BUT WITHOUT EXHIBITS) FILED WITH THE SEC IS INCLUDED AS PART OF OUR ANNUAL REPORT TO SHAREHOLDERS WHICH IS BEING SENT TO SHAREHOLDERS TOGETHER WITH THIS PROXY STATEMENT. IF A SHAREHOLDER DESIRES COPIES OF THE EXHIBITS TO THE REPORT, THEY WILL BE PROVIDED UPON PAYMENT BY THE SHAREHOLDER OF THE COST OF FURNISHING THE EXHIBITS TOGETHER WITH A WRITTEN REQUEST TO BETH SANDERS, EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER OF 1st CENTENNIAL BANCORP, AT 218 EAST STATE STREET, REDLANDS, CALIFORNIA 92373.

AUDIT COMMITTEE CHARTER

I. AUDIT COMMITTEE PURPOSE

The Audit Committee of 1st Centennial Bancorp and 1st Centennial Bank (jointly, the "Company") is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Audit Committee's primary duties and responsibilities are to:

- Monitor the integrity of the Company's financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance;
- Appoint the Company's independent auditors;
- Monitor the independence and performance of the Company's independent auditors, the external audit function, and the loan review function; and
- Provide an avenue of communication among the independent auditors, management, the external audit function, and the Board of Directors.

II. AUDIT COMMITTEE AUTHORITY

- The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and it has direct access to the independent auditors as well as anyone in the Company.
- The Audit Committee has the authority to retain, at the Company's expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties.
- The Audit Committee has the authority to appoint and determine the compensation of the independent auditors, and the Company shall provide appropriate funding for such compensation.
- The Audit Committee has the authority to resolve disagreements between the Company's management and the independent auditors regarding financial reporting.

III. ROLE AND INDEPENDENCE; ORGANIZATION

The Committee appoints the Company's independent auditors and assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing, internal control, and financial reporting practices of the Company. It may also have such other duties as may from time to time be assigned to it by the Board. The membership of the Committee shall consist of at least three directors, who are each free of any relationship that, in the opinion of the Board, may interfere with such member's individual exercise of independent judgment. No Committee member, other than in his or her capacity as a member of the Board of Directors or of the Committee, may accept any consulting, advisory, or other compensatory fee from the Company. No Committee member may be an officer, employee, or 10% or greater shareholder of the Company or any parent or subsidiary thereof. Each Committee member shall also meet the independence and financial literacy requirements for serving on audit committees, and at least one member shall have accounting or related financial management expertise, as set forth in the applicable rules of the NASD.

A director will not be considered "independent" under the NASD rules if, among other things, he or she has:

- Been employed by the Company in the current or past three years;
- Accepted any compensation from the Company in excess of $60,000 during the previous fiscal year (except for board service, retirement plan benefits, or non-discretionary compensation);
- An immediate family member who is, or has been in the past three years, employed by the Company as an executive officer;
- Been a partner, controlling shareholder or an executive officer of any for-profit business to which the Company made, or from which it received, payments (other than those which arise solely from investments in the Company's securities) that exceed five percent of the Company's consolidated gross revenues for that year, or $200,000, whichever is more, in any of the past three years; or
- Been employed as an executive of another entity where any of the Company's executives serve on that entity's compensation committee.

IV. AUDIT COMMITTEE COMPOSITION AND MEETINGS

In addition to the independence requirements set forth in Article III above, all members of the Audit Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, and at least one member of the Audit Committee shall have accounting or related financial management expertise.

Audit Committee members shall be appointed by the Board. If an Audit Committee Chair is not designated or present, the members of the Audit Committee may designate a Chair by majority vote of the Audit Committee membership. The Chief Executive Officer, Chief Financial Officer, Chief Credit Officer, Chief Operating Officer, and Risk Management Officer, at the request of the Audit Committee, may attend Audit Committee meetings, as non-voting, non-member liaisons of the Company.

The Audit Committee shall meet monthly, or more frequently as circumstances dictate. The Audit Committee should also meet separately with management and with the independent auditors at least annually, and should at the next following Audit Committee meeting discuss any matters raised in the discussions with each of these groups. In addition, the Audit Committee, or at least its Chair, should communicate with management and/or the independent auditors quarterly to review the Company's financial statements and significant findings based upon the auditors' limited review procedures.

V. AUDIT COMMITTEE RESPONSIBILITIES AND DUTIES

A. **Review Procedures.** The Audit Committee shall:

- Review and reassess the adequacy of this charter at least annually. Submit the charter to the Board of Directors for approval annually and have the document published at least every three years in accordance with SEC regulations;
- Review the Company's annual audited financial statements prior to filing or distribution. Review should include discussion with management and the independent auditors of significant issues regarding accounting principles, practices, and judgments;
- In consultation with management and the independent auditors, consider the integrity of the Company's financial reporting processes and controls. Discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the independent auditors together with management's responses, if any;

- Review with financial management and/or the independent auditors the Company's quarterly financial results prior to the release of earnings and/or the Company's quarterly financial reports prior to filing or distribution. Discuss any significant changes to the Company's accounting principles and any items required to be communicated by the independent auditors in accordance with AICPA SAS 61 (see below). The Chair may represent the entire Audit Committee for purposes of this review;

- Review the budget, strategic plan, and changes in the strategic plan, activities and organizational structure, as needed; and

- On at least an annual basis, review with the Company's counsel any legal matters that could have a significant impact on the Company's financial statements, compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies, if any.

B. **Independent Auditors.**

- The independent auditors are ultimately accountable to the Audit Committee and the Board of Directors. The Audit Committee shall review the independence and performance of the auditors and shall be responsible for the annual appointment of the independent auditors or approve any discharge of auditors when circumstances warrant.

- The Audit Committee shall approve the audit fees and other significant compensation to be paid to the independent auditors for permitted non-audit services.

- On an annual basis, the Committee should review and discuss with the independent auditors all significant relationships they may have with the Company that could impair the auditors' independence, and the Audit Committee shall receive the written disclosures and the letters from independent auditors required by Independence Standards Board Standard No. 1 (Independence Discussion with Audit Committee), as such may be modified or supplemented.

- The Audit Committee shall review the independent auditors' plan and discuss scope, staffing, locations, reliance upon management, and external audit and general audit approach.

- Prior to releasing the year-end earnings, the Audit Committee shall discuss the results of the audit with the independent auditors. The Audit Committee shall also discuss certain matters required to be communicated to audit committees in accordance with AICPA SAS 61.

- The Audit Committee shall consider the independent auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.

- The Audit Committee shall pre-approve all audit and permissible non-audit services to be performed by the independent auditors, provided that pre-approval is not required with respect to non-audit services if:

    - the aggregate amount of all such non-audit services provided to the Company constitutes 5% or less of the total amount paid by the Company to its independent auditor during the fiscal year in which the non-audit services are provided;

    - such services were not recognized at the time of the engagement to be non-audit services; and

    - such services are promptly brought to the attention of the Audit Committee and are approved by the Audit Committee or by one or more members of the Audit Committee to whom authority to grant such approvals has been delegated by the Audit Committee prior to the completion of the Audit.

C. **Other Audit Committee Responsibilities.** The Audit Committee shall also:

- Annually prepare a report to shareholders as required by the SEC. This report should be sent to shareholders together with the Company's annual proxy statement;
- Review significant reports prepared by the Company's internal and/or external loan review personnel together with management's response and follow-up to these reports;
- Perform any other activities consistent with this Charter, the Company's bylaws, and governing law, as the Committee or the Board deems necessary or appropriate;
- Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the forgoing activities;
- Contract for the annual Company audit;
- Review and approve the audit plan, scope, and cost of outside audits;
- Review the adequacy of the Allowance for Loan and Lease Losses and the methods used in its determination;
- Review third party data processing audits;
- Review the Company's Risk Management Policy and systems to ensure the various types of risk are defined, measured, controlled, and monitored;
- Review the third party Interest Rate Risk Assessment annually;
- Be responsible for the implementation of the Internal Audit Program and review periodic reports at least annually; and
- Establish procedures for:
    - receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and
    - the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

V. OUTSIDE AUDITS

The Audit Committee will require the outside auditors to:

- submit a statement as to the scope of the audit;
- describe current or proposed financial accounting and reporting developments and their effect on the scope of the audit;
- provide an estimate of audit fees;
- determine the degree of their reliance on the Company's internal controls;
- determine if there are any significant problem areas foreseen;
- determine if there are any SEC issues;

- audit the procedures used to establish reserves; and
- describe any alternative accounting treatments for significant areas.

VI. EXAMINATIONS

The Audit Committee will review all reports from regulatory agencies and management's response to the examination and its efforts to correct noted problems.

VII. COMPLIANCE

A separate Compliance Policy has been approved by the Board. 1st Centennial Bank is committed to operating an effective compliance management program that will promote and ensure the Bank's compliance with all applicable federal and state laws, rules, and regulations affecting the industry. The Bank's active compliance program is designed to keep its directors, management and employees abreast of legal and regulatory changes and to recognize their impact on the Bank's existing policies and procedures. In addition, it is the Bank's officers and staffs' responsibility to understand and comply with all laws and regulations.

A sound compliance program is essential to the efficient and successful operation of the Bank. A compliance program includes the following components: policies and procedures; training; monitoring and consumer complaint response.

1st Centennial Bank is an active member of Bankers' Compliance Group ("BCG") and by Board resolution, incorporates BCG's Standard Procedures Manuals by reference into all 1st Centennial Bank Procedures Manuals.

1st Centennial Bank has joined BCG to ensure that current compliance information is provided to all employees. The Bank also has an agreement with BCG to provide services on a case-by-case basis.

Employees will attend compliance conferences for continuing education.

VIII. COMPLIANCE AUDITS

The Bank will schedule compliance audits every 18-24 months for the loan and operations departments.

IX. COMPLIANCE COMMITTEE

The Compliance Committee is responsible for developing, implementing, and maintaining an effective compliance program within the Bank. The primary purpose of the Compliance Committee is to develop and oversee the compliance function within this Bank. The Compliance Committee interprets regulations, writes compliance policies to ensure adherence to new and existing laws, and monitors the training of the Bank staff, management and directors. The Committee will meet at least quarterly with copies of meeting minutes forwarded to the Audit Committee. The Compliance Committee members are provided a detailed Compliance Committee agenda including various discussion topics, the Compliance Committee Action Plan, various handouts from BCG and other resources, BCG's monthly newsletter, departmental reviews, and copies of prior meeting minutes.

The Compliance Committee will consist of the Risk Management Officer, serving as the Chair of the Committee, and a representative from key departments.

X. COMPLIANCE CALENDAR

The Compliance Department shall be responsible for maintaining the compliance calendar. Monthly, a schedule of required compliance training and Board policy review is forwarded to the appropriate departments.

XI. SECURITY

The Board of Directors appoints a security officer who reports annually to the Board. A separate Security Policy has been approved by the Board of Directors.

XII. INFORMATION TECHNOLOGY

The Company will ensure that its electronic banking and information delivery systems comply with standards set by the FDIC. The Executive Vice President and Chief Operating Officer has been given the authority to develop and implement software/hardware necessary to protect Bank assets and necessary security, and is to report periodically to Audit Committee.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2005

Commission file number: 000-29105

1ST CENTENNIAL BANCORP
(Exact name of registrant as specified in its charter)

California **State of Incorporation**	**91-1995265** **I.R.S. Employer Identification Number**
218 East State Street **Redlands, California** **Address of Principal Executive Offices**	**92373** **Zip Code**

(909) 798-3611
Registrant's telephone number, including area code:

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, no Par Value

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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

As of June 30, 2005, the last business day of Registrant's most recently completed second fiscal quarter, the aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately $57 million, based on the closing price reported to the Registrant on that date of $35.00 per share. The number of shares of Common Stock of the registrant outstanding as of March 20, 2006 was 2,126,011.

Documents Incorporated by Reference: Portions of the definitive proxy statement for the 2006 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission pursuant to SEC Regulation 14A are incorporated by reference in Part III, Items 10-14.

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PART I

ITEM 1. BUSINESS

General

The Company

1st Centennial Bancorp ("the Company") is a California corporation registered as a bank holding company under the Bank Holding Company Act of 1956, and is headquartered in Redlands, California. We were incorporated in August 1999 and acquired 100% of the outstanding shares of 1st Centennial Bank ("the Bank") in December 1999. In February 2003 the Company changed its name from Centennial First Financial Services to 1st Centennial Bancorp and the Bank changed its name from Redlands Centennial Bank to 1st Centennial Bank. Our principal offices are located at 218 East State Street, Redlands, California. Our telephone number is (909) 798-3611, and our website address is www.1stcent.com. In August 2001, we acquired Palomar Community Bank in Escondido, California. Palomar Community Bank was formerly a savings and loan association, which converted to a state-chartered commercial bank in November 1999. In May 2002, Palomar Community Bank was merged into 1st Centennial Bank, so that our principal subsidiary is now 1st Centennial Bank. Our only other subsidiaries are Centennial Capital Trust I, Centennial Capital Trust II and Centennial Capital Trust III, which were formed in July 2002, January 2004 and September 2005, respectively, solely to facilitate the issuance of capital trust pass-through securities. This additional regulatory capital is intended to allow us to stay on track with current expansion plans without any impairment of risk-based capital ratios. See Note 8 to Notes to Consolidated Financial Statements. We determined that raising capital through trust preferred securities was more economical than traditional stock offerings. The issuance of these trust preferred securities totaling $18 million has increased our overall funding costs. Pursuant to Financial Accounting Standards Board (FASB) Interpretation No. 46, "Consolidation of Variable Interest Entities (VIE's) (FIN 46)," these trusts are not reflected on a consolidated basis in our financial statements.

Our principal source of income is currently dividends from the Bank, but we intend to explore supplemental sources of income in the future. Our expenditures, including but not limited to the payment of dividends to shareholders, if and when declared by the Board of Directors, and the cost of servicing debt, will generally be paid from such payments made to us by the Bank.

As of December 31, 2005, the Company had total consolidated assets of $456.2 million, total consolidated net loans of $381.2 million, total consolidated deposits of $401.3 million and total consolidated Shareholders' equity of $33.4 million. Our liabilities include $18.3 million in subordinated notes payable to subsidiary trusts due to Centennial Capital Trust I, II and III. The liability is related to capital trust pass-through securities issued by those entities

The Bank

The Bank is an independent California state-chartered bank, which commenced operations in 1990. In addition to our main office and corporate headquarters in Redlands, in San Bernardino County, we operate five full-service branch offices in Southern California, one in Brea, in Orange County, one in Escondido, in San Diego County, one in Palm Desert, in Riverside County, one in Irwindale, in Los Angeles County, and one in Temecula, in Riverside County. We also operate a Real Estate & Construction Loan Division in Redlands, a Small Business Administration / Commercial Loans Conduit Group loan production office and a Religious Lending Group, located in Brea, Orange County, and a Home Owners Association Group in Escondido, in San Diego County.

Our lending activity is concentrated primarily in real estate loans (including construction and development, residential, and commercial and multi-family loans), which constituted 58% of our loan portfolio as of December 31, 2005, and commercial loans, which constituted 39% of our loan portfolio as of December 31, 2005.

Our deposit accounts are insured under the Federal Deposit Insurance Act up to applicable limits, and subject to regulations by that federal agency and to periodic examinations of its operations and compliance by the FDIC and the California Department of Financial Institutions. Like most state-chartered banks of our size in California, we are not a member of the Federal Reserve System. We are a member of the Federal Home Loan Bank. See "Regulation and Supervision."

We are a community bank, offering our customers a wide variety of personal, consumer and commercial services expected of a locally managed, independently operated bank. Our full-service offices are all located in business areas adjacent to developed and/or developing retail, commercial and consumer marketplaces. While our primary focus is on commercial lending and residential construction in and around the areas we serve, we also offer a wide range of loan and deposit banking products and services to local consumers. We provide a broad range of deposit instruments and general banking services, including checking, savings, and money market accounts; time certificates of deposit for both business and personal accounts; telebanking (banking by phone); courier services; and internet banking, including account management, inter-bank and intra-bank transfer, and bill payment services. We also provide a wide variety of lending products for both businesses and consumers. Real estate loan products include construction loans, lot loans, residential real estate brokerage, commercial real estate conduit sales, mini-perm commercial real estate loans, and home mortgages. Commercial loan products include lines of credit, letters of credit, term loans and equipment loans, commercial real estate loans, SBA loans, equipment leasing and other working capital financing. Financing products for individuals include auto, home equity and home improvement lines of credit, personal lines of credit, and VISA credit cards. We are a Preferred Lender under the Small Business Administration in the counties of Orange, Riverside, San Bernardino, Los Angeles, Ventura and Santa Barbara.

We also offer numerous specialized services designed for the needs of our business customers. These services include a credit card program for merchants, commercial and standby letters of credit, cash management services, balance reporting, check reconciliation service, electronic funds transfer services, lock box, and courier services. We also provide certain international banking services indirectly through our correspondent banks.

In addition, we offer a wide range of non-deposit and investment products through KWB Wealth Managers Group, a Linsco Private Ledger firm. These products include financial and estate planning, stocks and bonds, mutual funds and variable annuities, and various retirement plans. Products offered through this firm are not insured by the FDIC, are not deposits or obligations of the Bank, and are not guaranteed by the Bank.

Recent Developments

On February 24, 2006, the Company announced that the Board of Directors approved a 50% stock distribution to shareholders of record on March 03, 2006, and payable April 03, 2006. The action was approved at the regularly scheduled Board Meeting on February 24, 2006. The effect will result in approximately an additional 1,058,620 shares of common stock outstanding.

Effective January 2006, the Company dissolved its accounts receivable financing program known as Business Manager. The Company is in the process of transferring the existing relationships to the appropriate branch portfolios and plans to complete the process by the end of the first quarter of 2006.

Recent Accounting Pronouncements

Information on recent accounting pronouncements is contained in Footnote 1 to the Consolidated Financial Statements.

Competition

The banking business in California generally, and specifically in our market areas in San Bernardino, Orange, San Diego, Riverside, and Los Angeles counties in Southern California, is highly competitive with respect to virtually all products and services and has become increasingly more so in recent years. The industry continues to consolidate, and strong, unregulated competitors have entered banking markets with focused products targeted at highly profitable customer segments. Many competitors are able to compete across geographic boundaries and provide customers access to alternatives to banking services and nearly all significant products. These competitive trends are likely to continue.

With respect to commercial bank competitors, the business is largely dominated by a relatively small number of major banks with many offices operating over a wide geographical area, which have, among other advantages, the ability to finance wide-ranging and effective advertising campaigns and to allocate investment resources to regions of highest yield and demand. Many of the major banks operating in the area offer certain services directly that we may offer indirectly through correspondent institutions. By virtue of their greater total capitalization, such banks also have substantially higher lending limits than we do.

In addition to other banks, competitors include savings institutions, credit unions, and numerous non-banking institutions such as finance companies, leasing companies, insurance companies, brokerage firms, and investment banking firms. In recent years, increased competition has also developed from specialized finance and non-finance companies that offer wholesale finance, credit card, and other consumer finance services, including on-line banking services and personal finance software. Strong competition for deposit and loan products affects the rates of those products as well as the terms on which they are offered to customers. Mergers between financial institutions have placed additional pressure on banks within the industry to streamline their operations, reduce expenses, and increase revenues to remain competitive. Competition has also intensified due to recently enacted federal and state interstate banking laws, which permit banking organizations to expand geographically, and the California market has been particularly attractive to out-of-state institutions. The Financial Modernization Act, which became effective in March 2000, has made it possible for full affiliations to occur between banks and securities firms, insurance companies, and other financial companies, and has also intensified competitive conditions. See "Financial Modernization Act."

Technological innovation has also resulted in increased competition in financial services markets. Such innovation has, for example, made it possible for non-depository institutions to offer customers automated transfer payment services that previously have been considered traditional banking products. In addition, many customers now expect a choice of several delivery systems and channels, including telephone, mail, home computer, ATMs, self-service branches, and/or in-store branches. In addition to other banks, the sources of competition for such products include savings associations, credit unions, brokerage firms, asset management groups, finance and insurance companies, internet-only financial intermediaries, and mortgage banking firms.

In order to compete with the other financial services providers, we principally rely upon local promotional activities, personal relationships established by our officers, directors, and employees with our customers, and specialized services tailored to meet the needs of the communities we serve. In those instances where we are unable to accommodate a customer's needs, we may arrange for those services to be provided by our correspondent banks. We also have "preferred lender" or "PLP" status with the Small Business Administration (SBA), which enables us to approve SBA loans faster than many of our competitors. In order to compete on the technological front, we maintain an Internet website with account management, inter-bank and intra-bank transfer, and bill payment services.

The larger financial institutions, including banks, brokerage houses, insurance companies, etc., are actively acquiring broker/dealer capabilities in order to capitalize on the emerging affluent population as the "baby boomer" generation begins to enter retirement age. These services include state-of-the-art financial planning and investment strategies tailored to specific needs, and funded with open-architecture ("best product available" vs. "proprietary") products and services. To effectively meet these competitive pressures, the Company has aligned itself with a nationwide broker/dealer (Linsco Private Ledger or "LPL") whereby it can provide the same type of sophistication and product and service enhancements as larger financial institutions, while still maintaining a closer, more community-oriented customer service profile. We provide these services through KWB Wealth Managers Group, a Linsco Private Ledger firm.

Employees

As of December 31, 2005 the Company had 125 full-time and 13 part-time employees. On a full time equivalent basis, the Company's staffing stood at 132 at December 31, 2005, as compared to 111 at December 31, 2004. Staff was added during 2005 for the new offices in Irwindale and Temecula, to provide resources in order to maintain satisfactory customer service in growth areas, and to enhance business development activities in certain markets.

Regulation and Supervision

The Company and the Bank are subject to significant regulation by federal and state regulatory agencies. The following discussion of statutes and regulations is only a brief summary and does not purport to be complete. This discussion is qualified in its entirety by reference to such statutes and regulations. No assurance can be given that such statutes or regulations will not change in the future.

The Company

The Company is subject to the periodic reporting requirements of Section 13 of the Securities Exchange Act of 1934 (the "Exchange Act"), which requires us to file annual, quarterly and other current reports with the Securities and Exchange Commission (the "SEC"). We are also subject to additional regulations including, but not limited to, the proxy and tender offer rules promulgated by the SEC under Sections 13 and 14 of the Exchange Act; the reporting requirements of directors, executive officers and principal shareholders regarding transactions in our common stock and short-swing profits rules promulgated by the SEC under Section 16 of the Exchange Act; and certain additional reporting requirements by principal shareholders of the Company promulgated by the SEC under Section 13 of the Exchange Act.

The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956 and is registered as such with the Federal Reserve Board. A bank holding company is required to file with the Federal Reserve Board annual reports and other information regarding its business operations and those of its subsidiaries. It is also subject to examination by the Federal Reserve Board and is required to obtain Federal Reserve Board approval before acquiring, directly or indirectly, ownership or control of any voting shares of any bank if, after such acquisition, it would directly or indirectly own or control more than 5% of the voting stock of that bank, unless it already owns a majority of the voting stock of that bank.

The Federal Reserve Board has by regulation determined certain activities in which a bank holding company may or may not conduct business. A bank holding company must engage, with certain exceptions, in the business of banking or managing or controlling banks or furnishing services to or performing services for its subsidiary banks. The permissible activities and affiliations of certain bank holding companies were expanded in 2000 by the Financial Modernization Act. See "Financial Modernization Act."

The Company and the Bank are deemed to be affiliates of each other within the meaning set forth in the Federal Reserve Act and are subject to Sections 23A and 23B of the Federal Reserve Act. This means, for example, that there are limitations on loans by the subsidiary banks to affiliates, and that all affiliate transactions must satisfy certain limitations and otherwise be on terms and conditions at least as favorable to the subsidiary banks as would be available for non-affiliates.

The Federal Reserve Board has a policy that bank holding companies must serve as a source of financial and managerial strength to their subsidiary banks. It is the Federal Reserve Board's position that bank holding companies should stand ready to use their available resources to provide adequate capital to their subsidiary banks during periods of financial stress or adversity. Bank holding companies should also maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting their subsidiary banks.

The Federal Reserve Board also has the authority to regulate bank holding company debt, including the authority to impose interest rate ceilings and reserve requirements on such debt. Under certain circumstances, the

Federal Reserve Board may require the Company to file written notice and obtain its approval prior to purchasing or redeeming the Company's equity securities.

The Bank

As a California state-chartered bank whose accounts are insured by the FDIC up to the maximum limits thereof, we are subject to regulation, supervision and regular examination by the California Department of Financial Institutions and the FDIC. In addition, while we are not a member of the Federal Reserve System, we are subject to certain regulations of the Federal Reserve Board. The regulations of these agencies govern most aspects of our business, including the making of periodic reports, and our activities relating to dividends, investments, loans, borrowings, capital requirements, certain check-clearing activities, branching, mergers and acquisitions, reserves against deposits and numerous other areas. Supervision, legal action and examination of the Bank by the FDIC are generally intended to protect depositors and are not intended for the protection of shareholders.

The earnings and growth of the Bank are largely dependent on its ability to maintain a favorable differential or "spread" between the yield on its interest-earning assets and the rate paid on its deposits and other interest-bearing liabilities. As a result, our performance is influenced by general economic conditions, both domestic and foreign, the monetary and fiscal policies of the federal government, and the policies of the regulatory agencies, particularly the Federal Reserve Board. The Federal Reserve Board implements national monetary policies (such as seeking to curb inflation and combat recession) by its open-market operations in U.S. Government securities, by adjusting the required level of reserves for financial institutions subject to its reserve requirements, and by varying the discount rate applicable to borrowings by banks which are members of the Federal Reserve System. The actions of the Federal Reserve Board in these areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

Capital Adequacy Requirements

The Company and the Bank are subject to the regulations of the Federal Reserve Board and the FDIC, respectively, governing capital adequacy. Each of the federal regulators has established risk-based and leverage capital guidelines for the banks or bank holding companies it regulates, which set total capital requirements and define capital in terms of "core capital elements," or Tier 1 capital; and "supplemental capital elements," or Tier 2 capital. Tier 1 capital is generally defined as the sum of the core capital elements less goodwill and certain other deductions, notably the unrealized net gains or losses (after tax adjustments) on available for sale investment securities carried at fair market value. The following items are defined as core capital elements: (i) common shareholders' equity; (ii) qualifying non-cumulative perpetual preferred stock and related surplus (not to exceed 25% of tier 1 capital); and (iii) minority interests in the equity accounts of consolidated subsidiaries. At December 31, 2005, 25% of the Company's Tier 1 capital consisted of trust preferred securities, however no assurance can be given that trust preferred securities will continue to be treated as Tier 1 capital in the future. Tier 2 capital can include: (i) allowance for loan and lease losses (but not more than 1.25% of an institution's risk-weighted assets); (ii) perpetual preferred stock and related surplus not qualifying as core capital; (iii) hybrid capital instruments, perpetual debt and mandatory convertible debt instruments; and (iv) term subordinated debt and intermediate-term preferred stock and related surplus (but not more than 50% of Tier 1 capital). The maximum amount of Tier 2 capital that may be recognized for risk-based capital purposes is limited to 100% of Tier 1 capital, net of goodwill.

The minimum required ratio of qualifying total capital to total risk-weighted assets is 8.0% ("Total Risk-Based Capital Ratio"), at least one-half of which must be in the form of Tier 1 capital, and the minimum required ratio of Tier 1 capital to total risk-weighted assets is 4.0% ("Tier 1 Risk-Based Capital Ratio"). Risk-based capital ratios are calculated to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets, and transactions, such as letters of credit and recourse arrangements, which are recorded as off-balance sheet items. Under risk-based capital guidelines, the nominal dollar amounts of assets and credit-equivalent amounts of off-balance sheet items are multiplied by one of several risk adjustment percentages, which range from 0% for assets with low credit risk, such as certain U.S. Treasury securities, to 100% for assets with relatively high credit risk, such as unsecured loans. As of December 31, 2005 and 2004, the Bank's Total Risk-Based Capital Ratios were 12.49% and 11.68%, respectively, and its Tier 1 Risk-Based Capital Ratios were 11.24% and 10.43%. As of December 31, 2005 and 2004, the consolidated Company's Total Risk-Based Capital Ratios were 12.86% and 12.26%, respectively, and its Tier 1 Risk-Based Capital Ratios were 9.92% and 9.89%.

The risk-based capital requirements also take into account concentrations of credit involving collateral or loan type and the risks of "non-traditional" activities (those that have not customarily been part of the banking business). The regulations require institutions with high or inordinate levels of risk to operate with higher minimum capital standards, and authorize the regulators to review an institution's management of such risks in assessing an institution's capital adequacy.

Additionally, the regulatory Statements of Policy on risk-based capital include exposure to interest rate risk as a factor that the regulators will consider in evaluating an institution's capital adequacy, although interest rate risk does not impact the calculation of the risk-based capital ratios. Interest rate risk is the exposure of a bank's current and future earnings and equity capital to unfavorable changes resulting from fluctuations in interest rates. While interest risk is inherent in a bank's role as a financial intermediary, it introduces volatility to earnings and to the economic value of the bank.

The FDIC and the Federal Reserve Board also require the calculation of a leverage capital ratio to supplement risk-based capital guidelines. Banks and bank holding companies that have received the highest rating of the five categories used by regulators to rate banks and are not anticipating or experiencing any significant growth must maintain a ratio of Tier 1 capital (net of all intangibles) to adjusted total assets ("Leverage Capital Ratio") of at least 3%. All other institutions are required to maintain a leverage ratio of 4% to 5%. Pursuant to federal regulations, banks must maintain capital levels commensurate with the level of risk to which they are exposed, including the volume and severity of problem loans, and federal regulators may set higher capital requirements when a bank's particular circumstances warrant. The Bank's Leverage Capital Ratios were 10.21% and 9.73% on December 31, 2005 and 2004, respectively. As of December 31, 2005 and 2004, the consolidated Company's Leverage Capital Ratios were 9.02% and 9.25%, respectively, exceeding regulatory minimums.

For more information on the Company's capital, see Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation—Capital Resources. Risk-based capital ratio requirements are discussed in greater detail in the following section.

Prompt Corrective Action Provisions

Federal law requires each federal banking agency to take prompt corrective action to resolve the problems of insured financial institutions, including but not limited to those that fall below one or more prescribed minimum capital ratios. The federal banking agencies have by regulation defined the following five capital categories: (1) "well capitalized" (Total Risk-Based Capital Ratio of 10%; Tier 1 Risk-Based Capital Ratio of 6%; and Leverage Ratio of 5%); (2) "adequately capitalized" (Total Risk-Based Capital Ratio of 8%; Tier 1 Risk-Based Capital Ratio of 4%; and Leverage Ratio of 4%) (or 3% if the institution receives the highest rating from its primary regulator); (3) "undercapitalized" (Total Risk-Based Capital Ratio of less than 8%; Tier 1 Risk-Based Capital Ratio of less than 4%; or Leverage Ratio of less than 4%) (or 3% if the institution receives the highest rating from its primary regulator); (4) "significantly undercapitalized" (Total Risk-Based Capital Ratio of less than 6%; Tier 1 Risk-Based Capital Ratio of less than 3%; or Leverage Ratio less than 3%); and (5) "critically undercapitalized" (tangible equity to total assets less than 2%). As of December 31, 2005 and 2004, the Bank was deemed "well capitalized" for regulatory capital purposes. A bank may be treated as though it were in the next lower capital category if after notice and the opportunity for a hearing, the appropriate federal agency finds an unsafe or unsound condition or practice so warrants, but no bank may be treated as "critically undercapitalized" unless its actual capital ratio warrants such treatment.

At each successively lower capital category, an insured bank is subject to increased restrictions on its operations. For example, a bank is generally prohibited from paying management fees to any controlling persons or from making capital distributions if to do so would make the bank "undercapitalized." Asset growth and branching restrictions apply to undercapitalized banks, which are required to submit written capital restoration plans meeting specified requirements (including a guarantee by the parent holding company, if any). "Significantly undercapitalized" banks are subject to broad regulatory authority, including among other things, capital directives, forced mergers, restrictions on the rates of interest they may pay on deposits, restrictions on asset growth and activities, and prohibitions on paying bonuses or increasing compensation to senior executive officers without FDIC approval. Even more severe restrictions apply to critically undercapitalized banks. Most importantly, except under limited circumstances, not later than 90 days after an insured bank becomes critically undercapitalized, the appropriate federal banking agency is required to appoint a conservator or receiver for the bank.

In addition to measures taken under the prompt corrective action provisions, insured banks may be subject to potential actions by the federal regulators for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency or any written agreement with the agency. Enforcement actions may include the issuance of a memorandum of understanding, cease and desist orders, termination of insurance of deposits (in the case of a bank), the imposition of civil money penalties, the issuance of directives to increase capital, formal and informal agreements, or removal and prohibition orders against "institution-affiliated" parties.

Safety and Soundness Standards

The federal banking agencies have also adopted guidelines establishing safety and soundness standards for all insured depository institutions. Those guidelines relate to internal controls, information systems, internal audit systems, loan underwriting and documentation, compensation and interest rate exposure. In general, the standards are designed to assist the federal banking agencies in identifying and addressing problems at insured depository institutions before capital becomes impaired. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan and institute enforcement proceedings if an acceptable compliance plan is not submitted.

Premiums for Deposit Insurance

The FDIC regulations also implement a risk-based premium system, whereby insured depository institutions are required to pay insurance premiums depending on their risk classification. Under this system, insured banks are categorized into one of three capital categories (well capitalized, adequately capitalized, and undercapitalized) and one of three supervisory categories based on federal regulatory evaluations. The three supervisory categories are: financially sound with only a few minor weaknesses (Group A), demonstrates weaknesses that could result in significant deterioration (Group B), and poses a substantial probability of loss (Group C). The capital ratios used by the FDIC to define well capitalized, adequately capitalized and undercapitalized are the same in the FDIC's prompt corrective action regulations. The current base assessment rates (expressed as cents per $100 of deposits) are summarized as follows:

	Group A	Group B	Group C
Well Capitalized	0	3	17
Adequately Capitalized	3	10	24
Undercapitalized	10	24	27

In addition, banks must pay an amount, which fluctuates but for the first quarter of 2006 is 1.32 cents per $100 of insured deposits, towards the retirement of the Financing Corporation bonds issued in the 1980's to assist in the recovery of the savings and loan industry.

In general, as long as the FDIC's Bank Insurance Fund ("BIF") maintains a reserve ratio of 1.25% or greater, no deposit insurance premiums are required. If the BIF reserve ratio were to fall below that level, all insured banks would be required to pay premiums. In February 2006, the FDIC Reform Act of 2005 was signed into law. This legislation, among other changes, will merge the BIF and the Savings Association Insurance Fund into one fund (the "Deposit Insurance Fund"), increase insurance coverage for retirement accounts to $250,000 and index the deposit insurance levels for inflation.

Community Reinvestment Act

The Bank is subject to certain requirements under the Community Reinvestment Act (CRA) activities. The CRA generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the credit needs of its local communities, including low and moderate income neighborhoods. The CRA further requires the agencies to take a financial institution's record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, consummating mergers or acquisitions, or holding company formations. In measuring a bank's compliance with its CRA obligations, the regulators utilize a performance-based evaluation system which bases CRA ratings on the bank's actual lending service and investment performance, rather than on the extent to which the institution conducts needs assessments, documents community outreach activities or complies with other procedural requirements. In connection with its assessment of CRA performance, the FDIC assigns a rating of "outstanding," "satisfactory," "needs to improve" or "substantial noncompliance." The Bank was last examined for CRA compliance in September 2003, and received a "satisfactory" CRA Assessment Rating.

Other Consumer Protection Laws and Regulations

The bank regulatory agencies are increasingly focusing attention on compliance with consumer protection laws and regulations. Examination and enforcement has become intense, and banks have been advised to carefully monitor compliance with various consumer protection laws and their implementing regulations. The federal Interagency Task Force on Fair Lending issued a policy statement on discrimination in home mortgage lending describing three methods that federal agencies will use to prove discrimination: overt evidence of discrimination, evidence of disparate treatment, and evidence of disparate impact. In addition to CRA and fair lending requirements, the Bank is subject to numerous other federal consumer protection statutes and regulations. Due to heightened regulatory concern related to compliance with consumer protection laws and regulations generally, the Bank may incur additional compliance costs or be required to expend additional funds for investments in the local communities it serves.

Interstate Banking and Branching

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the "Interstate Banking Act") regulates the interstate activities of banks and bank holding companies and establishes a framework for nationwide interstate banking and branching. Since June 1, 1997, a bank in one state has generally been permitted to merge with a bank in another state without the need for explicit state law authorization. However, states were given the ability to prohibit interstate mergers with banks in their own state by "opting-out" (enacting state legislation applying equality to all out-of-state banks prohibiting such mergers) prior to June 1, 1997.

Since 1995, adequately capitalized and managed bank holding companies have been permitted to acquire banks located in any state, subject to two exceptions: first, any state may still prohibit bank holding companies from acquiring a bank which is less than five years old; and second, no interstate acquisition can be consummated by a bank holding company if the acquirer would control more than 10% of the deposits held by insured depository institutions nationwide or 30% or more of the deposits held by insured depository institutions in any state in which the target bank has branches.

A bank may establish and operate de novo branches in any state in which the bank does not maintain a branch if that state has enacted legislation to expressly permit all out-of-state banks to establish branches in that state.

In 1995, California enacted legislation to implement important provisions of the Interstate Banking Act discussed above and to repeal California's previous interstate banking laws, which were largely preempted by the Interstate Banking Act.

The changes effected by the Interstate Banking Act and California laws have increased competition in the environment in which the Bank operates to the extent that out-of-state financial institutions directly or indirectly enter the Bank's market areas. It appears that the Interstate Banking Act has contributed to the accelerated consolidation of the banking industry.

Financial Modernization Act

Effective March 11, 2000, the Gramm-Leach-Bliley Act, also known as the "Financial Modernization Act," eliminated most barriers to affiliations among banks and securities firms, insurance companies, and other financial service providers, and enabled full affiliations to occur between such entities. This legislation permits bank holding companies to become "financial holding companies" and thereby acquire securities firms and insurance companies and engage in other activities that are financial in nature. A bank holding company may become a financial holding company if each of its subsidiary banks is "well capitalized" and "well managed" under applicable definition, and has at least a satisfactory rating under the CRA by filing a declaration that the bank holding company wishes to become a financial holding company. No regulatory approval will be required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are "financial in nature" or incidental to activities that are financial in nature, as determined by the Federal Reserve Board. The Company has no current intention of becoming a financial holding company, but may do so at some point in the future if deemed appropriate in view of opportunities or circumstances at the time.

The Financial Modernization Act defines "financial in nature" to include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the Federal Reserve Board has determined to be closely related to banking. A national bank (and therefore, a state bank as well) may also engage, subject to limitations on investment, in activities that are financial in nature, other than insurance underwriting, insurance company portfolio investment, real estate development and real estate investment, through a financial subsidiary of the bank, if the bank is well capitalized, well managed and has at least a satisfactory CRA rating. Subsidiary banks of a financial holding company or national banks with financial subsidiaries must continue to be well capitalized and well managed in order to continue to engage in activities that are financial in nature without regulatory actions or restrictions, which could include divestiture of the financial in nature subsidiary or subsidiaries. In addition, a financial holding company or a bank may not acquire a company that is engaged in activities that are financial in nature unless each of the subsidiary banks of the financial holding company or the bank has a CRA rating of satisfactory or better.

The Financial Modernization Act also imposes significant requirements on financial institutions with respect to the privacy of customer information, and modifies other existing laws, including those related to community reinvestment.

USA Patriot Act of 2001

On October 26, 2001, President Bush signed the USA Patriot Act of 2001 ("The Patriot Act"). Enacted in response to the terrorist attacks in New York, Pennsylvania and Washington, D.C. on September 11, 2001, the

Patriot Act is intended to strengthen U.S. law enforcement's and the intelligence communities' ability to work cohesively to combat terrorism on a variety of fronts. The impact of the Patriot Act on financial institutions of all kinds has been significant and wide ranging. The Patriot Act substantially enhanced existing anti-money laundering and financial transparency laws, and required appropriate regulatory authorities to adopt rules to promote cooperation among financial institutions, regulators, and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. Under the Patriot Act, financial institutions are subject to prohibitions regarding specified financial transactions and account relationships, as well as enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and foreign customers. For example, the enhanced due diligence policies, procedures, and controls generally require financial institutions to take reasonable steps:

- to conduct enhanced scrutiny of account relationships to guard against money laundering and report any suspicious transactions;
- to ascertain the identity of the nominal and beneficial owners of, and the source of funds deposited into, each account as needed to guard against money laundering and report any suspicious transactions;
- to ascertain for any foreign bank, the shares of which are not publicly traded, the identity of the owners of the foreign bank, and the nature and extent of the ownership interest of each such owner; and
- to ascertain whether any foreign bank provides correspondent accounts to other foreign banks and, if so, the identity of those foreign banks and related due diligence information.

The Patriot Act also requires all financial institutions to establish anti-money laundering programs, which must include, at minimum:

- the development of internal policies, procedures, and controls;
- the designation of a compliance officer;
- an ongoing employee training program; and
- an independent audit function to test the programs.

The Company implemented the requirements under the Patriot Act during 2001 and 2002. Compliance with such requirements has all been accomplished with existing staff, so the financial impact on the Company has been negligible.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") was enacted to increase corporate responsibility, provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies, and protect investors by improving the accuracy and reliability of disclosures pursuant to the securities laws. Sarbanes-Oxley includes important new requirements for public companies in the areas of financial disclosure, corporate governance, and the independence, composition and responsibilities of audit committees. Among other things, Sarbanes-Oxley mandates chief executive and chief financial officer certifications of periodic financial reports, additional financial disclosures concerning off-balance sheet items, and speedier transaction reporting requirements for executive officers, directors and 10% shareholders. In addition, penalties for non-compliance with the Exchange Act were heightened. SEC rules promulgated pursuant to Sarbanes-Oxley impose obligations and restrictions on auditors and audit committees intended to enhance their independence from management, and include extensive additional disclosure, corporate governance and other related rules. Sarbanes-Oxley represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a Board of Directors and management and between a Board of Directors and its committees.

We have not experienced any significant difficulties in complying with Sarbanes-Oxley. However, we have incurred, and expect to continue to incur, significant costs in connection with compliance with Section 404 of

Sarbanes-Oxley, which will require management to undertake an assessment of the adequacy and effectiveness of our internal controls over financial reporting and will require our auditors to attest to, and report on, management's assessment and the operating effectiveness of these controls. While we are not yet technically subject to the requirements of Section 404, as a matter of best practices, we have decided to begin the compliance process early on a voluntary basis to ensure that we do not encounter any problems when compliance becomes mandatory. The Company expensed approximately $70,000 in 2005 and $60,000 in 2004, on compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

Other Pending and Proposed Legislation

Other legislative and regulatory initiatives which could affect the Company, the Bank and the banking industry in general are pending, and additional initiatives may be proposed or introduced, before the U.S. Congress, the California legislature and other governmental bodies in the future. Such proposals, if enacted, may further alter the structure, regulation and competitive relationship among financial institutions, and may subject the Bank to increased regulation, disclosure and reporting requirements. In addition, the various banking regulatory agencies often adopt new rules and regulations to implement and enforce existing legislation. It cannot be predicted whether, or in what form, any such legislation or regulations may be enacted or the extent to which the business of the Company or the Bank would be affected thereby.

ITEM 1A. RISK FACTORS

Statements and financial discussion and analysis by management contained throughout this report that are not historical facts are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve a number risks and uncertainties. The important factors that could cause actual results to differ materially from the forward-looking statements herein include, without limitation, the factors set forth below. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to use or that management currently believes are immaterial also may impair our business. If any of the events described in the following risk factors occur, our business, results of operations and financial condition could be materially adversely affected. In addition, the trading price of our common stock could decline due to any of the events described in these risks.

Changes in economic conditions in our market areas could hurt our business materially.

A substantial majority of our loans are generated in the greater San Bernardino, Orange, Riverside, San Diego and Los Angeles County areas in Southern California. Our business is directly affected by factors such as economic, political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in government monetary and fiscal policies and inflation, all of which are beyond our control. The State of California continues to face challenges upon which the long-term impact on the State's economy cannot be predicted. A deterioration in economic conditions in Southern California, whether caused by national concerns or local concerns, may result in higher than expected loan delinquencies or problem assets, a decline in the values of the collateral that we take to secure our loan portfolio, a decrease in demand for our products and services, or lack of growth or a decrease in low cost or noninterest bearing deposits; any of which may materially hurt our business. While our market areas have not experienced the same degree of challenges, no assurance can be given that this will continue to be the case.

Concentrations of real estate loans could subject us to increased risks in the event of a real estate recession or natural disaster.

Our loan portfolio is heavily concentrated in real estate loans consisting of construction and development, residential and commercial and multi-family. At December 31, 2005, 58% of our loan portfolio was concentrated in real estate loans. During 2005, real estate prices in Southern California continued to rise, and construction in our area has been thriving. Between December 31, 2004 and December 31, 2005 our real estate loans increased $20.2 million or 10% from $205.3 million to $225.5 million, however, as a percentage of total loans, dropped from 65% to 58%. The shift in the mix was primarily due to our commercial loans increasing from 33% to 39% of our loan portfolio. Some of our commercial loans are to businesses in the construction and real estate industry. A deterioration in the real estate market in the areas we serve could have an adverse effect on the collateral value for many of our loans and effect the repayment ability of many of our borrowers. In addition, deterioration in the real estate market we serve would affect the amount of loans we make to businesses in the construction and real estate industry, which could negatively impact our results of operations. Similarly, the occurrence of a natural or manmade disaster in California could impair the value of the collateral we hold for real estate secured loans and negatively impact our results of operations.

We may have difficulty managing our growth.

Our total assets have increased to $456.2 million as of December 31, 2005, from $356.7 million and $254.4 million as of December 31, 2004 and 2003, respectively. The Company operates its main office and construction/ real estate loan production offices in downtown Redlands, California, a full-service branch, its Religious Lending Group and SBA/Commercial Lending Group in Brea, California, and its Homeowners' Association and full branch in Escondido, California. The Company also operates full-service branches in Palm Desert, Irwindale, and Temecula, California that opened in March 2003, February 2005 and August 2005, respectively.

Management intends to grow the Company internally by further establishing our existing branch offices and loan production offices. We intend to investigate future opportunities to acquire or combine with additional financial institutions, however, no assurance can be provided that we will be able to identify additional suitable acquisition targets or consummate any such acquisition in the future.

Our ability to manage growth will depend primarily on our ability to:

- monitor and manage expanded operations;
- control funding costs and operating expenses;
- maintain positive customer relations; and
- attract, assimilate and retain qualified personnel.

If we fail to achieve these objectives in an efficient and timely manner we may experience disruptions in our business plans, and our financial condition and results of operations could be adversely affected.

Our earnings are subject to interest rate risk.

Banking companies' earnings depend largely on the relationship between the cost of funds, primarily deposits and borrowings, and the yield on earning assets, such as loans and investment securities. This relationship, known as the interest rate spread, is subject to fluctuation and is affected by the monetary policies of the Federal Reserve Board, the international interest rate environment, as well as by economic, regulatory and competitive factors which influence interest rates, the volume and mix of interest-earning assets and interest-bearing liabilities, and the level of nonperforming assets. Many of these factors are beyond our control. Fluctuations in interest rates affect the demand of customers for our products and services. We are subject to interest rate risk to the degree that our interest-bearing liabilities reprice or mature more slowly or more rapidly or on a different basis than our interest-earning assets. Given our current volume and mix of interest-bearing liabilities and interest-earning assets, our interest rate spread could be expected to increase during times of rising interest rates and, conversely, to decline during times of falling interest rates. Therefore, significant fluctuations in interest rates may have an adverse or a positive effect on our results of operations. See "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Rate Risk/Interest Rate Risk Management."

We operate in a competitive market dominated by banks and other financial services providers, many of which have lower cost structures and offer more services.

In California generally, and in our primary service area specifically, branches of major banks dominate the commercial banking industry. By virtue of their larger capital, such institutions have substantially greater lending limits than we have, and perform certain functions for their customers, including trust services and international banking, which we are not equipped to offer directly (but some of which we offer indirectly through correspondent relationships). Many of these banks also operate with "economies of scale" that result in lower operating costs than ours on a per loan or per asset basis.

We also compete with other financial institutions such as savings and loan associations, credit unions, thrift and loan companies, mortgage companies, securities brokerage companies and insurance companies located within and without our service area and with quasi-financial institutions such as money market funds for deposits and loans. Financial services like ours are increasingly offered over the Internet on a national and international basis, and we compete with providers of these services as well. Ultimately, competition can drive down our interest margins and reduce our profitability. It also can make it more difficult for us to continue to increase the size of our loan portfolio and deposit base. See "Item 1, Business—Competition."

There is a limited public market for our stock, so you may not be able to sell your shares at the times and in the amounts you want.

Our common stock is not listed on any exchange or on Nasdaq. Our common stock is quoted on the OTC Bulletin Board, and there are a few securities brokers who are involved in trading our common stock; however, trading in our common stock has not been extensive and there can be no assurance that a more active trading market will develop in the foreseeable future. As a result, while our common stock is not subject to any specific restrictions on transfer, you may have difficulty selling your shares of common stock at the times and in the amounts you may desire.

We do not expect to pay significant cash dividends in the future.

We believe the most effective use of our capital and earnings is to finance our growth and operations. For this reason, we expect to retain all or the vast majority of our earnings rather than distribute them to shareholders in the form of dividends. However, we may consider cash distributions in the form of cash dividends to shareholders in the future, although we do not currently expect any such dividends to be significant.

We are a legal entity separate and distinct from our subsidiary. Substantially all of our revenue and cash flow, including funds available for the payment of dividends and other operating expenses, is dependent upon the payment of dividends to us by the Bank. Dividends payable to us by the Bank are restricted under California and federal laws and regulation. See "Item 5, Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities—Dividends."

We may experience loan losses in excess of our allowance for loan losses.

The risk of credit losses on loans varies with, among other things, general economic conditions, the type of loan being made, the creditworthiness of the borrower over the term of the loan, and in the case of a collateralized loan, the value and marketability of the collateral for the loan. We have adopted underwriting and credit monitoring procedures and credit policies, including the establishment and review of the allowance for credit losses, that management believes are appropriate to minimize this risk by assessing the likelihood of nonperformance, tracking loan performance and diversifying our credit portfolio. These policies and procedures, however, may not prevent unexpected losses that could have a material adverse effect on our results of operations. Management maintains an allowance for loan losses based upon, among other things, historical experience, an evaluation of economic conditions and regular reviews of delinquencies and loan portfolio quality. Based upon such factors, management makes various assumptions and judgments about the ultimate collectibility of the loan portfolio and provides an allowance for loan losses based upon a percentage of the outstanding balances and for specific loans when their ultimate collectibility is considered questionable.

As of December 31, 2005, our allowance for loan losses was approximately $5.4 million, which represented 1.39% of outstanding loans, net of unearned income. Although management believes that our allowance for loan losses is adequate, there can be no assurance that the allowance will prove sufficient to cover future loan losses. Further, although management uses the best information available to make determinations with respect to the allowance for loan losses, future adjustments may be necessary if economic conditions differ substantially from the assumptions used or adverse developments arise with respect to the non-performing or performing loans. If management's assumptions and judgments prove to be incorrect and the allowance for loan losses is inadequate to absorb future losses, or if the bank regulatory authorities require us to increase our allowance for loan losses as a part of their examination process, our earnings and potentially even our capital could be significantly and adversely affected. See "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Allowance for Loan Losses."

All of our lending involves underwriting risks, especially in a competitive lending market.

At December 31, 2005, construction and development loans represented 35%, residential, commercial and multi-family loans represented 23% and commercial loans represented 39% of our total loan portfolio.

Commercial lending, even when secured by the assets of a business, involves considerable risk of loss in the event of failure of the business. To reduce such risk, we typically take additional security interests in other collateral, such as real property, certificates of deposit or life insurance, and/or obtain personal guarantees.

Construction lending differs from other types of real estate lending because of uncertainties inherent in estimating construction costs, the length of the construction period and the market for the project upon completion. Commercial mortgage lending entails risks of delays in leasing and excessive vacancy rates. All real estate secured lending involves risks that real estate values in general will fall and that the value of the particular real estate security for a loan will fall. We seek to reduce our risk of loss through our underwriting and monitoring procedures.

We depend on our executive officers and key personnel to implement our business strategy and could be harmed by the loss of their services.

We believe that our growth and future success will depend in large part upon the skills of our management team. The competition for qualified personnel in the financial services industry is intense, and the loss of our key personnel or an inability to continue to attract, retain or motivate key personnel could adversely affect our business. We cannot assure you that we will be able to retain our existing key personnel or to attract additional qualified personnel.

Our President and Chief Executive Officer joined us in March 2002 as Executive Vice President and Chief Credit Officer and was promoted to his current position in October 2004; our Executive Vice President and Chief Credit Officer joined us in April 2005; our Executive Vice President and Chief Financial Officer has served in that capacity since the Company was formed in 1999. She has been Chief Financial Officer of the Bank since its inception in 1990, initially as Vice President until 1993, then as Senior Vice President until she was promoted to Executive Vice President in 1997. Our Executive Vice President and Chief Operating Officer joined us on a full-time basis in January 2001 and was promoted to her current position in December 2002.

Because of certain change in control provisions in employment and salary continuation agreements, a change in control of our company or our management could be delayed or prevented.

Our Chief Financial Officer, and our Chief Operating Officer have each entered into employment agreements that have 3-year terms beginning in 2004, with a 1-year renewal. The employment agreements provide for severance payments if their respective employment arrangements are actually or constructively terminated or in connection with a change in control of the Company or its subsidiary. These same two individuals, as well as other officers of the Bank, also have salary continuation agreements, which provide for accelerated vesting of their annual retirement benefits under similar circumstances. These provisions may make it more expensive for another company to acquire us, which could reduce the market price of our common stock and the price that you receive if you sell your shares in the future.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We own our headquarters, which includes our administrative and main branch offices, at 218 East State Street, Redlands, California. The property consists of a two-story building of approximately 8,500 square feet.

We lease all of our other offices. A description of our leases is set forth in the table below.

Division/Branch	Location	Square Footage	Lease Expiration	Monthly Rental
Real Estate	101 E. Redlands Blvd. Redlands, California	6,526	1/31/07	$10,272
Brea Branch	10 Pointe Drive 130-140 Brea, California	5,061	1/07/11	$10,671
Brea-Commercial Lending Group	10 Pointe Drive 100-105 Brea, California	3,212	1/07/11	$ 6,745
Escondido Branch	355 W. Grand Avenue Escondido, California	7,000	11/23/07	$23,425
Palm Desert Branch	77-900 Fred Waring Drive Suite 100 Palm Desert, California	5,128	06/30/08	$11,310
Irwindale	15622 Arrow Hwy. Irwindale, California	4,560	8/12/09	$13,467
Temecula	27645 Jefferson Ave. Suite 116 Temecula, California	3,850	12/15/09	$ 8,085

ITEM 3. LEGAL PROCEEDINGS

We are a party from time to time to claims and legal proceedings arising in the ordinary course of business. After taking into consideration the factors underlying these claims and information provided by our litigation counsel as to the current status of these claims or proceedings to which we are a party, we are of the opinion that the ultimate aggregate liability represented thereby, if any, will not have a material adverse effect on our financial condition or results of operations.

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

Not applicable.

PART II

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

(a) Market Information

Our common stock is traded on the OTC Bulletin Board under the symbol "FCEN." Trading in the stock has not been extensive and such trades cannot be characterized as amounting to an active trading market.

The information in the following table indicates the high and low quotations and approximate volume of trading for our common stock for each quarterly period since January 1, 2004, and is based upon information provided by public sources. The high and low prices have been adjusted to give effect to all stock dividends and distributions. In addition, the prices indicated reflect inter-dealer prices and trades, without retail mark-up, mark-down or commission and may not represent actual transactions.

Calendar Quarter Ended	High	Low	Volume
March 31, 2004	$25.42	$21.68	149,000
June 30, 2004	$23.55	$21.03	40,500
September 30, 2004	$25.23	$21.50	28,200
December 31, 2004	$33.64	$24.77	41,000
March 31, 2005	$38.00	$33.69	131,400
June 30, 2005	$36.75	$34.00	47,600
September 30, 2005	$37.00	$34.00	36,300
December 31, 2005	$34.70	$32.00	57,800

(b) Holders

As of December 31, 2005, there were approximately 502 shareholders of record of our common stock.

(c) Dividends

As a bank holding company, which currently has no significant assets other than, our equity interest in the Bank, our ability to pay dividends primarily depends upon the dividends we receive from the Bank. The dividend practice of the Bank, like our dividend practice, will depend upon its earnings, financial position, current and anticipated cash requirements and other factors deemed relevant by the Bank's Board of Directors at that time. In addition, during any period in which the Company has deferred payment of interest otherwise due and payable on its subordinated debt securities, we may not make any dividends or distributions with respect to our capital stock. See "Item 1, Business—Recent Developments" and "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources."

The Bank's ability to pay cash dividends to us is also subject to certain legal limitations. Under California law, banks may declare a cash dividend out of their net profits up to the lesser of retained earnings or the net income for the last three fiscal years (less any distributions made to Shareholders during such period), or with the prior written approval of the Commissioner of Financial Institutions, in an amount not exceeding the greatest of (i) the retained earnings of the bank, (ii) the net income of the bank for its last fiscal year, or (iii) the net income of the bank for its current fiscal year. In addition, under federal law, banks are prohibited from paying any dividends if after making such payment they would fail to meet any of the minimum regulatory capital requirements. The federal regulators also have the authority to prohibit banks from engaging in any business practices which are considered to be unsafe or unsound, and in some circumstances the regulators might prohibit the payment of dividends on that basis even though such payments would otherwise be permissible.

Our ability to pay dividends is also limited by state corporation law. The California General Corporation Law allows us to pay dividends to our shareholders if our retained earnings equal at least the amount of the proposed dividend. If we do not have sufficient retained earnings available for the proposed dividend, we may still pay a dividend to our shareholders if we meet two conditions after giving effect to the dividend. Those conditions are generally as follows: (i) our assets (exclusive of goodwill and deferred charges) would equal at least 1 ¼ times our liabilities; and (ii) our current assets would equal at least our current liabilities or, if the average of our earnings before taxes on income and before interest expense for two preceding fiscal years was less than the average of our interest expense for such fiscal years, then our current assets must equal at least 1 ¼ times our current liabilities.

Shareholders are entitled to receive dividends only when and if declared by our Board of Directors. Although we paid cash dividends in 2000 and 2001, we have no intention to pay cash dividends in the foreseeable future. Instead, we intend to retain our earnings for the purpose of supporting our future growth. However, since 1996 we have paid eight stock dividends to our shareholders.

In addition, on February 24, 2006, the Company announced that the Board of Directors approved a 50% stock distribution to shareholders of record on March 03, 2006, and payable April 03, 2006. The action was approved at the regularly scheduled Board Meeting on February 24, 2006. The effect will result in approximately an additional 1,058,620 shares of common stock outstanding.

The table below sets forth information concerning all dividends paid since 1996. Dividends paid in 2000 through 2005 were paid by the Company, and dividends paid prior to 2000 were paid by the Bank.

Year	Stock Dividends	Cash Dividends	Year	Stock Dividends	Cash Dividends
2005	7%	—	2000	5%	10¢
2004	25%	—	1999	—	—
2003	5%	—	1998	25%	—
2002	5%	—	1997	7%	—
2001	—	5¢	1996	8%	—

Securities Authorized For Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2005, with respect to options outstanding and available under our 2001 Stock Incentive Plan, as amended and restated March 19, 2004, which is our only equity compensation plan other than an employee benefit plan meeting the qualification requirements of Section 401(a) of the Internal Revenue Code:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by security holders	375,383	$19.45	141,393

(d) Stock Repurchases

There were no stock repurchases during 2005.

ITEM 6. SELECTED FINANCIAL DATA

Selected Financial Data

You should read the selected financial data presented below in conjunction with our audited consolidated financial statements, including the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations," included elsewhere herein. The selected financial data as of December 31, 2005 and 2004 and for each of the years in the three-year period ended December 31, 2005 is derived from our audited consolidated financial statements and related notes, which are included in this Annual Report. The selected financial data for prior years is derived from our audited consolidated financial statements, which are not included in this Annual Report. All per share information has been adjusted for stock splits and dividends declared from time to time.

	As of and For the Years Ended December 31,				
	2005	2004	2003	2002	2001
	(Dollars in Thousands, except per share data)				
Income Statement Summary:					
Interest income	$ 33,196	$ 23,718	$ 16,655	$ 14,486	$ 10,804
Interest expense	7,056	3,335	2,106	2,377	2,694
Net interest income before provision for loan losses	26,140	20,383	14,549	12,109	8,110
Provision for loan losses	2,140	2,098	360	477	411
Noninterest income	4,456	2,608	3,031	2,424	1,993
Noninterest expense	20,113	16,080	13,991	11,548	8,070
Income before income tax expenses	8,343	4,813	3,229	2,508	1,622
Income tax expense	3,260	1,793	1,141	802	575
Net income	$ 5,083	$ 3,020	$ 2,088	$ 1,706	$ 1,047
Balance Sheet Summary:					
Total assets	$ 456,192	$ 356,678	$ 254,383	$ 207,858	$ 198,026
Cash and due from banks	16,862	5,695	9,948	12,010	10,040
Federal funds sold	21,505	—	—	2,010	7,503
Securities	12,208	20,096	35,539	32,335	34,014
Net loans(1)	381,153	308,030	188,222	141,112	125,695
Total deposits	401,275	291,802	212,773	183,188	174,328
Borrowings from Federal Home Loan Bank	—	21,000	7,600	—	—
Long term debt	—	—	—	—	3,500
Subordinated debentures	18,306	13,151	6,006	6,006	—
Total liabilities	$ 422,771	$ 328,677	$ 229,983	$ 190,665	$ 182,754
Total shareholders' equity	$ 33,421	$ 28,001	$ 24,400	$ 17,193	$ 15,272
Per Share Data:					
Earnings per share:(2)					
Basic	$ 2.44	$ 1.48	$ 1.09	$ 1.01	$ 0.74
Diluted	2.27	1.38	1.03	1.00	0.73
Weighted average common shares outstanding basic	2,081,661	2,034,709	1,918,086	1,688,155	1,421,714
Weighted average common shares outstanding diluted	2,242,139	2,192,769	2,030,062	1,699,450	1,432,849
Book value	$ 15.91	$ 14.44	$ 16.24	$ 14.30	$ 13.34

	As of and For the Years Ended December 31,				
	2005	2004	2003	2002	2001
	(Dollars in Thousands, except per share data)				
Performance Ratios:					
Return on average equity(3)	16.77%	11.75%	9.83%	10.47%	10.20%
Return on average assets(4)	1.22%	0.94%	0.91%	0.83%	0.77%
Net interest margin(5)	6.69%	6.91%	7.07%	6.75%	6.84%
Average shareholders' equity to average total assets	7.26%	8.03%	9.21%	7.99%	5.35%
Efficiency ratio(6)	65.74%	69.94%	79.58%	79.47%	79.88%
Net loans to total deposits at period end	94.99%	105.56%	88.46%	77.03%	72.10%
Asset Quality Ratios:					
Nonperforming loans to total loans(7)	0.26%	0.04%	0.33%	0.41%	0.19%
Nonperforming assets to total loans and other real estate owned(8)	0.26%	0.04%	0.33%	0.41%	0.19%
Net loan charge-offs to average loans	0.25%	0.03%	0.01%	0.12%	0.25%
Allowance for loan losses to total loans(9) at end of period	1.39%	1.33%	1.11%	1.24%	1.15%
Allowance for loan losses to nonperforming loans	540.85%	3,309.60%	339.45%	304.99%	605.80%
Capital Ratios:					
Tier 1 capital to average assets	9.02%	9.25%	10.79%	8.28%	5.69%
Tier 1 capital to total risk-weighted assets	9.92%	9.89%	12.48%	10.87%	8.30%
Total capital to total risk-weighted assets	12.86%	12.26%	13.63%	13.27%	11.07%

(1) Loans are net of the allowance for loan losses and deferred fees.
(2) Adjusted to give retroactive effect to dividends.
(3) Net income divided by average shareholders' equity.
(4) Net income divided by average total assets.
(5) Net interest income as a percentage of average interest-earning assets.
(6) Ratio of noninterest expense to the sum of net interest income before provision for loan losses and total noninterest income excluding securities gains and losses.
(7) Nonperforming loans consist of nonaccrual loans, loans past due 90 days or more and restructured loans.
(8) Nonperforming assets consist of nonperforming loans and other assets, including other real estate owned.
(9) Total loans are gross loans less unearned income.

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

This discussion presents Management's analysis of the results of operations of the Company as of the three-year periods ended December 31, 2003, 2004 and 2005 and the financial condition of the Company as of December 31, 2004 and 2005. This discussion also includes the statistical disclosures required by SEC Guide 3 ("Statistical Disclosure by Company Holding Companies.") The discussion should be read in conjunction with the financial statements of the Company and the notes related thereto which appear elsewhere in this Form 10-K Annual Report (see Item 8 below).

Statements contained in this report that are not purely historical are forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 as amended, including our expectations, intentions, beliefs, or strategies regarding the future. All forward-looking statements concerning economic conditions, rates of growth, rates of income or values as may be included in this document are based on information available to us on the date noted, and we assume no obligation to update any such forward-looking statements. It is important to note that our actual results could materially differ from those in such forward-looking statements. Factors that could cause actual results to differ materially from those in such forward-looking statements are fluctuations in interest rates, inflation, government regulations, local, regional and national economic conditions, customer disintermediation and competitive product and pricing pressures in the geographic and business areas in which we conduct our operation.

Critical Accounting Policies

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States. The financial information contained within these statements is, to a significant extent, based on approximate measures of the financial effects of transactions and events that have already occurred. Based on its consideration of accounting policies that involve the most complex and subjective decisions and assessments, Management has identified its most critical accounting policy to be that related to the allowance for loan losses. The Company's allowance for loan loss methodologies incorporate a variety of risk considerations, both quantitative and qualitative, in establishing an allowance for loan loss that Management believes is appropriate at each reporting date.

Quantitative factors include our historical loss experience, delinquency and charge-off trends, collateral values, changes in nonperforming loans, and other factors. Quantitative factors also incorporate known information about individual loans, including borrowers' sensitivity to interest rate movements and borrowers' sensitivity to quantifiable external factors including commodity and finished good prices as well as acts of nature (earthquakes, floods, fires, etc.) that occur in a particular period.

Qualitative factors include the general economic environment in our markets, including economic conditions in Southern California and in particular, the state of certain industries. Size and complexity of individual credits in relation to lending officers' background and experience levels, loan structure, extent and nature of waivers of existing loan policies and pace of portfolio growth are other qualitative factors that are considered in our methodologies.

This discussion and analysis should be read in conjunction with the Company's financial statements and the accompanying notes presented elsewhere herein, as well as the portion of this Management's Discussion and Analysis section entitled "—Financial Condition—Allowance for Loan Losses." Although Management believes the level of the allowance as of December 31, 2005 is adequate to absorb losses inherent in the loan portfolio, a decline in the regional economy may result in increasing losses that cannot reasonably be predicted at this time.

Summary of Performance

Results of operations summary

The Company achieved record earnings in 2005. In fact, net income has increased each year since the Company incorporated in 1999. Net income in 2005 was $5,083,000, an increase of $2,063,000, or 68%, over the $3,020,000 in net earnings recognized in 2004. Net income in 2004 was $932,000 higher than 2003 net earnings of $2,088,000. Net income per basic share was $2.44 for 2005, as compared to $1.48 during 2004 and $1.09 in 2003. On a diluted net income per share basis, net income was $2.27, $1.38 and $1.03 for the years ended December 31, 2005, 2004 and 2003, respectively. Earnings per share calculations were adjusted to give retroactive effect to stock splits and dividends. Return on average assets was 1.22% for 2005, compared to 0.94% for 2004 and 0.91% for 2003. Return on average Shareholders equity was 16.77% for 2005, compared to 11.75% for 2004 and 9.83% for 2003.

The following are other noteworthy factors relevant to the Company's results of operations for the most recent three years:

- **Net interest income was a major contributor to the increase in net income in 2005.** Net interest income grew by $5.8 million, or 28%, in 2005 relative to 2004. Average loans grew by $105.2 million, or 41%, primarily due to the continued success of our business development efforts in and around the marketplaces we serve. In 2004 net interest income also grew by $5.8 million, or 40%, primarily as a result of the Bank's loan growth.

- **Noninterest expense increased by 25% in 2005.** Additional staffing for the Irwindale and Temecula branches, coupled with salary increases for the Company contributed to the increase in salaries and employee benefits of $1,532,000. Occupancy expense increased $589,000 primarily due to the opening of our Irwindale and Temecula branches, coupled with the move into our new permanent location for our Palm Desert office in June 2004, for which twelve months premise lease expense was included in 2005 as compared to six months expense in 2004. The increase in marketing expense of $852,000 contributed to the increase and was attributed to expenses related to ongoing business development efforts. As a result of the Company's sustained growth, other operating expense increased $480,000 in 2005 from 2004. In 2004, noninterest expense increased 15% from $14.0 million to $16.1 million. The increase in salaries and employee benefits of $1,481,000 was the result of additional staffing and salary increases. There was an increase in professional fees of $218,000 as a result of costs incurred to comply with the Sarbanes Oxley act of 2002 and expenses related to Audits, Exams, CPA fees and other professional expenses. The increase in other operating expense of $269,000 was the result of severance payouts to former executives.

- **Noninterest income increased by 71% in 2005,** primarily due to a vast increase in gains from the sale of loans of $1,099,000, which helped the Company's liquidity position. Conduit loan sale income increased of $574,000, as a result of more activity in loan sales during 2005 as compared to 2004. In 2004, noninterest income declined by 14%, primarily as a result of the decrease in conduit loan sale income of $209,000 as a result of less activity in loan sales during 2004 as compared to 2003. Broker fee income decreased $141,000 as a result of fewer referrals to third party lenders of 1st trust deed loans and refinances in 2004 as compared to 2003.

- **The provision for income taxes in 2005** increased $1.5 million or 82% and in 2004 increased by $652,000 or 57%. As a direct result of record earnings in 2005 and 2004, the provision for income taxes increased accordingly.

- **The provision for loan losses increased 2%** from $2,098,000 in 2004 to $2,140,000 in 2005. Despite higher loan charge-offs in 2005, when compared to 2004, the allowance for loan losses to total loans at December 31, 2005 was 1.39% as compared to 1.33% in 2004. The increase in the provision of $1.7 million in 2004 was necessary in order to support the Company's very strong loan growth.

Financial condition summary

The Company's total assets were $456.2 million at December 31, 2005, an increase of $99.5 million, or 28%, compared to total assets of $356.7 million at December 31, 2004. The following are important factors in understanding our financial condition and liquidity:

- **Net loans increased by $73.1 million or 24%** from December 31, 2004. Strong loan demand in the Company's market areas contributed to the increase in net loans.
- **Federal funds sold increased to $21.5 million at December 31, 2005,** as compared to no federal funds sold at December 31, 2004. The Company's improved liquidity position contributed to the increase in federal funds sold.
- **Cash and due from banks increased $11.2 million or 196%** from December 31, 2004, primarily due to the significant increase in deposits, which result in larger cash letters and timing differences in the collection of cash items.
- **Investment securities, available-for-sale decreased $7.9 million or 39%** from December 31, 2004 as a result of principal paydowns on federal agency mortgage-backed securities. The proceeds received from the payoffs were used to fund the Company's loan growth and improve liquidity.
- **Interest-bearing deposits increased $96.0 million or 48%** from December 31, 2004. This increase is attributable to additional money market deposits acquired as a result of a promotional money market account offered to businesses and consumers during 2005, coupled with additional brokered certificates of deposit acquired to help support our loan growth.
- **Noninterest-bearing demand deposits increased $13.5 million or 15%** from December 31, 2004, due to new deposit relationships, coupled with an increase in deposits with our existing customers.
- **Borrowings from the Federal Home Loan Bank decreased $21.0 million or 100%** from December 31, 2004. The Company's improved liquidity position contributed to the decrease in Federal Home Loan Bank borrowings.
- **Subordinated notes payable to subsidiary trusts increased $5.1 million or 39%** from December 31, 2004 due to the issuance of Centennial Capital Trust III.

Results of Operations

The Company earns income from two primary sources. The first is net interest income, which is interest income generated by interest-earning assets less interest expense on interest-bearing liabilities. The second is noninterest income, which primarily consists of customer service fees but also comes from non-customer sources such as loan sales, bank-owned life insurance, and other income. The majority of the Company's noninterest expenses are operating costs that relate to providing a full range of banking services to our customers.

Net Interest Income and Net Interest Margin

The principal component of the Company's earnings is net interest income, which is the difference between the interest and fees earned on loans and investments, and the interest paid on deposits and borrowed funds. When net interest income is expressed as a percentage of average earning assets, the result is the net interest margin. The net interest spread is the yield on average earning assets minus the average cost of interest-bearing deposits and borrowed funds. The Company's net interest income, interest spread, and net interest margin are sensitive to general business and economic conditions. These conditions include short-term and long-term interest rates, inflation, monetary supply, and the strength of the economy, and the local economies in which the Company conducts business.

The net interest margin measures net interest income as a percentage of average earning assets. The net interest margin can be affected by changes in the yield on earning assets and the cost of interest-bearing liabilities, as well as changes in the level of interest-bearing liabilities in proportion to earning assets. The net interest margin can also be affected by changes in the mix of earning assets as well as the mix of interest-bearing liabilities.

2005 compared to 2004 analysis. The Company's net interest margin as of December 31, 2005 was 6.69% compared to 6.91% for the same period in 2004. The increase on rates paid for money market, Time deposits of $100,000 or more and Federal Home Loan Bank borrowings, coupled with the increase in volume on these liabilities compressed our net interest margin. For the year ended December 31, 2005, total interest earning assets averaged $390.5 million, which represented an increase of $95.6 million or 32%, as compared to $294.9 million for the same period in 2004. This increase is primarily attributable to the increase in loans as a result of our strong business climate and loan demand. The increase in loan volume and the decrease in securities volume created a shift in the mix as a percentage of total interest earning assets. The mix in average loans changed to 93% from 87% and average investments changed to 4% from 9%. Total interest bearing deposits and other interest-bearing liabilities averaged $278.9 million, which represented an increase of $67.6 million or 32%, as compared to $211.3 million for the same period in 2004. This increase is primarily attributable to the increase in money market accounts due to a promotional money market account offered to businesses and consumers during 2005. There was also an increase of $19.4 million in average time deposit accounts of $100,000 or more due to the addition of brokered deposits, coupled with an increase in average FHLB borrowings of $9.7 million in order to fund our loan demand.

The Company reported total interest income of $33.2 million for the year ended December 31, 2005, which represented an increase of $9.5 million or 40%, over total interest income of $23.7 million for the same period in 2004. The increase in total interest income was primarily due to an increase of approximately $9.7 million in interest and fees on loans resulting from an increase of approximately $105.2 million in average loans as of December 31 2005, as compared to the same period in 2004.

The Company reported total interest expense of $7.0 million for the year ended December 31, 2005, which represented an increase of $3.7 million or 112% over total interest expense of $3.3 million for the same period in 2004. The increase was due to greater interest paid on money market accounts, time deposit accounts of $100,000 or more and FHLB borrowings.

For the year ended December 31, 2005, net interest income before provision for loan losses was $26.1 million, which represented an increase of $5.8 million, or 28%, over net interest income before provision for loan losses of $20.3 million for the same period in 2004. The increase in net interest income for the year ended December 31, 2005 as compared to 2004 was primarily due to the increase in average total loans.

2004 compared to 2003 analysis. The Company's net interest margin as of December 31, 2004 was 6.91%, compared to 7.07% for the same period in 2003. Although average interest earning assets increased $89.1 million, reduced market rates on new assets as compared to higher yielding assets maturing during the period reduced our net interest margin from 2003 to 2004. For the year ended December 31, 2004, total interest earning assets averaged $294.9 million, which represented an increase of $89.1 million or 43%, as compared to $205.8 million for the same period in 2003. Loans averaged $257.0 million, which represented an increase of $95.8 million or 59%, as compared to average loans of $161.2 million for the same period in 2003. Total average loans increased to 87% of total interest earning assets at December 31, 2004 compared to 78% of total interest earning assets at December 31, 2003. In 2004 we have experienced a significant asset shift as loan demand increased. The investment portfolio is a major liquidity source, and as those securities paid down or matured, the funds were deployed to higher yielding loans.

Total interest bearing deposits and other interest-bearing liabilities averaged $211.3 million in 2004, which represented an increase of $63.8 million or 43%, as compared to average interest bearing deposits and other interest-bearing liabilities of $147.5 million for the same period in 2003. Money market deposits averaged $67.2 million, which represented and increase of $30.5 million or 83%, as compared to $36.7 million for the same period in 2003, primarily due to the promotional money market account offered to businesses and consumers during the second quarter of 2004.

Federal Home Loan Bank borrowings averaged $12.6 million in 2004, which represented an increase of $9.9 million or 369%, as compared to $2.7 million for the same period in 2003, and subordinated notes payable to subsidiary trusts averaged $12.9 million, which represented an increase of $6.9 million or 115%, as compared to $6.0 million for the same period in 2003. The increase in FHLB borrowings was to support loan growth and the increase in subordinated notes payable to subsidiary trusts is attributed to the issuance of additional trust preferred securities. See Note 8 of the Consolidated Financial Statements.

The Company reported total interest income of $23.7 million for the year ended December 31, 2004, which represented an increase of $7.0 million or 42%, over total interest income of $16.7 million for the year ended December 31, 2003. The increase in total interest income for the year ended 2004 compared to 2003 was primarily due to an increase of approximately $7.3 million in interest and fees on loans. The increase in interest and fees on loans was due to the $95.8 million increase in the average balance of total loans outstanding for the year ended 2004 as compared to 2003. The continuing low interest rates during the twelve months of 2004 kept many of our variable rate loans at their interest rate floors, which are, on average, above prevailing market rates and helped maintain average loan yields near 9%.

The Company reported total interest expense of $3.3 million for the year ended December 31, 2004, which represented an increase of $1.2 million or 57% over total interest expense of $2.1 million for the year ended December 31, 2003. The increase from 2003 to 2004 was primarily the result of more interest expense on subordinated notes payable to subsidiary trusts due to the issuance of additional trust preferred securities, (see Note 8 of the Consolidated Financial Statements), and an increase in interest expense on money market accounts. The increase in average money market deposit accounts is attributed to a promotional money market account offered to businesses and consumers in the second quarter of 2004.

For the year ended December 31, 2004, net interest income before the provision for loan losses was $20.3 million, which represented an increase of $5.8 million, or 40%, over net interest income of $14.5 million for the year ended December 31, 2003. The increase in net interest income for the year ended 2004 as compared to 2003 was primarily the result of the Bank's loan growth.

The following table shows the Company's average balances of earning assets, and interest-bearing liabilities; the amount of interest income and interest expense; the average yield or rate for each category of interest-earning assets and interest-bearing liabilities; and the net interest income and the net interest margin for the periods indicated:

Distribution, Rate and Yield Analysis of Net Interest Income

	For the Years Ended December 31,								
	2005			2004			2003		
	Average Balance	Interest Income/ Expense	Average Rate/ Yield	Average Balance	Interest Income/ Expense	Average Rate/ Yield	Average Balance	Interest Income/ Expense	Average Rate/ Yield
	(Dollars in Thousands)								
Interest-earning Assets:									
Federal funds sold	$ 9,659	$ 350	3.62%	$ 5,182	$ 66	1.27%	$ 8,624	$ 90	1.04%
Interest-bearing deposits in financial institutions	2,893	134	4.63%	4,600	200	4.35%	5,006	233	4.65%
Investment securities:									
Taxable(10)	11,853	450	3.80%	24,148	841	3.48%	27,044	984	3.64%
Non-taxable	3,859	165	4.28%	3,998	169	4.23%	3,929	174	4.43%
Total investments	28,264	1,099	3.89%	37,928	1,276	3.36%	44,603	1,481	3.32%
Loans(11)	362,231	32,097	8.86%	257,005	22,442	8.73%	161,207	15,174	9.41%
Total interest-earning assets	$390,495	$33,196	8.50%	$294,933	$23,718	8.04%	$205,810	$16,655	8.09%
Interest-bearing Liabilities:									
Interest-bearing deposits									
Interest-bearing demand deposits	$ 21,400	$ 56	0.26%	$ 20,255	$ 40	0.20%	$ 17,851	$ 43	0.24%
Money market deposits	99,052	2,228	2.25%	67,188	878	1.31%	36,666	354	0.97%
Savings deposits	24,655	188	0.76%	25,752	167	0.65%	18,266	115	0.63%
Time deposits $100,000 or greater	58,537	1,852	3.16%	39,144	788	2.01%	37,834	850	2.25%
Other time deposits	37,787	1,089	2.88%	32,811	634	1.93%	27,804	397	1.43%
Total interest-bearing deposits	241,431	5,413	2.24%	185,150	2,507	1.35%	138,421	1,759	1.27%
FHLB borrowings	22,255	649	2.92%	12,571	187	1.49%	2,679	33	1.23%
Federal funds purchased	708	19	2.68%	723	13	1.80%	404	7	1.73%
Subordinated notes payable to subsidiary Trust	14,492	975	6.73%	12,877	628	4.88%			
Redeemable preferred securities of subsidiary trust holding solely junior subordinated debentures	—	—	—	—	—	—	6,000	307	5.12%
Total interest-bearing liabilities	$278,886	$ 7,056	2.53%	$211,321	$ 3,335	1.58%	$147,504	$ 2,106	1.43%
Net interest income		$26,140			$20,383			$14,549	
Net interest margin(12)			6.69%			6.91%			7.07%

(10) Yields on income have been computed on a tax equivalent basis, except for municipal securities, because the amounts are minimal.

(11) Loans are gross, which excludes the allowance for loan losses, and net of deferred fees. Nonaccrual loans are included in the table for computation purposes, but the foregone interest of such loans is excluded. Loan fees were approximately $4.1 million; $3.9 million and $2.7 million for the years ended December 31, 2005, 2004 and 2003, respectively.

(12) Net interest income as a percentage of average interest-earning assets.

The following table sets forth, for the periods indicated, the dollar amount of changes in interest earned and paid for interest-earning assets and interest-bearing liabilities, the amount of change attributable to changes in average daily balances (volume), changes in interest rates (rate), and changes attributable to both the volume and rate (rate/volume):

Rate/Volume Analysis of Net Interest Income

	Year Ended December 31, 2005 vs. 2004				Year Ended December 31, 2004 vs. 2003			
	Increases (Decreases) Due to Change In				Increases (Decreases) Due to Change In			
	Volume	Rate	Rate/ Volume	Total	Volume	Rate	Rate/ Volume	Total
	(Dollars in Thousands)							
Increase (Decrease) in Interest Income:								
Federal funds sold	$ 57	$ 122	$ 105	$ 284	$ (36)	$ 20	$ (8)	$ (24)
Interest-bearing deposits in financial institutions	(74)	13	(5)	(66)	(19)	(15)	1	(33)
Investment securities(13)								
Taxable	(428)	76	(39)	(391)	(106)	(42)	5	(143)
Non-taxable	(6)	2	—	(4)	3	(8)	—	(5)
Loans(14)	9,188	331	136	9,655	9,017	(1,097)	(652)	7,268
Total	$8,737	$ 544	$ 197	$9,478	$8,859	$(1,142)	$(654)	$7,063
Increase (Decrease) in Interest Expense:								
Interest-bearing demand deposits	$ 2	$ 13	$ 1	$ 16	$ 6	$ (8)	$ (1)	$ (3)
Money market deposits	417	633	300	1,350	296	125	103	524
Savings deposits	(7)	29	(1)	21	47	3	2	52
Time deposits $100,000 or greater	390	451	223	1,064	29	(88)	(3)	(62)
Other time deposits	96	312	47	455	71	141	25	237
FHLB borrowings	144	180	138	462	121	7	26	154
Federal funds purchased	—	6	—	6	6	—	—	6
Subordinated notes payable to subsidiary Trusts / Redeemable TPS	79	238	30	347	352	(14)	(17)	321
Total	$1,120	$ 1,863	$ 738	$3,721	$ 928	$ 166	$ 135	$1,229
Total change in net interest income	$7,617	$(1,319)	$(541)	$5,757	$7,931	$(1,308)	$(789)	$5,834

(13) Yields on income have not been computed on a tax equivalent basis, because tax-exempt investments are minimal.

(14) Loans are gross, which excludes the allowance for loan losses, and net of deferred fees. Nonaccrual loans are included in the table for computation purposes, but the foregone interest of such loans is excluded. Loan fees were approximately $4.1 million; $3.9 million and $2.7 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Provision for Loan Losses

Credit risk is inherent in the business of making loans. The Company sets aside an allowance or reserve for loan and lease losses through charges to earnings, which are shown in the income statement as the provision for loan and lease losses. Specifically identifiable and quantifiable losses are immediately charged off against the allowance. The loan and lease loss provision is determined by conducting a monthly evaluation of the adequacy of the Company's allowance for loan and lease losses, and charging the shortfall, if any, to the current month's expense. This has the effect of creating variability in the amount and frequency of charges to the Company's earnings.

For the year ended December 31, 2005, the provision for loan losses was $2,140,000, compared to $2,098,000 and $360,000 for 2004 and 2003, respectively. Despite higher loan charge-offs in 2005, when compared to 2004, the allowance for loan losses to total loans at December 31, 2005 was 1.39% as compared to 1.33% in 2004. The increase in the provision from 2003 to 2004 was necessary in order to support the Company's very strong loan growth. One of the procedures used for monitoring the loan portfolio is migration analysis. Based on the results of this program, in addition to management's determination, the provision is increased or decreased. The procedures for monitoring the adequacy of the allowance, as well as detailed information concerning the allowance itself, are included in the "Allowance for Loan Losses" section.

Noninterest Income

Noninterest income for the Company includes customer service fees, gains from sale of loans, increases in the cash surrender value of life insurance policies, broker fee income, conduit loan sale income and other miscellaneous income.

2005 compared to 2004 analysis. Noninterest income totaled $4,456,000 for the year ended December 31, 2005. This represented an increase of $1,848,000, or 71% when compared to $2,608,000 for the same period in 2004.

The increase in noninterest income was primarily the result of the increase in gains from the sale of loans of $1,099,000, which helped the Company's liquidity position as of December 31, 2005 as compared to the same period in 2004. Conduit loan sale income increased $574,000 as a result of more activity in loan sales during 2005 as compared to 2004. Customer service fee income increased $155,000 due to the increase in volume in deposit accounts during 2005 as compared to 2004, however, as a percentage of total noninterest income decreased to 31% from 47%. The shift was the result of the increase on gains from the sale of loans, which increased to 31% from 11%.

For the year ended December 31, 2005 as compared to 2004, noninterest income as a percentage of average earning assets increased to 1.14% from 0.88%. This favorable increase is attributable to the continuing efforts of the Company to increase noninterest income.

2004 compared to 2003 analysis. Noninterest income totaled $2,608,000 for the year ended December 31, 2004. This represented a decrease of $423,000 or 14% as compared to $3,031,000 for the same period in 2003. Conduit loan sale income decreased $209,000 as a result of less activity in loan sales during 2004 as compared to 2003. Broker fee income decreased $141,000 as a result of fewer referrals to third party lenders of 1st trust deed loans and refinances in 2004 as compared to 2003. Gains from sale of loans decreased $94,000 as a result of a decrease in the sales of SBA and other loans. For the year ended December 31, 2004 as compared to 2003, noninterest income as a percentage of average earning assets decreased to 0.88% from 1.47% as a result of the decrease in noninterest income of $423,000 and the increase in average earning assets of $89.1 million from 2003 to 2004.

The following table sets forth the various components of the Company's noninterest income for the periods indicated:

Noninterest Income

	For the Years Ended December 31,					
	2005		2004		2003	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in Thousands)					
Customer service fees	$1,376	30.88%	$1,221	46.81%	$1,279	42.20%
Gains from sale of loans	1,394	31.29%	295	11.31%	389	12.83%
Increase in cash surrender value of life insurance	269	6.04%	303	11.62%	301	9.93%
Broker fee income	226	5.07%	196	7.52%	337	11.12%
Conduit loan sale income	972	21.81%	398	15.26%	607	20.03%
Other income	219	4.91%	195	7.48%	118	3.89%
Total noninterest income	$4,456	100.00%	$2,608	100.00%	$3,031	100.00%
As a percentage of average earning assets		1.14%		0.88%		1.47%

Noninterest Expense

Noninterest expense for the Company includes salaries and employee benefits, net occupancy and equipment, professional services, and other operating expenses.

2005 compared to 2004 analysis. Noninterest expense totaled $20,113,000 for the year ended December 31, 2005. This represented an increase of $4,033,000, or 25% when compared to $16,080,000 for the same period in 2004. The increase in noninterest expense was primarily due to the increases of $1,532,000, $589,000, $852,000, $270,000 and $480,000 in salaries and employee benefits, occupancy expense, marketing and advertising expense, professional fee expense and other operating expense, respectively.

Additional staffing for the Irwindale and Temecula branches, coupled with salary increases for the Company contributed to the increase in salaries and employee benefits of $1,532,000. The increase in occupancy expense of $589,000 was attributable to the opening of our Irwindale and Temecula branches, coupled with the move into our new permanent location for our Palm Desert office, in June 2004, for which twelve months of lease rental expense was included in 2005 as compared to six months in 2004. Marketing and advertising expense increased $852,000. Attracting and maintaining deposits has become more difficult for banks, as sources of traditional deposits have developed sophisticated methods for tracking rates, and as we compete with non-traditional institutions such as credit unions, brokerage houses and insurance companies. To inform and attract new customers, in 2005, the Company launched a money market campaign by print advertising that proved to be successful. We anticipate our ongoing business development efforts trend to continue. Professional fee expense increased $270,000 and was attributed to costs incurred to comply with the Sarbanes Oxley Act of 2002 and expenses related to audits, exams, CPA fees and other professional expenses. As a result of the Company's sustained growth, other operating expense increased $480,000.

For the year ended December 31, 2005 as compared to 2004, noninterest expense as a percentage of average earning assets decreased to 5.15% from 5.45%. This decrease is reflective of Management's continuing efforts to control overhead expenses.

2004 compared to 2003 analysis. Noninterest expense totaled $16,080,000 for the year ended December 31, 2004. This represented an increase of $2,089,000 or 15% as compared to $13,991,000 for the same period in 2003. The increase in noninterest expense was primarily the result of increases of $1,481,000, $218,000 and

$269,000 in salaries, wages and employee benefits, professional fees and other operating expense, respectively. Additional staffing and salary increases contributed to the increase in salaries, wages and employee benefits. The increase in professional fees was the result of costs incurred to comply with the Sarbanes Oxley act of 2002 and expenses related to audits, exams, CPA fees and other professional expenses. The increase in other operating expense was the result of severance payouts to former executives.

For the year ended December 31, 2004 as compared to 2003, noninterest expense as a percentage of average earning assets decreased to 5.45% from 6.80%, which can be attributed to the increase in average earnings assets of $89.6 million from 2003 to 2004 and efforts to control overhead expenses.

While some level of expense increase is expected in the normal course of business, we are focused on controlling overhead expenses where possible. Improvement is evident in the Company's efficiency ratio, which dropped to 65.74% in 2005 from 69.94% in 2004 and 79.58% for 2003.

The following table sets forth the breakdown of noninterest expense for the periods indicated:

Noninterest Expense

	For the Years Ended December 31,					
	2005		2004		2003	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
			(Dollars in Thousands)			
Salaries, wages and employee benefits	$11,445	56.91%	$ 9,913	61.65%	$ 8,432	60.26%
Net occupancy expense	2,051	10.20%	1,462	9.09%	1,510	10.79%
Marketing and advertising	1,547	7.69%	695	4.32%	548	3.92%
Data processing fees	1,056	5.25%	837	5.21%	768	5.49%
Professional fees	1,113	5.53%	843	5.24%	625	4.47%
Postage, telephone, supplies	594	2.95%	555	3.45%	612	4.37%
Directors' fees	239	1.19%	187	1.16%	177	1.27%
Other operating expense	2,068	10.28%	1,588	9.88%	1,319	9.43%
Total other expenses	$20,113	100.00%	$16,080	100.00%	$13,991	100.00%
As a percentage of average earning assets		5.15%		5.45%		6.80%
Net non-interest income as a percentage of average earning assets		(4.01)%		(4.57)%		(5.33)%
Efficiency ratio		65.74%		69.94%		79.58%

Income Taxes

In 2005 the Company's provision for federal and state income taxes was $3.3 million, while the tax provision was $1.8 million and $1.1 million for 2004 and 2003, respectively. This represents 39.1% of income before taxes in 2005, 37.3% in 2004, and 35.3% in 2003. The increase in the effective rate is a direct result of the Company's increase in volume of taxable income versus tax-exempt income on certain tax-exempt investments.

These rates are below the blended statutory federal income tax rate of 34.0% and the California income tax rate of 11.0%, net of federal tax benefit as a result of the following book to tax adjustments to income for each period: investment income on certain municipal bonds (federal tax exempt), income on life insurance policies (tax exempt) and stock option activity deductions (tax exempt). These book to tax adjustments and income variances from tax-exempt assets cause fluctuations in the effective tax rates.

Financial Condition

A comparison between the summary year-end balance sheets for 2001 through 2005 was presented previously in the table of Selected Financial Data (see Item 6 above). As indicated in that table, the Company's total assets, loans, and shareholders' equity have grown each year for the past four years. The Company experienced its most pronounced growth during 2004, with total assets increasing by $102.3 million, or 40%, due to internally generated growth, most significantly in the loan portfolio. The increase in assets was also substantial in 2005, with growth of $99.5 million, or 28%, due primarily to loan growth. Total assets were $456.2 million and $356.7 million at December 31, 2005 and 2004, respectively. The major components of the Company's balance sheet are individually analyzed below, along with off-balance sheet information.

Loan Portfolio

Total gross loans were $388.5 million at December 31, 2005, compared to $313.7 million and $191.3 million at December 31, 2004 and 2003, respectively. Total gross loans represented 85% of total assets at December 31, 2005, compared to 88% and 75% of total assets at December 31, 2004 and 2003, respectively.

2005 compared to 2004 analysis. Total gross loans increased by $74.8 million, or 24% for the year ended 2005. Real estate loans increased $20.3 million or 10% during 2005 and represented approximately 27% of the total loan growth of $74.8 million. Commercial loans increased $48.6 million or 47% during 2005. The increase in loans was due to the continued success of our business development efforts in and around the marketplaces we serve. From December 31, 2004 to December 31, 2005, the growth in the commercial loan category reduced the real estate loan percentage of total gross loans from 65% to 58% while increased commercial loan to 39% from 33%.

2004 compared to 2003 analysis. Total gross loans increased by $122.4 million or 64% for the year ended 2004. Construction and development loans increased $53.7 million or 76% as of December 31, 2004 due to continuing strong demand for affordable housing in our market areas. Commercial loans increased $60.6 million, or 144% as of December 31, 2004 due to our strong business climate, loan demand and in our continuing effort to diversify our loan portfolio. From December 31, 2003 to December 31, 2004, the growth in commercial loans reduced the percentage of real estate loans to total gross loans from 74% to 65% while commercial loans increased to effectively 33% from 22%.

The following table sets forth the composition of the Company's loan portfolio as of the dates indicated:

Loan Portfolio Composition

	As of December 31,									
	2005		2004		2003		2002		2001	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in Thousands)									
Real estate loans:										
Construction and development	$137,292	35.34%	$124,309	39.62%	$ 70,654	36.94%	$ 53,246	37.12%	$ 37,950	29.76%
Residential loans	3,440	0.89%	3,650	1.16%	6,169	3.23%	9,975	6.95%	17,909	14.04%
Commercial and multi-family	84,813	21.83%	77,316	24.64%	64,260	33.60%	34,297	23.91%	31,218	24.47%
Commercial loans	151,207	38.91%	102,582	32.71%	42,009	21.94%	38,305	26.70%	30,581	23.97%
Consumer loans	2,784	0.72%	1,107	0.35%	2,035	1.06%	1,583	1.11%	2,982	2.34%
Equity lines of credit	7,644	1.97%	3,475	1.11%	4,088	2.14%	4,697	3.27%	4,759	3.73%
Credit card and other loans	1,304	0.34%	1,284	0.41%	2,063	1.09%	1,351	0.94%	2,161	1.69%
Total gross loans	$388,484	100.00%	$313,723	100.00%	$191,278	100.00%	$143,454	100.00%	$127,560	100.00%
Less:										
Unearned income	(1,955)		(1,556)		(948)		(570)		(405)	
Allowance for loan losses	(5,376)		(4,137)		(2,108)		(1,772)		(1,460)	
Total net loans	$381,153		$308,030		$188,222		$141,112		$125,695	

Real Estate—Construction and Development

The Company makes loans to finance the construction of residential and commercial properties and to finance land acquisition and development. Construction and development loans are obtained principally through solicitations by the Company and through continued business from builders and developers who have previously borrowed from the Company. When the total amount of a loan would otherwise exceed the Company's legal lending limit, the Company sells participation interests to other financial institutions to facilitate the extension of credit.

The Company's owner-occupied single-family construction loans typically have a maturity of twelve months. Construction-to-permanent loans are secured by a deed of trust and usually do not exceed 90% of the appraised value of the home to be built with a minimum of 10% equity. Construction only loans normally do not exceed 80% of the appraised value of the home to be built with a minimum of 10% equity. All owner-occupied single-family construction borrowers have been pre-qualified for long-term loans using Fannie Mae underwriting guidelines. All underwriting on tracts and commercial construction where a portion or all of the property will be leased to a third party is done in conformity with a discounted cash flow analysis.

In connection with land acquisition loans to developers, we typically require the subject property to have a tentative map and be free of adverse environmental issues. Further, we endeavor to make these loans to experienced and financially sound developers in areas where demand and acceptable absorption can be adequately demonstrated to us. The loan to value ratio on raw land typically does not exceed 50% of the appraised value and 65% of the appraised value when offsite improvements are financed. The loans are secured by a first deed of trust and typically require the principal to personally guarantee repayment of the loan.

Construction loans for the purpose of acquiring unimproved land and developing such land into improved residential lots typically have a maturity of 12 to 18 months. These loans typically do not exceed 65% of the appraised value and are secured by a first deed of trust. The principal or principals are typically required to personally guarantee repayment of the loan. To further reduce risk inherent in construction lending, the Company limits the number of properties, which can be constructed on a "speculative" or unsold basis contingent upon absorption rates detailed by an approved appraiser and subject to final review.

The Company's underwriting criteria is designed to evaluate and minimize the risk of each construction loan. A wide variety of factors are carefully considered before originating a construction loan, including the availability of permanent financing to the borrower (which may be provided by the Company at prevailing market rates); the reputation of the borrower and the contractor; independent valuations and reviews of cost estimates; pre-construction sale information, and cash flow projections of the borrower. At the time of the Company's origination of a construction loan to a builder, the builder often has a signed contract with a purchaser for the sale of the "to-be-constructed" house, thereby providing reasonable assurance of a repayment source and mitigation of the Company's underwriting risks. To further reduce risk inherent in construction lending, the Company limits the number of properties, which can be constructed on a "speculative" or unsold basis contingent upon absorption rates detailed by an approved appraiser and subject to final review and approval by the Company's Real Estate Department Manager. Moreover, the Company controls certain risks associated with construction lending via a fund disbursement/voucher-control system requiring builders to submit itemized bills to the Company (along with appropriate lien releases), and by paying the subcontractors directly. For a contractor meeting specific criteria, loan funds may be disbursed under a "draw" system, directly to the contractor.

Commercial construction loans are underwritten using the actual or estimated cash flow the secured real property would provide to an investor ("Income Approach") in the event of a default by the borrower. A debt coverage ratio of 1.20:1 and a maximum loan-to-value of 75% are required in most cases.

Real Estate—Residential Loans

As an accommodation, we occasionally offer 1st trust deed mortgages for single-family residences on either a fixed or variable rate basis; however, the majority of new mortgage loan originations are sold to a third party.

The Company places mortgage loans through its loan agents to traditional mortgage lenders. Prior to placement, we perform a full underwriting process. These loans are underwritten to Fannie Mae and Freddie Mac guidelines. On occasion, as an accommodation, we will make loans secured by a first trust deed on a primary or secondary residence, with maturities of 5 to 10 years. Loan to value ratios on these loans typically do not exceed 80% and the borrower must demonstrate historic cash flow to service the payments.

Real Estate—Commercial and Multi-Family

In order to accommodate existing customers and to solicit new commercial loan and deposit relationships, the Company originates permanent loans secured by owner-occupied commercial real estate (investor-owned real estate is only considered on an exception basis as an accommodation to substantial existing customers). The Company's commercial real estate portfolio primarily includes loans secured by small office buildings and commercial/industrial real properties. Commercial real estate loans may be secured by a combination of both commercial and single-family properties. In addition to the strength and experience of the borrower, location is one of the most important factors in commercial real estate lending. Typically, we will lend up to 75% of an independently appraised value (or evaluation of value for loans under $250,000) and require that the borrower have historical cash flow sufficient to demonstrate a 1.20 times debt coverage ratio. It is also important that the subject property be free from environmental contamination issues. We require the borrower to complete an environmental assessment to ensure that the property is free of contamination.

We secure these loans with either a first or second deed of trust on the subject property and require sufficient insurance with the Company named as loss payee. For investor properties, we typically require that borrowers provide to us annual rent rolls to enable us to analyze the income generated from the property as well as annual financial information from the borrower to monitor the financial health on a going forward basis.

Commercial Loans

The Company's commercial loans consist of (i) loans secured by commercial real estate and (ii) business loans, which are not secured by real estate, or if secured by real estate, for which the principal source of repayment is expected to be from business income, operating cash flows, etc. For a discussion of the Company's loans secured by commercial real estate lending see "Real Estate—Commercial and Multi-Family." Business loans include revolving lines of credit, working capital loans, equipment financing, letters of credit and inventory financing. It is important to know your borrower. It is important to demonstrate that historical cash flows are sufficient to service not only the subject loan, but also all other obligations of the borrower. We typically require a debt coverage ratio of 1.20 for term loans. On loans where accounts receivable and/or inventory are financed, periodic accounts receivable and accounts payable agings are required in order to monitor the integrity of the loan in relation to the collateral. Under certain circumstances unsecured loans may be made and term loans may be made to support asset growth. Typically, advances represent up to 80% of the asset financed.

Consumer and Other Loans

The consumer loans originated by the Company include automobile loans and miscellaneous other consumer loans, including unsecured loans, home lines of credit and credit card accounts. We underwrite these loans based on a satisfactory credit history, verifiable, stable income, and satisfactory financial information. If real estate is taken as collateral, then we are typically in either a first or second trust deed position, appropriately margined, requiring the borrower to have reasonable equity in the asset being financed. We are also named as loss payee on the insurance, and an appraisal or evaluation of value is made to establish an independent value of the real property being financed. If required, an environmental questionnaire is completed by the borrower and/or an environmental report is obtained from an authorized environmental firm to ensure that the subject property if free of hazardous or other environmental concerns. Loans are monitored through various reports generated by the loan system. At December 31, 2005, consumer and other loans were not a significant portion of the Company's loan portfolio. These loans totaled approximately $11.7 million or 3% of the loan portfolio.

Loan Portfolio Composition

The Company does not have loans to borrowers who are engaged in similar activities where the aggregate amount of the loans exceeds 10% of the loan portfolio unless they are not broken out as a separate category in the loan portfolio composition table.

Loan Interest Rate Sensitivity. The following table provides the maturity distribution and repricing intervals of the Company's outstanding loans at the date indicated. In addition, the table provides the distribution of such loans between those with variable or (floating) interest rates and those with predetermined or (fixed) interest rates. Floating rate loans are classified according to re-pricing opportunities or rate sensitivity. Fixed rate loans are based on contractual maturities although the borrowers have the ability to prepay the loans.

Loans Repricing or Maturing(15)

	As of December 31, 2005			
	Within One Year	After One But Within Five Years	After Five Years	Total
		(Dollars in Thousands)		
Real estate loans:				
Construction and development	$136,849	$ 405	$ 38	$137,292
Residential loans	1,419	31	1,990	3,440
Commercial and multi-family	9,096	21,883	53,834	84,813
Commercial loans	106,896	32,751	11,560	151,207
Consumer loans	2,136	538	110	2,784
Equity lines of credit	7,644	—	—	7,644
Credit card and other loans	1,304	—	—	1,304
Total loans	$265,344	$55,608	$67,532	$388,484
Loans with variable (floating) interest rates	$193,740	$31,780	$ —	$225,520
Loans with predetermined (fixed) interest rates	$ 71,604	$23,828	$67,532	$162,964

(15) Loan amounts are shown before deferred loan fees and before the allowance for loan losses.

For a comprehensive discussion of the Company's liquidity position, re-pricing characteristics of the balance sheet, and sensitivity to changes in interest rates, see the "Liquidity and Market Risk" section.

Off-Balance Sheet Arrangements

During the ordinary course of business, the Company will provide various forms of credit lines to meet the financing needs of its customers. Commitments to extend credit are agreements to lend to customers, provided there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments are generally variable rate, and many of these commitments are expected to expire without being drawn upon. As such, the total commitment amounts do not necessarily represent future cash requirements. The Company's exposure to credit losses is represented by the contractual amount of these commitments. The Company uses the same credit underwriting policies in granting or accepting such commitments as it does for on-balance-sheet instruments, which consist of evaluating customers' creditworthiness individually.

Standby letters of credit written are conditional commitments issued by the Company to guarantee the financial performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. When deemed necessary, the Company holds appropriate collateral supporting those commitments. Management does not anticipate any material losses as a result of these transactions.

Total unused commitments to extend credit were $195.8 million at December 31, 2005 and $160.3 million at December 31, 2004, representing 50% of and 51% of outstanding gross loans at December 31, 2005 and 2004, respectively. The Company's standby letters of credit were $2.6 million and $1.2 million at December 31, 2005 and 2004, respectively.

The effects on the Company's revenues, expenses, cash flows and liquidity from the unused portions of the commitments to provide credit cannot be reasonably predicted, because there is no guarantee that the lines of credit will ever be used.

For more information regarding the Company's off-balance sheet arrangements, see Note 12 to the financial statements located elsewhere herein.

Contractual Obligations

At the end of 2005, the Company had contractual obligations for the following payments, by type and period due:

Payments Due by Period

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 years
	(Dollars in Thousands)				
Long-term debt obligations	$18,306	$ —	$ —	$—	$18,306
Capital lease obligations	—	—	—	—	—
Operating lease obligations	3,172	1,015	1,469	688	—
Purchase obligations	—	—	—	—	—
Other long-term obligations	—	—	—	—	—
Total	$21,478	$1,015	$1,469	$688	$18,306

Nonperforming Assets

The Company's policy is to recognize interest income on an accrual basis unless the full collectibility of principal and interest is uncertain. Loans that are delinquent 90 days or more, unless well secured and in the process of collection, are placed on nonaccrual status on a cash basis, and previously accrued but uncollected interest is reversed against income. Thereafter, income is recognized only as it is collected in cash. Collectibility is determined by considering the borrower's financial condition, cash flow, quality of management, the existence of collateral or guarantees and the state of the local economy. A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts (contractual interest and principal) according to the contractual terms of the loan. A restructured loan is a loan on which terms or conditions have been modified due to the deterioration of the borrower's financial condition.

Nonperforming assets include loans for which interest is no longer accruing, loans 90 or more days past due and still accruing, restructured loans and other real estate owned. Nonperforming assets at December 31, 2005 were $994,000 compared to $125,000 at December 31, 2004, representing 0.26% and 0.04% of gross loans, respectively.

Nonperforming assets as of December 31, 2005 included nine commercial loans and represented the entire $994,000. However, to put this into perspective, the balance of commercial loans increased 47% and 144% in 2005 and 2004, respectively. As a percent of gross loans, 0.04% in 2004 is unusually low and 0.26% in 2005 is still well below our peer group. The Company had no other real estate owned at December 31, 2005. There were no loans 90 days or more past due and still accruing at December 31, 2005.

Nonperforming assets as of December 31, 2004 included three commercial loans totaling $125,000. The Company had no other real estate owned at December 31, 2004. There were no loans 90 days or more past due and still accruing at December 31, 2004.

The increase from 2004 to 2005 was primarily attributable to the addition of six commercial loans totaling $905,000 placed on nonaccrual status, offset by principal paydowns totaling approximately $32,000 on loans that remain on nonaccrual status.

Although we believe that non-performing loans are generally well secured and that the potential losses are provided for in our allowance for credit losses, there can be no assurance that future deterioration in economic conditions or collateral values will not result in future credit losses.

The following table provides information with respect to the components of the Company's nonperforming assets as of the dates indicated:

Nonperforming Assets

	As of December 31,				
	2005	2004	2003	2002	2001
	(Dollars in Thousands)				
Nonaccrual loans:(16)					
Real estate loans:					
Construction and development	$ —	$ —	$ 69	$ —	$ —
Residential loans	—	—	—	221	200
Commercial and multi-family	—	—	353	173	—
Commercial loans	994	125	175	—	28
Consumer loans	—	—	8	—	13
Equity lines of credit	—	—	—	—	—
Credit card and other loans	—	—	16	—	—
Total nonaccrual loans	994	125	621	394	241
Loans 90 days or more past due (as to principal or interest) and still accruing:					
Real estate loans:					
Construction and development	—	—	—	—	—
Residential loans	—	—	—	50	—
Commercial and multi-family	—	—	—	—	—
Commercial loans	—	—	—	137	—
Consumer loans	—	—	—	—	—
Equity lines of credit	—	—	—	—	—
Credit card and other loans	—	—	—	—	—
Total loans 90 days or more past due and still accruing	—	—	—	187	—
Restructured loans	—	—	—	—	—
Total nonperforming loans	994	125	621	581	241
Other real estate owned	—	—	—	—	—
Total nonperforming assets	$ 994	$ 125	$ 621	$ 581	$ 241
Nonperforming loans as a percentage of total gross loans(17)	0.26%	0.04%	0.33%	0.41%	0.19%
Nonperforming assets as a percentage of total loans and other real estate owned	0.26%	0.04%	0.33%	0.41%	0.19%
Allowance for loan losses to nonperforming loans	540.85%	3,309.60%	339.45%	304.99%	605.80%
Allowance for loan losses	$ 5,376	$ 4,137	$ 2,108	$ 1,772	$ 1,460

(16) During the year ended December 31, 2005, no income related to these loans was included in net income. Additional interest income of approximately $17,000, would have been recorded for the year ended December 31, 2005 if these loans had been paid in accordance with their original terms and had been outstanding throughout the applicable period then ended or, if not outstanding throughout the applicable period then ended, since origination.

(17) Total loans are gross loans less unearned income.

Allowance For Loan Losses

Arriving at an appropriate level of an allowance for loan losses involves a high degree of judgment. Our allowance for loan losses provides for probable losses based upon an evaluation of known and inherent risks in the loan and lease portfolio. The determination of the balance in the allowance for loan losses is based on an analysis of the loan and lease receivable portfolio using a systematic methodology that reflects an amount that, in our judgment, is adequate to provide for probable loan losses inherent in the portfolio.

The allowance for loan losses totaled $5.4 million at December 31, 2005 compared to $4.1 million and $2.1 million at December 31, 2004 and 2003, respectively and as a percentage of total loans outstanding was 1.39%, 1.33% and 1.11%, respectively. The process for monitoring the adequacy of the allowance, as well as supporting documentation regarding the allowance follows.

In originating loans, the Company recognizes that credit losses will be experienced and that the risk of loss will vary with the type of loan being made and a number of other factors, including collateral and the creditworthiness of the borrower over the term of the loan. It is Management's policy to maintain an adequate allowance for loan losses based on a number of factors, including the Company's loan loss experience, economic conditions, and regular reviews of delinquencies and loan portfolio quality.

The Company establishes an Allowance for Loan and Lease Losses through charges to earnings based on Management's evaluation of the loan portfolio and a number of other criteria. If warranted, the allowance may be increased by regular provisions in order to maintain a proper relationship to the aggregate funded and unfunded loan portfolio. The provision may be influenced by the amount of charge-offs and/or recoveries. The adequacy of the Allowance for Loan and Lease Losses (ALLL) is determined by a number of factors that are included in the Company's ALLL methodology.

Two primary forms of analysis are used as tools to determine the adequacy of the ALLL. The *Portfolio Risk Analysis* takes into consideration key components of the aggregate loan portfolio and selected risk weight factors are used based on the perceived risk associated with each loan category. Heavier weight factors are assigned to delinquent loans and adversely risk rated loans. Classified loans are assigned traditional weight factors, based on the severity of the classification. Special circumstances are identified and a selected risk factor prescribed to allocate an appropriate portion of the reserve to mitigate that specific risk. For example, because of the high concentration of construction loans, a *construction concentration risk* has been established as one of the components of the ALLL methodology.

Another analytical tool used is a *Migration Analysis*. This tool tracks loan losses and recoveries over reasonable time horizons to determine a level of ALLL based on historical loss history by loan category. This methodology is structured such that the amount allocated to the reserve defaults to the higher of 1) that which is based on historical losses, or 2) other risk weight factors consistent with those utilized in the *Portfolio Risk Analysis*. This approach attempts to prevent an unreasonably low reserve level in the event actual loan loss history is low.

Other factors considered in the ALLL methodology include the following: quality and scope of lending policies and procedures, national and local economic conditions, peer bank data, concentration or other special circumstances, and overall quality of the loan portfolio, determined by quality of underwriting, level of loan delinquencies, non-accrual loans, and non-performing loans. An important indicator is the risk rating quality of the aggregate loan portfolio. The Company conducts semi-annual risk rating certifications in order to maintain the integrity of the risk rating process. The risk ratings are stratified by loan type and according to risk rating.

As of December 31, 2005, the aggregate loan portfolio risk ratings were stratified as follows:

Pass/Homogeneous:	92.34%
Special Mention:	5.97%
Substandard:	1.60%
Doubtful:	0.09%
	100.00%

Net loan charge-offs during 2005 approximated $901,000 or 0.25% of average total loans, compared to $69,000 or 0.03% during 2004 and $24,000 or 0.01% in 2003. In 2005, $616,000 of the net loan charge-offs is represented by one SBA loan. The Company is still in the process of filing with the SBA to recover on the guarantee.

Implicit in lending activity is the risk that losses will occur and that the amount of such loss will vary over time. In many cases Management exercises considerable judgment in determining the timing of the recognition of inherent losses with the objective to present a realistic presentation of the quality of the loan portfolio. Because of Management's conservative timing of loss recognition, it is Management's opinion that there could be a possibility of future recoveries.

Except for nonperforming assets, and impaired loans, Management is not aware of any loans as of December 31, 2005 for which known credit problems of the borrower would cause serious doubt as to the ability of such borrowers to comply with their present loan repayment term. Management cannot, however, predict the extent to which the deterioration in general economic conditions, real estate values, increase in general rates of interest, changing financial conditions or business of a borrower may adversely affect a borrower's ability to repay. The ratio of the allowance for loan losses to total loans was determined by Management to be adequate at December 31, 2005 and December 31, 2004.

The following table summarizes the activity in the Company's allowance for loan losses for the periods indicated:

Allowance for Loan Losses

	Years Ended December 31,				
	2005	2004	2003	2002	2001
	(Dollars in Thousands)				
Balances:					
Average total loans outstanding during period	$362,231	$ 257,005	$161,207	$134,169	$118,428
Total loans outstanding at end of period, net of unearned income	$386,529	$ 312,167	$190,330	$142,884	$127,155
Allowance for Loan Losses:					
Balance at beginning of period	$ 4,137	$ 2,108	$ 1,772	$ 1,460	$ 868
Acquisition of allowance for loan losses, Palomar Community Bank	—	—	—	—	603
Charge-offs:					
Real estate loans:					
Construction and development	—	—	—	—	64
Residential loans	—	—	—	49	—
Commercial and multi-family	—	—	—	—	—
Commercial loans	996	121	217	71	163
Consumer loans	2	14	2	65	—
Equity lines of credit	—	—	—	—	—
Credit card and other loans	10	20	2	9	79
Total charge-offs	1,008	155	221	194	306
Recoveries:					
Real estate loans:					
Construction and development	—	—	—	3	2
Residential loans	2	2	23	—	—
Commercial and multi-family	—	—	—	—	—
Commercial loans	105	79	140	15	5
Consumer loans	—	4	34	11	—
Equity lines of credit	—	—	—	—	—
Credit card and other loans	—	1	—	—	6
Total recoveries	107	86	197	29	13
Net charge-offs	(901)	(69)	(24)	(165)	(293)
Provision charged to operations	2,140	2,098	360	477	411
Reclassification for off-balance sheet commitments	—	—	—	—	(129)
Allowance for loan losses balance, end of period	$ 5,376	$ 4,137	$ 2,108	$ 1,772	$ 1,460
Ratios:(18)					
Net loan charge-offs to average total loans	0.25%	0.03%	0.01%	0.12%	0.25%
Allowance for loan losses to average total loans	1.48%	1.61%	1.31%	1.32%	1.23%
Allowance for loan losses to total loans at end of period	1.39%	1.33%	1.11%	1.24%	1.15%
Allowance for loan losses to total nonperforming loans	540.85%	3,309.60%	339.45%	304.99%	605.80%
Net loan (charge-offs) recoveries to allowance for loan losses at end of period	(16.76)%	(1.67)%	(1.14)%	(9.31)%	(20.07)%
Net loan (charge-offs) recoveries to provision for loan losses	(42.10)%	(3.29)%	(6.67)%	(34.59)%	(71.29)%

(18) Total loans are gross loans less unearned income.

Allocation of Allowance for Loan Losses

The following table provides a breakdown of the allowance for loan losses by category as of the dates indicated. The allocation presented should not be interpreted as an indication that charges to the allowance for loan losses will be incurred in these amounts or proportions, or that the portion of the allowance allocated to each loan category represents the total amounts available for charge-offs that may occur within these categories.

Allocation of Allowance for Loan Losses

	As of December 31,									
	2005		2004		2003		2002		2001	
Balance at End of Period Applicable to	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans	Amount	% of Loans in Category to Total Loans
	(Dollars in Thousands)									
Real estate loans:										
Construction and development	$ 1,705	35.34%	$ 1,697	39.62%	$ 534	36.94%	$ 671	37.12%	$ 200	29.76%
Residential loans	33	0.89%	47	1.16%	114	3.23%	80	6.95%	157	14.04%
Commercial and multi-family	835	21.83%	454	24.64%	392	33.60%	277	23.91%	273	24.47%
Commercial loans	2,583	38.91%	1,859	32.71%	975	21.94%	596	26.70%	571	23.97%
Consumer loans	98	0.72%	25	0.35%	—	0.31%	—	1.11%	69	2.34%
Equity lines of credit	115	1.97%	39	1.11%	46	2.14%	70	3.27%	25	3.73%
Credit card and other loans	6	0.34%	16	0.41%	47	1.84%	78	0.94%	45	1.69%
Not allocated	—	—	—	—	—	—	—	—	120	—
Total allowance for loan loss	$ 5,376	100.00%	$ 4,137	100.00%	$ 2,108	100.00%	$ 1,772	100.00%	$ 1,460	100.00%
Total loans net of unearned income	$386,529		$312,167		$190,330		$142,884		$127,155	

The changes in the "not allocated" category for the years reported were due to changes in the method of allocation based on changes in the portfolio. The non-allocated allowance generally recognizes the estimation risks associated with the allocated allowances, and management's evaluation of various conditions, the effects of which are not directly measured in determining the allocated allowance. Management determined it was not necessary to separately evaluate these conditions, as they were all taken into account in determining the amounts of the allocated allowances.

Investment Securities

The Company's investment portfolio provides income to the Company and also serves as a source of liquidity. Total yield, risk and maturity are among the factors considered in building the investment portfolio. Pursuant to FASB 115, securities must be classified as "held to maturity," "available for sale," or "trading securities." Those securities held in the "available for sale" category must be carried on the Company's books at fair market value. At December 31, 2005, 2004 and 2003, 100% of the investment securities owned by the Company were classified as "available for sale."

At December 31, 2005, the Company's investment portfolio at fair value consisted of $8.2 million in federal agency mortgage-backed securities and $4.0 million in obligations of states and local government securities for a total of $12.2 million. At December 31, 2004, the portfolio consisted of $198,000 in U.S. treasury and government agency securities, $15.8 million in federal agency mortgage-backed securities and $4.1 million in obligations of states and local government securities for a total of $20.1 million.

The $7.9 million or 39% decrease in 2005 and the $15.4 million or 43% decrease in 2004 in the Company's investment portfolio was primarily due to principal paydowns on the federal agency mortgage-backed securities. The proceeds received from the payoffs were used to fund the Company's loan growth and reduce borrowings.

The following table summarizes the amortized cost, unrealized gains and losses, fair value and distribution of the Company's investment securities as of the dates indicated:

Investment Portfolio

	As of December 31,											
	2005				2004				2003			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
	(Dollars in Thousands)											
Available for Sale:												
U.S. treasury and government agency securities	$ —	$—	$ —	$ —	$ 200	$—	$ (2)	$ 198	$ 705	$ 13	$—	$ 718
Federal agency mortgage-backed Securities	8,242	51	(120)	8,173	15,754	110	(113)	15,751	30,302	285	(63)	30,524
Obligations of states and local government securities	3,937	98	—	4,035	3,971	176	—	4,147	4,084	213	—	4,297
Total	$12,179	$149	$(120)	$12,208	$19,925	$286	$(115)	$20,096	$35,091	$511	$ (63)	$35,539

The following table summarizes, as of December 31, 2005, the maturity characteristics of the investment portfolio, by investment category. Expected remaining maturities may differ from remaining contractual maturities because obligors may have the right to prepay certain obligations with or without penalties.

Investment Maturities and Repricing Schedule

	As of December 31, 2005									
	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in Thousands)									
Available for Sale:										
Federal agency mortgage-backed securities	$1,471	4.00%	$6,255	3.85%	$ 351	4.37%	$ 96	3.33%	$ 8,173	3.89%
Obligations of states and local government securities	338	4.31%	2,089	4.35%	1,608	5.37%	—	—	4,035	4.75%
Total	$1,809	4.06%	$8,344	3.98%	$1,959	5.19%	$ 96	3.33%	$12,208	4.18%

As of December 31, 2005, 2004 and 2003, the Company's investments in interest-bearing time certificates of deposit at other financial institutions totaled $2.3 million, $4.0 million and 4.8 million, respectively.

Cash and due from banks

Cash on hand and balances due from correspondent banks totaled $16.9 million at the end of 2005 and $5.7 million at the end of 2004. At December 31, 2005, cash and due from banks comprised 3.7% of total assets, compared to 1.6% at December 31, 2004. These balances fluctuate frequently and by large amounts depending on the status of cash items in process of collection and cash on hand, thus period-end balances are not optimal indicators of trends in cash and due from banks. Annual average balances provide a much more appropriate gauge. The average balance for 2005 was $10.6 million, a decrease from the average of $10.9 million for 2004.

Even with the addition of the Irwindale and Temecula branches in 2005, the average balance still declined slightly for the year due to more aggressive monitoring of our correspondent bank balances and management of branch cash levels.

Deposits

Information concerning the average balance and average rates paid on deposits by deposit type for the past three fiscal years is contained in the Distribution, Rate, and Yield table located in the previous section on Results of Operations—Net Interest Income and Net Interest Margin. The composition and cost of the Company's deposit base are important components in analyzing the Company's net interest margin and balance sheet liquidity characteristics, both of which are discussed in greater detail in other sections herein. The Company's liquidity is impacted by the volatility of deposits or other funding instruments, or in other words by the propensity of that money to leave the institution for rate-related or other reasons. Potentially, the most volatile deposits in a financial institution are jumbo certificates of deposits, meaning time deposits with balances that equal or exceed $100,000, as customers with balances of that magnitude are typically more rate-sensitive than customers with smaller balances. The Company's community-oriented deposit gathering activities, however, seem to have gathered a base of local customers who tend to display more brand loyalty and thus are less likely to leave the Company than might otherwise be expected.

Total deposits were $401.3 million at December 31, 2005, compared to $291.8 million and $212.8 million at December 31, 2004 and 2003, respectively, and represented increases of 38% and 37% in 2005 and 2004, respectively.

2005 compared to 2004 analysis. Total deposits increased $109.5 million, or 38%, to $401.3 million at December 31, 2005 from $291.8 million at December 31, 2004. Noninterest-bearing demand deposits increased $13.5 million or 15% at December 31, 2005 as compared to December 31, 2004. Interest-bearing demand deposits and money market accounts increased $67.7 million, or 68% at December 31, 2005 as compared to December 31, 2004. Savings deposit accounts increased $2.2 million or 8% at December 31, 2005 as compared to December 31, 2004. Time deposits $100,000 or greater increased $20.0 million, or 50% at December 31, 2005 as compared to December 31, 2004, while other time deposits increased $6.1 million, or 18%.

The Company had a favorable increase in noninterest-bearing demand deposits from December 31, 2004 to December 31, 2005; however, the percent to total average deposits stayed almost the same. This favorable increase is primarily attributable to new deposit relationships, coupled with an increase in deposits with our existing customers. The increase in interest-bearing demand deposits and money market accounts was primarily the result of additional money market deposits acquired as a result of a promotional money market account offered to businesses and consumers during 2005. The increase in time deposits $100,000 or greater was primarily the result of additional brokered certificates of deposit acquired to support our loan growth. The overall increase in deposits has helped improve the Company's liquidity position during 2005.

From December 31, 2004 to December 31, 2005 the percentage of total average deposits represented by time deposits $100,000 or greater changed to 17% from 15% while average savings deposits changed to 7% from 10%. Average money market deposits changed to 29% from 25% while average interest-bearing demand deposits as a percentage of total average deposits changed to 6% from 8%.

2004 compared to 2003 analysis. When comparing total deposits at December 31, 2004 as compared to December 31, 2003, the majority of the deposit increase in 2004 occurred in interest-bearing demand deposits and money market accounts, which increased by $40.0 million or 66% and increased its percent of total deposits from 28% to 34%. The increase in interest-bearing demand deposits and money market accounts was primarily the result of a promotional money market account offered to businesses and consumers during the second quarter of 2004. In addition, noninterest-bearing accounts increased $26.0 million or 39%. Savings deposit accounts increased $5.1 million or 25%. Time deposits of $100,000 or greater had a slight increase of $900,000, other time deposits increased $7.1 million or 27%.

From December 31, 2003 to December 31, 2004 the percentage of total average deposits represented by time deposits $100,000 or greater changed to 15% from 19% while average other time deposits changed to 12% from 14%. Average money market deposits changed to 25% from 18%.

The following table summarizes the composition of average deposits as a percentage of total average deposits for the periods indicated:

Percent of Total Average Deposit Composition

	For the Years Ended December 31,		
	2005	2004	2003
	Percent of Total	Percent of Total	Percent of Total
Demand deposits, noninterest bearing	30.41%	30.47%	30.43%
Interest-bearing deposits:			
Interest-bearing demand deposits	6.17%	7.61%	8.97%
Money market deposits	28.55%	25.23%	18.43%
Savings deposits	7.11%	9.67%	9.18%
Time deposits $100,000 or greater	16.87%	14.70%	19.02%
Other time deposits	10.89%	12.32%	13.97%
Total average deposits	100.00%	100.00%	100.00%

The Company's cost of funds is calculated as total interest expense on interest-bearing deposits and other interest-bearing liabilities, as a percentage of average interest-bearing deposits and other interest-bearing liabilities.

2005 compared to 2004 analysis. From December 31, 2004 to December 31, 2005 market rate increases impacted the Company's cost of funds. The rate paid on the Company's interest-bearing liabilities increased to 2.53% at December 31, 2005 from 1.58% at December 31, 2004. The increase is attributable to the increases in rates paid on time deposits as a result of additional brokered certificates of deposit acquired to help support our loan growth, the rates paid on money market deposits as a result of a promotional money market account offered to businesses and consumers during 2005 and the rate paid on the Company's subordinated notes payable to subsidiary trusts, due to the increases in the libor rate.

2004 compared to 2003 analysis. The rate paid on the Company's interest-bearing deposits increased to 1.35% at December 31, 2004 from 1.27% at December 31, 2003. The increase from 2003 to 2004 is primarily attributable to the promotional interest rate on money market accounts offered during 2004.

The following table summarizes the distribution of average daily deposits and the average daily rates paid for the periods indicated:

Average Deposits and Other Borrowings

	For the Years Ended December 31,					
	2005		2004		2003	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in Thousands)					
Demand deposits, noninterest bearing	$105,462	0.00%	$ 81,185	0.00%	$ 60,543	0.00%
Interest-bearing deposits:						
Interest-bearing demand deposits	21,400	0.26%	20,255	0.20%	17,851	0.24%
Money market deposits	99,052	2.25%	67,188	1.31%	36,666	0.97%
Savings deposits	24,655	0.76%	25,752	0.65%	18,266	0.63%
Time deposits $100,000 or greater	58,537	3.16%	39,144	2.01%	37,834	2.25%
Other time deposits	37,787	2.88%	32,811	1.93%	27,804	1.43%
Total interest-bearing deposits	$241,431	2.24%	$185,150	1.35%	$138,421	1.27%
FHLB borrowings	22,255	2.92%	12,571	1.49%	2,679	1.23%
Federal funds purchased	708	2.68%	723	1.80%	404	1.73%
Subordinated notes payable to subsidiary trusts	14,492	6.73%	12,877	4.88%	—	—
Redeemable preferred securities of subsidiary trust holding solely junior subordinated debentures	—	—	—	—	6,000	5.12%
Total deposits and other borrowings	$384,348	1.84%	$292,506	1.14%	$208,047	1.01%
Average rate excluding demand deposits		2.53%		1.58%		1.43%

The following table sets forth the scheduled maturities of the Company's time deposits in denominations of $100,000 or greater at December 31, 2005:

	3 Months or Less	Over 3 Months Through 6 Months	Over 6 Months Through 12 Months	Over 12 Months	Total
	(Dollars in Thousands)				
December 31, 2005	$15,061	$11,100	$18,925	$15,007	$60,093

Other Borrowings

The Company utilizes other short-term borrowings to temporarily fund loan growth when customer deposit growth has not kept pace with increases in outstanding loan balances, or when additional liquidity is required to support higher customer cash utilization.

Short-term borrowings principally include overnight fed funds purchased and advances from the Federal Home Loan Bank of San Francisco (FHLB). The details of these borrowings for the years 2005, 2004, and 2003 are presented below:

Short-term Borrowings

	2005	2004	2003
	(dollars in thousands)		
Federal funds purchased:			
Balance at December 31,	$ —	$ 475	$1,850
Average amount outstanding	$ 708	$ 723	$ 404
Maximum amount outstanding at any month end	$ 7,000	$ 4,750	$5,515
Average interest rate for the year	2.68%	1.80%	1.73%
FHLB Borrowings:			
Balance at December 31,	$ —	$21,000	$7,600
Average amount outstanding	$22,255	$12,571	$2,679
Maximum amount outstanding at any month end	$40,000	$21,000	$7,600
Average interest rate for the year	2.92%	1.49%	1.23%

Capital Resources

Total Shareholders' equity was $33.4 million at December 31, 2005, compared to $28.0 million and $24.4 million at December 31, 2004 and 2003, respectively. The increase of $5.4 million or 19% as of December 31, 2005 was primarily due to $5.1 million in year-to-date net income and proceeds of $426,000 from the exercise of stock options and the issuance of restricted stock awards, net, less the $86,000 decline in the unrealized gain of marketable securities. The increase of $3.6 million or 15% as of December 31, 2004 was primarily due to $3.0 million in year-to-date net income and proceeds of $742,000 from the exercise of stock options and the issuance of restricted stock awards, net, less the $165,000 decline in the unrealized gain of marketable securities.

As of December 31, 2005, the Company's Total Risk-Based and Tier 1 Risk-Based Capital Ratios were 12.86% and 9.92%, compared to 12.26% and 9.89% at December 31, 2004. Tier 1 Capital for these purposes includes trust preferred securities up to twenty-five percent of the Company's core capital. As of December 31, 2005, the Bank's Total Risk-Based and Tier 1 Risk-Based Capital Ratios were 12.49% and 11.24%, compared to 11.68% and 10.43% at December 31, 2004. At December 31, 2005, the Company's leverage ratio was 9.02%, compared to 9.25% at December 31, 2004. As of December 31, 2005, the Bank's Leverage Capital Ratio was 10.21%, compared to 9.73% at December 31, 2004. As of the end of 2005, both the Company and the Bank were considered to be "well capitalized" by regulatory standards. We do not foresee any circumstances that would cause the either the Company or the Bank to be less than "well capitalized", although no assurance can be given that this will not occur.

Detailed information concerning the capital amounts and ratios for both the Company and the Bank is contained in Note 16 to the financial statements appearing elsewhere herein.

The Company uses a variety of measures to evaluate capital adequacy. Management reviews various capital measurements on a monthly basis and takes appropriate action to ensure that such measurements are within established internal and external guidelines. The external guidelines, which are issued by the Federal Reserve Board and the FDIC, establish a risk-adjusted ratio relating capital to different categories of assets and off-balance sheet exposures. There are two categories of capital under the Federal Reserve Board and FDIC guidelines: Tier 1 and Tier 2 Capital. Tier 1 Capital currently includes common shareholders' equity and the proceeds from the issuance of trust preferred securities (trust preferred securities are included up to a maximum of 25% of Tier 1 capital), less goodwill and certain other deductions, notably the unrealized net gains or losses (after tax adjustments) on securities available for sale, which are carried at fair market value. Tier 2 Capital includes preferred stock and certain types of debt equity, which the Company does not hold, as well as the allowance for loan losses, subject to certain limitations. (For a more detailed definition, see "Item 1, Business—Capital Adequacy Requirements—Prompt Corrective Action Provisions" herein.)

Management anticipates that continued growth of the Company may require the Company to raise additional funds through sales of the Company's common stock or the issuance of trust preferred securities in order to meet regulatory capital requirements. No assurance can be given that at such time as the Company determines to increase its capital through a stock offering or through the issuance of trust preferred securities that it will be able to do so, or that it will be able to do so on terms the Company deems favorable.

Liquidity and market risk management

Liquidity

The Company's liquidity is primarily a reflection of the Company's ability to raise money quickly, without principal loss and at a reasonable cost to meet loan demand and deposit withdrawals, and to service other liabilities as they come due. The Company has adopted policies to manage its liquidity position so it can respond to changes in the financial environment and ensure that sufficient funds are available to meet those needs. Generally, the Company's major sources of liquidity are customer deposits, maturities, paydowns and sales of investment securities, the use of federal funds markets, borrowings from correspondent banks, borrowings from the Federal Home Loan Bank (FHLB) and net cash provided by operating activities. Scheduled loan repayments are a relatively stable source of funds, while deposit inflows and unscheduled loan prepayments, which are influenced by general interest rate levels, interest rates available on other investments, competition, economic conditions, and other factors, are not. Liquid assets include cash and due from banks, less the federal reserve requirement, federal funds sold, interest-bearing deposits in financial institutions, unpledged investment securities available-for-sale, Federal Home Loan Bank stock investment, less the stock requirement, restricted at cost, Pacific Coast Bankers' Bank stock investment, restricted at cost, and cash surrender value of life insurance.

In order to augment liquidity, as of December 31, 2005 the Company has Federal Funds borrowing arrangements with four correspondent banks totaling $25.0 million, and a secured line of credit with the FHLB totaling approximately $39.7 million.

On a consolidated basis, the Company's liquidity ratio, with policy guidelines of "above 10%" is a measure of liquid assets to deposits, plus short-term liabilities, plus federal home loan bank borrowings, due within one year, less pledged deposits for treasury tax and loan, increased to 14.98% at December 31, 2005 from 6.76% as of December 31, 2004. The Company also monitors its net non-core funding dependence ratio, with policy guidelines of "less than 25%". The net non-core dependence ratio is a measure of non-core liabilities less short-term investments, divided by long-term earning assets. It was 7.08% at December 31, 2005 and 23.94% at December 31, 2004.

We believe it is beneficial to take advantage of the earnings opportunity presented by current loan demand, and to make certain temporary arrangements to ensure adequate liquidity, until our deposit growth has an opportunity to catch-up to the loan growth. In order to enhance our deposit growth, we have a plan in place to increase deposits by:

1) Encouraging deposit relationships with all loan customers;

2) Revising the incentive program for business development officers to reward deposit growth;

3) Hiring personnel whose primary focus is deposit growth;

4) Advertising competitive deposit rates;

5) Offering deposit promotions; and

6) Buying brokered deposits and public funds to a limit of 15% of total deposits.

As of December 31, 2005, total brokered deposits and public funds as a percentage of total deposits were 6.99%.

In addition, to the extent that we are not able to generate sufficient deposit growth to maintain our target liquidity ratio, we will continue to utilize the FHLB for borrowings, as well as short-term borrowings from our correspondent banks, and will also, where appropriate, sell loan participations to other banks.

Management is of the opinion that the standby funding sources it has in place are adequate and reliable to meet the Company's current and anticipated short-term liquidity needs.

The following table sets forth certain information with respect to the Company's liquidity as of December 31, 2005 and December 31, 2004.

Liquidity

	December 31, 2005	December 31, 2004
	(Dollars in Thousands)	
Cash and due from banks (less FRB reserve requirement)	$16,015	$ 5,195
Federal funds sold	21,505	—
Interest-bearing deposits in financial institutions	2,334	3,964
Unpledged investment securities, available-for-sale	11,904	4,891
Stock investments, restricted at cost (less FHLB stock requirement)	1,620	628
Cash surrender value of life insurance	6,735	6,488
Total liquid assets	$60,113	$21,166
Liquidity ratio:		
Ending deposits and short-term liabilities	14.98%	6.76%

Interest Rate Risk Management

Interest Rates and Differentials

The Company's earnings depend primarily upon the difference between the income it receives from its interest earning assets and its cost of funds, principally interest expense incurred on interest-bearing liabilities. Interest rates charged on the Company's loans are affected principally by the demand for loans, the supply of money available for lending purposes, and competitive factors. In turn, these factors are influenced by general economic conditions and other constraints beyond the Company's control, such as governmental economic and tax policies, general supply of money in the economy, governmental budgetary actions and the actions of the FRB.

Asset/Liability Management

The Company seeks to control its interest rate risk exposure in a manner, which will allow for adequate levels of earnings and capital over a range of possible interest rate environments. The Company has adopted formal policies and practices to monitor and manage interest rate risk exposure. As part of this effort, the

Company measures interest rate risk utilizing both a modeling program from an outside vendor, as well as reports from third party sources, which can be compared and analyzed together, enabling Management to better manage economic risk and interest rate risk.

The fundamental objective of the Company's Management of its assets and liabilities is to maximize the economic value of the Company while maintaining adequate liquidity and an exposure to interest rate risk deemed by Management to be acceptable. Management believes an acceptable degree of exposure to interest rate risk results from the management of assets and liabilities through maturities, pricing and mix to attempt to neutralize the potential impact of changes in market interest rates. The Company's profitability is dependent to a large extent upon its net interest income, which is the difference between its interest income on interest-earning assets such as loans and securities, and its interest expense on interest-bearing liabilities, such as deposits and borrowings. The Company, like other financial institutions, is subject to interest rate risk to the degree that its interest-earning assets reprice differently than its interest-bearing liabilities, and not at the same time, or to the same magnitude. The Company manages its mix of assets and liabilities with the goal of limiting its exposure to interest rate risk, ensuring adequate liquidity, and coordinating its sources and uses of funds. Interest income and interest expense are affected by general economic conditions and by competition in the marketplace. The Company's interest and pricing strategies are driven by its asset/liability management analyses and by local market conditions.

In connection with the foregoing strategy, the Company studies the net change in interest income and net interest margin given immediate and parallel interest rate shocks over a 12-month horizon. The Company's goal is to manage the effect of these changes within Board-established parameters of "less than a 10% change" for up/down 100 and 200 basis points. Shown below are possible changes to net interest income and the net interest margin based upon the model's program under 100 and 200 basis point increases or decreases as of December 31, 2005:

Change (in Basis Points)	Net Interest Income (next twelve months)	Change in Net Interest Income	% Change in Net Interest Income	Net Interest Margin(19)
		(Dollars in Thousands)		
+200	$31,195	$ 4,864	18.47%	7.35%
+100	28,783	2,451	9.31%	6.79%
0	26,332	—	(0.00)%	6.21%
– 100	24,335	(1,997)	(7.58)%	5.74%
– 200	22,264	(4,068)	(15.45)%	5.25%

(19) Excluding loan fees.

These results indicate the effect of immediate rate changes, which are unlikely and do not consider the yield from reinvesting in short-term versus long-term instruments. This report shows liquidation values in an extremely downward movement, which is highly unlikely. Although out of compliance in one area, still produce acceptable results, which exceed peer. The net interest margin will improve if rates rise and decline if rates fall. Management and the Board of Directors consider the results indicated by the report acceptable.

The following table sets forth the interest rate sensitivity of the Company's interest-earning assets and interest-bearing liabilities as of December 31, 2005 using the interest rate sensitivity gap ratio. For purposes of the following table, an asset or liability is considered rate-sensitive within a specified period when it can be repriced or matures within its contractual terms. Actual payment patterns may differ from contractual payment patterns.

Interest Rate Sensitivity Analysis as of December 31, 2005

	Amounts Subject to Repricing Within					
	0-3 Months	**3-12 Months**	**1-5 Years**	**After 5 Years**	**Non Sensitive**	**Total**
			(Dollars in Thousands)			
Assets						
Loans, net of deferred fees	$205,603	$ 57,454	$55,286	$67,191	$ 994	$386,529
Allowance for loan losses	—	—	—	—	(5,376)	(5,376)
Investment securities	368	1,441	8,344	2,055	—	12,208
Stock Investments, restricted, at cost	—	—	—	1,620	—	1,620
Interest-bearing deposits with banks	—	618	1,617	99	—	2,334
Cash surrender value of life insurance	—	—	—	6,735	—	6,735
Non-interest earning assets	—	—	—	—	52,142	52,142
Total assets	$205,971	$ 59,513	$65,247	$77,700	$ 47,760	$456,192
Liabilities						
Noninterest-bearing deposits	$ —	$ —	$ —	$ —	$106,121	$106,121
Interest-bearing deposits	129,697	108,692	28,537	28,228	—	295,154
Subordinated notes payable to subsidiary trusts	13,151	—	5,155	—	—	18,306
Other liabilities	—	—	—	—	3,190	3,190
Shareholders' equity	—	—	—	—	33,421	33,421
Total liabilities and shareholders' equity	$142,848	$108,692	$33,692	$28,228	$142,732	$456,192
Interest rate sensitivity gap	$ 63,123	$ (49,179)	$31,555	$49,472	$ (94,972)	
Cumulative interest rate sensitivity gap	$ 63,123	$ 13,945	$45,500	$94,972	—	

The preceding table indicates that the Company had a positive one-year cumulative gap of $13.9 million at December 31, 2005. This gap position suggests that we are asset-sensitive. In any interest rate environment, the opportunity to reprice assets in the same dollar amounts and at the same time, as liabilities would minimize interest rate risk. The difference between the amounts of assets and liabilities repriced at the same time, or "gap," represents the risk, or opportunity, in repricing. If more assets than liabilities are repriced at a given time in a rising rate environment net interest income would improve while in a declining rate environment net interest income would decline. If more liabilities than assets were repriced under the same conditions the opposite would result.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information concerning quantitative and qualitative disclosures about market risk is included as part of Part II, Item 7 above. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Market Risk Management."

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
1st Centennial Bancorp
Redlands California

We have audited the accompanying consolidated statements of condition of 1st Centennial Bancorp and subsidiary as of December 31, 2005 and 2004, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. 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 1st Centennial Bancorp and subsidiary as of December 31, 2005 and 2004, and the results of its operations and cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

/s/ HUTCHINSON AND BLOODGOOD LLP

Glendale, California
February 1, 2006 (except for Note 24, which is as of February 24, 2006)

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of the Company and Subsidiary at December 31, 2005 and 2004 and for each of the years in the three-year period ended December 31, 2005, are included herein:

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1ST CENTENNIAL BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CONDITION
December 31, 2005 and 2004
(Dollars In Thousands)

	2005	2004
ASSETS		
Cash and due from banks	$ 16,862	$ 5,695
Federal funds sold	21,505	—
Total cash and cash equivalents	38,367	5,695
Interest-bearing deposits in financial institutions	2,334	3,964
Investment securities, available-for-sale	12,208	20,096
Stock investments, restricted, at cost	1,620	1,615
Loans, net of allowance for loan losses of $5,376 and $4,137	381,153	308,030
Accrued interest receivable	2,425	766
Premises and equipment, net	3,652	3,113
Goodwill	4,180	4,180
Cash surrender value of life insurance	6,735	6,488
Other assets	3,518	2,731
Total assets	$456,192	$356,678
LIABILITIES		
Deposits:		
Noninterest-bearing demand deposits	$106,121	$ 92,620
Interest-bearing deposits	295,154	199,182
Total deposits	401,275	291,802
Accrued interest payable	170	315
Federal funds purchased	—	475
Borrowings from Federal Home Loan Bank	—	21,000
Other liabilities	3,020	1,934
Subordinated notes payable to subsidiary trusts	18,306	13,151
Total liabilities	422,771	328,677
COMMITMENTS AND CONTINGENCIES (Notes 12 and 14)		
SHAREHOLDERS' EQUITY		
Common stock, no par value; authorized 10,000,000 shares, issued and outstanding 2,100,075 and 1,939,611 shares at December 31, 2005 and 2004, respectively	26,803	21,208
Retained earnings	6,617	6,706
Accumulated other comprehensive income	1	87
Total shareholders' equity	33,421	28,001
Total liabilities and shareholders' equity	$456,192	$356,678

The accompanying notes are an integral part of these consolidated financial statements.

1ST CENTENNIAL BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF EARNINGS
Years Ended December 31, 2005, 2004 and 2003
(Dollars In Thousands, Except Per Share Data)

	2005	2004	2003
Interest income:			
Interest and fees on loans	$32,097	$22,442	$15,174
Deposits in financial institutions	134	200	233
Federal funds sold	350	66	90
Investments:			
Taxable	450	841	984
Tax-exempt	165	169	174
Total interest income	33,196	23,718	16,655
Interest expense:			
Interest bearing demand and savings deposits	2,472	1,085	512
Time deposits $100,000 or greater	1,852	788	850
Other time deposits	1,089	634	397
Interest on borrowed funds	1,643	828	347
Total interest expense	7,056	3,335	2,106
Net interest income	26,140	20,383	14,549
Provision for loan losses	2,140	2,098	360
Net interest income after provision for loan losses	24,000	18,285	14,189
Noninterest income:			
Customer service fees	1,376	1,221	1,279
Gains from sale of loans	1,394	295	389
Conduit loan sale income	972	398	607
Other income	714	694	756
Total noninterest income	4,456	2,608	3,031
Noninterest expense:			
Salaries and employee benefits	11,445	9,913	8,432
Net occupancy expense	2,051	1,462	1,510
Other operating expenses	6,617	4,705	4,049
Total noninterest expense	20,113	16,080	13,991
Income before provision for income taxes	8,343	4,813	3,229
Provision for income taxes	3,260	1,793	1,141
Net income	$ 5,083	$ 3,020	$ 2,088
Basic earnings per share	$ 2.44	$ 1.48	$ 1.09
Diluted earnings per share	$ 2.27	$ 1.38	$ 1.03

The accompanying notes are an integral part of these consolidated financial statements.

1ST CENTENNIAL BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 2005, 2004 and 2003
(Dollars In Thousands, Except Share Data)

	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2002	1,202,517	$13,913	$ 2,957	$ 323	$17,193
Comprehensive income:					
Net income	—	—	2,088	—	2,088
Change in net unrealized gain on investment securities available-for-sale, after tax effects	—	—	—	(71)	(71)
Total comprehensive income					2,017
Stock dividend	59,888	1,347	(1,347)	—	—
Cash paid in lieu of fractional shares	—	—	(6)	—	(6)
Issuance of common stock, net	225,000	4,871	—	—	4,871
Issuance of restricted stock for legal settlement	12,960	295	—	—	295
Exercise of stock options, including tax benefit	1,916	30	—	—	30
Balance, December 31, 2003	1,502,281	20,456	3,692	252	24,400
Comprehensive income:					
Net income	—	—	3,020	—	3,020
Change in net unrealized gain on investment securities available-for-sale, after tax effects	—	—	—	(165)	(165)
Total comprehensive income					2,855
Stock dividend, accounted for as a stock split	378,664	—	—	—	—
Cash paid in lieu of fractional shares	—	—	(6)	—	(6)
Compensation expense on incentive stock options	—	10	—	—	10
Issuance of restricted stock awards	9,000	41	—	—	41
Exercise of stock options, including tax benefit	49,666	701	—	—	701
Balance, December 31, 2004	1,939,611	21,208	6,706	87	28,001
Comprehensive income:					
Net income	—	—	5,083	—	5,083
Change in net unrealized gain on investment securities available-for-sale, after tax effects	—	—	—	(86)	(86)
Total comprehensive income					4,997
Stock dividend	135,815	5,161	(5,161)	—	—
Cash paid in lieu of fractional shares	—	—	(11)	—	(11)
Compensation expense on incentive stock options	—	8	—	—	8
Vesting on issuance of restricted stock awards	—	41	—	—	41
Exercise of stock options, including tax benefit	24,649	385	—	—	385
Balance, December 31, 2005	2,100,075	$26,803	$ 6,617	$ 1	$33,421

The accompanying notes are an integral part of these consolidated financial statements.

1ST CENTENNIAL BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005, 2004 and 2003
(Dollars In Thousands)

	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 5,083	$ 3,020	$ 2,088
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	662	528	631
Loss on disposal of premises and equipment	16	5	29
Provision for loan losses	2,140	2,098	360
Loss from sale of investments	5	—	7
Loss on sale of other real estate owned	—	—	9
Amortization of deferred loan fees	(2,157)	(1,780)	(895)
Amortization of excess purchase value of deposits	14	14	(105)
Fair value of stock options and restricted stock awards, in noninterest expense	49	51	165
Deferred income tax benefit	(625)	(688)	(241)
Amortization of excess value of loans	38	33	—
Net amortization on investments and interest-bearing deposits	204	525	539
Increase in cash surrender value of life insurance	(247)	(282)	(280)
Increase in assets:			
Accrued interest receivable	(1,659)	(56)	(37)
Other assets	(135)	(614)	(577)
Increase (decrease) in liabilities:			
Accrued interest payable	(145)	91	(40)
Other liabilities	1,086	398	323
Net cash provided by operating activities	4,329	3,343	1,976
CASH FLOWS FROM INVESTING ACTIVITIES			
Net decrease in interest-bearing deposits in financial institutions	1,691	842	345
Activity in available-for-sale securities:			
Purchase of securities	—	—	(17,997)
Proceeds from sales, maturities and principal repayments of securities	7,491	14,753	14,176
Purchases of Federal Home Loan Bank stock	(5)	(748)	(51)
Net increase in loans	(73,144)	(120,159)	(46,154)
Proceeds from sales of other real estate owned	—	—	75
Additions to bank premises and equipment	(1,217)	(1,178)	(502)
Net cash used in investing activities	(65,184)	(106,490)	(50,108)

The accompanying notes are an integral part of these consolidated financial statements.

1ST CENTENNIAL BANCORP AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Years Ended December 31, 2005, 2004 and 2003
(Dollars In Thousands)

	2005	2004	2003
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase in noninterest-bearing demand deposits	$ 13,501	$25,984	$12,740
Net increase in interest-bearing deposits	95,972	53,045	16,845
Proceeds from (repayments of) federal funds purchased	(475)	(1,375)	1,850
Proceeds from (repayments of) Federal Home Loan Bank borrowings	(21,000)	13,400	7,600
Proceeds from issuance of trust preferred securities	5,155	7,145	—
Net proceeds from issuance of common stock	—	—	4,871
Proceeds from issuance of restricted stock	—	—	130
Cash dividends paid in lieu of fractional shares	(11)	(6)	(6)
Proceeds from exercise of stock options	385	701	30
Net cash provided by financing activities	93,527	98,894	44,060
Net increase (decrease) in cash and cash equivalents	32,672	(4,253)	(4,072)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,695	9,948	14,020
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 38,367	$ 5,695	$ 9,948
SUPPLEMENTARY INFORMATION			
Interest paid	$ 7,187	$ 3,244	$ 2,146
Income taxes paid	$ 3,677	$ 2,564	$ 1,354
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Loan made to facilitate sale of other real estate owned	$ —	$ —	$ 580
Issuance of restricted stock for legal settlement	$ —	$ —	$ 165

The accompanying notes are an integral part of these consolidated financial statements.

Note 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

1st Centennial Bancorp (the Company) is a bank holding company headquartered in Redlands, California that provides, through its subsidiary, 1st Centennial Bank (the Bank), a broad array of products and services throughout its operating areas in Southern California. The Bank operates six branches, which provide commercial and consumer banking services. Segment reporting is not presented since the Company's revenue is attributed to a single reportable segment.

A summary of the Company's significant accounting policies follows:

Basis of Presentation and Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, the Bank. All significant intercompany balances and transactions have been eliminated in consolidation. The accounting and financial reporting policies the Company follows conform, in all material respects, to accounting principles generally accepted in the United States and to general practices within the financial services industry.

In consolidating, the Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under accounting principles generally accepted in the United States. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, variable interest entities (VIEs) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in an entity is present when an enterprise has a variable interest, or a combination of variable interests, that will absorb a majority of the entities expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. The Company's wholly owned subsidiaries, Centennial Capital Trust I, Centennial Capital Trust II and Centennial Capital Trust III, are VIEs for which the Company is not the primary beneficiary. Accordingly, the accounts of these entities are not included in the Company's consolidated financial statements at December 31, 2005 and 2004.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of condition and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to, but are not limited to, the determination of the allowance for loan losses and the valuation of foreclosed real estate.

Reclassification

Certain amounts have been reclassified in the 2004 and 2003 financial statements to conform to the 2005 financial statement presentation, with no effect on net income or equity.

Note 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES—(Continued)

Interest-Bearing Deposits in Financial Institutions

Interest-bearing deposits in financial institutions mature within ten years and are carried at cost.

Investment Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at cost. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as "available-for-sale" and recorded at fair value, with unrealized gains or losses excluded from earnings and reported in other comprehensive income, net of related tax. There were no debt securities "held-to-maturity" at December 31, 2005 and 2004.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of securities below their cost that are deemed to be other-than-temporary, are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) 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. Gains and losses on the sale of securities are recorded on the trade date, and are determined using the specific identification method.

Restricted Stock Investments

Federal Home Loan Bank and Pacific Coast Bankers' Bank stock are carried at cost, and are evaluated for impairment based on an estimate of the ultimate recoverability of par value.

Loans

The Company grants construction, real estate, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by construction and development, and commercial loans throughout Southern California. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off, generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans.

Interest on loans is accrued daily as earned, except when serious doubt concerning collectibility arises, at which time such loans are placed on a nonaccrual basis, generally if no payment is received after ninety days and all accrued and uncollected interest income is reversed against current period operations. Interest income on nonaccrual loans is recognized only when the loan is paid in full.

Unearned income on installment loans is recognized as income over the term of the loans using a method that approximates the interest method.

Note 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES—(Continued)

Loans (Continued)

Loan origination fees and costs are deferred and amortized as an adjustment of the loan's yield over the life of the loan using the interest method, which results in a constant rate of return. Amortization of deferred fees is discontinued when a loan is placed on nonaccrual status.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Fair value is based on commitments on hand from investors or prevailing market prices. Net unrealized losses, if any, are recognized through a valuation allowance by a charge to income.

Allowance for Loan Losses

The allowance for possible loan losses is a reserve established through a provision for possible loan losses charged to expense, which represents, in management's judgment the known and inherent credit losses existing in the loan portfolio. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses inherent in the loan portfolio. The allowance for possible loan losses includes allowance allocations calculated in accordance with Statement of Financial Accounting Standards ("SFAS") No. 114, *"Accounting by Creditors for Impairment of a Loan,"* as amended by SFAS No. 118, *"Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures,"* and allowance allocations calculated in accordance with SFAS No. 5, *"Accounting for Contingencies."* The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio, as well as trends in the foregoing. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off.

While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The Company's allowance for possible loan losses consists of three elements: (i) specific valuation allowances established for probable losses on specific loans; (ii) historical valuation allowances calculated based on historical loan loss experience for similar loans with similar characteristics and trends; and (iii) unallocated general valuation allowances determined based on general economic conditions and other qualitative risk factors both internal and external to the Company.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payment when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the

Note 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES—(Continued)

Allowance for Loan Losses (Continued)

loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Loan Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into other income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on a straight-line basis, which range from three to 39 years. Leasehold improvements are amortized over the shorter of their estimated useful life or life of related leases, whichever is shorter.

Goodwill and Other Intangible Assets

Goodwill is carried as an asset on the Company's statement of condition, and is evaluated at least once per year for impairment. If the carrying value of the goodwill is determined to be impaired, the Company will write-down the amount of goodwill to its estimated value. The amount of goodwill written-off will be expensed in the year impairment is determined.

Other intangible assets consist of one-time loan and deposit fair value adjustments. These fair value adjustments are amortized on a straight-line basis with remaining lives of up to one year.

Foreclosed Real Estate

Assets acquired through, or in lieu of, loan foreclosures are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Troubled loans are transferred to foreclosed real estate upon completion of formal foreclosure proceedings.

Costs relating to development and improvement of foreclosed real estate are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized.

Valuations are periodically performed by management, and an allowance for losses is established through a charge to operations if the carrying value of a property exceeds its fair value, less estimated costs to sell.

Note 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES—(Continued)

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Advertising cost

Advertising costs are expensed as incurred.

Income Taxes

Deferred income taxes are recognized for estimated future tax effects attributable to temporary differences between income tax and financial reporting purposes and carry forwards. Valuation allowances are established when necessary to reduce the deferred tax asset to the amount expected to be realized. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted accordingly through the provision for income taxes.

Stock Incentive Plan

The Company has an omnibus stock incentive plan which includes, among other awards both incentive and nonqualified stock options, and authorizes the issuance of stock options to salaried employees and non-employee directors. (See Note 10)

SFAS No. 123, *"Accounting for Stock-Based Compensation,"* as amended by SFAS No. 148, *"Accounting for Stock Based Compensation—Transition and Disclosure,"* encourages all entities to adopt a fair value based method of accounting for employee stock compensation plans, whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion ("APBO") No. 25, *"Accounting for Stock Issued to Employees,"* whereby compensation cost is the excess, if any, of the quoted market price of the stock at the grant date over the amount an employee or a director must pay to acquire the stock. Stock options issued under the Company's stock option plan have no intrinsic value at the grant date, and under APBO No. 25 no compensation cost is recognized for them. Under the Company's stock option plan, compensation cost is recognized to the extent that the quoted market price of the stock on the date of grant exceeds the amount that the employee is required to pay.

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R (Revised 2004), *"Share-Based Payment, which is a revision of SFAS No. 123."* SFAS No. 123R supersedes APBO No. 25 and amends SFAS No. 95, *"Statement of Cash Flows"*. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense through the income statement based on their fair values at issue date. SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow required under current guidelines.

Note 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES—(Continued)

Stock Incentive Plan (Continued)

SFAS No. 123R is effective for fiscal years that begin after June 15, 2005. The Company will comply with the requirements of SFAS No. 123R starting January 1, 2006.

As a result of the adoption of SFAS No. 123R and based on the stock-based compensation awards outstanding as of December 31, 2005 the Company expects to recognize additional pre-tax compensation cost as follows:

2006	$316
2007	167
2008	75
2009	13
2010	4
	$575

Future levels of compensation cost recognized related to stock-based compensation awards (including the aforementioned expected costs during the period of adoption) may be impacted by new awards and/or modifications, repurchases and cancellations of existing awards before and after the adoption of this standard.

Had compensation cost for the Company's stock incentive plan been determined based on the fair value at the issue date for awards under the Plan consistent with the method prescribed by SFAS No. 123R, the Company's net income and earnings per share would have been reduced by the compensation cost, net of taxes, to the pro forma amounts indicated below:

	Years Ended December 31,		
	2005	2004	2003
Net income:			
As reported	$5,083	$3,020	$2,088
Pro forma	4,791	2,462	1,848
Compensation cost, net of taxes	$ 292	$ 558	$ 240
Basic earnings per share:			
As reported	$ 2.44	$ 1.48	$ 1.09
Pro forma	2.30	1.21	0.96
Diluted earnings per share:			
As reported	$ 2.27	$ 1.38	$ 1.03
Pro forma	2.14	1.12	0.91

Note 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES—(Continued)

Stock Incentive Plan (Continued)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model for those options granted through December 31, 2004 and the Binomial method for those options granted after December 31, 2004. Under both methods, the following weighted assumptions were used for option granted in 2005, 2004 and 2003, to arrive at the fair value for each grant:

	2005	2004	2003
Dividend yield	0%	0%	0%
Expected volatility	21.88%	22.30%	19.90%
Risk free interest rate	4.15%	4.23%	4.27%
Expected term	10 years	10 years	10 years

Employee Stock Ownership Plan with 401(k) Provisions (KSOP)

Compensation expense is recognized based on cash contributions paid or committed to be paid to the KSOP. All shares held by the KSOP are deemed outstanding for purposes of earnings per share calculations. Dividends declared on all shares held by the KSOP are charged to the Company's retained earnings.

Earnings Per Share

Basic earnings per share represent income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock grants and stock options and are determined using the treasury stock method.

The weighted average number of shares used in the computation of basic earnings per share was 2,081,661 for 2005, 2,034,709 for 2004 and 1,918,086 for 2003. The weighted average number of shares used in the computation of diluted earnings per share was 2,242,139 for 2005, 2,192,769 for 2004 and 2,030,062 for 2003.

Statement of Cash Flows

For the purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, and federal funds sold.

Comprehensive Income

Generally accepted accounting principles (GAAP) requires that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Note 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES—(Continued)

Comprehensive Income (Continued)

The components of other comprehensive income at December 31 are as follows:

	2005	2004	2003
Unrealized holding losses on available-for-sale securities	$(148)	$(275)	$(126)
Reclassification adjustment for losses realized in income	5	—	7
Net unrealized losses	(143)	(275)	(119)
Tax effect	57	110	48
Unrealized losses net-of-tax	$ (86)	$(165)	$ (71)

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R (Revised 2004), *Share-Based Payment, which is a revision of SFAS No. 123.* SFAS No. 123R supersedes APBO No. 25 and amends FASB Statement No. 95, *Statement of Cash Flows*. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense through the income statement based on their fair values at issue date. SFAS No. 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow required under current guidelines.

The Securities and Exchange Commission's rule allows companies to implement SFAS No. 123R at the beginning of their next fiscal year that begins after June 15, 2005. Accordingly, the Company will adopt SFAS 123R on January 1, 2006.

In March 2004, the Financial Accounting Standards Board ("FASB") modified Emerging Issues Task Force (EITF) Issue 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. EITF 03-1 provides guidance for determining when an investment is considered impaired, whether impairment is other-than-temporary, and measurement of an impairment loss. The recognition and measurement provisions were initially effective for other-than-temporary impairment evaluations in reporting periods beginning after June 15, 2004. However, in September 2004, the effective date of these provisions was delayed until the finalization of a FASB Staff Position to provide additional implementation guidance. The adoption of this EITF had no effect on the Company's consolidated financial statements.

On November 3, 2005, the FASB issued FASB Staff Position ("FSP") Nos. FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. This FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. This FSP nullifies certain requirements of EITF Issue 03-1, and supersedes EITF Topic No. D-44, *Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value*. The guidance in this FSP amends FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. The FSP is effective for reporting periods beginning after December 15, 2005. The Bank does not anticipate any material impact to its financial condition or results of operations as a result of the adoption of this guidance.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets—An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions* (SFAS 153). SFAS 153 eliminates the

Note 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES—(Continued)

Recent Accounting Pronouncements (Continued)

exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, Accounting for Nonmonetary Transactions, and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This standard was effective for fiscal periods beginning after June 15, 2005. Management believes that the adoption of SFAS 153 will not have an impact on the Bank's financial statements.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections—A Replacement of APB Opinion No. 20 and FASB Statement No. 3.* SFAS 154 replaces APB Opinion 20, Accounting Changes, and FASB Statement 3, Reporting Accounting Changes in Interim Financial Statements, and changes the accounting and reporting requirements for a change in accounting principle. SFAS 154 applies to all voluntary changes in an accounting principle, as well as to changes required by a new accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS 154 is effective for accounting changes and error corrections made in fiscal years beginning after December 15, 2005 and requires retrospective application to prior periods' financial statements for most voluntary changes in an accounting principle, unless it is impracticable to do so. SFAS 154 did not change the guidance for reporting corrections of errors, changes in estimates or for justification of a change in accounting principle on the basis of preferability. The Bank does not anticipate any material impact to its financial condition or results of operations as a result of the adoption of SFAS No. 154.

Note 2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Bank is required to maintain an average account balance with the Federal Reserve Bank. At December 31, 2005 and 2004, the Company met the requirements which amounted to $847,000, and $500,000, respectively.

Note 3. INVESTMENT SECURITIES, AVAILABLE-FOR-SALE

The following is a comparison of amortized cost and fair value of investment securities at December 31, 2005 and 2004:

	2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Federal agency mortgage-backed securities	$ 8,242	$ 51	$(120)	$ 8,173
Obligations of states and local government securities	3,937	98	—	4,035
	$12,179	$149	$(120)	$12,208

	2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury and agency securities	$ 200	$—	$ (2)	$ 198
Federal agency mortgage-backed securities	15,754	110	(113)	15,751
Obligations of states and local government securities	3,971	176	—	4,147
	$19,925	$286	$(115)	$20,096

Note 3. INVESTMENT SECURITIES, AVAILABLE-FOR-SALE—(Continued)

The amortized cost and fair value of investment securities available-for-sale at December 31, 2005, by contractual maturity, are shown below. Expected maturities for mortgage-backed securities may differ from contractual maturities because borrowers may have the right to call or retire obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Within one year	$ 337	$ 338
Over 1 year to 5 years	2,048	2,089
Over 5 years to 10 years	1,552	1,608
	3,937	4,035
Federal agency mortgage-backed securities	8,242	8,173
	$12,179	$12,208

As of December 31, 2005 and 2004, U.S. treasury and agency securities, federal agency mortgage-backed securities and obligations of states and local government securities with an amortized cost of $302,000 and $15,813,000 and fair values of $304,000 and $15,806,000 respectively, were pledged as collateral as required or permitted by law.

During the year ended December 31, 2005, the Company sold one security with proceeds of $200,000 and a gross realized loss of $5,000. The tax benefit applicable to this realized loss amounted to $2,000. There were no sales of securities during the year ended December 31, 2004.

Information pertaining to securities with gross unrealized losses at December 31, 2005, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than 12 Months		Over 12 Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Federal agency mortgage-backed securities	$(9)	$836	$(111)	$5,230

At December 31, 2005, 20 of the 78 investment securities had unrealized losses with an aggregate depreciation of 1.95% from the Company's amortized cost basis. These unrealized losses relate principally to long-term Federal agency mortgage-backed securities. The securities are well secured, and the Company has the ability to hold them to maturity. Thus, no declines are deemed to be other than temporary.

Note 4. STOCK INVESTMENTS, RESTRICTED

Restricted stock investments include the following at December 31, and are recorded at cost:

	2005	2004
Pacific Coast Bankers' Bank stock	$ 487	$ 487
Federal Home Loan Bank stock	1,133	1,128
	$1,620	$1,615

Note 4. STOCK INVESTMENTS, RESTRICTED—(Continued)

The Bank is required to hold shares of stock in the Federal Home Loan Bank of San Francisco (FHLB) based on the greater of 1% of the membership asset value, which is calculated using Call Report data from the most recent year end, or 4.7% of its advances from the FHLB as of the most recent quarter end.

Note 5. LOANS

The composition of the Company's loan portfolio at December 31 is as follows:

	2005	2004
Real estate loans		
Construction and development	$137,292	$124,309
Residential	3,440	3,650
Commercial and multi-family	84,813	77,316
Commercial loans	151,207	102,582
Consumer loans	2,784	1,107
Equity lines of credit	7,644	3,475
Credit card and other loans	1,304	1,284
Total loans	388,484	313,723
Less unearned income	(1,955)	(1,556)
Less allowance for loan losses	(5,376)	(4,137)
Net loans	$381,153	$308,030

Changes in the allowance for loan losses are summarized as follows:

	2005	2004	2003
Balance as of January 1	$ 4,137	$2,108	$1,772
Provision charged to expense	2,140	2,098	360
Loans charged-off	(1,008)	(155)	(221)
Recoveries of loans previously charged-off	107	86	197
Balance as of December 31	$ 5,376	$4,137	$2,108

Loans serviced for others are not included in the accompanying statements of condition. The unpaid principal balances of loans serviced for others were $90,900,000 and $37,946,000 at December 31, 2005 and 2004, respectively.

The balance of capitalized loan servicing rights included in other assets was $439,000 and $178,000 at December 31, 2005 and 2004, respectively.

Note 5. LOANS—(Continued)

The following table is a summary of information pertaining to impaired loans as of December 31:

	2005	2004
Impaired loans without a valuation allowance	$ 83	$—
Impaired loans with a valuation allowance	911	125
Total impaired loans	$994	$125
Valuation allowance related to impaired loans	$284	$ 35
Total non-accrual loans	$994	$125
Total loans past-due ninety days or more and still accruing	$—	$—

	Years Ended December 31,		
	2005	2004	2003
Average investment in impaired loans	$416	$254	$584

For the years ended December 31, 2005, 2004 and 2003 there was no interest income recognized on impaired loans on a cash basis. No additional funds were committed to be advanced in connection with impaired loans.

Note 6. PREMISES AND EQUIPMENT

Premises and equipment at December 31 consist of the following:

	2005	2004
Land	$ 132	$ 132
Building	1,133	1,133
Equipment, leasehold improvements, furniture and fixtures	6,066	4,377
Construction in progress	42	577
Total	7,373	6,219
Less accumulated depreciation and amortization	(3,721)	(3,106)
	$ 3,652	$ 3,113

Total depreciation expense amounted to $662,000, $528,000 and $631,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

Note 6. PREMISES AND EQUIPMENT—(Continued)

The Company leases space for branch and loan premises. Pursuant to the terms of the noncancelable operating lease agreements in effect at December 31, 2005, future minimum rent commitments under these leases are as follows:

	Operating Lease Expense	Sublease Income	Net Lease Expense
2006	$1,015	$ 78	$ 937
2007	898	73	825
2008	571	11	560
2009	451	—	451
2010	237	—	237
	$3,172	$162	$3,010

Gross rent expense for the years ended December 31, 2005, 2004 and 2003 amounted to $855,000 $569,000 and $583,000, respectively. Total sublease income for the years ended December 31, 2005, 2004 and 2003 amounted to $61,000, $51,000 and $63,000, respectively.

Note 7. DEPOSITS

The aggregate amount of time deposits in denominations of $100,000 or greater at December 31 was $60,093,000 and $40,068,000, respectively.

A summary of total time deposits by maturity at December 31 is as follows:

	2005	2004
Within 1 year	$70,640	$50,697
After 1 year through 3 years	20,600	15,219
After 3 years through 5 years	7,937	7,253
After 5 years	190	80
	$99,367	$73,249

Note 8. SUBORDINATED NOTES PAYABLE TO SUBSIDIARY TRUSTS

Centennial Capital Trust I

On July 11, 2002, Centennial Capital Trust I, a newly formed Delaware statutory business trust and a wholly owned subsidiary of the Company (the Trust), issued an aggregate of $6.0 million of principal amount of Floating Rate TRUPS® (Capital Trust Pass-through Securities of the Trust) (the Trust Preferred Securities). Salomon Smith Barney, Inc. acted as placement agent in connection with the offering of the Trust Preferred Securities. The securities issued by the Trust are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment. The entire proceeds to the Trust from the sale of the Trust Preferred Securities were used by the Trust in order to purchase $6.0 million in principal amount of the Floating Rate Junior Subordinated Deferrable Interest Debentures due 2032 issued by the Company (the Subordinated Debt Securities).

Note 8. SUBORDINATED NOTES PAYABLE TO SUBSIDIARY TRUSTS—(Continued)

The Subordinated Debt Securities bear a variable interest rate equal to LIBOR plus 3.65% (4.15% + 3.65% = 7.80% at December 31, 2005), with a maximum rate of 12.5% through the first call date in July 2007. The Company used approximately $4 million of the approximately $5.8 million in net proceeds it received from the Subordinated Debt Securities to retire long-tem debt. Total broker and legal costs associated with the issuance amounted to $191,500 and are being amortized over a 10-year period.

Centennial Capital Trust II

On January 15, 2004, Centennial Capital Trust II, a newly formed Delaware statutory business trust and a wholly owned subsidiary of the Company (the Trust), issued an aggregate of $7.0 million of principal amount of Floating Rate TRUPS® (Capital Trust Pass-through Securities of the Trust) (the Trust Preferred Securities). Bear Stearns & Co., Inc. acted as placement agent in connection with the offering of the Trust Preferred Securities. The securities issued by the Trust are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment. The entire proceeds to the Trust from the sale of the Trust Preferred Securities were used by the Trust in order to purchase $7.0 million in principal amount of the Floating Rate Junior Subordinated Deferrable Interest Debentures due 2034 issued by the Company (the Subordinated Debt Securities).

The Subordinated Debt Securities bear a variable interest rate equal to LIBOR plus 2.85%. (4.15% + 2.85% = 7.00% at December 31, 2005). The Company used the proceeds of approximately $7 million as a capital infusion for its subsidiary 1st Centennial Bank in August 2004. Total broker and legal costs associated with the issuance amounted to $87,500 and are being amortized over a 5-year period.

Centennial Capital Trust III

On September 28, 2005, Centennial Capital Trust III, a newly formed Delaware statutory business trust and a wholly owned subsidiary of the Company (the Trust), issued an aggregate of $5.0 million of principal amount of Floating Rate TRUPS® (Capital Trust Pass-through Securities of the Trust) (the Trust Preferred Securities). RBC Dain Rauscher acted as placement agent in connection with the offering of the Trust Preferred Securities. The securities issued by the Trust are fully guaranteed by the Company with respect to distributions and amounts payable upon liquidation, redemption or repayment. The entire proceeds to the Trust from the sale of the Trust Preferred Securities were used by the Trust in order to purchase $5.0 million in principal amount of the Floating Rate Junior Subordinated Deferrable Interest Debentures due 2035 issued by the Company (the Subordinated Debt Securities).

The Subordinated Debt Securities bear interest at 6.032% for the first five years through December 15, 2010 and at a variable interest rate equal to LIBOR (4.15% at December 31, 2005) plus 1.45% thereafter. The Company used the proceeds of approximately $5 million as a capital infusion for its subsidiary, 1st Centennial Bank, in September 2005. There was no cost to the Trust associated with the issuance.

As of December 31, 2005, accrued interest payable to Centennial Capital Trust I, II and III aggregated $251,000 and is included in other liabilities in the accompanying statement of condition.

Note 9. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has granted loans to certain directors, principal officers, their immediate families, and affiliated companies in which they are principal shareholders. All loans were made under terms that are consistent with the Company's normal lending policies.

Aggregate related party loan transactions were as follows:

	2005	2004
Balance as of January 1	$2,270	$2,608
Net borrowings (repayments)	160	(338)
Balance as of December 31	$2,430	$2,270

Deposits from related parties held by the Company at December 31, 2005 and 2004 totaled $2,720,000 and $2,328,000, respectively.

Note 10. STOCK OPTIONS

The Company has an omnibus stock incentive plan which includes, among other awards both incentive and nonqualified stock options, and authorizes the issuance of stock options to salaried employees and non-employee directors. The incentive stock option portion of the Plan is only available to employees of the Company, while the nonqualified stock option portion is also available to directors of the Company.

The Company's Board of Directors is responsible for administrating the Plan. Option prices are determined by the Company's directors and must be equal to or greater than the prevailing market price of the Company's common stock at the time the option is granted. Options are vested at a rate of 20% a year for five years and expire ten years from the date the options are granted. The maximum number of shares reserved for issuance upon exercise of options under the Plan is 516,776 shares of the Company's capital stock. Options issued have an exercise price ranging from $4.34 to $35.52 per share.

The following is a summary of the Company's stock option activity for 2005 and 2004:

	2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options granted and outstanding at beginning of year	381,205	$19.63	285,082	$17.31
Stock dividends/distributions	26,685	—	76,139	—
Options granted	14,798	35.16	138,388	31.92
Options exercised	(24,996)	15.39	(49,666)	14.12
Options canceled	(22,309)	19.35	(68,738)	16.96
Options granted and outstanding at end of year	375,383	$19.45	381,205	$19.63
Options exercisable at year-end	207,352	$15.92	139,395	$12.67
Weighted average fair value of options granted during year		$15.00		$12.34

Note 10. STOCK OPTIONS—(Continued)

Information pertaining to options outstanding at December 31, 2005 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$4.34 to $14.96	216,066	5.45 years	$12.47	160,697	$11.94
$16.82 to $35.52	159,317	8.63 years	$28.92	46,655	$29.63
Options outstanding at end of year	375,383	6.80 years	$19.45	207,352	$15.92

Note 11. INCOME TAXES

The components of the provision for income taxes at December 31 are as follows:

	2005	2004	2003
Current tax provision:			
Federal	$2,889	$1,823	$ 999
State	996	658	383
	3,885	2,481	1,382
Deferred tax provision (benefit):			
Federal	(527)	(532)	(250)
State	(98)	(156)	9
	(625)	(688)	(241)
	$3,260	$1,793	$1,141

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

	2005	2004	2003
Statutory tax rate	34.0%	34.0%	34.0%
Increase (decrease) resulting from:			
State taxes, net of federal tax benefit	7.2	7.2	7.2
Municipal bond income	(0.7)	(1.3)	(2.1)
Cash surrender value of life insurance	(1.3)	(2.6)	(4.2)
Stock option compensation deduction	(1.2)	(2.0)	—
Other, net	1.1	2.0	0.4
Effective tax rates	39.1%	37.3%	35.3%

Note 11. INCOME TAXES—(Continued)

The tax effects of the temporary differences in income and expense items that give rise to deferred taxes at December 31 are as follows:

	2005	2004
Deferred tax assets:		
Allowance for loan losses	$2,019	$1,622
Employee benefit plans	183	134
State income taxes	338	224
	2,540	1,980
Deferred tax liabilities:		
Net unrealized gain on investment securities available-for-sale	(12)	(71)
Depreciation and amortization	(7)	(84)
Deferred loan costs	(116)	(105)
Goodwill	(378)	(291)
FHLB stock dividends	(47)	(18)
Restricted stock awards	(28)	(27)
	(588)	(596)
Net deferred tax asset	$1,952	$1,384

Note 12. COMMITMENTS AND CONTINGENCIES

Financial Instruments with Off-Balance-Sheet Risk

The Company is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

As of December 31, 2005 and 2004, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2005	2004
Standby letters of credit	$ 2,642	$ 1,157
Unadvanced funds on construction and development loans	133,206	120,441
Unadvanced funds commercial and multi-family loans	—	15
Unadvanced funds on commercial loans	51,531	34,132
Unadvanced funds on consumer loans	2,740	1,029
Unadvanced funds on equity lines of credit	6,195	2,562
Unadvanced funds on credit card and other loans	2,090	2,162
	$198,404	$161,498

Note 12. COMMITMENTS AND CONTINGENCIES—(Continued)

Financial Instruments with Off-Balance-Sheet Risk (Continued)

Commitments to extend credit are agreements to lend to customers, provided there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments are generally variable rate, and many of these commitments are expected to expire without being drawn upon. As such, the total commitment amounts do not necessarily represent future cash requirements. The Company's exposure to credit losses is represented by the contractual amount of these commitments. The Company uses the same credit underwriting policies in granting or accepting such commitments as it does for on-balance-sheet instruments, which consist of evaluating customers' creditworthiness individually.

Standby letters of credit written are conditional commitments issued by the Company to guarantee the financial performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. When deemed necessary, the Company holds appropriate collateral supporting those commitments. Management does not anticipate any material losses as a result of these transactions.

In November 2002, the FASB issued Financial Interpretation (FIN) 45, *"Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others,"* which requires a guarantor to recognize, at the inception of a guarantee, a liability equal to the fair value of the obligation undertaken in issuing the guarantee. As of January 1, 2003, newly issued or modified guarantees that are not derivative contracts have been recorded on the Company's balance sheet at their fair value at inception. The Company considers standby letters of credit to be guarantees under FIN 45. The amount of the liability related to guarantees on December 31, 2005 was immaterial.

Legal Proceedings

Various legal claims may arise from time to time in the normal course of business, which in the opinion of management will have no material effect on the Company's consolidated financial statements.

Employment Agreements and Special Termination Agreements

The Company has entered into employment agreements with two of its key officers. The agreements provide for a specified minimum annual compensation and the continuation of benefits currently received. However, employment under the agreements may be terminated for cause, as defined, without incurring any continuing obligations. The agreements also acknowledge the establishment of a salary continuation plan to provide benefits to certain executive officers at the age of retirement. (See Note 15)

Both of the employment agreements contain special termination clauses which provide for certain lump sum severance payments within a specified period following a "change in control," as defined in the agreements.

Note 13. EMPLOYEE BENEFIT PLANS

Employee Stock Ownership Plan with 401(k) Provisions (KSOP)

The Company has established an employee stock ownership plan with 401(k) provisions (KSOP) covering substantially all employees of the Company. Employees who have completed six months of service and have attained age 21 are eligible to participate in the KSOP. Employees become fully vested after five years of service. Contributions to the KSOP, whether in cash or securities, are made at the discretion of the Company's Board of Directors in an amount not to exceed the maximum allowable as an income tax deduction. No contributions were made to the employee stock ownership plan portion of the KSOP during the years ended December 31, 2005, 2004 and 2003.

The Company's 401(k) savings and retirement provision to the KSOP includes substantially all employees. The employees attain vesting in the Company's contribution over six years. Employees may contribute up to 75% of their compensation, subject to certain limits based on federal tax laws. Under the terms of the KSOP, the Company may make matching contributions at the discretion of the Board of Directors. Matching Contributions to the 401(k) portion of the KSOP by the Company amounted to $227,000, $186,000 and $149,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

Note 14. CONCENTRATION OF CREDIT RISK

The Company services customers in Redlands, Brea, Escondido, Palm Desert, Irwindale and Temecula and has no concentration of deposits with any one particular customer or industry.

At December 31, 2005 and 2004, the Company had approximately $15,805,000 and $4,338,000, respectively, of noninterest-bearing deposits with its correspondent banks. At December 31, 2005 and 2004, approximately 58% and 65%, respectively, of the Company's loan portfolio consisted of construction and development, residential, commercial and multi-family loans.

Note 15. SALARY CONTINUATION AGREEMENTS

The Company has entered into salary continuation agreements, which provide for payments to certain officers at the age of retirement. Included in other liabilities at December 31, 2005 and 2004, respectively, is $443,000 and $325,000 of deferred compensation related to these agreements. The plans are funded through life insurance policies that generate a cash surrender value to fund the future benefits.

Note 16. SHAREHOLDERS' EQUITY

Minimum Regulatory Requirements

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

Note 16. SHAREHOLDERS' EQUITY—(Continued)

Minimum Regulatory Requirements (Continued)

Quantitative measures established by the regulations to ensure capital adequacy require the Company and it's subsidiary to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2005 and 2004, that the Company and its subsidiary met all capital adequacy requirements to which they are subject.

As of December 31, 2005, the most recent notification from the Federal Deposit Insurance Corporation categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, a bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Company's or its subsidiary's category.

The Company's and the Bank's actual capital amounts and ratios as of December 31, 2005 and 2004 are as follows:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2005:						
Total capital to risk-weighted assets:						
Consolidated	$52,283	12.86%	$32,524	8.00%	$40,656	10.00%
1st Centennial Bank	50,779	12.49%	32,525	8.00%	40,656	10.00%
Tier 1 capital to risk-weighted assets:						
Consolidated	40,327	9.92%	16,261	4.00%	24,391	6.00%
1st Centennial Bank	45,697	11.24%	16,262	4.00%	24,393	6.00%
Tier 1 capital to average assets:						
Consolidated	40,327	9.02%	17,883	4.00%	22,354	5.00%
1st Centennial Bank	45,697	10.21%	17,903	4.00%	22,379	5.00%
As of December 31, 2004:						
Total capital to risk-weighted assets:						
Consolidated	$40,587	12.26%	$26,484	8.00%	$33,105	10.00%
1st Centennial Bank	38,559	11.68%	26,410	8.00%	33,013	10.00%
Tier 1 capital to risk-weighted assets:						
Consolidated	32,749	9.89%	13,245	4.00%	19,868	6.00%
1st Centennial Bank	34,429	10.43%	13,204	4.00%	19,806	6.00%
Tier 1 capital to average assets:						
Consolidated	32,749	9.25%	14,162	4.00%	17,702	5.00%
1st Centennial Bank	34,429	9.73%	14,154	4.00%	17,692	5.00%

Note 17. RESTRICTIONS ON DIVIDENDS, LOANS AND ADVANCES

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Company. The total amount of dividends that may be paid at any date is generally limited to the retained earnings of the Bank, and loans or advances are limited to 25% of the Bank's primary capital plus the allowance for loan losses less goodwill and core deposit intangibles on a secured basis and 15% on an unsecured basis. On construction real estate loans, the secured house limit is 25% of the Bank's primary capital plus the allowance for loan losses less core deposit intangibles. In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

Note 18. DIVIDENDS PAID

The Company did not pay a cash dividend in 2005 or 2004. During 2005, the Company issued a 7% stock dividend, which resulted in the issuance of 135,815 shares. During 2004, the Board of Directors approved a 25% stock dividend, accounted for as a 5 for 4 stock split, which resulted in the issuance of 378,664 shares. During 2003, the Company issued a 5% stock dividend, which resulted in the issuance of 59,888 shares.

Note 19. OTHER OPERATING EXPENSES

The following sets forth the breakdown of other operating expenses for the years ended December 31:

	2005	2004	2003
Marketing and advertising	$1,547	$ 695	$ 548
Data processing fees	1,056	837	768
Professional fees	1,113	843	625
Postage, telephone, supplies	594	555	612
Directors' fees	239	187	177
Other operating expense	2,068	1,588	1,319
	$6,617	$4,705	$4,049

Note 20. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

Following is the parent company only financial information for 1st Centennial Bancorp:

STATEMENTS OF CONDITION
December 31, 2005 and 2004
(Dollars In Thousands)

	2005	2004
ASSETS		
Cash	$ 1,008	$ 1,431
Investment in subsidiaries	50,425	39,359
Other assets	750	581
Total assets	$52,183	$41,371
LIABILITIES AND SHAREHOLDERS' EQUITY		
Subordinated notes payable to subsidiary trusts	$18,306	$13,151
Other liabilities	456	219
	18,762	13,370
Shareholders' equity		
Common stock	26,803	21,208
Retained earnings	6,617	6,706
Accumulated other comprehensive income	1	87
Total shareholders' equity	33,421	28,001
Total liabilities and shareholders' equity	$52,183	$41,371

STATEMENTS OF EARNINGS
Years Ended December 31, 2005, 2004 and 2003
(Dollars In Thousands)

	2005	2004	2003
Income:			
Interest income on capital securities of subsidiary trusts	$ 27	$ 16	$ 10
Expense:			
Interest expense	975	628	307
Other expense	707	660	446
Total expense	1,682	1,288	753
Loss before equity in undistributed net income of subsidiary	(1,655)	(1,272)	(743)
Equity in undistributed net income of subsidiary	5,996	3,722	2,486
Tax benefit	742	570	345
Net income	$ 5,083	$ 3,020	$2,088

Note 20. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY—(Continued)

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2005, 2004 and 2003
(Dollars In Thousands)

	2005	2004	2003
OPERATING ACTIVITIES			
Net income	$ 5,083	$ 3,020	$ 2,088
Adjustment to reconcile net income to net cash used in operating activities:			
Equity in undistributed income of subsidiaries	(5,996)	(3,722)	(2,486)
Amortization	1	1	2
Fair value of options and restricted stock awards, in noninterest expense	49	51	165
Decrease (increase) in other assets	(171)	124	(515)
Increase (decrease) in other liabilities	237	148	(120)
Net cash used in operating activities	(797)	(378)	(866)
INVESTING ACTIVITIES			
Payments for investments in and advances to subsidiaries	$(5,000)	$(7,000)	$(4,871)
Payments from (advances to) subsidiary trusts	(155)	(233)	78
Net cash used in investing activities	(5,155)	(7,233)	(4,793)
FINANCING ACTIVITIES			
Net proceeds from issuance of common stock	—	—	4,871
Net proceeds from subordinated notes payable to subsidiary trusts	5,155	7,145	—
Cash dividends paid in lieu of fractional shares	(11)	(6)	(6)
Proceeds from issuance of restricted stock	—	—	130
Proceeds from exercise of stock options	385	701	30
Net cash provided by financing activities	5,529	7,840	5,025
Net increase (decrease) in cash and cash equivalents	(423)	229	(634)
Cash and cash equivalents, beginning of year	1,431	1,202	1,836
Cash and cash equivalents, end of year	$ 1,008	$ 1,431	$ 1,202
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Issuance of restricted stock for legal settlement	$ —	$ —	$ 165

Note 21. FEDERAL HOME LOAN BANK LINE OF CREDIT

The Company is a member of the Federal Home Loan Bank of San Francisco (FHLB). The Company has an available line of credit with the FHLB at a fixed interest rate, which is determined on the borrowing date. Borrowings under the line are limited to eligible collateral. A standard credit program and a securities-backed credit program on qualified collateral secure all borrowings from the FHLB. The Company had no outstanding advances at December 31, 2005.

The Company had outstanding advances of $21.0 million at December 31, 2004, of which $17.0 million had an interest rate of 2.29% and matured on January 3, 2005 and $4.0 million had an interest rate of 2.44% and matured on September 30, 2005. Total borrowings under the line were secured by loans of approximately $73.6 million at December 31, 2004.

Note 22. FAIR VALUE OF FINANCIAL INSTRUMENTS

SFAS No. 107, "*Disclosures about Fair Value of Financial Instruments,*" requires disclosures of estimated fair values of all financial instruments where it is practicable to estimate such values. In cases where quoted market prices are not available, fair values are based upon estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents—The carrying amounts of cash and short-term instruments approximate fair value.

Interest-Bearing Deposits in Financial Institutions—The carrying amounts of interest-bearing deposits are estimated using discounted cash flow analyses and interest rates currently being offered for interest-bearing deposits with similar terms.

Investment Securities—Fair values for securities are based on quoted market prices.

Restricted Stock—The carrying value of restricted stock approximate fair value.

Loans Held for Sale—Fair values of loans held for sale are based on commitments on hand from investors or prevailing market prices.

Loans—For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (e.g., one-to-four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for other loans (e.g., commercial real estate and investment property mortgage loans, commercial and industrial loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for non-performing loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Note 22. FAIR VALUE OF FINANCIAL INSTRUMENTS—(Continued)

Accrued Interest Receivable—The carrying amounts of accrued interest receivable approximate fair value.

Cash Surrender Value of Life Insurance—The carrying amounts of life insurance approximate fair value.

Deposits—The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Accrued Interest Payable—The carrying amounts of accrued interest payable approximate fair value.

Short-Term Borrowings—The carrying amounts for short-term borrowings approximate the estimated fair value of such liabilities.

Subordinated Notes Payable to Subsidiary Trusts – The carrying amounts for subordinated notes payable to subsidiary trusts approximate the estimated fair value of such liabilities.

Off-Balance-Sheet Instruments—The carrying amount of commitments to extend credit approximate fair value.

The estimated fair value and related carrying or notional amounts of the Company's financial instruments are as follows:

	December 31,			
	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 38,367	$ 38,367	$ 5,695	$ 5,695
Interest bearing deposits in financial institutions	2,334	2,452	3,964	4,138
Investment securities, available-for-sale	12,208	12,208	20,096	20,096
Restricted stock	1,620	1,620	1,615	1,615
Loans, net	381,153	378,987	308,030	306,072
Accrued interest receivable	2,425	2,425	766	766
Cash surrender value of life insurance	6,735	6,735	6,488	6,488
Financial liabilities:				
Deposits	401,275	398,782	291,802	289,545
Accrued interest payable	170	170	315	315
Federal funds purchased	—	—	475	475
Borrowings from Federal Home Loan Bank	—	—	21,000	21,000
Subordinated notes payable to subsidiary trusts	18,306	18,306	13,151	13,151
Off-balance sheet credit related to financial instruments:				
Commitments to extend credit	$198,404	$198,404	$161,498	$161,498

Note 22. FAIR VALUE OF FINANCIAL INSTRUMENTS—(Continued)

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2005 and 2004. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since those dates, and therefore, current estimates of fair value may differ significantly from the amounts presented herein.

Note 23. QUARTERLY DATA (UNAUDITED)

	Years Ended December 31,							
	2005				2004			
	(Dollars In Thousands, Except Per Share Data)							
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Interest income	$9,288	$8,518	$8,160	$7,230	$6,820	$6,478	$5,435	$4,976
Interest expense	2,162	1,992	1,672	1,230	1,066	911	762	596
Net interest income	7,126	6,526	6,488	6,000	5,754	5,567	4,673	4,380
Provision for loan losses	830	300	660	350	690	540	440	428
Net interest income after provision for loan losses	6,296	6,226	5,828	5,650	5,064	5,027	4,233	3,952
Noninterest income	1,236	1,185	1,121	914	556	611	610	840
Noninterest expense	4,984	5,268	4,928	4,933	4,008	4,215	3,956	3,901
Income before provision for income taxes	2,548	2,143	2,021	1,631	1,612	1,423	887	891
Provision for income taxes	1,003	844	792	621	624	543	317	309
Net income	$1,545	$1,299	$1,229	$1,010	$ 988	$ 880	$ 570	$ 582
Earnings per share (basic)	$ 0.74	$ 0.62	$ 0.59	$ 0.49	$ 0.48	$ 0.43	$ 0.28	$ 0.29
Earnings per share (diluted)	$ 0.69	$ 0.57	$ 0.55	$ 0.46	$ 0.45	$ 0.40	$ 0.26	$ 0.27

Note 24. SUBSEQUENT EVENTS

On February 24, 2006, the Company announced that the Board of Directors approved a 50% stock distribution to shareholders of record on March 03, 2006, and payable April 03, 2006. The action was approved at the regularly scheduled Board Meeting on February 24, 2006. The distribution will result in approximately an additional 1,058,620 shares of common stock outstanding.

Effective January 2006, the Company dissolved its accounts receivable financing program known as Business Manager. The Company is in the process of transferring the existing relationships to the appropriate branch portfolios and plans to complete the process by the end of the first quarter of 2006.

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

Not applicable

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a – 15(c) promulgated under the Exchange Act as of the end of the period covered by this annual report (the "Evaluation Date") have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiary would be made known to them by others within those entities, particularly during the period in which this annual report was being prepared.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There were no significant changes in the Company's internal controls over financial reporting or in other factors in the fourth quarter of 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Code of Ethics

The Company has adopted a code of ethics applicable to all of its officers, directors and employees, including its principal executive officer, principal financial officer, principal operating officer and persons performing similar functions. The text of this code of ethics may be found on the Company's web site at "www.1stcent.com." The Company intends to post notice of any waiver from, or amendment to, any provision of our code of ethics on this web site.

Other Information Concerning Directors and Executive Officers

The information required to be furnished pursuant to this item with respect to Directors and Executive Officers of the Company will be set forth under the caption "Election of Directors" in the Company's proxy statement for the 2006 Annual Meeting of Shareholders (the "Proxy Statement"), which the Company will file with the SEC within 120 days after the close of the Company's 2005 fiscal year in accordance with SEC Regulation 14A under the Securities Exchange Act of 1934. Such information is hereby incorporated by reference.

The information required to be furnished pursuant to this item with respect to compliance with Section 16(a) of the Exchange Act will be set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement, and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required to be furnished pursuant to this item will be set forth under the caption "Executive Compensation" in the Proxy Statement, and is incorporated herein by reference.

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

Securities Authorized for Issuance Under Equity Compensation Plans

The information required by Item 12 with respect to securities authorized for issuance under equity compensation plans is set forth under "Item 5 – Market for Registrant's Common Equity and Issuer Repurchases of Equity Securities" above.

Other Information Concerning Security Ownership of Certain Beneficial Owners and Management

The remainder of the information required by Item 12 will be set forth under the captions "Security Ownership of Certain Beneficial Owners" and "Election of Directors" in the Proxy Statement, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required to be furnished pursuant to this item will be set forth under the caption "Certain Transactions" in the Proxy Statement, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required to be furnished pursuant to this item will be set forth under the caption "Relationship with Independent Accountants – Fees" in the Proxy Statement, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits

Exhibit Number	Description of Exhibits
3.1	Articles of Incorporation of the Company (Incorporated by reference from Exhibit to the Company's Registration Statement on Form S-4 filed on October 20, 1999.)
3.2	Amendment to Articles of Incorporation of the Company filed May 5, 2000 (Incorporated by reference to Exhibit to Company's Form 10-QSB for the quarter ended June 30, 2002.)
3.3	Amendment to Articles of Incorporation of the Company filed February 18, 2003 (Incorporated by reference to Exhibit to Company's Form SB-2 filed on March 13, 2003.)
3.4	Restated By-Laws of the Company (Incorporated by reference from Exhibit to the Company's Form 10-QSB for the quarter ended June 30, 2002.)
10.1	Brea Branch Lease, dated September 20, 2000 (Incorporated by reference from Exhibit to the Company's Registration Statement on Form SB-2 filed on March 21, 2001.)
10.2	Form of Indemnification Agreement (Incorporated by reference from Exhibit to the Company's Registration Statement on Form SB-2 filed on March 21, 2001.)
10.9	1st Centennial Bank Employee Stock Ownership Plan (with 401(k) provisions) dated August 1, 2004. (Incorporated by reference to Form 10-KSB for the year ended December 31, 2004.)
10.10	Amended and Restated Stock Incentive Plan. (Incorporated by reference to Form 10-KSB for the year ended December 31, 2004.)
10.11	Palomar Community Bank (now Escondido branch) lease dated April 15, 1987 (Incorporated by reference from Exhibit 10.13 to Form 10-QSB for the fiscal quarter ended March 31, 2002.)
10.12	Indenture for Trust Preferred Securities dated July 11, 2002 (Incorporated by reference from Exhibit 10.14 to Form 10-QSB for the fiscal quarter ended September 30, 2002.)
10.13	Amended and Restated Declaration of Trust for trust preferred securities dated July 11, 2002 (Incorporated by reference from Exhibit 10.15 to Form 10-QSB for the fiscal quarter ended September 30, 2002.)
10.14	Guarantee Agreement for Trust Preferred Securities dated July 11, 2002 (Incorporated by reference from Exhibit 10.16 to Form 10-QSB for the fiscal quarter ended September 30, 2002.)
10.15	Salary Continuation Agreement of Suzanne Dondanville, dated December 17, 2002 (Incorporated by reference from Exhibit 10.17 to Form SB-2 dated March 13, 2003.)
10.16	Salary Continuation Agreement of Clifford Schoonover, dated December 17, 2002 (Incorporated by reference from Exhibit 10.18 to Form SB-2 dated March 13, 2003.)
10.17	Amendment to Construction Department Lease dated August 28, 2002 (Incorporated by reference from Exhibit 10.20 to Form SB-2 dated March 13, 2003.)
10.18	Commercial Lending Group Lease, dated December 23, 2002 (Incorporated by reference from Exhibit 10.21 to Form SB-2 dated March 13, 2003.)
10.19	Palm Desert Branch Lease, dated November 13, 2002 (Incorporated by reference from Exhibit 10.22 to Form 10-KSB for the year ended December 31, 2002.)

Exhibit Number	Description of Exhibits
10.20	Amendment to Escondido Branch Lease, dated June 6, 2001 (Incorporated by reference from Exhibit 10.23 to Form 10-KSB for the year ended December 31, 2002.)
10.21	Amendment to Salary Continuation Agreement of Suzanne Dondanville dated December 17, 2002. (Incorporated by reference from Exhibit 10.24 to Form 10-KSB for the year ended December 31, 2003.)
10.22	Amendment to Salary Continuation Agreement of Anne Elizabeth Sanders dated December 1, 2001. (Incorporated by reference from Exhibit 10.25 to Form 10-KSB for the year ended December 31, 2003.)
10.23	Amendment to Salary Continuation Agreement of Clifford Schoonover dated December 17, 2002. (Incorporated by reference from Exhibit 10.26 to Form 10-KSB for the year ended December 31, 2003.)
10.25	Indenture for Trust Preferred Securities dated January 15, 2004. (Incorporated by reference to Form 10-QSB for the quarter ended March 31, 2004.)
10.26	Amended and Restated Declaration of Trust for Trust Preferred Securities dated January 15, 2004. (Incorporated by reference to Form 10-QSB for the quarter ended March 31, 2004.)
10.27	Guarantee Agreement for Trust Preferred Securities dated January 15, 2004. (Incorporated by reference to Form 10-QSB for the quarter ended March 31, 2004.)
10.28	Amendment to Brea Branch Lease dated August 16, 2004. (Incorporated by reference to Form 10-QSB for the quarter ended September 30, 2004.)
10.29	Irwindale Branch Lease dated August 12, 2004. (Incorporated by reference to Form 10-QSB for the quarter ended September 30, 2004.)
10.30	Salary Continuation Agreement of Anne Elizabeth Sanders dated December 1, 2001. (Incorporated by reference to Form 10-QSB for the quarter ended September 30, 2004.)
10.31	Employment Agreement of Beth Sanders dated December 1, 2004. (Incorporated by reference to Form 10-KSB for the year ended December 31, 2004.)
10.32	Employment Agreement of Suzanne Dondanville dated December 1, 2004. (Incorporated by reference to Form 10-KSB for the year ended December 31, 2004.)
10.33	Temecula Branch Lease dated December 15, 2004. (Incorporated by reference to Form 10-KSB for the year ended December 31, 2004.)
10.34	Real Estate Department Lease dated November 30, 2000. (Incorporated by reference to Form 10-KSB for the year ended December 31, 2004.)
10.35	Indenture for Trust Preferred Securities dated September 28, 2005. (Incorporated by reference to Form 10-Q for the quarter ended September 30, 2005.)
10.36	Amended and Restated Declaration of Trust for Trust Preferred Securities dated September 28, 2005. (Incorporated by reference to Form 10-Q for the quarter ended September 30, 2005.)
10.37	Guarantee Agreement for Trust Preferred Securities dated September 28, 2005. (Incorporated by reference to Form 10-Q for the quarter ended September 30, 2005.)
21.1	Subsidiaries of 1st Centennial Bancorp. (Incorporated by reference to Form 10-Q for the quarter ended September 30, 2005.)
23.1	Consent of Hutchinson and Bloodgood, LLP

Exhibit Number	Description of Exhibits
31.1	Certification of Chief Executive Officer (Section 302 Certification)
31.2	Certification of Chief Financial Officer (Section 302 Certification)
32	Certification of Periodic Financial Report (Section 906 Certification)

(b) Financial Statement Schedules

Schedules to the financial statements are omitted because the required information is not applicable or because the required information is presented in the Company's Consolidated Financial Statements or related notes.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 22nd day of March 2006.

/s/ THOMAS E. VESSEY
Thomas E. Vessey
President and Chief Executive Officer

/s/ BETH SANDERS
Beth Sanders
Executive Vice President and
Chief Financial Officer

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 indicated on the 22nd day of March 2006.

/s/ JAMES R. APPLETON
James R. Appleton
Director

/s/ BRUCE J. BARTELLS
Bruce J. Bartells
Director

/s/ CAROLE H. BESWICK
Carole H. Beswick
Director

/s/ LARRY JACINTO
Larry Jacinto
Director

/s/ RONALD J. JEFFREY
Ronald J. Jeffrey
Director

/s/ WILLIAM A. MCCALMON
William A. McCalmon
Director

/s/ PATRICK J. MEYER
Patrick J. Meyer
Chairman of the Board

/s/ STANLEY C. WEISSER
Stanley C. Weisser
Director

/s/ DOUGLAS F. WELEBIR
Douglas F. Welebir
Director

/s/ THOMAS E. VESSEY
Thomas E. Vessey
Director

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
(Section 302 Certification)

I, Thomas E. Vessey, certify that:

1. I have reviewed this annual report on Form 10-K of 1st Centennial Bancorp;

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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 subsidiary, 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

(c) Disclosed in the annual 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 an 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 officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control 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.

Date: March 22, 2006

/s/ THOMAS E. VESSEY

Thomas E. Vessey,
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
(Section 302 Certification)

I, Beth Sanders, certify that:

1. I have reviewed this annual report on Form 10-K of 1st Centennial Bancorp;

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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 subsidiary, 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

(c) Disclosed in the annual 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 an 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 officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control 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.

Date: March 22, 2006

/s/ BETH SANDERS

Beth Sanders,
Executive Vice President and Chief Financial Officer

Exhibit 32

CERTIFICATION OF PERIODIC FINANCIAL REPORT
(Section 906 Certification)

Thomas E. Vessey and Beth Sanders hereby certify as follows:

1. They are the Chief Executive Officer and Chief Financial Officer, respectively, of 1st Centennial Bancorp.

2. The Form 10-K of 1st Centennial Bancorp for the year ended December 31, 2005 complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and the information contained in the report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of 1st Centennial Bancorp.

Date: March 22, 2006

/s/ THOMAS E. VESSEY

Thomas E. Vessey,
Chief Executive Officer

Date: March 22, 2006

/s/ BETH SANDERS

Beth Sanders,
Chief Financial Officer

ı our employees, our customers, shareholders and communities

15 years maintaining high ethical standards

15 years of consistent growth

f Distinguished Banking

and record high results for 2005.

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Form 10K	Inside Back Cover

Annual Report Summary

The 2005 Annual Report is presented in a summary format intended to provide information in a concise, summarized manner that will be meaningful and useful to the widest range of readers. The audited financial statements and deta analytical schedules are contained in the 1st Centennial Bancorp Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission.

YEARS ENDED DECEMBER 31, (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

2005 Financial Highlights

	2005	2004	2003	2002	2001
INCOME STATEMENT SUMMARY					
Interest income	$ 33,196	$ 23,718	$ 16,655	$ 14,486	$ 10,804
Interest expense	7,056	3,335	2,106	2,377	2,694
Net interest income before provision for loan losses	26,140	20,383	14,549	12,109	8,110
Provision for loan losses	2,140	2,098	360	477	411
Noninterest income	4,456	2,608	3,031	2,424	1,993
Noninterest expense	20,113	16,080	13,991	11,548	8,070
Income before income tax expenses	8,343	4,813	3,229	2,508	1,622
Income tax expense	3,260	1,793	1,141	802	575
Net income	$ 5,083	$ 3,020	$ 2,088	$ 1,706	$ 1,047
BALANCE SHEET SUMMARY					
Total assets	$ 456,192	$ 356,678	$ 254,383	$ 207,858	$ 198,026
Cash and due from banks	16,862	5,695	9,948	12,010	10,040
Federal funds sold	21,505	-	-	2,010	7,503
Securities	12,208	20,096	35,539	32,335	34,014
Net loans[1]	381,153	308,030	188,222	141,112	125,695
Total deposits	401,275	291,802	212,773	183,188	174,328
Borrowings from Federal Home Loan Bank	0	21,000	7,600	0	-
Long term debt	-	-	-	-	3,500
Subordinated debentures	18,306	13,151	6,006	6,006	-
Total liabilities	$ 422,771	$ 328,677	$ 229,983	$ 190,665	$ 182,754
Total shareholders' equity	$ 33,421	$ 28,001	$ 24,400	$ 17,193	$ 15,272
PER SHARE DATA					
Earnings per share:[2]					
Basic	$ 2.44	$ 1.48	$ 1.09	$ 1.01	$ 0.74
Diluted	2.27	1.38	1.03	1.00	0.73
Weighted average common shares outstanding basic	2,081,661	2,034,709	1,918,086	1,688,155	1,421,714
Weighted average common shares outstanding diluted	2,242,139	2,192,769	2,030,062	1,699,450	1,432,849
Book value	$ 15.91	$ 14.44	$ 16.24	$ 14.30	$ 13.34
PERFORMANCE RATIOS					
Return on average equity[3]	16.77%	11.75%	9.83%	10.47%	10.20%
Return on average assets[4]	1.22%	0.94%	0.91%	0.83%	0.77%
Net interest margin[5]	6.69%	6.91%	7.07%	6.75%	6.84%
Average shareholders' equity to average total assets	7.26%	8.03%	9.21%	7.99%	5.35%
Efficiency ratio[6]	65.74%	69.94%	79.58%	79.47%	79.88%
Net loans to total deposits at period end	94.99%	105.56%	88.46%	77.03%	72.10%
ASSET QUALITY RATIOS					
Nonperforming loans to total loans[7]	0.26%	0.04%	0.33%	0.41%	0.19%
Nonperforming assets to total loans and other real estate owned[8]	0.26%	0.04%	0.33%	0.41%	0.19%
Net loan charge-offs to average loans	0.25%	0.03%	0.01%	0.12%	0.25%
Allowance for loan losses to total loans[9] at end of period	1.39%	1.33%	1.11%	1.24%	1.15%
Allowance for loan losses to nonperforming loans	540.85%	3,309.60%	339.45%	304.99%	605.80%
CAPITAL RATIOS:					
Tier 1 capital to average assets	9.02%	9.25%	10.79%	8.28%	5.69%
Tier 1 capital to total risk-weighted assets	9.92%	9.89%	12.48%	10.87%	8.30%
Total capital to total risk-weighted assets	12.86%	12.26%	13.63%	13.27%	11.07%

1 Loans are net of the allowance for loan losses and deferred fees. 2 Adjusted to give retroactive effect to dividends. 3 Net income divided by average shareholders' equity.
4 Net income divided by average total assets. 5 Net interest income as a percentage of average interest-earning assets. 6 Ratio of noninterest expense to the sum of net interest income before provision for loan losses and total noninterest income excluding securities gains and losses. 7 Nonperforming loans consist of nonaccrual loans, loans past due 90 days or more and restructured loans.
8 Nonperforming assets consist of nonperforming loans and other assets, including other real estate owned. 9 Total loans are gross loans less unearned income

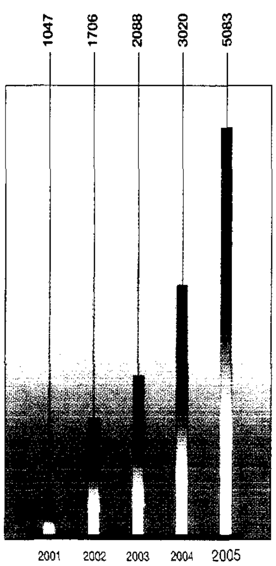
Letter to our Shareholders

We are proud to share with you another year of dynamic growth and momentum for 1st Centenni Bancorp. Yet again, we are pleased to report one more record year with a great finish to cap off ou 15th year anniversary. Your Board and Management Team implemented strategies early in 2005 t improve performance ratios, increase shareholder value, build strong relationships, and balance ou lines of business. Our efforts have paid off.

Your Board and Management Team are focused on achieving strong predictable performance ove long periods. Consistency builds value. We realize that over time economic cycles change, therefor we will be flexible and change strategies as appropriate to achieve our objectives. Consistency is nc easy, but when you have the best people in place who are dedicated, talented, and innovative wh care deeply about their customers and communities, it is possible. We have just those people.

NET EARNINGS

(in thousands)



The Company reported record net income of $5.083 million for the year ended December 3 2005, a 68% increase over 2004. Basic earnings per share were $2.44 in 2005 compared to $1.4 for 2004. Return on equity and return on assets as of December 31, 2005 were 16.77% and 1.22% respectively, compared to 11.75% and .94%, for the same period in 2004.

Total assets reached a record high of $456 million at December 31, 2005, an increase of 28% fror $357 million at December 31, 2004.

These considerable gains can be attributed to several factors. Strong organic growth in the commu nities we serve remains a cornerstone to our success; our experienced teams continue to successfull build solid relationships working side by side with our customers to become trusted financial part ners. Our growth was further accelerated with the successful opening of two new branches in 2005 We celebrated the opening of Irwindale in February with a 50's hop featuring spectacular vintag cars, and the opening of our Temecula branch in August showcasing some of the fine vineyards c the Temecula wine country. Our footprint now spanning 5 counties, we are committed to becom ing leaders in the communities we serve. Our core culture of involvement and volunteerism foster employees that share their time, resources and expertise to enhance our communities.

We are very proud of our results for 2005, and will continue to focus on improving our performanc and achieving shareholder value on a consistent basis. Our long history of building shareholde value continues as we mark 48 consecutive profitable quarters and counting. Dividends remain focus to increasing shareholder value; since 1994, we have consistently paid cash or stock dividend annually, thanking our shareholders for their confidence in us. The result of our shareholder-fo cused approach has been an average annual return of 21.63% for the past 5 years and an averag annual return of 14.87% during our 15-year history.

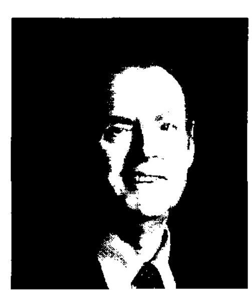
INCREASE OVER 2004

We appreciate your confidence in 1st Centennial Bancorp. We are optimistic that the seeds sowi in 2005 by our strong Board and leadership team will continue to produce results that allow us t thrive in 2006 and beyond.

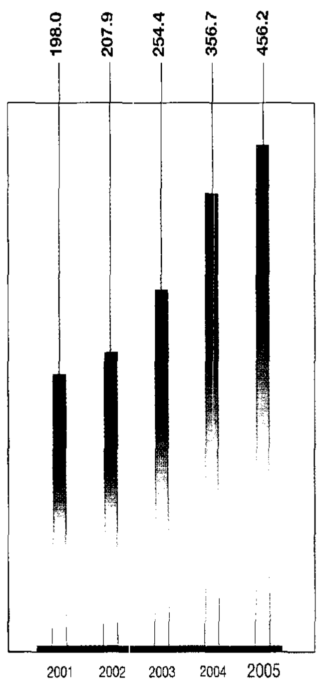
Sincerely,

Patrick J. Meyer
Chairman of the Board

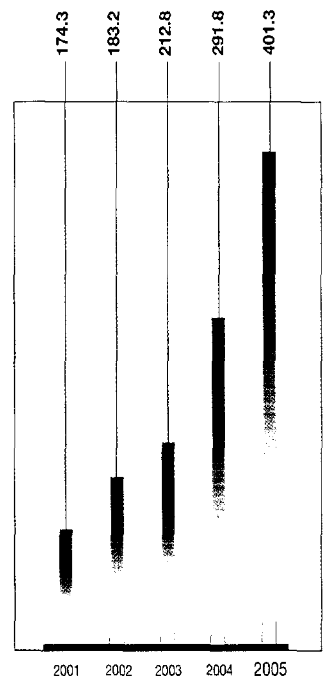
Thomas E. Vessey
President and Chief Executive Officer



TOTAL ASSETS

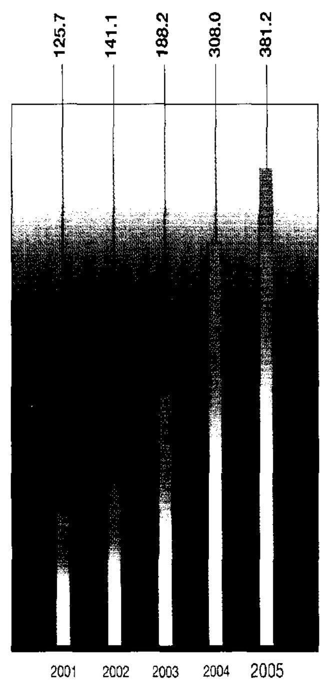


DEPOSIT GROWTH



(in millions)

LOAN GROWTH



- ☐ 1,000 shares purchased in 1990 are worth 2,461 shares today *(as of 12/31/05)*

- ☐ $10,000 invested in 1990 is worth $79,982.50= $32.50/share *(as of 12/31/05)**

We are motivated and focused toward our goals.

- ☐ Average annual return for 15 years= 14.87% *(as of 12/31/05)**

*Excludes cash dividends and cash in lieu of fractional shares

We are proud of our people.

Our people contribute to 1st Centennnial Bank's continued progress. Motivated, focused and committed to our customers and shareholders.

Mission Statement

- ❖ We are in business to meet the unique banking needs of small and medium size businesses and professionals.

- ❖ We will continue to provide superior value to our customers through the delivery of high quality financial services and products that will result in loyal and mutually beneficial relationships.

- ❖ We are dedicated to maintaining and increasing our financial strength resulting in consistent growth in shareholder value.

- ❖ We will continue to attract and reward employees who have a passion for their work.

Vision Statement

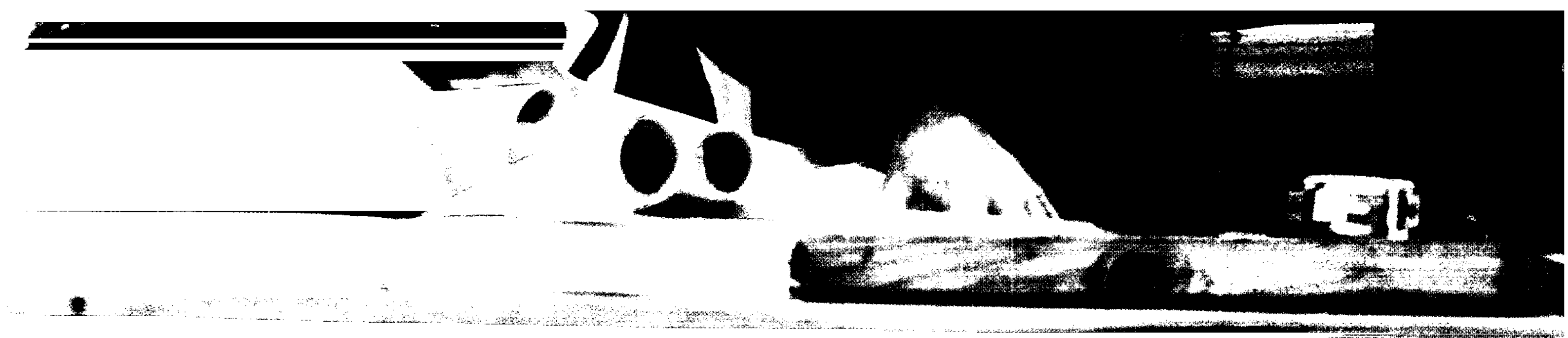
- ❖ Our vision will be to provide uncompromising relationship banking by offering solutions that allow our customers to thrive. We want to be recognized as an outstanding leader in the communities we serve and as the best place to work. We will accomplish our vision through our strong commitment to strategic growth and strict adherence to corporate values.

Customer Goal

- ❖ We are committed to providing superior value to our business and professional customers through relationship banking.

- ❖ Relationship banking starts with being customer-focused, knowing our customers' objectives, and providing them with products and services they could and should need to meet their financial goals.

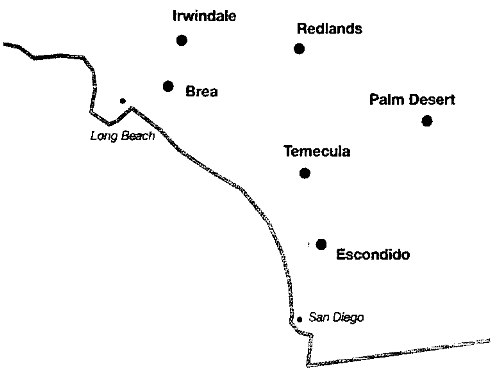
- ❖ Our main job is to contribute to our customers' success. Because our customers are most important to us, they can expect:
  - Fast decisions by empowered bankers
  - Competitive pricing, and;
  - Unparalleled service by knowledgeable, expert bankers



We value our customers.

We understand their challenges, offering them financial solutions that allow their ideas to become reality.

Corporate Profile



1st Centennial Bancorp is the parent company of 1st Centennial Bank, headquartered in Redlands, California. Founded in 1990, 1st Centennial Bank, formerly Redlands Centennial Bank, is a full-service state-chartered commercial bank specializing in the delivery of financial services to the local business communities it serves.

Through its six Regional Offices located in Redlands, Brea, Escondido, Palm Desert, Irwindale, and Temecula, 1st Centennial Bank offers a complete range of traditional deposit and loan products. While the Bank's primary focus is on commercial lending and residential construction in and around the areas it serves, it also offers a wide range of loan and deposit banking products and services to local consumers as well. The Bank offers Real Estate and Construction loans through its Real Estate/Construction Division located in Redlands, California, and owner-occupied and investor-owned real estate financing products, including Small Business Administration loans, through its Commercial Lending Group located in Brea, California. In 2003, the Bank further expanded its lending capabilities with the formation of the Religious Lending Division that takes advantage of secured real estate lending opportunities for faith-based groups nationwide. Finally, the Bank's Homeowners Association Division in Escondido, California offers in-house ACH origination and Remittance Processing Services as well as lending capabilities to Homeowners Association Management Companies.

1st Centennial Bank offers a wide range of financial products and services that are effectively delivered via a variety of support systems, including a traditional branch network, courier service, internet technologies and telephone banking. The goal of the Company is to provide its customers with state-of-the-art financial products and services, while also providing superior financial performance to the benefit of its shareholders. These objectives will be accomplished with dedicated banking professionals who are passionate about service quality and who deliver the very best financial products and services the market has to offer, and responsible management with a firm commitment to integrity, community involvement and the rigorous use of conservative and fiscally sound business principles.

CONSOLIDATED STATEMENTS OF CONDITION

DECEMBER 31, 2005 AND 2004

(DOLLARS IN THOUSANDS)

	2005	2004
ASSETS		
Cash and due from banks	$ 16,862	$ 5,695
Federal funds sold	21,505	- -
Total cash and cash equivalents	38,367	5,695
Interest-bearing deposits in financial institutions	2,334	3,964
Investment securities, available-for-sale	12,208	20,096
Stock investments, restricted, at cost	1,620	1,615
Loans, net of allowance for loan losses of $5,376 and $4,137	381,153	308,030
Accrued interest receivable	2,425	766
Premises and equipment, net	3,652	3,113
Goodwill	4,180	4,180
Cash surrender value of life insurance	6,735	6,488
Other assets	3,518	2,731
Total assets	$ 456,192	$ 356,678
LIABILITIES		
Deposits:		
Noninterest-bearing demand deposits	$ 106,121	$ 92,620
Interest-bearing deposits	295,154	199,182
Total deposits	401,275	291,802
Accrued interest payable	170	315
Federal funds purchased	- -	475
Borrowings from Federal Home Loan Bank	- -	21,000
Other liabilities	3,020	1,934
Subordinated notes payable to subsidiary trusts	18,306	13,151
Total liabilities	422,771	328,677
COMMITMENTS AND CONTINGENCIES (Notes 12 and 14)		
SHAREHOLDERS' EQUITY		
Common stock, no par value; authorized 10,000,000 shares, issued and outstanding 2,100,075 and 1,939,611 shares at December 31, 2005 and 2004, respectively	26,803	21,208
Retained earnings	6,617	6,706
Accumulated other comprehensive income	1	87
Total shareholders' equity	33,421	28,001
Total liabilities and shareholders' equity	$ 456,192	$ 356,678

CONSOLIDATED STATEMENTS OF EARNINGS

YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	2005	2004	2003
Interest income			
Interest and fees on loans	$ 32,097	$ 22,442	$ 15,174
Deposits in financial institutions	134	200	233
Federal funds sold	350	66	90
Investments:			
Taxable	450	841	984
Tax-exempt	165	169	174
Total interest income	33,196	23,718	16,655
Interest expense			
Interest bearing demand and savings deposits	2,472	1,085	512
Time deposits $100,000 or greater	1,852	788	850
Other time deposits	1,089	634	397
Interest on borrowed funds	1,643	828	347
Total interest expense	7,056	3,335	2,106
Net interest income	26,140	20,383	14,549
Provision for loan losses	2,140	2,098	360
Net interest income after provision for loan losses	24,000	18,285	14,189
Noninterest income			
Customer service fees	1,376	1,221	1,279
Gains from sale of loans	1,394	295	389
Conduit loan sale income	972	398	607
Other income	714	694	756
Total noninterest income	4,456	2,608	3,031
Noninterest expense			
Salaries and employee benefits	11,445	9,913	8,432
Net occupancy expense	2,051	1,462	1,510
Other operating expenses	6,617	4,705	4,049
Total noninterest expense	20,113	16,080	13,991
Income before provision for income taxes	8,343	4,813	3,229
Provision for income taxes	3,260	1,793	1,141
Net income	$ 5,083	$ 3,020	$ 2,088
Basic earnings per share	$ 2.44	$ 1.48	$ 1.09
Diluted earnings per share	$ 2.27	$ 1.38	$ 1.03

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

(DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
BALANCE, DECEMBER 31, 2002	1,202,517	$ 13,913	$ 2,957	$ 323	$ 17,193
Comprehensive income:					
Net income	- -	- -	2,088	- -	2,088
Change in net unrealized gain on investment securities available-for-sale, after tax effects	- -	- -	- -	(71)	(71)
Total comprehensive income					2,017
Stock dividend	59,888	1,347	(1,347)	- -	- -
Cash paid in lieu of fractional shares	- -	- -	(6)	- -	(6)
Issuance of common stock, net	225,000	4,871	- -	- -	4,871
Issuance of restricted stock for legal settlement	12,960	295	- -	- -	295
Exercise of stock options, including tax benefit	1,916	30	- -	- -	30
BALANCE, DECEMBER 31, 2003	1,502,281	20,456	3,692	252	24,400
Comprehensive income:					
Net income	- -	- -	3,020	- -	3,020
Change in net unrealized gain on investment securities available-for-sale, after tax effects	- -	- -	- -	(165)	(165)
Total comprehensive income					2,855
Stock dividend, accounted for as a stock split	378,664	- -	- -	- -	- -
Cash paid in lieu of fractional shares	- -	- -	(6)	- -	(6)
Compensation expense on incentive stock options	- -	10	- -	- -	10
Issuance of restricted stock awards	9,000	41	- -	- -	41
Exercise of stock options, including tax benefit	49,666	701	- -	- -	701
BALANCE, DECEMBER 31, 2004	1,939,611	21,208	6,706	87	28,001
Comprehensive income:					
Net income	- -	- -	5,083	- -	5,083
Change in net unrealized gain on investment securities available-for-sale, after tax effects	- -	- -	- -	(86)	(86)
Total comprehensive income					4,997
Stock dividend	135,815	5,161	(5,161)	- -	- -
Cash paid in lieu of fractional shares	- -	- -	(11)	- -	(11)
Compensation expense on incentive stock options	- -	8	- -	- -	8
Vesting on issuance of restricted stock awards	- -	41	- -	- -	41
Exercise of stock options, including tax benefit	24,649	385	- -	- -	385
BALANCE, DECEMBER 31, 2005	2,100,075	$ 26,803	$ 6,617	$ 1	$ 33,421

LEFT TO RIGHT

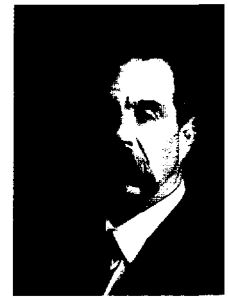
PATRICK J. MEYER
Chairman of the Board, Owner, Urban Environs

BRUCE J. BARTELLS
Executive Vice President
Dekker, Ltd.

CAROLE H. BESWICK
Entrepreneur, Former Partner, Paper Partners, Inc.

LARRY JACINTO
President, L.J. Construction, Inc.



LEFT TO RIGHT

DOUGLAS F. WELEBIR
Attorney at Law
Welebir and McCune Law Corp.

WILLIAM A. McCALMON
President and Owner
RPM Financial and Insurance Services

RONALD J. JEFFREY
Vice-President, Tri-City Acoustics, Inc.



90 96 97 98 99 00 01

August 1990
First Common Stock Offering. Raised $4 million in 6 weeks at $10.00 per share to open the doors of Redlands Centennial Bank

November 1996
Built and opened branch and administrative offices on State Street in Redlands, California

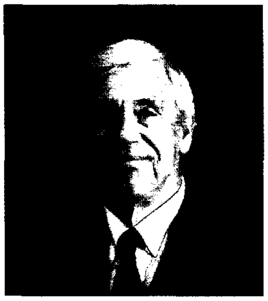
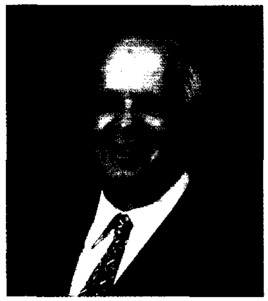
March 1998
Small Business Administration (SBA) Division formed in Santa Ana, California

January 2001
Opened second full service Banking Office in Brea and Construction Division expands to its own facility in Redlands, California

August 2001
Acquisition of Palomar Community Bank. Stage set in dynamic North San Diego marketplace for continued earnings and future expansion.

August 2001
Common stock offering oversold in 4 weeks adding $7.2 million to capit at $17.00 per share

CENTENNIAL BANK

LEFT TO RIGHT

STANLEY C. WEISSER
Retired, former CEO and pharmacist Network Pharmaceuticals

JAMES R. APPLETON, PhD.
Chancellor, University of Redlands

IRVING M."BUD" FELDKAMP III
President/Owner
Hospitality Dental Associates

EXECUTIVE OFFICERS

LEFT TO RIGHT

BETH SANDERS
Executive Vice President & Chief Financial Officer

JOHN LANG
Executive Vice President & Chief Credit Officer

SUZANNE A. DONDANVILLE
Executive Vice President & Chief Operating Officer

THOMAS E. VESSEY
President & Chief Executive Officer

02 03 04 05

April 2002
SBA Merged into the Commercial Lending Group division specializing on "gain on sale" commercial and industrial real estate sales

February 2003
Redlands Centennial Bank changed its name to 1st Centennial Bank in order to better represent the multiple counties we serve

March 2003
Opened fourth full service banking office in Palm Desert, California

Common stock offering raised $5.175 million to capital at $23.00 per share

February 2005
Opened fifth full service banking office in Irwindale, California

August 2005
Celebrated 15 years of distinguished banking

August 2005
Opened sixth full service banking office in Temecula, California

1st Centennial Bancorp
ADMINISTRATIVE OFFICES

218 E. State Street
Redlands, CA 92373
(909) 798-3611 (888) 673-3236
(909) 798-1872 fax

www.1stcent.com
email: 1stcent@1stcent.com

1st Centennial Bank Wealth Strategies Group
administered through

KWB & Associates, Inc.
Wealth Managers Group

1782 Orange Tree Lane, Redlands, CA 92374
(909) 307-8220 (800) 478-8934
email: invest@kwbwealthmanagers.com

NOT FDIC INSURED, NO BANK GUARANTEE,
MAY LOSE VALUE, NOT A DEPOSIT,
NOT INSURED BY ANY FEDERAL AGENCY

Securities are offered through Linsco/Private Ledger, Member NASD/SIPC. 1st Centennial Bank is not affiliated with Linsco/Private Ledger

1st Centennial Bank
BRANCHES

REDLANDS
218 E. State Street
Redlands, CA 92373
(909) 798-3611 (888) 673-3236

BREA
10 Pointe Drive, Suite 130
Brea, CA 92821
(714) 990-8862

ESCONDIDO
355 West Grand Avenue
Escondido, CA 92025
(760) 745-9370 (800) 745-9190

PALM DESERT
78-000 Fred Waring Drive, Suite 100
Palm Desert, CA 92211
(760) 674-9260

IRWINDALE
15622 Arrow Hwy.
Irwindale, CA 91706
(626) 815-0875

TEMECULA
27645 Jefferson Ave. Suite 116
Temecula, CA 92590
(951) 695-4916

1st Centennial Bank
DIVISIONS

SBA/COMMERCIAL LENDING GROUP
10 Pointe Drive, Suite 100
Brea, CA 92821
(714) 672-0047 (888) 722-4011

HOMEOWNERS ASSOCIATION DIVISION
355 West Grand Avenue
Escondido, CA 92025
(760) 745-9370
(800) 745-9190

REAL ESTATE/CONSTRUCTION DIVISION
101 E. Redlands Blvd., Suite 106
Redlands, CA 92373
(909) 798-4861 (800) 430-7554

RELIGIOUS LENDING DIVISION
10 Pointe Drive, Suite 100
Brea, CA 92821
(866) 593-AMEN (2636)

SHAREHOLDER INFORMATION

As reported by finance.yahoo.com under the symbol FCEN

CALENDAR QUARTER ENDED	HIGH	LOW
March 31, 2004	$25.42	$21.68
June 30, 2004	23.55	21.03
September 30, 2004	25.23	21.50
December 31, 2004	33.64	24.77
March 31, 2005	38.00	33.69
June 30, 2005	36.75	34.00
September 30, 2005	37.00	34.00
December 31, 2005	34.70	32.00

MARKET SUPPORT BROKERS
Western Financial Corporation
600 "B" Street, Suite 2204
San Diego, CA 92101
(619) 544-0260 (800) 488-5990

OTHER MARKET SUPPORT BROKERS
Wedbush Morgan Securities
Hoefer & Arnett
Hill Tompson Co.
Monroe Securities
Nite Securities
Ryan Beck
Pershing Securities
UBS Financial Services

TRANSFER AGENT
U.S. Stock Transfer Corporation
1745 Gardena Avenue, 2nd floor
Glendale, CA 91204

CERTIFIED PUBLIC ACCOUNTANTS
Hutchinson & Bloodgood LLP
101 No. Brand Blvd. Suite 1600
Glendale, CA 91203

LEGAL COUNSEL
KING, HOLMES, PATERNO & BERLINER
A Professional Corporation
Attorneys at Law
1900 Avenue of the Stars
Los Angeles, CA 90067

Stock symbol: FCEN (OTC BB)
For stock purchase, call:
Richard S. Levenson, S.V.P.
Western Financial Corporation
(800) 488-5990

Any person may obtain a copy of 1st Centennial Bancorp's filing of form 10-K for the 2005 fiscal year. Requests for copies of the 10-K should be directed to:
Beth Sanders, Executive Vice President
Chief Financial Officer
1st Centennial Bancorp
218 East State Street, Redlands, CA 92373
(909) 798-3611

Member FDIC

EQUAL HOUSING LENDER

1ST CENTENNIAL
BANCORP

www.1stcent.com